

Exiting the European Union Committee

Oral evidence: The progress of the UK's negotiations on EU withdrawal, HC 372

Wednesday 12 June 2019

Ordered by the House of Commons to be published on 12 June 2019.

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Members present: Hilary Benn (Chair); Sir Christopher Chope; Stephen Crabb; Mr Jonathan Djanogly; Richard Graham; Peter Grant; Andrea Jenkyns; Stephen Kinnock; Jeremy Lefroy; Seema Malhotra; Mr Pat McFadden; Mr Jacob Rees-Mogg; Stephen Timms; Hywel Williams; Sammy Wilson.

Questions 4233-4340

Witnesses

I: Seamus Nevin, Chief Economist, Make UK; Nick von Westenholz, Director of EU Exit and International Trade, National Farmers' Union; Tim Rycroft, Chief Operating Officer, Food and Drink Federation; Sydney Nash, Senior Policy Manager, Society of Motor Manufacturers and Traders.

Examination of witnesses

Witnesses: Seamus Nevin, Nick von Westenholz, Tim Rycroft and Sydney Nash.

Q4233 Chair: On behalf of the Committee, welcome to our panel of witnesses this morning: Sydney Nash, senior policy manager from the Society of Motor Manufacturers and Traders; Seamus Nevin, the chief economist at Make UK; Tim Rycroft, chief operating officer, Food and Drink Federation; and Nick von Westenholz, director of EU exit and international trade at the National Farmers' Union. You are all extremely welcome.

As ever in this Committee, we have a lot of ground to cover and a lot of members who want to ask questions, so if you could try to keep your answers as succinct as possible, that would be very helpful. Some questions will be directed to you individually, because of the sectors you are representing.

There is a lot of debate going on at the moment about Brexit, but in particular there is a Conservative Party leadership contest taking place, in which some candidates are saying, "I am prepared to leave with no deal on 31 October". What would be helpful to the Committee is to hear from each of you, in a sentence, what a no-deal Brexit would mean to your sector, if it happened in a few months' time.

Sydney Nash: Good morning, everybody. For the automotive sector, no deal is simply not an option. I will look at just two elements, but there are multiple elements to it. There is the tariff cost. It will be a 10% tariff on a finished vehicle. That will cost the sector an additional £4.5 billion in terms of imports and exports. Looking at what happens at the border, we rely on frictionless trade, so the free movement of goods across the border. That cannot be guaranteed under a no-deal scenario and that will fundamentally undermine our competitiveness and our ability to manufacture at a competitive level with the rest of the EU. It is absolutely not an option for automotive.

Chair: That is very clear and succinct.

Seamus Nevin: Thank you to the Committee for inviting Make UK to give evidence. We are very much aware of a very significant number of job losses in our sector already as a direct result of Brexit. We are aware of further job losses that are to come. Our members are quite blunt and very clear. They say that a no-deal Brexit would be nothing short of an act of economic vandalism. It would undo 25 years of economic progress and consign a generation of highly skilled workers to the scrapheap.

Chair: That is very clear.

Tim Rycroft: Food and drink is part of our national security infrastructure. In the event of a no-deal Brexit, we would face, for



exporters, prohibitively high WTO tariffs. We would face sanitary and phytosanitary checks at the EU border and we would also find ourselves out of regulatory alignment with the mechanisms that have kept our food and drink so safe and high quality over 40 years.

Nick von Westenholz: To echo what Mr Rycroft said, we have a very closely integrated trading relationship with the EU on agri-food products. Around two-thirds of our exports go to the EU, so any significant disruption to that free and, at the moment, frictionless trading relationship will have a huge impact on the farming sector. We have been very clear that no deal could be disastrous, particularly in some sectors, such as the sheep sector, where something like over 30% of our production is exported, and almost all of it to the EU. No deal would indeed be very worrying.

Q4234 **Chair:** Did you say no deal could be disastrous or would be disastrous?

Nick von Westenholz: It would be disastrous.

Q4235 **Chair:** Listening to those answers—in fairness to you, they reflect what your organisations have previously said—what do you think when you hear people who wish to be the Prime Minister of the country saying that this is a course of action that they feel comfortable with? Clearly, you do not feel comfortable with it. What does that say about the ability of your sectors to convey a message to Government, regardless of who is in power, and for that to be heard and listened to? Is it that Government do not understand that, or they think something else is more important than economic vandalism, prohibitively high tariffs, “would be disastrous” and “simply not an option”? How do you feel when you see the state of public debate, given the clarity with which you have spoken before us this morning?

Tim Rycroft: If I speak for our members, no deal is the thing upon which they are most unanimous. There will be a range of opinions about all the different elements of this, but on no deal the consistent message has been that that is not an acceptable option for us. In our most recent survey, 45% said no deal would lead to redundancies. A further 30% said there would be serious financial consequences. All we can do is continue to try to highlight what our members are telling us, the people on the front line, the people who are making food and drink in this country. Clearly, we cannot impinge on the political debate, but we have to keep trying to make sure that we are accurately representing what our members are saying about the consequences, so that others can make that judgment.

Nick von Westenholz: I would agree. There is clearly a lot of politics at play with the premise you have put forward, Chair. As a member organisation, representing an industry sector, it is our job to look at the implications of public policy decisions on our members’ businesses. It is very clear to us that a no-deal Brexit—and I must be clear that we are talking about a no-deal Brexit—would be very damaging. Therefore, it is



HOUSE OF COMMONS

quite right and proper that we make that known as loudly and clearly as we can to those who are making those policy decisions. Frankly, it is worrying that we see that being put forward as a plausible scenario, to leave without a deal in October, by policymakers and our leaders.

Sydney Nash: We set out what the cost of no deal would be, but our appeal to MPs would be to understand what the cost of just the threat of no deal is. The prospect of it, the fact that it is promoted as an option, is extremely costly to our sector. For our members who have undergone no-deal contingency planning, this is costing tens of millions of pounds, thousands of working hours, to plan for a no-deal Brexit. Even with the best will in the world, no company can fully mitigate against all the risks of a no-deal Brexit. Hearing politicians promote the idea of no deal does not fill any of our member companies with any confidence whatsoever. It does not fill international investors with confidence either. Our strong desire is that no deal be taken off the table and that it be ruled out. Companies in automotive having to focus time, money and resource on planning for no deal could focus that time, money and resource on things that, frankly, are more important.

Seamus Nevin: Our members have made clear that there is a direct link between politicians talking up the prospect of no deal and British firms losing customers overseas and British people losing jobs in British firms. In the first quarter of this year, we saw stockpiling activities in preparation for a potential no-deal Brexit at the end of March reach the highest level ever recorded in the G7. Demand for warehouse space rocketed by an unprecedented 32%. We now know from our Q2 figures that export orders are at the lowest level they have been at in recent years. Domestic orders have also collapsed. Export orders are down by 8%, which is, again, unprecedented. Domestic orders are down by 11%. Investment in UK firms has been paralysed for the last four quarters, six if you take out the cyclical period of Christmas last year. Productivity per worker has been negative for three of the last four quarters.

We know from direct reports from members with customers overseas, not just in the EU but as far away as Japan and Korea—because we trade with these countries via the benefits of the EU free trade agreements—that those firms in those countries are now looking to move their business elsewhere and looking to source goods that they have traditionally bought from the UK from other countries, because of politicians talking about a no-deal Brexit. We want the no-deal Brexit taken off as an option. As I said earlier, it is an act of economic vandalism.

Chair: That is very clear.

Q4236 **Stephen Timms:** Mr Nash, can I just follow up some of the points you have just been making? There have been a number of recent announcements of closures and job losses in the car industry. To what extent have they been caused by Brexit?



HOUSE OF COMMONS

Sydney Nash: You are absolutely right; there have been a number of announcements recently. Brexit is a factor in these decisions, but it is not the only factor. We are dealing with a challenging international environment: there is technological disruption; there is a shrinking market in China and other places. There are global challenges that the whole sector is having to deal with, but Brexit is undoubtedly an additional element in the decision-making here in the UK. We have seen very clear evidence that investor confidence in the UK is dropping. We have seen investment in UK automotive drop by half every year since the referendum, since 2016, so it is clearly an element. Some of the companies that have announced job losses have explicitly stated the reason is Brexit.

The other thing I would add to that is the announcements that have been made are very much from the OEM level. These are the ones that, understandably, hit the headlines. Consideration has to be given to what is happening in the supply chain as well and amongst smaller companies. It tends not to make the newspapers, but they are absolutely feeling the pressure there too. I should say that the majority of our members are supply chain companies, small companies in the supply chain. When we surveyed our members, 50% have said that uncertainty because of Brexit, uncertainty regarding the future trading relationship with the EU and the rest of the world, has damaged their operations: 12.5% have had to move some of their operations out of the UK as a result of Brexit and a similar percentage have had to cut headcount. This is absolutely a factor that is playing out in the sector and causing huge challenges for businesses right from the top and down through the supply chain.

Q4237 Stephen Timms: Do you have any sense for the scale of the job losses that there have been as a result of these decisions?

Sydney Nash: We have not calculated the job losses as a result that are specifically to do with Brexit. That is quite hard to calculate. It is for each company to dissect the decision, so we could not give an industry-wide figure. We know that at the moment, despite the challenges we face, the fundamentals of UK automotive are still strong. It is still an innovative sector with a flexible workforce and lots of investment in R&D. We produced 1.5 million vehicles last year, 2.7 million engines. When you look at the historic perspective, those are still very high production levels.

The challenge for us now as a sector is what pathway we take over the coming years. If we take a pathway towards a deep economic relationship with the EU that guarantees frictionless trade, we can see continuing success for our sector, something that we are absolutely focused on. If, on the other hand, we did a no-deal Brexit, unfortunately you will be looking at a very different set of scenarios for UK automotive.

Q4238 Stephen Timms: Can I ask one other detailed point about this? Can you tell us how type approval would work for cars made in the UK if we left the EU without a deal? Can UK car makers switch to EU type approval agencies? In fact, have some of them already done so?



Sydney Nash: There are two elements to this. One is about what can be done with existing type approvals and then what might be done in the future with new type approvals. With regard to existing approvals, both the UK and the EU have broadly comparable and parallel approaches, which allow for the transfer. The EU, quite early on, put in legislation to allow for type approvals that had been issued by the Vehicle Certification Agency, so the UK approval authority, to be transferred to an authority from the EU 27. The UK has, essentially, done the same thing, a very light-touch administrative process that would allow, say, a type approval issued by Italy to be transferred to the UK without any further testing, without any further requirements. Those two things are in place and yes, companies have taken advantage of that. They can make sure their existing approvals can apply in both the UK and the EU in the event of a no-deal Brexit.

Looking forward, the EU's regime will remain as it is today, so if you get an approval within the EU 27 it is one approval for the whole market. A UK approval would not be valid in the EU under a no-deal scenario. The UK has said it would have its own UK-based type approval system. What is currently on the books is essentially temporary UK approvals, and then they will be rolled out into more permanent UK approvals. The question mark still remains: will EU approvals be valid in the UK automatically or not? We do not know. Will there have to be UK approvals and EU approvals, so an approval in both markets? We do not know the answer to that. These are all things that would have to be answered in a future negotiation of what the future relationship would look like.

Q4239 **Peter Grant:** First, I have a question for Tim and Nick. In the lead-up to 29 March, the UK Government published their intended temporary tariffs in the event of no deal. In Northern Ireland, the Northern Ireland sheep farmers warned that those tariffs would completely crush their sector. Was that a reasonable fear for them to hold at that time?

Tim Rycroft: Yes, it was. The no-deal tariff regime that was eventually published was a curious mix of some products that retained their status, some products that moved to a hybrid status and some products that were tariff-free. There was not a clear logic to try to understand why some of those decisions had been made, because of course there was no real prior consultation with the industry about the tariff regime. The idea that products moving south to north in the island of Ireland would not face tariffs but the reverse would not be true was a pretty surprising decision and one that I think would have very significant impacts on the market. A lot of domestic production in Northern Ireland—and Nick will know more about this than I do—would have to be diverted into Great Britain as a result of that. You would see massive surpluses and market distortion, so we are very concerned about the tariff regime that has currently been proposed.

Nick von Westenholz: We understand that the Government had to do something. There had to be a tariff published that the UK could operate in



HOUSE OF COMMONS

a no-deal situation. There was an attempt to balance the interests of both producers and consumers in the way they did that, but, first, the consultation leading up to that was very limited. Secondly, the lead-in time between the publication of that tariff and the moment when that tariff would apply was of course extremely small, just a couple of weeks. Thirdly, as Tim touched on, on the Irish question, the flipside that happens with all trade with the EU is that, while in most instances other than sheep meat there was a reduction or a liberalisation of tariffs, with introductions of tariff-free quotas, we would of course be facing the common external tariff for all of our exports into the EU. That tariff relationship is not reciprocated. As I said, most of our export trade is with the EU, so there would have been a significant imbalance because of the different treatment of imports and exports with the tariffs applied by the UK and by the EU.

Q4240 Peter Grant: What is your understanding of the impact that the principle of most-favoured nation status would have? Is it not the case that, if the UK sought to recognise the relationship with the Republic of Ireland as different from the relationship with the rest of the European Union, in a no-deal Brexit, where we started trading under World Trade Organization terms, if we give favourable status to tariffs at the Irish border, as a matter of international law those same terms would have to apply to exports and imports going everywhere else as well?

Nick von Westenholz: There certainly was a question raised about the specific treatment given to Irish trade and setting all tariffs at zero. Of course, in terms of our export tariff across the board, that has to be applied to all. That is one of the problems, and particularly, say, for beef, where that would mean that beef from South America, for example, would have greater market access into the UK. There are obviously differences of opinion amongst experts on that point. I have read different opinions of the legality under WTO of the treatment of the Irish, and of course it was a temporary 12-month arrangement. Certainly, we were concerned about the specific and discrete arrangements that were made on Irish trade.

Q4241 Peter Grant: I have one final question. We have looked in some detail at the impact that tariffs and so on might have on producers. If there is a no-deal Brexit, with a possibility of tariffs being introduced, checks at borders and so on, what is the likely impact that customers back in the UK would see? Is it about prices going up? Is it reductions in the variety of foods available? Is it food shortages? Is there no impact at all, with customers just not noticing anything at all?

Nick von Westenholz: There is some of all of that, although, if you take prices, for example, the follow-through of significant tariffs and the significant costs that can impose on producers gets quite small once it reaches the consumer. For example, a large tariff that might make exporting wheat much more expensive, or a low tariff, a zero tariff on wheat, as we saw with the no-deal tariff, which might lead to greater imports of wheat, would make it very difficult for wheat producers to



compete, but would have a very limited impact on the price of bread in shops. The proportion of the price of wheat in the price of bread in shops is pretty small.

People have detected there would be some price impact, but it would be small. Therefore, there is a question of the extent to which the liberalisation of tariffs to benefit consumer prices is borne out by the evidence. There might be an issue around availability as well.

Tim Rycroft: In the event of no deal and the imposition of the EU external tariff at the border, of sanitary and phytosanitary checks on food and drink products, we see that additional friction, given that the containers that take our exports to the EU are the same containers that bring our imports back to the UK, having quite a significant disruptive effect in the first few weeks. We would expect to see some selective shortages and probably some quite surprising ones, as it became clear there were some things that we did not expect would be hard to get hold of. Most food and drink has a short shelf life or is perishable, so any friction in the process not only reduces the shelf life for consumers but also brings into jeopardy contracts between suppliers and retailers, which will stipulate a minimum shelf life. That will come under jeopardy.

Q4242 **Mr Djanogly:** Staying on this subject, the temporary tariff regime was published two weeks before 29 March. Were you consulted on the proposed tariffs before their publication? This is to NFU and the Food and Drink Federation.

Nick von Westenholz: We had no sight whatsoever of the actual tariffs themselves, the ad valorem or the percentage tariffs and the quotas involved. We had had some discussions with Defra about the approach that it proposed to take. For example, it was looking to balance the interests of consumers and producers, and it made that clear to us. Indeed, it is in fact in the trade legislation that the tariff was introduced under that it is required to do that. We had to try to assist it with trade data to enable it to do that, so it could model as well as it could to get the right answers it was seeking from the tariff it published, but no, we did not have a view of the actual tariff levels themselves. The first we were aware of what the actual tariff lines would be and what the quotas would be was on the—

Q4243 **Mr Djanogly:** What would your comment on the process be?

Nick von Westenholz: The potential lead-in time between the publication of the tariff and the application of that tariff was much, much too short.

Q4244 **Mr Djanogly:** In the past, you have said that many farmers are going to struggle to continue to operate. This is related to the publication times. Is that your explanation as to why? Would you like to say anything else?

Nick von Westenholz: Yes. The timing and the logistics around it is massively problematic because of the need to adapt. It is also the



HOUSE OF COMMONS

imposition of very different trading circumstances. As I said previously, tariffs were dropped on imports where previously they existed, and, at the same time, tariffs on our exports into the EU, making up around about 60% of trade, in many instances would have risen, and in many instances significantly. If you look at sheep, it is around 40% on some sheep products. On beef, it is up to 60% tariffs. It raises the question of if those exports and products are viable at all.

Q4245 Mr Djanogly: To say that many farmers will struggle to continue to operate is quite a broad statement. How many farmers would you be talking about?

Nick von Westenholz: In some sectors, it is many more than others. Sheep is the one that is often raised. We identified the sheep meat sector as being the most under threat from this. That is because of the very specific structure of that sector, where up to 30% of production is exported. I think around 95% of those exports are into the EU, tariff-free. They would suddenly face a tariff of approaching 50%. The modelling shows that would lead to a potential downward price pressure of around 30% on sheep meat. For an already marginal sector relying heavily on support, that really would be hugely damaging for the sector as a whole. At the same time, of course, we accept quite a lot of sheep meat imports, mostly from New Zealand, tariff-free. Those would continue to be imported into the UK tariff-free in a no-deal scenario.

Q4246 Mr Djanogly: Mr Rycroft, would this be a similar story for your sector?

Tim Rycroft: I certainly echo Nick's remarks about the consultation process, in the sense that it was rather one-way. We offered a view to Defra. We helped Defra to speak to some of our members who were exporters and importers to understand what they thought and what their requirements would be, but there was no reciprocal sense of us being given a sense of how the policy developed.

The other thing I would add is, as well as the actual bound tariffs that have been announced, the flexibility that has been built into the system around the TRQs remains a bit opaque. We are still not clear how companies will access the TRQs, how they will understand when the TRQ limits have been reached and those kinds of things. As well as disappointment about some of the actual decisions, the way in which the system's flexibility will work is also giving us cause for concern.

Q4247 Mr Djanogly: Mr Nevin, you have said that dropping tariffs to zero would reduce UK manufacturers' competitiveness and the ability of the UK to strike free trade deals. Could you elaborate on that please?

Seamus Nevin: To put it quite simply, we would be allowing foreign companies to undercut British firms by exporting their goods to the UK at zero tariff. We would be erecting trade barriers between ourselves and the rest of the world, not just in the form of WTO tariffs but also in terms of regulatory barriers as well, so we would be making it much more difficult for British firms to export goods at the same time. In the event of



HOUSE OF COMMONS

a no-deal Brexit, many of the intellectual property protections that we have for UK patented goods would cease to apply, so we would be unable to prevent copycat goods flooding the market as well. It would be a perfect storm. We would be creating a huge amount of barriers for British firms in terms of their ability to export overseas, while, at the same time, allowing free entry for anybody else to flood our market with cheaper goods.

Q4248 Mr Djanogly: Finally, is it arguable that zero tariffs would bring down costs for consumers?

Seamus Nevin: We have not done our own independent analysis, but the most comprehensive analysis I am aware of was done by the Institute for Fiscal Studies. It has calculated that, in the event of no deal, tariffs would only reduce prices to household consumers by between 0.7% and 1.2%, so it would be quite negligible.

Q4249 Andrea Jenkyns: If I can begin with Sydney Nash, how much have the global challenges, such as diesel and the China slowdown, been the reason for the UK automotive sector struggles?

Sydney Nash: As I said earlier, there are a set of global challenges the industry is facing—you have named two of them—one of which is technological. It is not just about moving to zero-emission vehicles. There is also technological disruption from digital and digitisation, and there are slowing markets. That is something we are grappling with in the UK, just like other producers in the EU and elsewhere in the world are grappling with it. Those cannot be ignored as two of the challenges that are facing the sector. We have always been very clear that those are part of the challenge we are facing as a sector. These are global issues.

In addition, in the UK we have the challenge around Brexit and restructuring our trading relationships with the EU, but also with other markets around the world. That creates an additional challenge for us here in the UK.

Q4250 Andrea Jenkyns: What is your assessment of EU grants inviting companies to relocate to other EU countries, such as Jaguar Land Rover to Slovakia?

Sydney Nash: This is not something we have necessarily looked at in a huge amount of detail. I cannot comment on the specifics of the Jaguar Land Rover example. The reality of what we have to face in automotive is that we are competing with other nations and other manufacturing bases to build the vehicles here in the UK. That is something we have been very successful at for quite a long period of time. The margins in automotive are very narrow and the advantages that the UK has need to be retained if we are to continue to be competitive, so things like our flexible labour market, our innovation base—

Q4251 Andrea Jenkyns: Going back to this question, though, do you not think it is important to look into EU grants that are actually poaching our good



HOUSE OF COMMONS

companies to go to other countries? Do you not think that is an important thing for your sector to look at?

Sydney Nash: All the countries in the EU are going to be competing to get automotive. It is a high-value sector. It brings good, long-term, high-skilled jobs. I cannot comment on the specifics of Slovakia, but anybody seeking to attract automotive in an EU member state has to do it compliant with the rules.

Q4252 **Andrea Jenkyns:** It was also EU grants that was doing it. Considering China is a key driver of the global automotive industry and that the EU trade policy is quite hostile towards Beijing, do you believe Brexit could potentially facilitate a trade deal with China?

Sydney Nash: I do not know if it could facilitate a trade deal with China or not. That is really for trade experts rather than an automotive expert. For UK automotive, our biggest market is the EU. It is our closest market. It is the one we export the most to. It is also where our supply chain is integrated. For us, when it comes to UK future trade policy, the EU is by far the most important deal to do, first and foremost. It also then has knock-on implications for any further deal, particularly because of rules of origin and cumulation.

As things currently stand, if you take the trade deal with South Korea, for example, we unlock the benefits of that trade deal because our originating content level meets the requirements to get the zero tariffs, but that is based on UK-EU content. There are two stages to this, and that is why the EU element is most important. It is our most important market, but it also unlocks the beneficial elements of other trade deals going forward.

Q4253 **Andrea Jenkyns:** Looking at the social media profiles of all the panel, everybody seems to be neutral except you. Yours seems to be very biased towards remain, retweeting MPs, quite high-profile MPs, who are remain, and critical of MPs who support Brexit. How much of what you have said today is your own opinion or that of your members?

Sydney Nash: Everything I say today is that of my members and the organisation I represent. Everything I put on social media is my own opinion.

Q4254 **Andrea Jenkyns:** Do you not think you should be neutral?

Sydney Nash: I am neutral.

Q4255 **Andrea Jenkyns:** That is questionable, from your social media. I would like to move on to Nick, please. Would you agree that the current CAP system, paying landowners by hectare, penalises small producers and advantages big ones?

Nick von Westenholz: I do not think we would agree with that. There are completely valid criticisms of the CAP system. It did move some time ago now to an area-based system, away from the previous coupled



HOUSE OF COMMONS

support system that promoted overproduction. That was one of the valid criticisms of it. You have now moved to a system where that is not a problem and market distortion is not a problem, and that was one of the justifications of where we are.

It is an area-based system, and that means that larger landowners get larger payments, but of course they are farming larger areas and bigger areas. If you look at the evidence, and indeed the evidence Defra published alongside its "Health and Harmony" consultation last year, it showed that, in bad years and years of bad returns, large farmers were likely to suffer larger losses. I do not think that size is enormously relevant in that argument.

Q4256 Andrea Jenkyns: New Zealand abolished subsidies to agriculture in 1984, which I am sure you are aware of. Since then, the number of small farms and vineyards has risen. Would the UK farmers survive without EU subsidies?

Nick von Westenholz: Not while most of the rest of the world continues to receive subsidies. We compete with countries all over the world, most of whom, other than one or two, such as New Zealand, are supported. Of course, our main competitors in the EU would continue to be supported. There are some interesting lessons to be learned. We look at New Zealand and it is an interesting example, but it is a very different situation where you have a country of a similar size to the UK with only 4 million inhabitants. While I very much admire many elements of New Zealand farming, they are, for example, having some big struggles at the moment with environmental issues. There have been those who have questioned the direction they have taken with reducing subsidies and having a very export-led agricultural sector in pursuing that sort of specialisation and quite intensive agricultural production, and the impacts that is having on the environment. I do not think that is a direction the UK public, or indeed policymakers, would be particularly happy with.

Q4257 Andrea Jenkyns: What would your ideal agricultural policy be post Brexit?

Nick von Westenholz: We have published quite a lot on this. We have lots out there. Briefly in summary, there are three key elements. The first is around the environment and ensuring farmers get rewarded and incentivised for delivering public goods, similar to what has been announced and is being pursued by Defra at the moment. Also, you need assistance and promotion of better productivity in agriculture. UK productivity in agriculture is not particularly good at the moment, has not been for a while. We could do much better, but we need to work with Government to do that.

Finally, the third element would be around stability and resilience. Agriculture suffers from the vagaries of the climate and the weather. The market does not always work properly in agriculture. We have a very concentrated market in retail in this country. Farmers are, generally,



HOUSE OF COMMONS

price-takers rather than price-makers. If we want to maintain domestic production, if we want to have domestic production contributing to our food security, and if we want farmers to look after the countryside, given they are on 75% of the UK landmass, we need to make sure those farm businesses can be supported through volatile times.

Q4258 Stephen Crabb: Mr Nash, can I come back to the question Stephen Timms asked right at the start about the recent announcements of plant closures in the UK? Given the enormous challenges going on in global automotive manufacturing, which you were describing earlier, should we be bracing ourselves for further potential closures and job losses in the UK?

Sydney Nash: I would not necessarily say we should be bracing ourselves for further closures and job losses. The fundamentals for UK automotive remain strong. When one takes a historic perspective and looks at our production levels, they are still very high and still demonstrate strong recovery from 2008. We recovered faster than most other manufacturers in the UK. The challenge is that we are at a delicate moment, where there are these global challenges and we have to deal with Brexit here in the UK. The decisions that will be made in the coming weeks, months and years will really determine whether or not the sector continues to grow or we see more negative outcomes for UK automotive.

Our perspective is that fundamental to that and fundamental to ensuring we can still grow as a sector here in the UK is getting our relationship with the EU right, first and foremost, and about guaranteeing that frictionless trade. That is absolutely critical to our competitiveness, but it is also about maintaining the preferential access we have to global markets through EU FTAs, through replicating those and then building on those arrangements. There are multiple opportunities, multiple possibilities and different pathways. It is about the decisions that are going to be made very soon.

Q4259 Stephen Crabb: Is it fair to say the decisions about the Honda plant in Swindon and Ford plant in Bridgend would have been taken by the most senior decision-makers internationally in those companies?

Sydney Nash: Absolutely, yes.

Q4260 Stephen Crabb: What is your best understanding of how these global boards that are looking at their investment decisions and potential closure decisions are considering Brexit at the moment? You made the point earlier that Brexit is not an irrelevant factor in these decisions, but neither is it the only reason. Help us understand. For these international boards, is Brexit a tipping point factor? Given all the other challenges going on in the sector, when they are faced with the complications of Brexit and the uncertainties about the UK's ongoing trading relationship with the EU, does it feel like it is a factor that tips the balance, in terms of a decision to close a plant and sack 1,000 workers or not?



HOUSE OF COMMONS

Sydney Nash: I have certainly heard some describe it as the straw that breaks the camel's back. One thing we have seen is that one of the great strengths of the UK has been its political stability and confidence that, when investing in the UK, you are investing in a stable set of circumstances and that long-term investment is well placed in the UK. Every two years, the Automotive Council do a study on international competitiveness in UK automotive. They cover a host of metrics, one of which is political stability, and that is the one that has gone down the most since it was last done back in 2016. That plays into the boardrooms. They are looking at the UK versus other countries in Europe and globally, and these are fine decisions that need to be made on very fine margins.

If we are to continue winning new product and winning new vehicles, we need to be playing at our absolute maximum, at our absolute best. Undoubtedly, the uncertainty around Brexit, not knowing what the relationship will be with the EU, not knowing what the relationship will be with South Korea, Canada, South Africa, Morocco or Turkey is not helping. Undoubtedly, that is not helping.

Q4261 **Stephen Crabb:** Mr von Westenholz, can I ask you about the agricultural sector now? In the run up to the first vote on the withdrawal agreement, I held a public meeting in the north of my constituency, a big farming community. Many of your members are there. Part of the argument I was putting forward for why I would support a deal over no deal was the argument about exports of Welsh lambs and the importance of a zero-tariff regime. A farmer in the audience stood up and told me I should not talk about things I did not understand, and said to me in front of the meeting that actually a no-deal outcome is better for sheep farmers in the UK, because at the moment they are forced in their exports to sell to the EU. In a no-deal scenario, they would be liberated to export their lamb to the Middle East and Far East, where they would get a better price. They are forced to take a lower price because we are in the single market. Who was right in that scenario: me or the farmer?

Nick von Westenholz: I do not agree with that farmer's assessment. It is certainly not consistent with the assessment we have made. You will know we are a broad church at the NFU. We represent farmers with all sorts of different businesses, different sectors and different opinions. We recognise that and we are very careful that farmers' views on Brexit, as with many other things, will be coloured by lots of issues well beyond the commercial health or the commercial prospects of their farm businesses. As NFU, we want to focus on that business issue. We are concerned with what is in the best interest of our members' businesses. Looking at it through that lens, a no-deal Brexit, a sudden, cliff-edge Brexit, would be very damaging. It would be particularly damaging for the sheep sector.

Q4262 **Stephen Crabb:** Is it not really concerning to you that many of your members either hear what you are saying and do not believe it or literally have their own set of facts, their own truths that they are not going to budge from? Three years after the referendum, farmers say that publicly



HOUSE OF COMMONS

and get things so factually wrong about how we trade our agricultural exports. Forgive me, but why is the NFU not doing a better job of educating its members?

Nick von Westenholz: It is a challenge. I would like to think that actually we have got through to a lot of our members. We do an awful lot of communication with them, going round the country, meeting them in person, going to shows, going to small meetings, farmer meetings, NFU branch meetings, et cetera, but we have a very wide membership. It is very big. Just in terms of businesses, it is over 50,000. In terms of farms involved, it is well into the hundreds of thousands. Of course, there are farmers, sadly, who are not NFU members as well. There are a lot of farmers and farm businesses in the country. Like the country at large, I am afraid they are, to some degree, divided. We do as best as we can in providing the information. I think we do quite a good job, but of course there are going to be farmers out there who take a different view from the NFU.

Q4263 **Chair:** Pursuing that point, is there any obstacle to British farmers exporting meat products to the Middle East?

Nick von Westenholz: I would have to come back to you on the specifics of that. There are of course many trading relationships, trade deals and preferential trade agreements between some Middle East countries and north African countries, which the UK benefits from as a member of the EU. Those will need to be secured post Brexit. As I say, I can come back to you on the specifics of those. There is always going to be slightly more friction and barriers than intra-EU trade, but in many cases we do. We trade lots of goods outside of the EU.

Q4264 **Chair:** Are there any EU rules that force farmers to export their products to other EU countries?

Nick von Westenholz: Not that I am aware of.

Chair: That was just for the record. That is extremely helpful.

Q4265 **Seema Malhotra:** Thank you for your evidence. I just want to pick up on a question that was asked by one of our Committee colleagues a bit earlier in relation to EU grants in a sense taking business from the UK. My understanding in relation to Slovakia, for example, where we have a trade relationship of about £5 billion worth of exports from Slovakia come to the UK and about £2 billion of our exports go to Slovakia, is that it is a relationship that is quite important. What has also been important in that are the links with our supply chains. The car manufacturing industry in Slovakia has the highest number of production of cars per capita, so it is clearly a space for competition but also a space for strong relationship, in terms of supply chain and ease of trade and frictionless trade. Do you have any further analysis, in terms of our relationship with the EU, which is not about other countries taking our business but about where there are considerable risks to the supply chain, not just finished products, and the risks to industry and to our companies as a result of that, and that



HOUSE OF COMMONS

being a key driver, potentially, in terms of other research, for why business may be going elsewhere?

Sydney Nash: You are absolutely right in how you described automotive. We have a European sector, of which the UK is an extremely important part, with a highly integrated supply chain that criss-crosses the EU, including into places like Slovakia. You are right to suggest it is not quite as simple as “stealing business” from the UK. It is much more integrated than that. When you are asking about risks to the supply chain, do you mean more broadly or specifically in terms of a no-deal Brexit?

Seema Malhotra: I mean primarily in terms of a no-deal Brexit.

Sydney Nash: As I said earlier, we have surveyed our members, which are largely suppliers, and a number of them have come back and said they have had to move operations because of the uncertainty and because of the risk of a no-deal Brexit. In some parts of the supply chain, we are seeing pressure from their customers to, essentially, be no-deal-Brexit-proof, for want of a better phrase. One of the ways to achieve that is to move your operations out of the UK and into the EU 27. Because automotive, at a volume level, operates on a just-in-time model; the components need to arrive line-side within approximately five minutes of actually going into a vehicle. The prospect of a delay at the UK border creates a significant risk for somebody who is manufacturing in the EU 27 but has supply chain in the UK. One way to mitigate that is to move your supply chain out of the UK and into the EU 27.

I could not tell you how many companies have done that and how prevalent it is, but I know it has been an element of the discussions, in some of the challenging discussions UK companies have had to have with their customers in the run-up to the 29th and again to 12 April, and will be doing again in the run up to 31 October.

Q4266 **Seema Malhotra:** Would it not be the case that being part of an integrated supply chain, where there may be components coming to us from across borders and us exporting components, is also part of the foundation for why we are successful in automotive manufacturing in the UK?

Sydney Nash: Yes, absolutely. We have built our global competitiveness on access to the single market, but, critically, by being able to build those integrated, highly efficient supply chains that cross the continent. That is a foundation of the success and the renaissance of UK automotive. That is absolutely right.

Q4267 **Seema Malhotra:** You have been raising these issues with policymakers and Ministers. Do you feel that the message around the appreciation of the complexity of an integrated supply chain, how our economy has been part of the growth of that as well as now having some dependencies on it, is understood?



HOUSE OF COMMONS

Sydney Nash: That understanding has improved over time. If one is looking at Government, it rather depends which parts of Government one is engaging with as to how much this is taken on board and how much it is fully understood. We appreciate, if we look back at 2016, it would have been unfair to expect every Minister and every politician to understand how automotive worked. It is highly complicated and it is highly complex, but that level of understanding has improved over time. I suspect there is probably still more informing and educating that needs to be done going forward.

Q4268 **Seema Malhotra:** Can I ask a couple of questions to Mr Rycroft and Mr von Westenholz? The Environment Secretary has not pulled his punches when describing the disruption of no deal for food and farming supply chains. Has Defra provided you with any help to help mitigate these potential impacts? Do you think they would be sufficient in dealing with the disruption that could come with no deal?

Tim Rycroft: Our working relationship with Defra over no deal has been extremely good. Nick and I and our friends at the British Retail Consortium and UKHospitality have been meeting weekly with Ministers, more recently fortnightly, to talk about no deal. Senior civil servants are involved in that. There is a good level of dialogue and they have a good level of understanding of the challenges. Of course, for Defra, some of the answers to the questions lie outside Defra, and that takes a bit longer, in my experience, to get the answers resolved. Defra has come to a very good understanding of the consequences of no deal for our sector.

One of the things that has been a bit frustrating is that, although the extension in April was obviously welcome from our point of view, it has brought a kind of standstill in all the work that was going on to resolve some of those questions. A lot of the questions that were progressing as we approached the threat of no deal have now been put back on hold. That is a source of concern to us.

Nick von Westenholz: I would agree that the relationship with Defra has been very positive. The ramping up of the no-deal preparations came quite late, and that might be a criticism of Government as a whole. We felt that it was only really moving into this year that it got taken very seriously, so quite a short lead-in period. I would agree that the communication and liaison with Defra civil servants and Ministers around no deal has been positive and constructive.

As well, off the back of a lot of work, time and effort, we achieved some important mitigations that would have helped if there had been a no-deal exit, compared to some of our assessment originally. For example, there was a big concern that we would not be appropriately certified as an exporter into the EU of animal products and products of animal origin, which would have meant a complete trade embargo on meat, eggs, dairy products, et cetera, into the EU. That would have been an absolute calamity. Defra worked with the Commission to secure that approval status prior to the end of March, which was an important piece of work.



HOUSE OF COMMONS

We would need to go through that whole thing again ahead of October if it comes to that. It is worth saying that there were some positive achievements, but there still remain many more concerns and issues that would have damaged the sector if we had left with no deal.

Q4269 Seema Malhotra: That is very helpful. I want to ask you a final question in relation to potential shortage or absence of food. Clare Moriarty, the former Permanent Secretary at Defra, said earlier this year that one issue that was being looked at was the availability of food in the UK, particularly in event of a no-deal Brexit. She said she did not think there would be an absence of food, but there may well be shortages in some areas and potential issues for geographically vulnerable communities. In the event of no deal, where do you see the greatest risks for the supply of food, in terms of particular food products but also geographical areas?

Tim Rycroft: We have said that, because of the short shelf life, stockpiling has a limited ability to mitigate the impact. Immediately after a no-deal exit, you probably would not see very much difference for the first two weeks. After that, you would probably start to see some shortages, particularly around things like fresh fruit and vegetables. Clearly, an end of October exit is not optimal from the point of view of domestic production. We are moving back into being more reliant on imports, so fresh fruit and vegetables but also things like chicken products. We produce a lot of chickens in this country, but they are sent to the EU for processing and then reimported. That might be another area.

Then there are some rather more obscure things, like we do not have enough milk powder processing capability in this country, and that goes into a lot of products like confectionery and infant formula. We do not grow enough high-protein wheat in this country. We tend to rely on quite a lot of imported wheat for bread. Clare Moriarty is probably right, in that we would see selective shortages and probably quite unpredictably. That might go on for several weeks, and potentially months, after a no-deal exit. That is our view.

Q4270 Mr McFadden: Mr Nash, I want to begin with you and take you back to something you said near the beginning, which was about the amount of money your members had spent stockpiling and trying to prepare for no deal in the run-up to the end of March. Can you tell us anything more specific about what you think that preparation cost the automotive industry?

Sydney Nash: We do not have a figure for the industry as a whole as to how much no-deal preparation cost. We have some indicative figures from discussion we have had with members, and this is in the tens of millions, in terms of the cost for just an individual company to prepare for no deal. This is covering a whole host of expenses. Stockpiling is certainly one of them. With stockpiling comes increased insurance costs. If a company is stockpiling chemicals it is increasing insurance and compliance costs as well. There are new IT systems, new staff,



consultancy fees, legal fees; there is very long list of expenses related to no deal.

Some of them are issues the companies themselves had not quite anticipated would be costs. I think one of the panellists earlier mentioned pallets in relation to moving goods to and from the EU. This applies as much to automotive as it does to anyone else. These are specifically designed for specific components, so a pallet for one OEM cannot be used for another OEM, and these have had to be stockpiled as well, so again a cost of several million pounds. Automotive companies have found that preparing for a no-deal Brexit is hugely complicated, hugely time-consuming and extremely expensive. As they have delved into it, more and more issues tend to arise and more and more costs tend to come as a result. One member described to me the most frustrating element of this is that, with all this time and cost, the best outcome is that it is all wasted, which is no way for them to have to run their business.

Q4271 Mr McFadden: At the beginning, in response to the Chair's first question, you described no deal as simply not being an option for the automotive industry. I represent Wolverhampton in the West Midlands. The West Midlands prides itself on having a strong automotive industry. We are the home to Jaguar Land Rover and lots of supply-chain companies. There are tens of thousands of jobs in our region dependent on this. Could you be a bit more specific about what a no-deal or WTO situation would mean for how companies operate and why you, as a trade body, view it as simply not being an option? I am trying to get you to imagine my constituents watching this session. They want to understand why you feel so strongly about this. What would it mean to the daily operations of a company like JLR, Honda or Toyota?

Sydney Nash: The most immediate impact and immediate concern is about the ability to move goods and components across the border. We saw in March and April that some companies, to mitigate against the risk of goods not coming, had planned shutdowns. The reason they did that is because we have seen this before when there have been strikes in Calais, for example, and difficulty getting components across the English Channel. It disrupts production and results in production stops. That would be the most immediate impact. Even with all the stockpiling that anybody can do, you cannot really stockpile enough. You cannot have a warehouse big enough to deal with two weeks, three weeks, four weeks, maybe several months indeed, of disruption and delay at the border.

The reason that is so challenging is because it is a just-in-time industry, at least for the volume manufacturers. The way they operate is not to have a warehouse. It is to have the trucks as their warehouse. The component arrives just in time and just in sequence. If they are unable to do that, it will have an impact on production and it will have an impact on the line, so an impact for those workers that you have indicated.

Looking more longer term or more broadly, there is the tariff question. For us in automotive, under a no-deal scenario, the EU will apply tariffs



HOUSE OF COMMONS

across the board on finished vehicles and components. The UK has indicated it would apply tariffs on finished vehicles but not on components, but just on finished vehicles alone that is an enormous additional cost being applied to manufacturers here in the UK. That creates a huge business challenge. This is a cost in the billions for the sector as a whole. How is that cost going to be absorbed? Will it be passed on to the consumer? Possibly. That is one option, but it is a very price-sensitive market so I am not sure any company necessarily wants to raise the price of its vehicles. Do you absorb that in the manufacturing process? Do you find more efficiencies? It is an option, but, again, automotive in the UK is already highly efficient, so it is very challenging.

Ultimately, this all means remaining competitive in the UK becomes much more difficult than it would have been otherwise. As things currently operate, we are on a level playing field with manufacturers in Slovakia, Spain, France, etc. Under a no-deal scenario, we no longer will be. We will be handicapped. We will be at a disadvantage. That will have an impact in terms of business decisions and investment decisions for manufacturers going forward. That is something that will play out over a long period of time. I do not think we anticipate that we would have a no-deal Brexit where tariffs would go up and then suddenly go down and we will return to normal. I do not think there will be a sudden returning to normal in a no-deal scenario. We are in that no-deal scenario for a significant amount of time, with all the costs and implications that come from that.

There is also a personnel level to this. We have spoken a lot about costs, money and tariffs, but we have to think about the workforce, and think about EU citizens working in manufacturing here in the UK. It varies significantly from company to company, but, broadly speaking, one in 10 workers in UK automotive are nationals from another EU member state. Also, there are UK nationals working in automotive across the EU. We have a European workforce and there is great uncertainty in their minds as to what their status would be in the event of a no-deal Brexit, recognising that it would have to be unilateral action by the EU and the UK, rather than something that is necessarily agreed. Again, that has damaging consequences at a very personal level.

Q4272 Mr McFadden: When you list those things—supply chain problems, tariffs, workforce problems, costs running into billions of pounds—are you concerned with the normalisation of the idea of a WTO exit and the ease with which warnings from trade bodies like your own are now routinely dismissed, both by leading politicians and by a significant section of the public?

Sydney Nash: I am very concerned. I am very concerned that this could be normalised as a feasible option, in terms of how the UK would exit from the European Union. As other panellists and I have already set out, this would be hugely costly. One could debate what happens politically after no deal, and whether or not, as I just set out, this is actually a new



HOUSE OF COMMONS

state of affairs that lasts for a long period of time. I know others would disagree and say, "It forces the EU back to the table". We could have that debate, but the reality is it is a gamble. To undertake no deal is a gamble. In truth, it is gambling with other people's money and other people's businesses, livelihoods and jobs. It is irresponsible to talk it up as an option.

Q4273 Mr McFadden: Can I ask you about a Canadian-style deal as well? I can see a scenario where, after all this talk of a WTO exit, a Canada-style trade agreement, which we used to call hard Brexit, suddenly becomes the compromise between either the scenario we have been discussing or remaining in after all. What would be the top two or three implications for the automotive industry of an FTA arrangement such as the EU has agreed with Canada or Japan?

Sydney Nash: A Canada-style arrangement would not deliver our top objective of frictionless trade. It goes back to that ability to move goods freely across the border. The Canada deal does not have tariffs. Okay, that is good. That is a huge cost removed, but it does not allow for goods to come into the EU from Canada without any checks and vice versa, which is what we currently enjoy. The challenge for us, as I said earlier, is we have built our success on the beneficial outcomes of the single market and the customs union. Those two things, taken together, strip away the need to check at the border. They strip away the vast majority of bureaucratic checks that go with moving goods across the border. They provide that framework, that ecosystem, that allows for frictionless trade.

Our view as a sector has always been that, when we get to that point where we have a new relationship with the EU, it has to be the deepest possible. It should be based on being in the customs union and based on the regulatory harmonisation that you get from the single market. Those two things, taken together, would allow for that continuation of frictionless trade with the EU.

Q4274 Mr McFadden: With the Chair's indulgence, if I can ask one final question to you, Mr Nevin. Your chief executive wrote a very interesting article in *The Telegraph* the other day about the history of Ford in Ireland and the UK. The article outlined how Ford's first factory in Europe was actually in Cork and that the Irish Government of the time had, rather unwisely we will say, launched what was called an economic war against the UK, which entailed the imposition of tariffs against its major trading partner. This resulted in the factory becoming uneconomic and Ford moving production from Ireland to the UK. We now see what Ford is announcing, in terms of its operation in Bridgend. What do you think the history of that story and the imposition of those tariffs between Ireland and its major trading partner holds for us today?

Seamus Nevin: It is a very clear warning that, if you create trade barriers between yourselves and your biggest market, you are going to encourage businesses to relocate. We have seen that already. Thousands



HOUSE OF COMMONS

of jobs have already been lost with businesses downsizing or completely shutting down in the UK. I am aware of several other examples of companies that will be doing the same in future, including one that will result in several thousand job losses for one individual firm. It is clear that creating these sorts of trade barriers creates an environment where businesses no longer feel that the UK is a stable place to remain in business. In a global economy, they will look to move elsewhere.

Mr Nash went through a number of implications for the automotive sector. If I can also add to that list a few other elements, 87% of UK manufacturers post workers overseas to supply supplementary services in support of customers who have purchased UK-made goods. That would become much more difficult under WTO terms. There are also implications for company law. The right of establishment in the EU becomes a member state competence if you were a third country, so unless you are an EU citizen you are not allowed to be a company director in Germany, and many other countries as well. This is something that UK firms will have to grapple with. Intellectual property protections will cease to exist, so how do you prevent copyright products being created, because the UK is a signatory of the Hague Agreement by virtue of our membership of the European Union?

It has very significant GDPR implications for UK firms, because UK firms would have to comply with GDPR and register for certification as compliant as a third-country company, which we cannot do until after we leave the European Union. EU CE quality kitemarks would cease to exist. We would have to replace that with a UK equivalent, which would not immediately be recognised internationally, and would likely result in UK firms becoming less attractive for foreign customers. Contracting parties would have the option to terminate any deals they have with UK firms under force majeure (act of God) clauses. International arbitration would become much more difficult, so settling trade disputes for anti-dumping, for example.

The EU's REACH regulations—the Registration, Evaluation, Authorisation and Restriction of Chemical—is 849 pages and concerns 21,000 different substances. It took seven years to negotiate and 10 years to implement. We would have to create an equivalent almost overnight. That is before I get into HS tariff codes and rules of origin. We are very clear: a no-deal Brexit would be nothing short of commercial suicide.

Q4275 Mr McFadden: You said at the beginning of that list you were aware of a potential major relocation decision that could result in the loss of thousands of jobs. Can you tell us anything more about that?

Seamus Nevin: I am afraid I am not at liberty to discuss it because we have signed an NDA with the particular firm.

Q4276 Hywel Williams: Can I ask a question first to Nick, specifically on the threats to the sheep industry. You said that would be a threat across the UK, which I think you said was about 30% of the industry itself. In my



HOUSE OF COMMONS

preparation for this session, I talked to the NFU in Wales but also the Farmers' Union of Wales, Undeb Amaethwyr Cymru, and they pointed to a very pronounced regional effect as well. Have you looked at that, specifically in my case in respect of the Welsh sheep industry, which depends a great deal on exports to the EU.

Nick von Westenholz: Yes, there would be regional differences, and of course for the sheep sector it would be particularly pronounced in Wales and some of the other areas of England. England of course has a much more varied and balanced agricultural sector, with arable east England and many other sectors spotted around through it. We are very conscious that these issues that I have already talked about that relate to the sheep sector would be particularly damaging to the Welsh agricultural sector, yes.

Q4277 **Hywel Williams:** Leading up to March 31, were you aware of any particular provisions put in place to support the Welsh sheep industry as a matter of urgency, above and beyond what might transpire with the Shared Prosperity Fund into the future when we put all the money in one pot?

Nick von Westenholz: Not in terms of specifics, other than the no-deal tariff we spoke about earlier. The one sector where the current tariff was retained in its entirety was on sheep meat, so there was a recognition by Defra and the Treasury that that was particularly sensitive. That would have gone some way to providing some protection, but of course, going back to that point about the EU tariff on our exports, it would not have made any difference to that. That is a choice and decision for the EU, what tariff it applies, so while it might have helped a little bit, it would not have helped with all those exports into the EU that you mentioned.

Other than that, we made representations to Defra that, in the event of no deal, we would almost certainly need to have Government come forward with emergency mitigating measures to help farmers across sectors and across the UK, but acknowledging that probably the sheep sector in particular would require immediate support. We did not get anything official about what that would look like, but I can say Defra certainly was receptive to what we said and gave us the sense it was willing to move quickly and talk to the Treasury about what those measures might be in those circumstances. We do not know exactly what they would be. It was considering what measures might be available to it.

There is an added complication that you need to identify the legal basis for providing such emergency assistance. Those would currently be under the common market organisation regulations of the EU, so we would need to make sure those were adequately transferred into UK law via the withdrawal Act in a no-deal scenario, to ensure the Government were able to take the sort of emergency measures we might need.

Q4278 **Hywel Williams:** Further to the point Stephen was making about the attitudes of some farmers, who seem to be quite sanguine about a no-



HOUSE OF COMMONS

deal scenario, it is alleged that we could do as we pleased immediately, once we were outside, and that there would be money available. You said they were quite receptive to your points. Do you know whether any actual practical arrangements were put in place? Was there money identified? Were ways of paying that money out identified?

Nick von Westenholz: Not that I am aware of. It is clear that there are constrictions as to what the UK Government would be able to do, in terms of providing support. They would not simply be able to just write a blank cheque. We also got the impression that we would need to show significant damage to the industry for the Treasury to be willing to come forward with emergency assistance. For the reasons I set out, we were expecting that we would be able to show that for the sheep sector, for instance. It was made clear to us that small or even moderate drop-offs in returns, prices or profitability, or however you might look at it economically, were unlikely to be enough to justify emergency measures. That, in itself, was worrying. Of course, the Government did identify a tranche of money for no-deal preparations, but we had no sight as to whether some of that had been apportioned to the agricultural sector.

Q4279 **Hywel Williams:** There is a large amount of money. There is over £4 billion. My concern is that particularly hill-farming is so incredibly marginal. You cannot wait for the damage to be done for it to be repaired, because they will not be there anymore. That is just a comment, unless you would like to take that further.

Nick von Westenholz: We agree, and of course this is happening alongside us leaving the common agricultural policy and starting to develop a new agricultural policy, although the Agriculture Bill that facilitates that is yet to be enacted. That, in itself, is a worry. We move ever closer to the day that comes into force. In 2021, we expect the current direct payments system to start being phased out. If that happens at a time where, for the reasons set out, hill farmers and many others are struggling already financially, it really could be the final nail in the coffin.

Q4280 **Hywel Williams:** I have one further question, Chair, if I may. It is a particular interest of mine, which is the protected geographical indication scheme. This is for both Tim and Nick, as a matter of interest. For me, it is the one on Welsh lamb and Welsh beef and in the food industry, for example, in my area, on Halen Môn, the sea salt from Anglesey. It is a geographical indicator, but it is also seen by the consumer as a mark of quality. Are you aware of any preparations before 31 March, had we crashed out then with no deal? Were there any preparations or consultations, any resources allocated to setting up an equivalent UK scheme so that there would be a seamless transition?

Tim Rycroft: You are quite right. Particularly in Wales, they have been very successful in using protected food names as part of the marketing of Welsh food and drink. Nick may know more than me, but my understanding is there has been a lot of discussion with the EU about



HOUSE OF COMMONS

protected food names and mutual recognition in any future arrangement. I guess you can see a strong case on both sides for continuing to protect food names. I am not aware that it has got beyond that. Maybe Nick knows more.

Nick von Westenholtz: No, that is my understanding as well.

Tim Rycroft: There is nothing concrete. My sense is that there is probably goodwill on both sides on that issue.

Q4281 **Hywel Williams:** On 1 April we would be in a position of depending on their goodwill and them depending on ours.

Nick von Westenholtz: That is probably the long and short of it, yes. We were hopeful there would be some sort of agreement, but there was no confirmation, so there was a chance that the EU might not recognise geographic indications.

Hywel Williams: It feels like a wing and a prayer, really.

Tim Rycroft: It is one of those areas where you can see a very clear reciprocal situation: if we chose not to and they chose not to, we would both be damaged. If we both agreed to do it, both sides would benefit. As I say, I think there is some goodwill on both sides.

Q4282 **Richard Graham:** Can I come back to one or two issues that all of you touched on earlier? If we start, Sydney Nash, with you, obviously the last year has been a terrible year, a disaster really, for the auto sector in the UK. That comes so soon after very strong years: 2014 and 2015 were great years in particular. Coming back to the SMMT's comments recently about a no-deal Brexit making the declines worse, with the threat of border delays, production stoppages and additional costs, the key question is how real that threat is and what you expect would happen if, on 1 November, a new leader had suddenly taken us out of the EU with no deal? What would happen the next day?

Sydney Nash: The threat is real. I am not in a position to tell you every element of no-deal planning the Government have undertaken, or that France, Belgium, the Netherlands or any other member state has taken, to try to facilitate movement of goods across the border, but it is commonly held that the likelihood is that there will be delays at the border as a result of a no-deal Brexit, because we would have to put in place the types of checks and paperwork that currently we do not have to do because we are in the customs union and the single market.

As I said earlier, the challenge for automotive is that, because we operate on such fine margins, any delay at the border causes a huge challenge to automotive manufacturers in the UK. Vehicles are coming off the line every minute and a half, and there are 40,000-odd components in an average passenger vehicle. There are 1,100 trucks that come into the UK from the EU every day, delivering components to engine and car manufacturing plants. With that volume coming through, it is absolutely



HOUSE OF COMMONS

critical that it is not stopped in any way. The threat of no deal is that there will be grit and delay at the border.

Q4283 **Richard Graham:** Is there any risk that, in the run-up to a perceived likely outcome of that kind, orders would slow down and people would be ordering vehicles from elsewhere, in order to prevent the risk of those delays, or is that an imaginary situation?

Sydney Nash: In the run-up to March, we saw a number of steps being taken to try to mitigate the risk of no deal. Part of it is stockpiling here in the UK, not just components but vehicles as well, for manufacturers that do not build in the UK but do import into the UK. There was some pressure to do the same type of thing on the other side of the border, to mitigate those risks too. When it comes to the order book for components, if anything, that went up, as people sought to stockpile. That is the point that Make UK has made across the manufacturing sector. It is slightly less clear as to what the impact has been in terms of orders for vehicles themselves and whether it has played into consumer behaviour, particularly in the EU 27.

Q4284 **Richard Graham:** Nick von Westenholz, in terms of the agricultural sector, you cannot stockpile lamb or agricultural produce in general, particularly animals. What do you think would happen on 1 November in that situation for farmers?

Nick von Westenholz: I would not call it a slow burn, but it is probably unlikely that the whole sector would fall over on day one. The big concern would be the quite quick impact on farm-gate prices for a lot of agricultural produce. That could be quite harsh quite quickly. Individual farm businesses would have to work out for themselves the extent to which they would be able to absorb that.

Q4285 **Richard Graham:** Presumably you, the NFU, would end up lobbying the Government for huge handouts to keep farmers going.

Nick von Westenholz: We talked about the emergency measures that might be needed in that scenario. Yes, we would be making strong representations to Government for support to farming, as we have seen Irish beef farmers do recently to the EU for the difficulties they have had with the market. Certainly, we would do that. Tim may be able to talk about some of this as well. Further along the food supply chain, you might see quite big surpluses coming into the marketplace, for example, again, around sheep; you may see that around some cereals as well. That is a big problem in particular on meat products, because you need to find appropriate storage facilities for those.

Q4286 **Richard Graham:** Tim Rycroft, in terms of your sector, I know Michael Gove has been very clear that all his conversations with supermarkets in particular have highlighted the dangers, not just for them but for consumers. On 1 November, in that situation, what do you think would actually happen?



Tim Rycroft: As I said earlier, I think stockpiling will mitigate the impact for two weeks, perhaps a little longer for some longer shelf-life items. After that, we will start to see selective shortages, assuming that there continue to be checks at the EU border, which is our assumption. On that point, those who are more sanguine about what would happen in the event of no deal keep saying of course there would not be checks at the border. For our members, particularly the big members, their behaviours are driven by their audit and risk committees, which require them to plan for a worst-case scenario. That has to drive our thinking.

Q4287 **Richard Graham:** Is there any potential opportunity in that, in terms of product substitution? Instead of importing things that might get held up at the border, supermarkets and others would turn to local producers.

Tim Rycroft: Yes, there is. I am sure many of the supermarkets will have already started planning on where their alternative suppliers are. Some of you will recall the CO₂ shortage last year. As soon as people starting being unable to get the CO₂ they needed, they started to break their contracts on force majeure, and suppliers just told their customers they could not supply. I think we would see more of that, and there would be a bit of a sense of chaos about how we would find our way through that complexity.

Q4288 **Richard Graham:** Seamus, lastly coming to you, rules of origin are complicated. For our constituents, what would happen to the rules of origin and how would it affect them in this scenario, leaving on 1 November without a deal?

Seamus Nevin: One of the big difficulties is that many of our members have never had to deal with this sort of legislation in the past. When we asked them about their level of preparedness for a potential no-deal Brexit, even in cases where they say they feel prepared, when you dig into it a little you often find an area that they were unaware of.

Q4289 **Richard Graham:** You say "not prepared". We know there are roughly 50,000 or 60,000 businesses that only export to the EU and have not done anything at all to prepare for this situation. Does that mean they will not be able to import or to export as they have been? Does that in turn risk jobs, or is all this an entirely hypothetical threat, dreamed up by resolute remoaners in the left-wing press?

Seamus Nevin: No, it is definitely not hypothetical. It is already happening in many cases. It depends on the individual firm, where they are in the supply chain, whether they are an OEM or an end producer. It also depends on their sector. I will give you an example. When we have asked about consumable goods that would be most at risk in the event of a no-deal Brexit, one of the key ones would be lubricating oil that is used for factory machinery, most of which is imported. If you run out of that, your whole factory shuts down, so there are very significant implications if certain key components are not able to be sourced. I am aware of a small automotive manufacturer that produces exhaust pipes. That is all



HOUSE OF COMMONS

they do. They sell into an engine manufacturer, which sells into a car producer. If those exhaust pipes do not get made, there will be knock-on consequences for the other firms in those supply chains as well. All these will only come to the fore after it has already happened. These cannot be fully predicted in advance.

Q4290 **Richard Graham:** Why would they not be able to produce those pipes? What do rules of origin—

Seamus Nevin: It is not just rules of origin. It is about chemicals regulations on input components with certain metals, for example, and being able to import those sorts of things as well.

Q4291 **Richard Graham:** It is about concerns with the ability to import the components if there are hold-ups. Is this more about non-tariff barriers than tariffs and prices?

Seamus Nevin: In that particular example, yes.

Q4292 **Richard Graham:** Is that because they all come in through Dover or do some of these come through air freight?

Seamus Nevin: It is because they would no longer be compliant with UK law, or the contracts they have would probably cease to exist with their suppliers elsewhere because of force majeure, et cetera.

Q4293 **Richard Graham:** Why would they no longer comply with UK law?

Seamus Nevin: If you take the EU's REACH chemicals regulations, we rely on UK law to govern and regulate the chemicals industry and all the chemicals we import, export and use in the UK.

Richard Graham: And we have not yet replicated REACH in legislation.

Seamus Nevin: Exactly.

Q4294 **Richard Graham:** This is about various laws that are still pending in Parliament and, therefore, if they were not in place by 1 November, there could be problems.

Seamus Nevin: Yes.

Q4295 **Jeremy Lefroy:** I have a couple of specific questions and then one more general outside question, on WTO and world trade, rather than just EU. We have heard claims from, for instance, the unions that, if we leave the EU without a deal, steelmaking in the UK will effectively come to an end. We have heard predictions from the chemical industry that a lot of chemical manufacture will transfer to the European Union. We have heard that companies in the Netherlands are particularly increasing capacity at the moment, so they can take over business, particularly from the north-east of England. Are those things, Mr Nevin, that you have also heard, or are they myths?

Seamus Nevin: Yes, we have heard similar stories concerning various firms. I want to add to this point. Notwithstanding the obvious concerns



HOUSE OF COMMONS

around the agri-food sector in particular, and those companies and industries that rely on very tight profit margins, or indeed on subsidies, there is an assumption in some quarters that the companies that would be impacted by a no-deal Brexit are companies that are already struggling, and this would be just putting them out of their misery, in a Darwinian survival of the fittest. That is not the case. Many of the companies that are struggling already, at the moment, among our membership, are very profitable businesses. In some cases, they are world-leaders in their sector. The reason they are struggling is not because of economics; it is because of political decisions being made in this House.

Q4296 Jeremy Lefroy: Right, but could you answer specifically about the steel and chemicals, or are you not in a position to do that?

Seamus Nevin: I am not entirely sure what I am allowed to say on the specifics of British Steel. I know that no deal has been an element in it, but there are other factors at play as well.

Q4297 Jeremy Lefroy: I was talking about the steel industry in general, including Tata and other manufacturers, and chemicals as well.

Seamus Nevin: Steel, as an example, is not subject to WTO tariffs within the quota that they have, but there are cases of British steel firms that have sold off their quotas because they never thought they would need to use them. They would be impacted by a 25% tariff on day one, if we were to crash out in a no-deal situation. There are also implications for some of the stuff they export, so long rail for high-speed rail can only be transported via the Channel Tunnel because it is too long for ships to transport. Depending on whether there are disruptions at Dover and Calais, or on the rail network, there is a question about whether they would be able to sell their goods overseas and what that would mean for their business. There are a number of different potential implications.

Q4298 Jeremy Lefroy: One thing that has been raised in the past is that, in effect, leaving the single market would provide an opportunity for reshoring of some supplies, so British or largely British manufacturers would say, "This is an opportunity for us to do more in the UK, because we would have our suppliers closer to hand. We would be within the same market area within the UK". Have you seen evidence of this?

Seamus Nevin: We have seen some firms, those that are able to and are aware of where their supplies would be impacted, shortening their supply chains. There has been some action on that front, but it is not possible for all firms to do. It must be borne in mind that import and export is only one element of this. By our calculations, 88% of non-graduate employees working in the manufacturing sector would not qualify to meet the Home Office's visa entry requirements under the proposals in the immigration White Paper. Skills is the number one non-Brexit concern for our members. While they might be able to



HOUSE OF COMMONS

continue to import goods, would they be able to get the workers they need to do the work? That is a question.

It is a confluence of a number of issues that would really determine whether they are able to continue doing business in the form that they currently do after no deal.

Q4299 Jeremy Lefroy: Thank you. That is very helpful. If I may, I want to ask a broader question. Speaking more widely than just the EU, the G20 Trade Ministers meeting last weekend, I think in Japan, was, as I understand it, fairly depressing, in the sense that the gaps between major trading partners are growing, rather than diminishing. If we leave aside for the moment the question of the UK's departure from the EU, what impact are you seeing in your businesses from the increasing trade disputes we see around the world, even if they do not directly involve the UK at the moment? Are we seeing any indirect impact?

Secondly, once and if we are outside a major trading bloc such as the EU, would these trade disputes have a greater impact on us than if we were remaining within the single market and the customs union? Perhaps I could ask in respect of food and agriculture.

Nick von Westenholz: I am not aware of major indirect impacts, but I am sure that the very high-profile trade disputes ongoing are sending ripples right through world markets. Of course, most of those trade disputes are fairly bilateral by their nature, so there is a question, which is difficult to answer, about what would be the impact in future, once we are out of the EU, in terms of our building trade relationships with other countries.

I take the opportunity of using this question to raise the spectre of a potential US-UK trade relationship in future, which has been very much in the press recently, with the recent visit of President Trump. It concerns us that that trade deal is being held up as something that can be done quickly and easily, and would be good to do quickly and easily, in the wake of Brexit, particularly a no-deal Brexit. We have seen how transactional the President of the United States is, and how aggressive he is in his trading relationships. We know they have very aggressive, offensive interests on agriculture. I do not need to go into the details of chlorinated chicken and hormone-treated beef, etc, but there are clear and justified concerns about not just what the economic impacts of that would be, but what they would mean for the high standards of food production we have here in the UK, those non-EU trade relationships in future.

We need to be very careful, take the right amount of time and look at the details appropriately before we jump into any of these trading relationships.

Q4300 Jeremy Lefroy: Could I pick you up on that? The high standards of food production in the UK are often mentioned, and I do not dispute that. Do



those high standards of food production apply in every part of the EU? I often hear reports of agricultural practices in other parts of the EU that are certainly not what we would expect in the UK, yet they have freedom to sell in the UK. Is this argument about chlorinated chicken and hormone-treated beef not disguising the fact that other practices go on in other parts of the EU, particularly as regards animal welfare, that are not things we are particularly in favour of in the UK, but which we have no control over?

Nick von Westenholz: There are areas, certainly historically, where the UK has gone above and beyond the EU, particularly on animal welfare, in the past. There may be questions about certain practices elsewhere in the EU, but the EU's legal standards are high. Generally, the standards we adhere to in the UK are those standards. I suspect often, when we hear or are aware of practices that we do not approve of or we think are substandard in the EU, they may well be illegal. That, of course, comes to a question about enforcement and the like. This is not just about food safety. It is about welfare. It is about environmental performance as well. Generally, the legal standards in the EU are high in global terms.

Tim Rycroft: One thing that is often not talked about—we talk a lot about security co-operation—is food safety and quality co-operation. It is an area where, again, we are not clear what the impact of no deal would be on our relationship with the European Food Safety Authority, our access to things like the Rapid Alert System for Food and Feed, the network on risks that enables any food issues across Europe to be quickly identified and managed. That is a real concern to us. We are not clear whether we would have access to those things on 1 November.

Q4301 **Jeremy Lefroy:** Would anyone else like to comment on the more general trade situation and the impact on your industries?

Sydney Nash: I was only going to add that there is undoubtedly a challenging global trade environment. One specific thing for automotive is the threat, potentially, of tariffs by the US, which would apply to the UK as much as it would do to other EU member states, if that were to take place. It is just an additional challenge to those we have already set out this morning.

Seamus Nevin: I mentioned earlier that our quarterly tracker indicates that export orders are at the lowest level they have been at in many years, not just from the EU but from countries around the world with which we trade via EU free trade agreements. What does that mean in practice? Apart from the examples that have already been mentioned, I know of one automotive firm in Northampton that averaged 2 million orders a month last year; its order book has now been reduced to 1 million orders a month, as a consequence of European suppliers looking to source their goods elsewhere. A lighting firm in Huddersfield that is 160 years old has just had its entire order book, so one year's worth of production, moved to a rival firm in Italy. It will probably be going out of business.



Q4302 Sammy Wilson: I must say, listening to all of you, that you make the Chancellor look like a cheery chappie, yet the gloom that you have given to us this morning is not borne out when surveys go beyond the organisations you represent and go directly to the individual firms, which probably make up some of your representation. Just last week, the NatWest PMI survey of the regions, looking at future output, found that, in every region of the United Kingdom, in 12 months' time, the firms it surveyed expect output to have increased. Mr Nevin, significantly, the biggest increases and the greatest optimism were in those regions of the United Kingdom where manufacturing is most prevalent. Would you care to comment on the disparity there has been between the picture you have painted for us today and the picture that the survey of individual firms is giving, as far as future confidence is concerned?

Seamus Nevin: The PMI data to which you refer is predicated on the assumption of an agreed exit from the European Union, not no deal.

Q4303 Sammy Wilson: No, it is not predicated on that. In fact, it is a survey of current attitudes, given the current climate. It actually states that, despite the challenges of Brexit—that is an exact quotation from it—firms are still showing expectations of future growth.

Seamus Nevin: An agreed exit under the terms of the withdrawal agreement is still a Brexit and it will still cause challenges.

Q4304 Sammy Wilson: All of you have said today that you accept a large number of the candidates who are going to be putting their names forward for Prime Minister have talked about being willing to accept a no-deal Brexit. That has been current in the news for quite a number of months now. Therefore, firms, when they were responding to that, would have known that this was a possibility. This is all I want to know: as organisations you are pessimistic, but the individual components of your organisations do not seem to share that pessimism. Why not?

Sydney Nash: The individual components of our organisation do share that pessimism. We are a membership organisation; approximately 800 companies are members of SMMT. When we describe what the industry fears and what its concerns are regarding a no-deal Brexit, it is the concerns of those individual businesses. We represent their views; we consult with them; we represent them back into rooms like this. It is absolutely the views of those businesses, both large and small, in our membership. I cannot comment on the specifics of the survey that you refer to because I have not seen it, but from an SMMT perspective we are absolutely representing the views of individual businesses right across the country.

Q4305 Sammy Wilson: Mr Nash, in your evidence—in fact, I think I noted it 15 times—you talked about disruption at the border and the impact it would have on the supply chain. Only yesterday, the EU, in one of its further assurances to Ireland, promising that it would stand by Ireland and indicated that it could use technology to ensure there will be no



HOUSE OF COMMONS

disruption to Irish trade and the flow of Irish goods across the land bridge, which requires, do not forget, two stoppage points, moving into Wales and then moving from England to France. If the technology is available at those points of export for Irish goods, presumably it will also be available for UK goods. We have had assurances from the authorities in Calais that they are preparing to ensure there are no stoppages. If a lot of your fears about the supply chain are predicated on disruption at the border, does that not reduce a lot of the arguments you have made today about the impact on the car industry?

Sydney Nash: I have two points to make in response to that. I have not seen what the EU said yesterday, but I assume it was talking specifically about the situation on the island of Ireland.

Q4306 **Sammy Wilson:** No, it was not. It was talking about the land bridge between Ireland and Europe, in other words the stoppages and the potential disruption that might occur when goods are leaving Ireland to go to Holyhead, and then from Dover to Calais.

Sydney Nash: The entry points for components in automotive are primarily Dover, but ports on the south coast, and entrance into England, rather than via the Irish Sea or the island of Ireland. That is the area we are most concerned about, and where we most fear the risk of disruption. When we talk to Government, they can give us assurances as to what Government are planning to do in terms of Dover and elsewhere, but they cannot give us any assurance as to what might happen on the other side of the border. The reality is that there are a huge number of unanswered questions. It is hard to imagine a circumstance where we leave without a deal and somehow manage to retain everything we currently have, in terms of the movement of goods and the legal framework that provides for that. Understandably, our members are seeking to mitigate the risks, and one of the risks is that there will be delays and disruption at the border.

Q4307 **Sammy Wilson:** The authorities in Calais have said the same as the British authorities have said, and the EU is now giving those assurances to the Irish. If disruption does not become the normal situation, because all your evidence has been based on the assumption that there would be continued disruption, you will have to deal with no more than the disruption you have had to deal with in the past: bad weather, strikes, accidents and that sort of thing. The British motorcar industry has weathered all those storms, has it not?

Sydney Nash: If the industry is to be reassured that there will not be disruptions at the border in a no-deal scenario, we need to see a fully worked-up plan by both the UK and other EU member states, an agreed plan that sets out precisely how that will be the case. In the absence of that, unfortunately our members cannot make big business decisions based on an assurance that may or may not have been made by Michel Barnier in the context of maybe just the island of Ireland. We need something in black and white that is legally binding and companies can



HOUSE OF COMMONS

plan around. In the absence of that, we have to plan for the risk of disruptions at the border.

Tim Rycroft: When there is an operational border inspection post at Calais, I shall feel a lot more relaxed, but there is not.

Q4308 **Sammy Wilson:** Mr Nevin, can I come to you? I wonder if you can tell me the average tariff for manufactured goods if a firm was outside the EU and having to operate under WTO rules, or whatever.

Seamus Nevin: There are huge differentials within the sector.

Sammy Wilson: What is the average, though?

Seamus Nevin: The average tariff is less than 2%, but tariffs are not the primary concern. That masks, however, that there are certain subsectors that would be facing up to 52% tariffs. On your comments about the border, many of our members have been involved in Government's attempts to develop new technologies that would make seamless and frictionless trade a possibility. If the technology existed, it is our members that would be supplying it. A delegation from Make UK visited the most technologically advanced border in the world, which is the Canadian border. That border cost \$10 billion to implement; it took 10 years to develop. It is still not entirely seamless.

In the case of Calais, the Port of Calais has hired 1,000 extra customs officials. It is now the biggest renter of portakabins in the world. When they tested the procedures for a no-deal Brexit in their attempt to make it as seamless as possible, it led to 25-km delays. A no-deal Brexit, they have estimated, would reduce their capacity by up to 80%. While the EU has said that it will make best efforts to reduce the impact to the extent possible, it will not make frictionless trade completely viable.

Q4309 **Sammy Wilson:** So the assurances given by the Mayor of Calais that there would not be disruption are not true.

Seamus Nevin: That is correct.

Q4310 **Sammy Wilson:** In your letter to MPs, you said that the average tariff is 2%. This is what you said in your letter to MPs: "Businesses would face massive new customs costs and tariffs". But 2% is hardly massive, is it?

Seamus Nevin: There is a massive variation, as I mentioned earlier. There are some cases where the tariffs—

Q4311 **Sammy Wilson:** No, you did not say that. What I am trying to get at is that you all seem to have overstated your case today. Saying "businesses could perhaps" might have been acceptable, but in your letter to MPs you stated that businesses would face massive tariff costs.

Seamus Nevin: It is a "would". It is a fact of WTO law that these are the tariffs that would have to be implemented.



Q4312 **Sammy Wilson:** You just told us the fact is that 2% is the average.

Seamus Nevin: The average, yes, but it masks a significant variation. The implications are that certain subsectors or OEMs that produce individual goods that are part of a much wider supply chain would be vastly disrupted. If those goods do not get made, it has implications and knock-on effects for the rest of the production line. It is the case that, while the average is quite small, the knock-on effects for individual components of that would be quite severe.

Q4313 **Sammy Wilson:** Right, so the average is quite small, and you then go on to say, "Disruption at ports could destroy carefully built supply chains", though that disruption is not necessarily going to happen. We do not know yet whether it is going to happen. Indeed, all the assurances are that steps are being taken to—

Seamus Nevin: To reduce the disruption to the extent possible, but it will not be entirely possible. Just to reiterate, tariffs are only one element of this. Non-tariff barriers are a much bigger concern for our sector. The ability to export goods that are seen to be compliant with laws in the countries to which we are exporting is a much greater concern and a much more difficult one to quantify and tackle in advance.

Q4314 **Sammy Wilson:** Can I ask you one other question? You have described no deal as an act of economic vandalism. Yet, again in your letter, you indicate that not thousands but hundreds of thousands of firms have not yet taken any steps to deal with no deal. They have yet to start taking any steps to deal with this act of economic vandalism that you are talking about. Is that maybe not an indication that many firms that are actually at ground level, people who know their business, do not recognise the kind of dangers that you have outlined to this Committee this morning?

Seamus Nevin: No, quite the opposite. The vast majority of firms in the UK are small firms. They do not have the capacity or the expertise to plan for a multitude of potential scenarios, whether that be a no-deal Brexit, an agreed Brexit under the terms of the withdrawal agreement, or a hypothetical alternative arrangement deal that could potentially be agreed. As a result, they are waiting until they have much further clarity on what it is they are expected to prepare for before they can devote the resources, which are very considerable, that would be required to plan and prepare for a potential Brexit, in whatever form it takes.

This is costing those businesses that are already preparing very significant amounts of time and money, and in some cases it is money and time that firms, particularly at the smaller end, do not have. We are already aware of significant cash flow problems for small firms. I have mentioned a number of examples already of businesses whose backs have been put to the wall, businesses that have decided to relocate, to let workers go or to downsize, businesses that have lost contracts with firms overseas, businesses that are losing export orders from companies



HOUSE OF COMMONS

and countries around the world, as a result of the uncertainty we already have, and we have not even left yet.

Q4315 **Sammy Wilson:** Mr Nash has said he would not try to hazard a guess at how many jobs in the motorcar industry had gone because of the trends in the motorcar industry, as opposed to Brexit. Maybe you could tell us, from your assessment and detailed knowledge of this, since you have indicated that you have some knowledge of companies that have moved, how many jobs have we lost as a result of firms relocating to other parts of Europe?

Seamus Nevin: I do not know a precise number, and I am not going to make a guess.

Q4316 **Sammy Wilson:** Yet you are making a claim here this morning that we are losing lots of jobs, but you cannot quantify it.

Seamus Nevin: It is certainly in the high thousands if not tens of thousands already, but the precise numbers are not figures that I have.

Q4317 **Sammy Wilson:** You are saying we have lost tens of thousands of jobs as a result of firms relocating.

Seamus Nevin: Already, yes.

Q4318 **Sammy Wilson:** I would take it that, if you can get it in the tens of thousands, you must have some way of quantifying that. It might be very useful if you quantified that to the Committee, rather than simply giving us a figure, if you are saying you are not in a position to give it exactly or say how that figure was reached. I do not think it is right to make those kinds of claims to the Committee without having some kind of evidence.

Seamus Nevin: These are not claims. There are evidenced. You can read the news headlines for yourself. They are publicly available.

Q4319 **Sammy Wilson:** On most occasions when firms are relocating or whatever, there is a whole plethora of reasons. Indeed, Mr Nash has been clear in his case that there are other reasons that may have influenced that.

Can I come to Mr Rycroft, then? I have one last question to him. You indicated that there might be a shortage of food, not immediately because of stockpiling but fresh fruit and vegetables, chicken, milk powder for processing, et cetera. Is this because the EU would be unwilling to sell these goods to us any longer?

Tim Rycroft: Our assumption is that, if there is friction at the external border of the EU, there will be reciprocal friction on goods coming in. Some 40% of fresh food and drink goes on the short straits crossing. We know the Defra assumption is that capacity may be reduced by 80% for quite a long period of time over that crossing. That is going to affect imports as well as exports. That is why we are assuming that, for some of those things where imports are critical or important elements of food and drink, we might see shortages.



HOUSE OF COMMONS

Q4320 **Sammy Wilson:** Would there be any more disruption, say, bringing in oranges from South Africa, melons from west Africa or coconuts from the Caribbean? Those are examples of fresh fruit that seem to come in without a great deal of disruption.

Tim Rycroft: I am sure there would be an adjustment over time, but I think there would be a period when things were very messy.

Q4321 **Sammy Wilson:** Why would there be more friction for goods, fresh fruit and vegetables, coming in from Europe than there would be from, say, Kenya, where we bring in runner beans? We bring in fruit from all over the world. It does not seem to affect it.

Tim Rycroft: The majority of our food that we import comes from the EU. That is a matter of geography, not politics. That is just proximity. In the event that it is difficult to get food into the UK because of disruption over the short sea crossings, which is our assumption, you can expect to see disruptions in those supplies. Although we do import all those things from all over the world, they are quite a small proportion of the total.

Q4322 **Sammy Wilson:** I do not think it is the proportion that is important. It is the process by which they come in. You are saying they can come in fairly seamlessly. Would Spain not be just as keen to make sure that tomatoes did not rot in lorries at Calais?

Tim Rycroft: They would.

Q4323 **Sammy Wilson:** Therefore, would there not be an imperative on the EU authorities to make sure the trade in European fresh food is as seamless as the rest of the world fresh food?

Tim Rycroft: I am sure, in this scenario, very quickly there would be a huge clamour to try to find a way to sort it out, but not before it would have impacts on UK consumers.

Q4324 **Sammy Wilson:** Either there is a clamour to get it sorted or else there are going to be food shortages. You cannot have both. If there is going to be a clamour to get it sorted out, there will not be food shortages, will there?

Tim Rycroft: That depends rather on whether the clamour results in it being sorted out.

Q4325 **Sammy Wilson:** You do not think there would be some economic imperative from producers in Spain where, what, 40% of the food is supplied to us, and the same with the Irish Republic. You do not think the Irish Republic would be keen for its beef to continue being supplied into the UK, since 60% of its beef comes here.

Tim Rycroft: As I say, I am sure there will be a massive clamour to resolve things but, if we get to that situation, it will be because both sides have taken an entrenched position, from which it will be difficult to climb down.



HOUSE OF COMMONS

Q4326 **Sammy Wilson:** Do you not think the clamour will start long before the problem occurs?

Tim Rycroft: I did not sense that as we approached 29 March.

Q4327 **Sammy Wilson:** The EU is already trying to give assurances to the Irish that they will ensure that there is no disruption, because it does not want to see the Irish economy disrupted. I do not think it would want to see the Spanish or Italian economy disrupted either.

Tim Rycroft: That may well be the case, but my members cannot plan on the basis of those rather vague assurances that people will want to sort this out. Their audit committees will not accept that.

Q4328 **Chair:** Mr Nevin, can you confirm that among the costs that would face business in the event of a no-deal Brexit is the cost of having to make customs declarations they do not have to make at the moment?

Seamus Nevin: Yes.

Q4329 **Chair:** HMRC has calculated that as being quite a considerable sum of money, when you add it up for all manufacturing exporters.

Seamus Nevin: Yes. I do not have the figure to hand. It is quite a considerable sum of money. It is also quite a considerable commitment of time.

Q4330 **Chair:** There is time, the cost of making those, and that is in addition to any tariffs that are faced.

Seamus Nevin: Yes.

Q4331 **Stephen Kinnock:** Thank you, gentlemen. Some of the leadership candidates for this Conservative leadership election are using the term “managed no deal”. Mr Barnier has said, “If the UK were to leave the EU without a deal, let me be very, very clear. We would not discuss anything with the UK until there is an agreement for Ireland and Northern Ireland, as well as for citizens’ rights and the financial settlement”. There seems to be a disparity with what the leadership candidates are saying, which is that we would leave with no deal and then start doing side deals, somehow circumnavigating the withdrawal agreement by doing these side deals. That seems to conflict quite clearly with Mr Barnier’s position. Based on your contacts in Brussels—and I am sure you are talking to your counterparts across the European Union—can you give an assessment of the phrase “managed no deal” and what validity you think it has as a negotiating position, also in light of Monsieur Barnier’s comments? Would anybody wish to comment on that?

Sydney Nash: From an auto perspective, the concept of a managed no deal does not really make sense. As I set out earlier, we are highly integrated as a sector; we have supply chains that crisscross the continent. For anything to be managed, it has to be managed not unilaterally by the UK, or unilaterally by the EU, but there has to be some sort of agreement between the sides as to how this will be managed, how



HOUSE OF COMMONS

we continue to move things across the border, the basis of contractual arrangements, et cetera. The two things seem contradictory. No deal suggests nothing has been agreed and the two sides are operating separately, but to manage something, when you have an integrated sector like ours, needs the two sides of the equation to be operating co-operatively and reaching some form of agreement. It does not quite seem to make sense.

Q4332 Stephen Kinnock: Does anybody else care to comment on that? I am particularly looking at this point that there will be no negotiations about anything in the event of a no-deal exit, because the outstanding issues in the withdrawal agreement, the divorce items, if you like, are still outstanding. Until such time as those issues have been resolved, there will be no side deals, no negotiations, no further discussion. Is that your assessment, Mr Rycroft?

Tim Rycroft: I cannot at the moment see why see it would be in the EU's interest to do things that would mitigate the impact of no deal for us. If you look at some of the issues we talked about earlier, whether it is health marks for products of animal origin, heat-treated pallets, fortification of flour, these are all things we would want a side deal on in that event. These are things that would mitigate some particular impacts, and none of them has really been resolved. Discussions have taken place and opening positions have been set out, but I do not get any sense that the EU is in a rush to resolve those and reassure us that they can all be done in the event of no deal.

Q4333 Stephen Kinnock: This question is related to that. A lot of the commentary coming out of Brussels is that the EU is not worried about a no-deal scenario because its view is that the British economy would not be able to withstand the shock and that, within a matter of months, the British Government would be forced to put the withdrawal agreement through Parliament and to come to Brussels on the basis of those terms. That is affecting the mindset in Brussels because, in essence, there would of course be some damage to the EU, but far, far less damage to the EU than there would be to us, and, therefore, no deal is a price worth paying in terms of getting the withdrawal agreement over the line perhaps some months later. Of course, it would be a somewhat unusual situation, because we would be re-entering the EU on that basis, so that raises a number of quite challenging legal questions about how that would work in practice. Have you, in your scenario planning, thought through that eventuality: that we crash out with no deal on 31 October but are then forced to come back and negotiate terms on the basis of the withdrawal agreement a few months later?

Seamus Nevin: It needs to be borne in mind that the new Commissioners will not have taken up their seats until several weeks after the crash-out date at the end of October. Mr Barnier's team has also been disbanded. His chief negotiator, Sabine Weyand, has moved to a new job. It appears from their end that they consider the negotiations to be finished. It would look like there will be nobody at the end of the



HOUSE OF COMMONS

phone to pick up a call from the UK if we were to decide to phone them immediately after a no-deal Brexit, if we crashed out at the end of October. The politics of this would be very difficult to predict, so I am not entirely convinced by the assumption that we will come back straight away, simply because it would depend on the nature of the disruption and how significant it is from day one. It is a very, very difficult scenario to try to predict, and it is one we would be very keen to avoid, for those reasons.

Nick von Westenholz: There are so many potential scenarios we have been wrestling with over the last couple of years. As the NFU, we have tried to avoid getting involved in these political considerations. We have set out what is a workable Brexit for us. I made a distinction earlier: the concerns I have raised here today are concerns with a no-deal, crash-out Brexit. We have laid out some clear principles, which we feel mean we can move forward with Brexit in a way that works. They involve things like maintaining as free and frictionless trade as possible with the EU, developing our future agricultural policy that supports UK farmers, etc. Those remain the way we are dealing with this. No deal is out of the question for us. I would be very concerned with a scenario predicated on the fact that that might, at some point, lead to returning to the EU or softening the blow, because it may well not. What we are very concerned about is simply no deal and finding a way to avoid that outcome.

Q4334 **Stephen Kinnock:** The final question is around the ecosystem that is the customs union and the single market, working in a very integrated way. It is often said that, if you look at border checks, 80% of the checking is single market related rather than customs union related. Do you see a customs union only type deal, looking to the future relationship, as being viable, or do you believe that single market membership, or close participation in the single market, would also be a precondition for you being able to continue on the basis of the business models you would like to see going forward?

Tim Rycroft: For us, a customs union without a single market would be a very difficult situation and very far from where we want to be.

Seamus Nevin: A customs union is necessary but not sufficient. We would require regulatory alignment, whether that means membership of the single market, and equally the ability to trade in services, so labour mobility would be an important element for us too.

Sydney Nash: The same applies to automotive. We need both for frictionless trade.

Nick von Westenholz: In the short to medium term, whether you call it a customs union or single market, or you refer more to customs arrangements and regulatory alignment, they are pretty critical to maintaining that free and frictionless trade. There are question marks, in the much longer term, on how long that is politically viable, particularly if we give up our voice and influence in shaping those rules. That is where



problems arise, but that, I would hope, being optimistic, is something that could be adjusted and taken forward over the longer term, so we can come to a bespoke arrangement, essentially, where we maintain and retain a degree of governance and control over the rules that we are, as farmers, required to adhere to.

Q4335 Stephen Timms: I wanted to come back to Mr Nash. Listening to the warnings you sounded about the consequences for the car industry of leaving the EU without a deal, it sounds as though your view is that, if we left without a deal and we did not get a deal within some period, large-scale car-making in the UK would end. Is that your view, or is that overstating the threat that you see here?

Sydney Nash: It is slightly overstating it. These things will not happen overnight. The model cycles in automotive are five to seven years, depending on the manufacturer. The critical thing for us is, when a new model decision is being made, whether the UK will be in a position where it is an attractive, competitive market for a global automotive company to say, "Yes, the UK is the place for us to build that new vehicle". It is much more challenging for those in UK automotive to make that case at global HQ in the event of a no-deal Brexit. It is much easier if we have had a managed exit with a status quo transition that builds in plenty of time and leads to a deep relationship that guarantees ongoing frictionless trade.

Q4336 Stephen Timms: If we do not have a deal, are you saying we are not going to get new models? I am trying to understand what the consequences in the medium term would be if we were to leave without a deal and not get a deal subsequently.

Sydney Nash: I cannot say whether we absolutely would or absolutely would not, but it makes it harder to make the case to invest in automotive here in the UK in a no-deal scenario, particularly if that no deal has become the new norm and we have to operate with a 10% tariff, not just with the EU but with other markets, where we are unable to get the goods to lineside as quickly as we used to, which increases cost and decreases competitiveness. All this will just make it harder for manufacturers in the UK to make the case to invest here in the UK.

Q4337 Stephen Timms: We have talked about the announcements of job losses and plant closures in the UK in the last year or so. Have there been similar announcements elsewhere in the EU or has this been a peculiarly UK phenomenon?

Sydney Nash: No, not that I am aware of in terms of job losses. I would say that, for Ford, for example, this is a European restructure, so it is not just the UK. I do not know what they have announced with regard to other countries. Similarly, for Honda, it is more global, so it has an impact vis-à-vis Turkey, obviously not in the EU but very closely related, for the supply chain. I am not aware of any further announcements of job losses elsewhere in the European Union in automotive.



HOUSE OF COMMONS

Stephen Timms: So the UK industry has, by the sound of it, suffered more than the EU industry so far.

Sydney Nash: I think that is absolutely right; we are suffering more in terms of investment and continuing that high level of manufacturing.

Q4338 **Chair:** On the back of that point, Mr Nash, why would a car manufacturer that was thinking of either establishing a new plant to make cars to sell to the EU, or building a new model to sell cars to the EU, put that investment in the country where every car that left these shores would face a 10% tariff in the event of a no-deal Brexit? Can you think of a single argument that would encourage them to do that, given that they could locate the plant or the new model in France, Germany, Slovakia or wherever, and sell the cars to the rest of the EU with no tariff?

Sydney Nash: It is very hard to make that argument.

Q4339 **Chair:** Finally, Mr Nevin, what is Make UK's view of what the Brexit decision in the last three years has done to the UK's reputation as a place to invest from other parts of the world in order to make things?

Seamus Nevin: It is clear from the feedback we get from our members that many businesses overseas no longer see the UK as a stable investment environment. In our sector, on average the production cycle is between eight and nine months, but investment decisions can be made up to a decade in advance. We are seeing firms overseas making decisions not to invest in the UK any more, or to reduce their reliance on the UK market. It is very clear from the feedback we are getting from those firms, and from the data that is borne out in the order books of our members, that it is already having an impact, and depending on what type of Brexit we have in October or afterwards, and the future trading environment we create, it will likely have a much greater effect in future too.

Q4340 **Chair:** One of the consequences of investment not taking place that might otherwise have come to the UK is that jobs that could have been created are not being created.

Seamus Nevin: Absolutely, yes.

Chair: Thank you very much. It has been a very long session but, I must say, a very, very useful one. The Committee, as you can tell from the interest we have shown in the questions we fired at you, are very, very grateful to all of you for coming.