HOUSE OF COMMONS

International Trade Committee

Oral evidence: No deal: impacts for trade with non-EU countries, HC 2507

Wednesday 24 July 2019

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Watch the meeting

Members present: Angus Brendan MacNeil (Chair); Mr Nigel Evans; Mr Marcus Fysh; Mr Ranil Jayawardena; Emma Little Pengelly; Julia Lopez; Owen Smith; Gareth Thomas; Matt Western.

Questions 1 - 68

Witnesses

I: Sam Lowe, Senior Research Fellow, Centre for European Reform, Dr Lorand Bartels, Senior Counsel, Linklaters, and Reader in International Law, University of Cambridge, Dr Anna Jerzewska, Customs and Global Trade Consultant, and Robert Hardy, Commercial Director, Oakland Invicta Limited.

II: Mike Hawes, Chief Executive Officer, Society of Motor Manufacturers & Traders (SMMT), Stephen Phipson CBE, Chief Executive Officer, MakeUK, and Ian Wright, Chief Executive, Food and Drink Federation.

Examination of witnesses

Witnesses: Sam Lowe, Dr Lorand Bartels, Dr Anna Jerzewska and Robert Hardy.

Q1 **Chair:** Welcome to the International Trade Committee's one-off session on the potential impact of a no-deal Brexit on trade with third countries. I especially welcome you to the warm heat of London and I can only hope that the English schools are off and the English children are not being cruelly boiled in their classrooms today and have their holidays. They should have holidays at the same time as the Scottish children.

Emma Little Pengelly: An admirable level of concern for the English.

Chair: Absolutely worried about the English children, yes. Anyway, before we move on too much further and the heat does not distract us too much, can I ask the panel, some of whom are very familiar to us, to introduce themselves? Name, rank and serial number, starting on my left.

Dr Bartels: Lorand Bartels, Reader in International Law at the University of Cambridge and senior counsel at Linklaters.

Robert Hardy: Robert Hardy, commercial director of a company called Oakland Invicta. We specialise in Brexit planning and handling contaminated food loads that come into the UK. I formerly ran the customs terminal at the Port of Dover and was a former director of P&O Ferries.

Sam Lowe: Sam Lowe, Senior Research Fellow at the Centre for European Reform. I also should declare I sit on the DIT Strategic Trade Advisory Group.

Chair: Also very active on Twitter too. I can say that from personal knowledge.

Dr Jerzewska: Dr Anna Jerzewska. I am a customs consultant currently for a trade-related agency of the United Nations in Geneva and for British Chambers of Commerce here in London, but I am not representing these institutions today.

Q2 **Chair:** Thank you all very much and thank you for coming. With such a large panel we would not ask you all to answer the same questions or we will probably never get through. I think Anna and Robert are probably more towards our customs directions on their knowledge.

To start off in general terms, what would "readiness" entail for a no-deal Brexit in relation to trade with third countries? What do you think readiness should look like?

Sam Lowe: To speak generally, I think there has been a lot of criticism about the Department for International Trade's approach to their replication of third-country agreements. Initially a lot of that was warranted. It was far too ambitious in its initial statement, saying they could all be done for March. That was never possible.

When you assess against realistic expectations, the DIT has done okay. That would be my assessment, insofar as it did not manage to get what it needed done for March and it will not get everything done for October, but especially in terms of Korea I think that was quite impressive. The Secretary of State made a comment to you in his last evidence session where he said people had doubted him on that, and I was one of them, so maybe I need to own up to that. I think it has done what it can.

In terms of the WTO schedules, that is all fine, GPA good. In terms of are there still problems, are there still going to be issues in the event of no deal, yes. For example, we know which agreements are not going to be replicated. In terms of the one that really matters, I would identify Turkey, in that in the event of no deal we will have no deal with Turkey. Japan and Canada have been identified. The Canadian reasoning that was given to you previously was slightly wrong in that their rationale for not replicating was not that it gets the access anyway, it was to do with preference erosion in that, "Why should we give the UK access to our markets when you are giving access to yours for free to everyone else? When you are giving our competitors access, why should we give you anything as well?" In terms of Canada and Japan I do not think economically it matters that much because they are fairly recent. I will leave it there because you have to get through a lot.

Dr Jerzewska: In terms of readiness, from a customs perspective obviously you have countries with which we had a trade agreement in place, in which case the customs formalities stay the same minus the origin bit of it, so you do not have to prove origin. The customs formalities stay the same. Obviously countries where we do not have a trade agreement are where everything from a customs documentation perspective stays the same. However, in terms of readiness, any delays related to Brexit will also impact countries that we trade with on MFN basis. Readiness for third countries also involves readiness in terms of ports, in terms of place, in terms of trade facilitation at the border. Even though it is not directly impacting them because it is not a new process for them, any delays will impact them as well.

Dr Bartels: I would normally say something about the agreements but I agree with what Sam has said there. I would say that it is also about industry, which I think is a little bit waiting at the moment, waiting to see what is happening at the regulatory level. The Government could probably do something at the moment to make sure that industry is properly ready for whatever comes on 31 October.

Q3 **Chair:** Will 31 October be a false dawn in the way 29 March was a false dawn? It is another day handed down by the European Union that at the moment the Brexiteers are hanging with but they did not hang in the end ultimately, despite the rhetoric with 29 March.

Dr Bartels: No, that is right, but on the assumption that there will be a Brexit day, I think it is sensible to ensure that private actors are apprised of the need to prepare themselves. It is understandable that they have not so far because they have been waiting and nobody likes to invest money if it might seem there is going to be no need for it, but as a day approaches, correspondingly there should be some support and encouragement for businesses to get ready.

Q4 **Chair:** Thank you. One final point from me to Sam Lowe, Korea going forward and the rollover, what can't it do? There are areas of cumulation that will not be as easy in the future as with Europe. Can you spell that out?

Sam Lowe: Yes. With the qualifier that we have not seen the text of this yet—or at least I have not so I am working off the statements of the Korean Government and the Secretary of State—when it comes to cumulation we have been told that it is similar to what has been agreed with the Swiss. In that for three years Korea will continue to accept EU inputs to UK exports to Korea as being local to the UK for the purpose of qualifying for the agreement. Of course, that is wonderful if you are a UK direct exporter to Korea but it does not necessarily help if you are part of a supply chain where the final product is exported from the EU, in that the EU exports to Korea will no longer be able to account for UK inputs as being local to the EU for the purpose of their agreement with Korea. There will be an impact on British businesses if they are caught up in European supply chains. I know from talking to people in the EU, the advice of the Dutch Government is, "If you do think you have this problem where you have a UK supplier, find someone else, find someone within the EU".

Q5 **Chair:** What about Korean exports into the European market with UK content? I would imagine it is small, but it would be reflected the same way?

Sam Lowe: That would theoretically have the same issue but I cannot say how big an issue that is.

Dr Bartels: We will talk about cumulation later as well, but to add a clarification to that, which is there has been a criticism, I think partly unjustified, of the Government in saying that the rolled-over agreements replicate the current situations. The criticism has been they do not unless they involve cumulation, and now they do involve cumulation so one might think that everything is okay. What I am talking about here is EU content that ends up in the UK, processed in the UK, which then is exported under a UK FTA. Therefore, because of cumulation, the EU content counts as UK content.

However, a point worth noting is that the type of cumulation that allows for this in the FTAs that we have seen so far is not quite the same as what we have as being part of the EU. At the moment the EU28 counts as a single territory so it makes no difference where within this single territory the stuff is made or worked or processed or whatever. You could conceivably have a product that is 99.99% EU27, is packaged in the UK with virtually no value, then exported. That would qualify under the existing agreement.

That does not happen under the current cumulation rules for a couple of reasons. One is that there needs to be a certain amount of value added in the UK for this to work, even if the product is finally processed in the UK. Also, the raw materials from the EU, the content, has to qualify as EU content under the rules of origin. You might end up with a situation where, for instance, say the rule of origin says you need 60% EU content. That gets ported over so now it is 60% UK content, but if that 60% UK content is made up of 30% EU27 and 30% UK, the 30% EU does not qualify that as EU content for the purposes of being able to be cumulated. The 30% UK is all that is left. That does not qualify and you end up with nothing. To put it in jargon, there is an important difference between diagonal or partial cumulation, which is what is in these agreements, and full cumulation, which is what we currently have in the EU and beyond the EU. It is also the EEA and a few other bits and pieces as well.

I should also say it is not impossible to negotiate this in free-trade agreements. There are examples. The EEA is one. SACU has full cumulation, and the Cotonou agreement with developing countries needs to do this as well. So it can be done, it just has not been done. To that extent, the continuity agreements do not provide for the same benefits.

Dr Jerzewska: To mention quickly that this type of cumulation that is used now for the rollover on continuity agreements is not a new type of cumulation but it is something that has not been used across the board across all tariff lines. It has been used before by Canada, US, also by the EU but for one or two tariff lines per agreement. This is also an interesting experiment to use it for all tariff lines, whether that is compatible, because obviously this is extending preference to countries that do not have a trade agreement among themselves, so this is also going to be an interesting experiment to see how this is applied in practice.

Sam Lowe: One thing I would add as well is a lot of this is going to depend on how the importing customs people behave. Korea notoriously has been quite difficult with rules of origin in the past, but if this is the agreement and it is willing to be quite lax about it, then there might not be a problem with what Lorand has said. If it decides to be strict about it, there could be, so there is a slight unknown there. On the assumption that it has signed this agreement and it does have a three-year period, my assumption is—maybe less so with Korea but with Switzerland at least—that it would probably work okay.

Chair: We will cross our fingers and hope for the best.

Q6 **Mr Evans:** A lot of people seem to think that a no-deal scenario is an absolute disaster, including our current, at least for the next four hours, Chancellor of the Exchequer, but are there any opportunities that might exist with a no deal that would not exist if we did have a deal with the

EU?

Robert Hardy: In terms of goods trade? Yes. It is a change. The change is what people are fearful of and therefore they fear the worse. What we have seen, which again comes down to the rules of origin piece, is that the imports from the EU will be relatively easy. Not as easy as they are today but relatively easy. Imports from the rest of the world will be easier than they are today, with postponing VAT accounting and also lower duty rates. Imports become easier generally, which might be at the expense of exports to a degree and might also create problems with exports with the rules of origin, for example, with what proportion of it is British.

Generally speaking, it also creates an opportunity where a product that currently comes into the EU and becomes part of a product eventually destined for the UK can become cheaper because the duty rate that is applicable in the EU may be more than the duty rate that is applicable in the UK and the EU can bring them in under something called inward processing relief and then re-export them. We use granola-topped yoghurt as an example. The yoghurt comes from the France, the granola comes from Israel. The deal we have done on granola is better than the EU's deal. The granola-topped yoghurt just became cheaper. That type of opportunity.

Sam Lowe: If we look at free-trade agreements, in the event of no deal we will lose some agreements we have. That has to be accepted. I am not saying forever, I am saying in the immediate aftermath. There is then a question of what the UK decides to do next. If we look at the options that are on the table that are often talked about, Australia and New Zealand. Could the UK do agreements with Australia and New Zealand more quickly than the EU will do them with them? Probably, potentially. A lot does depend on the UK-EU relationship and what happens in the aftermath of no deal, but potentially. The US? Again, perhaps. There are issues with the US beyond the constraints put on us by the EU right now as to whether that agreement can happen or not. There are domestic concerns.

Q7 **Mr Evans:** That is an interesting point, though, isn't it, that if we do do a deal with the European Union, one similar to the one it looked as if Theresa May was going towards, President Trump said, "That is not the sort of Brexit that I was thinking of"? That could have really affected this trade deal with America.

Sam Lowe: I think there is a trade-off. From my perspective, from an economic perspective, it makes much more sense to remain closely aligned with the EU because of size and proximity, but I understand there is also a political element to this debate. If we remain closely aligned with the EU, specifically when it comes to food hygiene, SPS, in a customs union it will make it very difficult to do an agreement with the US unless the EU also does one. That is just the fact of the matter and you have to decide on the politics of that trade-off.

In terms of Australia and New Zealand, I think it is more a case of timing. My belief is that the EU will eventually do an agreement with Australia and New Zealand, so if the UK remains closely aligned, if we are in a customs union, we will have to do one in parallel with both of them, so it is just to do with timing.

Q8 **Mr Evans:** Can I go on to this other, in many ways parallel, question? With some of the rollovers, some countries are thinking there is not a chance that we are going to leave without a deal with the European Union, therefore we are not going to roll over. With Boris coming in in less than six hours, the dynamic has changed. Do you see a complete change in that and a complete change in attitude, therefore, possibly from some of these countries who have said no to rollover? Now all of a sudden they will see no deal is a real possibility and therefore they will change their minds?

Dr Bartels: It would be logical but I do not have any information on that.

Sam Lowe: Looking at recent history, we have seen some quite big turnarounds from countries. If you look at Korea you can see it positively in that that was looking very difficult and then Korea decided to roll over, but we have also seen the opposite with Canada. Will a Johnson Government and his actions have an impact on how other third countries relate to the UK and how they approach the rollovers? I think so, potentially. There is a period of wait and see to begin with, but it would be very difficult to say what that impact is because third countries view their priorities maybe differently from how we think they should view them.

Robert Hardy: I think that is driven by the proposed no-deal tariff rather than any personality. At the moment—as Sam was saying earlier on with Canada's position, for example—"Why do a deal? There is a proposed no-deal tariff that is pretty good already." If that is up for renegotiation, that opens the door to free-trade deals in order to mitigate that.

Sam Lowe: We do hear that is going to be tweaked.

Dr Jerzewska: There is also an element, with no-deal becoming more likely, that increases, obviously, perceived risk with third countries. I assume that the partial motivation will be around waiting to see how the UK handles no deal, including the border in Northern Ireland, how the UK handles its future relationship with the EU even under a no-deal scenario. Part of it will demonstrate to other countries—part of it is reputation as well—how the UK will behave in its first days of setting its own independent trade policy.

I think to a certain degree countries will want to wait and see how this develops, maybe not in terms of, "Do we want a deal or do we not want a deal" but also how the UK is perceived as a negotiating partner, what position the UK has. Let's say we go for a no-deal and if we manage to sort out the border in Northern Ireland—which is very unlikely but assuming we manage to sort all the problems and have no delays at Dover and other ports—then we are possibly perceived as more of a responsible country able to manage its own trade policy. If there are delays, if there is chaos, if our traders do not know what to do, if we leave the Northern Ireland border open and avoid the topic altogether, that sends a signal as well, so I would imagine there is an element of reputation there as well.

Chair: The American Congress have a different view to the American President. We are becoming quite aware of the Irish caucus in the American Congress being very vocal about that.

Q9 **Owen Smith:** I want to follow up on some of the points Nigel made. We perhaps leapt ahead of ourselves into broader political questions instantly, as seems to be the case whenever we are talking about Brexit. On balance economically, do you think no deal is going to be good for Britain?

Sam Lowe: No.

Robert Hardy: In the long run, potentially. Sam is right with his quick no in my ear. I think you have to take one step backwards. Metaphorically it is like redecorating your house. It looks an awful lot worse before it looks better. It is the speed of recovery that is important. How aware is the trade of what they need to do survive and then what they need to do to make the most of the new environment.

Q10 **Owen Smith:** How quickly do you think we might recover?

Robert Hardy: Not quickly enough. I do not think the trade is up for the change at the moment. We have seen already with the no-deal planning that they have not particularly taken it seriously. There is an element that have but there is a larger element that have not. If they have not taken that seriously, they are also not looking at the potentials.

Q11 **Owen Smith:** How long before we bounce back?

Robert Hardy: Five plus.

Chair: That is better than Jacob Rees-Mogg. He said 50, I think, didn't he?

Owen Smith: But he is already 45 years behind us.

Chair: Very good. Some would argue 250 years behind.

Sam Lowe: No, I think no deal leads to a permanent hit to the economy. There is a question of perception as to how strongly it is felt. I think there will be immediate disruption. The levels of that are quite hard to predict because we are talking unknown unknowns interacting with each other, but I would imagine there would be shortages of supplies in certain areas initially, lots of legal uncertainty and quite a lot of panic in the short run. It might be localised to certain bits of the UK.

In the long run I would think that our GDP will be smaller than it would have been otherwise but that is not to say that GDP will not grow. Probably in 15 years' time we will be richer than we are now but we will be poorer than we would have been otherwise. Then there is the question of do people notice and do they attribute it to Brexit, because in 15 to 20 years a lot of things can happen in that timeframe. The blunt answer to your question is no, I think no deal will be a bad outcome for the economy.

Q12 **Chair:** Before we move on to the rest of the panel, can I throw some numbers at the panel? Numbers we have come across in the past: the US-UK trade deal will add about 0.2% on to GDP. This is the average feeling.

Sam Lowe: You can go a bit higher if you want to look at the previous TTIP estimates. In 2013 the UK Government commissioned a study for TTIP, a US-UK agreement in the context of TTIP, and that was 0.35% larger than otherwise.

Q13 **Chair:** If we go to 0.35% or 0.3% for ease for my brain, Treasury has said that a no-deal Brexit will cost 8% of GDP. If we get a 0.35% uplift from the United States of America, that is a quarter of the world's GDP.

Sam Lowe: There is no economic rationale for the new trade agreement in the context of Brexit; it is a political argument. New trade agreements will not offset the losses of Brexit, going off mainstream studies.

Q14 **Chair:** This is a point I am making. Do you recognise the figures? If you are getting 0.35% from the US, which is a quarter of the world's GDP, you can only get from free-trade agreements the highs—if you get that with the rest of the world, with the other three-quarters of the world's GDP, you can only get up to about 1.4% gain to the economy versus the 8% loss of a no-deal Brexit.

Sam Lowe: The figures do not match. If you are looking at different figures—to use non-British, because I know the UK figures always get clouded in the Brexit argument—if you look at the EU's figures for its own trade agreements, say, EU-Canada, if all goes to plan, at its most optimistic, it will increase EU GDP by 0.03%. Trade agreements at the aggregate level do not necessarily do very much for GDP. Beneath the aggregate there can be quite a lot of impact in terms of different sectors benefiting and different sectors losing, but in terms of boosting overall GDP you probably do not look to trade agreements, you would look to something else.

Q15 **Owen Smith:** The same question to Anna, if I may.

Dr Jerzewska: Yes, the same answer. I do not think so. The reason why countries choose to sign trade agreements, enter into customs agreements, trade blocs, is because there are benefits, as Sam said. It might not be visible, there are always winners and losers but there is a reason why every country in the world is attempting to sign more trade agreements, and we are taking a step in a completely different direction.

However, I would imagine that one of the most difficult to assess, at this point, impacts will be the deterioration of supply chains and global value chains, because we are now part of a bloc and as such our supply chains are heavily integrated with the EU's. It is very difficult to predict, exactly as we were talking about earlier, how many customers in the EU at some point will decide, even setting aside tariffs, "If we have to do all this admin, if we have to do all this paperwork to get something from the UK, I am going to find a different provider somewhere else". These kinds of things are very difficult to estimate at this point because this is a business decision, but my assumption or my experience is that businesses go for the easiest option possible. If there is a similar product they can get elsewhere without the paperwork, without the delays, without having to hire a customs agent, they will go for that option. Just given proximity, slowly they will go for different providers.

Dr Bartels: The only thing I would add is it is important to have all the counterfactuals there. First, you can unilaterally liberalise. You do not necessarily need a trade agreement to get some of the gains from free trade. Secondly, no-deal does not necessarily mean never a deal. It depends what our timeframe is.

Q16 **Gareth Thomas:** I was going to ask you a similar question but specifically in relation to trade with third countries and whether you think a no-deal Brexit will make it easier or harder for British business to compete in the Japans, in the South Koreas and so on.

Robert Hardy: There are two elements to that. One is it depends on the trade deal, whatever the trade deal is, the environment that they are working in.

Gareth Thomas: In the context of a no-deal Brexit.

Robert Hardy: In the context of no deal, it comes down to paperwork and process, from my point of view. How does the exporter export and is the world a different place?

To a degree they become more familiar. At the moment, there is a lot of growth between the UK and the mainstream EU because of ease of trade rather than necessarily economic benefits. It is proximity and ease and, "I don't need to employ anybody who understands this, that and the other procedure, because there isn't any". Once you start requiring paperwork, suddenly that barrier is removed and you start to understand what that paperwork looks like and the rest of the world does not look quite so frightening. I am certainly seeing that from traders who are saying, "If I need to solve that problem, then suddenly I am solving a whole load of problems at the same time and that makes exporting outside of the EU a bit easier".

Sam Lowe: If we look at the no-deal tariffs, there is mixed impact depending on which part of the world you are looking at. In the event of no-deal, everything we import from the EU will come with more costs attached than now, even taking into account the no-deal tariffs, because we import it as cheaply as we possibly ever could right now, in that there is not very much admin. Of course there is still some but that is the baseline. Everything would be more expensive.

However, because of the no-deal tariffs, some imports from the rest of the world will potentially become cheaper in that they can access our market at zero tariff whereas before, even if maybe they did it via a trade agreement, it is potentially easier to do it now than it was even under a trade agreement because preferential rules of origin is no long an issue, so you do have this balancing act. In terms of impact on economy, we are still going to buy a lot from the EU because it is close, so my feeling is that the cost increase that is attached to the EU products will be too great to be offset by lower-cost imports from elsewhere.

The other thing to take into account is we often talk about importing cheaper beef from elsewhere. It does take a while for supply chains to reorientate; we are not going to do that immediately. There are also other issues. When it comes to food safety you need to make sure that that country is authorised to sell to you, you need to make sure that their authority in charge of doing that is competent, so there is that lag.

Dr Jerzewska: Coming back to what Robert was talking about, there will be a learning curve for all UK traders. There is obviously a group of traders who have only traded with the EU. For them the impact will be quite significant because they need to understand how customs and international trade work in general. Even for traders who currently trade with the rest of the world, there will be a bit of a learning curve because to a certain extent things will change in terms of customs. That is also one of the potentially hidden opportunities to make customs systems and customs processes more efficient and transparent and easier going forward but that is again a long-term perspective.

There will be a learning curve and especially this will have the biggest impact on SMEs. For them, if you have a company that has a profit margin of 3% or 4% and you need to either hire staff who understand customs and can take this responsibility on themselves or you need to hire a customs broker. That is a cost. Depending on the size of your profit and so on, that cost can eat the margin or not. For SMEs this is a big problem and that is an issue.

Chair: Those brief questions have taken quite a long time and we will move on.

Q17 **Julia Lopez:** For those trade agreements that we do not roll over in time, what can we do to mitigate any frictions that come as a result of that, particularly when it comes to Turkey and Canada? Sam, is it that Turkey cannot speak to us independently because it is effectively in the customs union and therefore the EU will not permit Turkey to have discussions with us?

Sam Lowe: Turkey is very able to speak with us. This is one of the things we need to clarify on customs unions generally. Turkey still has to negotiate its own trade agreements. It just has to follow what the EU has done but it has to negotiate them in parallel and, on the reverse, it does not automatically apply EU trade agreements at its own border until it also has one.

Turkey can still talk to us. The problem is that if we are not in a customs union with the EU, we cannot also be in one with Turkey. It is just the fact of the matter. Its future relationship with us is shaped by what our relationship with the EU is. If we have a trade agreement with the EU, then we would also have to negotiate a trade agreement, in parallel, with Turkey. We are talking about a set area here as well. We are talking about industrial goods and some processed foods. In the event of no-deal, could Turkey immediately move to potentially do some things on agriculture? Yes. Could it move to do some things on visas, on procurement? Yes. The problem is that when it comes to industrial goods, it is left waiting to see what our relationship with the EU is.

In a sense, this is an inevitability rather than a criticism of Government's capacity. It is just the way it is. If we have an agreement with the EU, we are in a good place to sort out Turkey. If we leave with no deal, we really are not.

Robert Hardy: Can I add to that? The paperwork and process at the border and in transit does not change a jot, deal or no deal. It is the same process. It is all about the tariff at destination but the process is embedded and it will not change because it does not need to change. It is already there. It already has full customs paperwork and in a no-deal scenario will have exactly the same paperwork, so nothing has changed there.

Sam Lowe: The big difference—and it is to do with tariffs—is rules of origin as well, as in it is not just tariffs. It is the difference between a free trade agreement and a customs union. If you are in a customs union it is much easier to qualify for the zero tariff preference than if you are in a free trade agreement. That is just a fact, so even if we do try to sort something out with Turkey in future and we have a free trade agreement because that is what we have with the EU, it will be of less use to UK businesses that have supply chains running through Turkey than it is now.

Dr Bartels: We have been talking so far about tariffs, which are taxes, essentially, and how you work out what the right tax is, which is the rules of origin point, but there is also the regulatory dimension. What could be done, and this is a side track that the Government is involved in, is recognition of conformity assessment procedures in other countries, including in Turkey. At the moment it is unclear what the UK's position on that is going to be. There is work that can done there that can be done separately from other negotiations. In fact, it is one of the downsides of CETA. We have been talking about CETA not being rolled over because of it saying, “We get essentially duty-free market access anyway because of the no-deal process and preference erosion, so we are annoyed” but in addition what is being lost is the mutual recognition dimension of CETA. That is something that could be worked on.

Q18 **Julia Lopez:** We talked about rules of origin. I presume that you would all wish us to accede to the PEM Convention on rules of origin. If so, how long would that process take and what is involved in that process?

Dr Jerzewska: You can accede to the PEM Convention, but for PEM to be operational you need to have trade agreements with the members you want to cumulate with. When we are talking about no-deal—

Julia Lopez: You cannot do it because you do not have an agreement?

Dr Jerzewska: You can do it but you cannot use it because you do not have a trade agreement. You not only have to have a trade agreement with the EU but also with other countries within PEM Convention that you want to cumulate with. It is a kind of hub and spoke.

To come back to your earlier question on the mitigating factors for trade agreements that you cannot roll over, like Canada, obviously we have our inbound tariffs, no-deal tariffs. There is nothing we can do about its tariffs, the other country’s tariffs. The only thing we can do in these circumstances, other than the things that we already mentioned, is trade facilitation, which is one of the biggest topics globally when it comes to trade and customs at the moment. Anything you can do to simplify procedures, make them more transparent, help your traders to export, help them become familiar with different tools and regulations, all that is the only mitigating step we can take, but it is quite an important one.

Q19 **Julia Lopez:** It goes back to Robert’s point that a lot of traders have not engaged in this whole idea of how you trade with dealing with friction, and that education process could have a positive impact if it makes people less concerned about how you export to non-EU countries.

Sam Lowe: There is the point we are all talking about trade now. We were not four years ago, so obviously that does have an impact in terms of British politics and also British business in that it is front of mind.

In terms of your question on PEM, I do think we should accede to it. I think it is the only game in town. It would help when it comes to cumulation with all the regional agreements. Are there issues with PEM? Yes. If you talk to the processed food industry, they will have some issues. If you talk to the fishing industry, strangely they will have some issues with PEM because there are some odd rules about ownership of fishing vessels as to whether it qualifies as wholly originating or not. Are there some problems there? Yes, but should we still do it? I think so.

Q20 **Julia Lopez:** On that point of education, we all bemoan the last three years because they have been enormously frustrating in many ways, but it has also allowed DIT to gain a lot of knowledge and understanding of what is really at stake here. Do you think that has been a helpful process to have those three years and are we in a much better position now than we would have been three years ago?

Sam Lowe: Yes, but there is a caveat here.

Julia Lopez: Setting aside all the political hell.

Sam Lowe: There is a caveat.

Chair: We need another 300.

Sam Lowe: There is a caveat when it comes to civil service knowledge acquisition, in that I do not believe the current structures of the civil service prioritise expertise effectively, in that to get promoted you have to move about. My fear is that lots of people went into the Department for International Trade on a promotion and they will leave again on a promotion. The replication process of these existing agreements is a really good learning experience. You are working off a baseline and you are changing a few things. An excellent learning experience. It only helps the UK if those people remain in a trade posting. For them to have the incentive, for your best people to remain in a trade posting, my line is that they need to be able to get to Permanent Secretary while working on trade, or at least aspirationally. I do not believe the process is currently incentivised.

Dr Jerzewska: It is also not only about knowledge acquisition within the civil service but also predominantly in terms of knowledge acquisition within the business. For that you need obviously business engagement but also some sort of an effort from the Government. My impression is that the Government obviously has been focusing on their primary job, which is getting themselves ready and getting things in place but perhaps there could be more that could be done in terms of reaching out to business, engaging with business, helping business to understand, because there is a bit of a reluctance from business to also spend time and money on this in a very uncertain situation. Businesses do not like uncertainty.

Chair: We are promised a short intervention by Ranil Jayawardena while he is still with us on the Committee.

Q21 **Mr Jayawardena:** Thank you. Mr Lowe, you made a very interesting point around experience and having people progressing vertically.

Chair: Whose progression are we talking about?

Mr Jayawardena: What could you see being the benefits of DIT potentially merging up with the FCO and being, in effect, part of the diplomatic service so that there was that retention of experience and it was not treated as simply another part of the civil service?

Sam Lowe: I am in two minds about this. The answer is I have not made my mind up. In terms of the advantages, the FCO currently still holds the education faculty when it comes to trade policy and I think it does quite a good job. In full disclosure, I have worked with it in the past.

I do think there is a general co-ordination issue across Whitehall. If you are looking at the different trade policy departments, DIT has hundreds of staff, you have the FCO with its capacity, you have DEFRA with its couple of hundred people, you have BEIS building up capacity, you have DCMS building up capacity. There is a question as to whether everyone is working to the same shared objective, especially when you consider DExEU is effectively another trade department.

I do think there is an issue internationally when it comes to communication, that we are not delivering clear messages to potential partners. For example, you have two departments with different objectives. You have DExEU, which wants a closer relationship with the EU, and DIT, which wants a trade agreement with the US. What if those two things conflict as an objective? There is, I think, an argument for rethinking how we approach this. Whether that involves getting rid of DIT or not, I have not made my mind up.

Q22 **Chair:** Before I move on to Gareth Thomas, from that section I want to clarify what I have understand from the panel. A no-deal Brexit is generally thought to cost about 8% of GDP but in the period after that the UK can make up gains in GDP through free trade agreements and we reckon that the most it can make up of that 8% is it catches up another 1.4%. That is roughly what it is. Somebody said on the panel there is no economic rationale for Brexit, this is a political decision. Would the panel agree roughly with that? Does anybody want to quibble with that? It is a political rationale rather than an economic rationale?

Sam Lowe: I said that so I should stand by it, yes.

Dr Bartels: I am not an economist.

Chair: You are not an economist, okay.

Q23 **Gareth Thomas:** In the event of a no-deal Brexit, how much disruption do you think there is going to be at the border for trade with and from third countries in terms of customs arrangements?

Robert Hardy: From third countries very little. Next to none, I would say, in fact, and eventually it will even get smoother because again the simplifications to which the trade was put in place in order to keep the EU traffic flowing can equally be employed to the third-country goods. Retrospective customs clearance, more use of bonded warehousing and so on and so forth. The third country is a winner in this situation because the critical mass now created by us leaving the EU is the driver for investment and innovation and the third-country goods will benefit from that.

The only slight concern for me is third-country goods currently routed via the EU to the UK. At the moment they are pretty smooth. Even if they are duty-payable in the UK, we assume that the health checks are done by the EU. In a no-deal environment we are assuming they are not done by the EU and therefore we require phytosanitary certificates, for example, where we would not today.

Dr Jerzewska: I would say that personally for me this is more than a slight worry. I think this is a serious problem. If you have a queue, if you have a delivery stuck by a trader who has showed up at the border with no papers and does not know what is required because they have not prepared, that is a real concern. Yes, the process for third countries stays exactly the same but the speed, the lead-time speed, with which goods can be processed depends on the preparation by traders but also customs authorities. If our customs authorities are—I would not say in chaos—uncertain what the processes are or otherwise focused on something else, they are occupied with other issues, there is not enough capacity, there is not enough people, that is going to impact third countries even though technically the process is the same.

Q24 **Gareth Thomas:** What steps should Government be taking to address the problems that the two of you have articulated?

Robert Hardy: Again it is down to trade not really getting it so far. We did the right thing initially in the run-up to March and April in that the theory was to empower the trader in order to solve his own problem and be the master of his own destiny. He did not want to be empowered, at the end of the day. He is relying on his logistics operator. The large ones are already empowered but the smaller ones right the way down to the SMEs rely on their logistics operators. The problem is the logistics operator who works in Europe is not necessarily the one who works worldwide and he has not been empowered enough and he holds the key.

There is a theory that trade requires a trader. That is okay but the movement of the freight requires a freight mover and that is a logistics company not the trader. We need to do more with the logistics industry because they are the ones that will prevent the queues at the border. They know how to do it, they just need help arranging certain pieces and they need some relaxation of bonds and guarantees that is within our gift to do.

Dr Jerzewska: There are a couple of things here. The first one is in terms of what the Government can do. We have the TSP, the temporary simplified procedures. In terms of what the Government can do is map these processes out. The processes for no deal were announced in March a week before the first deadline but they are still at a very high level. They are outlined at a very high level. Some logistics operators, some companies, are able to have meetings with HMRC or other authorities in order to find out more, but if you look at the guidance on the HMRC website, it is still very high level.

Customs consultants can say, "This is a little bit like CSFP. We can kind of see how this would work" but for a company it needs to know exactly what document it needs to provide, who it needs to provide it to and so on. This needs to be properly mapped out. If we take an example from the union customs code, the change of customs legislation that happened in 2016 for the EU as a whole, the legal text of that was published months in advance and in detail so everyone could understand what can happen, what is going to happen, what the change is going to be.

In terms of logistics providers and customs brokers, yes, the majority of traders rely on customs brokers, but it is the trader's liability. The trader is ultimately liable for the information he or she provides to customs brokers. Robert exactly pointed that out. It is that traders do not necessarily want to be empowered, but they are liable. I think too many traders rely blindly on their customs brokers and logistics providers and assume that they will classify the goods and provide the values of the goods and so on, but the logistics providers and customs brokers can only act on the information they get from the business. Again, educating the business, getting the business engaged and getting the business to understand they are liable for the imports is important.

Q25 **Mr Fysh:** Can I follow up on that particular point? I wondered how much you thought the concerns that customs brokers have about their capacity to help their clients is related to that historic relationship where they do everything for their client and whether, if you had clients able to do more and encouraged or helped to do more by other agencies like the Government, that would make a realistic difference to customs brokers.

Dr Jerzewska: It is something that I have heard from traders, that they are struggling to find customs brokers for companies that do not currently have one. The ones that currently have one, it is the additional services that will be involved. I am not going to go into details here but there is the issue around representation and who can act as an importer and exporter into the EU. That is a premium service if a customs broker acts as an indirect representative. Obviously that will cost. If there is any part of that that could be spread out to different customs authorities—but again, if we look at a solution like that, that is a new process and that means additional time.

Q26 **Gareth Thomas:** As I understand it, the Government have identified seven customs co-operation agreements and three authorised economic operator agreements that they want to roll over in advance of a no-deal Brexit. Talk us through what impact there would be if they do not get to roll over these agreements in time.

Robert Hardy: On imports, if we are looking at the mutual recognition on AEO programmes and what have you, these are all nice to haves, they are not essential on day one. In the long run they will make things better. On day one they are pretty good already. Import flows into the UK through Dover and Eurotunnel, for example. If they are delayed, it is a lack of education to the trade rather than a lack of process. The process is there, the process is ready. There should be no reason why anything would be delayed but there will be a two-week, three-week period with people bumping into each other, not knowing what that process is.

Export is more of a challenge because we are the source rather than the destination, but again that does not rely on Authorized Economic Operator, for example, as being a programme. There is no piece in anything that we are suggesting at the moment that, first, relies on AEO or, secondly, relies on transitional simplified procedure, because we cannot guarantee the take-up on it. My biggest issue is exports and the issue of transit. Transit is the solution but it is equally the problem in that the authentication of the transit will cause the logjam in Kent, whereas transit is the solution to the problem to get the flow through Calais. But we will not get them out of Kent in the first place if we do not have places to authorise, to authenticate, the initial transit document. We are already in the CTC, this is our problem to solve.

Dr Jerzewska: The customs co-operation agreements, I would more or less agree. They are about data, they are about transparency, they are about sharing information and co-operation, they establish a joint committee where representatives from customs authorities from these countries can work together. That is something that is good to have and it is helpful around security and around things like that, but you can get them at a later point in time. It is co-operation and they are helpful in terms of trade facilitation but they are not, as Robert said, essential on day one.

Q27 **Emma Little Pengelly:** I have a question from a practical perspective, particularly for Robert. Clearly we trade at the moment under WTO rules with a wide range of different countries. Presumably there is a variation in terms of those relationships, dependent on some of the trade facilitation and the arrangements between ourselves and particularly within those countries. From a practical perspective, have you come across any particular examples of countries who do this particularly well so that we can try to mitigate some of those under WTO? Even if we get a deal with the European Union there will be WTO trading, presumably, moving forward. Are there any countries that do it particularly well and do you a get a sense that the Government are looking at those good examples to see if we can learn about what actions can be taken, particularly in the trade facilitation issues?

Robert Hardy: Are we talking about trade with the US, for example, and do they do that particularly smoothly? No, it does not, really. It could be smoother, it could always be smoother. If WTO trade is the starting point, the target would be EU trade, if you like. It is the worst it can be, really. I could not name any countries that would make it particularly difficult but there are some processes that locally are a little bit unusual and will create confusion that is not a standard practice for the trader, so he is having to adapt his own process depending on the destination, when that should not really be relevant unless there is a deal.

No, I do not think there is. The only trade processes we should look at to see how smoothly they can go are what happens today and how does it differ from today. There was a piece a while ago where a lot of people were saying to me we do not seem to have any control under the new EU flows, that everything is just going to flow in and we do not know what anything is and where has all the control gone. Where is it today? It does not exist today anyway. When you stand at the roundabout at Dover and trucks go past, you have no idea what is on them, we just knew they were safe enough to drive through the EU.

We have to lower things a little bit and get used to intelligence-led targeting. In terms of a country we should model that on, you would have to look at Norway and Sweden as border crossings but I do not even think that is enough. Other than that, no, I think we have a blank piece of paper. Let's do this right.

Q28 **Julia Lopez:** I am going to ring the Article 24 bell. Dr Bartels, you have drawn up a very short draft FTA that you could table to the EU under that process. Do you think you could do a similar thing with the Canada and Japan agreements to allow for rollover in the event that we had not arranged that fully by 1 November, or is that unrealistic?

Dr Bartels: The thing about that draft agreement is it establishes the bare minimum for what you need to have an Article 24 agreement. Essentially what it does is it says zero duties between the parties. That is basically all it says, subject to the normal policy exceptions and so on. Yes, you could use exactly the same three-quarters of a page for any agreement. Frankly, FTAs used to look like that. Fifty or 60 years ago, that is what they looked like. They were very basic.

Chair: Happy days.

Dr Bartels: Yes, those were the days. A trade negotiation could be done by lunch, or over lunch. In reality, you did not have duties going down to zero so there were still things for trade negotiators to do. This is easy to do but that is not what most trade agreements have within them. One difference with other countries would be rules of origin. You would need to devise some. I had a cross-reference to PEM, which we have been talking about, for ease of reference. As an emergency I think that would probably be good enough despite some difficulties that Sam was noting. That would work for the EU.

With the others you might have to have more of a think about the rules of origin. Frankly the old adage is an FTA is only as good as your rules of origin, so there would be more complexity there. In addition, there is the regulatory stuff, questions of recognition and so on, but if all you are interested in is duty-free trade, yes, you can do that very quickly.

The real stumbling block with most FTAs, though, is agricultural trade. That is why you have TRQs and that is where all the negotiations really are. No one cares too much about duties on 99% of products. It is basically agriculture and a few bits and pieces like spirits, cars and so on. In terms of the overall trade, the vast bulk of it is not that controversial. It is all held up on these few items and everybody haggles over that endlessly.

Sam Lowe: On GATT 24 generally, because it keeps coming up and I read through the transcript of your discussion with the Secretary of State, all trade agreements are notified under GATT 24. The EU is notified under GATT 24. The transition period under the Withdrawal Agreement would probably be notified under GATT 24. It is just the mechanism by which you notify trade agreements. If the proposition is, in the Brexit context, could we use GATT 24 as an alternative, I do not know what you are talking about. If you are saying that instead of the withdrawal agreement we will have a trade agreement with the EU despite everything it has just said about the withdrawal agreement being the condition of a trade agreement, if that is the argument you want to make, fine, it is a political argument.

I feel there is a lot of legalese that has been attached to all of this, unnecessarily. I suppose some of us who work on trade are to blame for this because we really like talking about it and we like hypotheticals. Bluntly, if the argument is the EU in the absence of a withdrawal agreement will agree a trade agreement with us because it will be scared, let's test that hypothesis. We do not need to go into the legalese and the GATT 24.

Q29 **Owen Smith:** "Come on, dude, it's going to be fine."

Dr Bartels: To add to that, I think where it became complicated was there was an idea there that somehow Article 24 of GATT was a permission for you to do something unilaterally that would be some sort of standstill. That idea, I am glad to say, is now dead. It should have been dead two years ago. It clearly has to be an agreement. It does not have to be interim, you can have full agreement as of day one.

Mr Fysh: I do not know where that idea that there was a unilateral element to that came from, I genuinely do not know.

Owen Smith: A former MEP colleague of yours.

Mr Fysh: We have discussed that in this Committee before and clarified those issues about what an interim agreement is. You might want to do that but it cases more of a complication so you just do the basic format under 5(b), which is obviously top.

Owen Smith: 5(c), please.

Mr Fysh: Obviously if you did it just to plan and schedule, you would have to agree that plan and schedule with your partner. That is the point.

Dr Bartels: Exactly.

Dr Jerzewska: Just a quick point. There is a difference between signing a trade agreement and doing it well and negotiating a trade agreement.

The reason why trade negotiations take so much time is also because of consultations. Each country tries to establish what their offensive and defensive interests are. Yes, of course you can speed through those but it does not mean that the agreement that you are going to sign over lunch is going to be beneficial for your traders or for the other party's traders, and also it does not mean that it is going to be used. One of the biggest issues we have currently is that a lot of the countries sign these agreements and then businesses do not use them, which obviously is a waste of time and effort and money by the Government. In order to sign an agreement and do it well, that takes time.

Q30 **Chair:** The point you are making there is that trade agreements are not trade. Trade is a very different thing to trade agreements and to trade policy.

Dr Jerzewska: Using trade agreements is very different than signing a trade agreement.

Q31 **Mr Fysh:** I think one of the distinctions that was trying to be drawn was that if you keep a potential FTA simple, and, yes, it can in theory eliminate the absurdity of having to charge tariffs on each other when you have not had any up until now, if you keep it away from the things that are mixed competence, then in theory it is possible for the EU to agree that much more quickly than a fuller free trade agreement that covered all sorts of other things that were mixed competencies.

Dr Bartels: If I could answer on background law. Yes, definitely. It is also worth noting that since the ECJ's opinion on the Singapore agreement a couple of years ago, there is not that much left for mixed competence in trade agreements. We can see trade in a fairly extensive way now as being exclusive EU competence, and I think that is an important point to note as well.

Sam Lowe: Although in the context of a future UK-EU agreement, if we assume it is going to be some sort of association agreement—I am not making a comment on how deep the trade aspect is. EU Egypt is an association agreement, so is the EEA agreement. That is a broader agreement with pillars. Depending on how that is structured, it then still could be mixed competence.

Q32 **Chair:** Given that the South Korea and Switzerland agreements include review clauses—back to the point you had earlier—on trade agreements, what opportunities will there be in two years' time to improve these agreements, do people think?

Dr Bartels: There are review clauses and there are amendment clauses. Obviously with these you can in theory do whatever you like. That depends on the alternatives and the political context. I think it is too soon to say.

One point to make about these clauses, though, is that they can change the agreements relatively radically. For instance, the EU Turkey Customs

Union is instituted by a decision of the Association Council under what was at the time an EU-Turkey free trade agreement. So converting a normal FTA into a customs union was done by a decision of the Association Council and that decision, which can be important of that sort, does not necessarily go back to Parliament. So they are Henry VIII clauses, in other words, and this is something that the Government is aware of, something that Committees in Parliament are aware of. It is something to keep an eye on, with these agreements, how much power are you giving to the executives to change significant rules in agreements, and how much are you treating as amendments of these agreements that should go through the normal ratification procedure under CRAG or the Trade Act, should it ever become that? It is more a constitutional point, really.

Sam Lowe: In terms of Switzerland though, it completely makes sense that these clauses exist, so in the event of a no-deal the agreement with Switzerland as it would be with Iceland and Norway is very bare bones. We are just talking about tariffs and the reason for that is that Switzerland, Norway and Iceland are not able to act in certain areas until they know what our relationship with the EU is. The deeper our relationship with the EU is, the deeper our relationship with Switzerland, Norway and Iceland can be. So these review clauses were very sensible in that they allow for it to be a living agreement, I think, and to be updated over time, although they do come with some of the democratic questions that Lorand has brought up.

Q33 **Chair:** Thank you. Some agreement there. Unfortunately the clock beats us and we have a second panel to speak to this morning. Can I thank all four of you for coming this morning and certainly stimulating a very interesting discussion here? Thank you.

Examination of witnesses

Witnesses: Mike Hawes, Stephen Phipson and Ian Wright.

Q34 **Chair:** Can I ask the second panel of this morning's inquiry into the potential impacts of a no-deal Brexit on trade with third countries to introduce themselves please, starting on my left? Familiar faces all around.

Stephen Phipson: Stephen Phipson, the Chief Executive of Make UK, used to be known as the Engineering Employers' Federation, the national membership organisation for manufacturers, multi-sector. We have around 20,000 manufacturing businesses that are in our membership, which represents about one million employees out of the 2.7 million employed in the sector in the UK.

Ian Wright: I am Ian Wright. I am the Chief Executive of the Food and Drink Federation. We represent the part of the food and drink supply chain that is principally manufacturers, producers, importers and we have 300 members in businesses ranging in all shapes and sizes across the country and I also chair the Food and Drink roundtable that brings together the smaller trade associations that represent, in total, around 4,000 out of the 7,000 food and drink manufacturers in the UK.

Mike Hawes: Mike Hawes, Chief Executive, Society of Motor Manufacturers and Traders, basically representing the automotive industry, whether you make, sell, service, supply chain, after market, car, bus, truck, coach, taxi, trailer, most of it.

Q35 **Chair:** Thank you all. There is a lot of talk about the latest date the European Union has given to us and has been seized upon in the media as the no-deal Brexit or departure from the European Union on Halloween, and if that happens, can the new Prime Minister—or the new Prime Minister designate has been certainly talking about that period. Would you say that UK businesses are better prepared for October 2019 compared to March 2019 in respect of trade with non-EU countries? What are your general feelings on the horizon?

Stephen Phipson: In terms of the non-EU countries, if you look at the people we are supporting, generally we are not in a position at the moment of being better prepared. There has certainly been quite a lot of work with things like country guides from DIT. If we look at those in detail what they are not doing, they are quite dense documents. If you are a small company, and a lot of these companies are small companies, trying to work through those and see what the call to action is, is really difficult. One of the points, about getting them ready is to say that a lot of them would like to see just a very short bullet point guide to what they need to do, by country, to get ready for a no-deal scenario. A lot of questions arise.

It tends to be a default option with many of these companies that they are doing nothing about it until they are told exactly what is required. You can see that coming through and evidence for that is the registration for EORI numbers, for example, with HMRC. Whereas other countries take a very proactive approach to that we are waiting for companies to go to register. A lot of them do not know exactly what that means, they have never had to do it, and the other thing I would say in travelling around and talking to many of the smaller manufacturers that export in this country, a lot of them are not even aware that they are exporting under a European FTA, so it is about messaging, it is about clarity in the advice. One thing that would be very helpful would be to get those country guides with a very clear call to action behind them to enable a small business to prepare. A lot of them at this stage are saying, "I do not know what I am going to do. I am going to carry on until there is an event for me to do something about".

Ian Wright: I agree with everything that Stephen has said. For us in the food and drink industry the timing is really bad because 31 October is a pivotal moment in the run-up to the biggest selling period we have, which is Christmas and the holidays.

Q36 **Chair:** Worse than March?

Ian Wright: Much worse than March because, and I am sure you have all read this, pretty much all frozen warehouse space and all chilled warehouse space was taken two years ago, because people book it up for their Christmas and holiday campaigns. From the point of view of stockpiling, if that is what you wanted to do, it is virtually impossible to do if you have frozen or chilled product. Similarly, I do not represent the hospitality industry and it is not widely known but a really interesting fact, Halloween is now a bigger gig for the hospitality industry in the UK than Christmas. It is a massive time for our colleagues in hospitality.

Q37 **Chair:** A treat and not a trick, as it were?

Ian Wright: Yes, exactly, and so it is literally a nasty surprise for the hospitality industry and I am sure you could talk to them much more about this.

The other thing for us is that our members marched themselves up to the top of the hill for 29 March. They stockpiled, they marched themselves back down and up again for 12 April. They are still unwinding those positions, so there will be—and I think it is important that we put this on the record now—costs of a no-deal Brexit delayed from 29 March and 12 April already in the system, both in terms of increased prices and more likely in terms of poorer returns to investors. That money to buy extra stock for stockpiling, to house it in warehouses, has to come from somewhere and it will not have been in the plans of members. It is bad timing.

The last point I make is nobody can be ready. Anybody who says they are ready is probably misleading themselves. You can be prepared but the level of preparedness has to be for the date that happens. Just because you prepared for 29 March or 12 April does not mean that you are prepared for 31 October.

Mike Hawes: A couple of points. Again we are going to be in violent agreement here. Obviously the automotive sector, quite high profile, brought forward some summer shutdowns.

Q38 **Chair:** Does it affect the automotive sector that you might have used stockpiling in March and warehouses may be empty and will now be filled by Ian Wright's colleagues in October onwards? Is there any crossover for the space?

Mike Hawes: Not really, no. In terms of preparedness up to 29 March obviously there is a limited ability to stockpile, given that we operate just-in-time. The sheer volume of parts to stockpile for, say, two weeks in a major plant is enormous. That is not something that you can readily do for any length of time. There was, as I said, summer shutdowns. That is not something that you can repeat. Once you have brought them forward from August into Easter you cannot do it again. Again, you needed a run-up. BMW planned that for nine months. We do not have nine months before Halloween.

In terms of preparation, the larger manufacturers are better prepared. Obviously they have got the wherewithal to do so but it does impact through the supply chain and when 70% of the supply chain is probably SMEs their ability to plan and prepare is not as good and the costs are just being incurred on and on again in terms of that preparedness.

Q39 **Owen Smith:** Are you able to quantify in cash terms how problematic you think this is going to be if we do exit with no deal on 31 October for your sectors?

Ian Wright: It is difficult to do, but in terms of prices I could tell you that I think food prices will rise by mid-single digits as a consequence. That is a calculation that I know we have heard also come out of the Bank of England and it was in Mark Sedwill's famous note to the Cabinet, although he had it a bit higher, I think. One of the reasons for that is that at this point in October our reliance on imported food and ingredients is on the way up, so in the middle of the summer, right now, we are probably only importing less than 30% of our food, but when you get to the end of the summer that figure begins to rise quite sharply and it goes on rising. Any disruption to the availability of those products will add to cost and will also add to difficulties.

As to the total impact on the economic viability of the industry I think it is very difficult to do and any number we came to would be pretty much made up, partly because we represent and we can talk for 4,000 firms, but there are 7,000 or 8,000 firms and a lot of those are very below the radar, so we do not know what the impact on them would be. For instance, if you are importing Greek yoghurt into this country, or feta cheese, and your supply is disrupted for more than a week, you are probably going to go out of business, because your customers will find someone else. Similarly, if you are exporting something, we already know—and I think Stephen has something more to say about this—that European customers are withdrawing orders from UK suppliers because we cannot guarantee continuity of supply.

Stephen Phipson: If I can pick up on that. In terms of total numbers we can do some rough calculations, and there are some specific examples by subsector that are probably worth considering. To Ian's point, we are exporting around £275 billion a year of manufactured goods as a total, if you look at the total area. What we track very closely is the order run rate as to what is happening. We have seen a significant fall-off in the last three months of orders coming from Europe, but we have also seen a significant fall-off from the third countries as well, so around 17% at the moment. If you could extrapolate and think about that, we are seeing something like a 20% run rate in decline of new contracts and orders coming in, for two reasons, really.*

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* Following the session, the witness submitted a correction to this point. A correct

One is that people are very uncertain about the future terms of trade, so they are trying to re-source these products, bearing in mind, one mistake a lot of people have when they think about exported manufactured goods from this country is that we are exporting largely completed products. We do not. Most of our exports are subsystems that go into other people's systems. They are parts of other people's products. They are not the completed product. In very few cases are we exporting just completed products, particularly in terms of electronics and what we are doing in mechanical engineering, which are large parts of the manufacturing area. A lot of that is part of other people's supply chains, so they are taking advantage of de-risking and saying, "We are not sure whether we are paying a 35% tariff when it arrives or not" or what that is going to be, because it is not clear, so they are de-risking on the order side. We are seeing that more substantially in the last three months with Europe than it is with third parties and we have good examples of them re-sourcing products now that are normally sourced in the UK to other European suppliers. Therefore, there is something on that.

Q40 **Owen Smith:** Can I pause you there? I am struck by you saying that there has already been a 17% decline in third country orders.

Stephen Phipson: Absolutely, orders that are related particularly around the European FTAs.

Q41 **Owen Smith:** That is countries or people anticipating that it is going to be more difficult in future to do business with us and therefore looking for supply from elsewhere?

Stephen Phipson: Alternatives, yes.

Q42 **Owen Smith:** Do you have any projections as to how that progresses? Does it get better or worse if we leave with no deal?

Stephen Phipson: It is difficult to say exactly what happens. I suppose it depends on the final terms of what—

Q43 **Owen Smith:** Are you surprised by it being so large a decline?

Stephen Phipson: I am surprised at what has been happening in the last three months. We were not tracking this at all before. It was small, we had some record months if you look at the early quarters of the year, and then we have started to see this. We have been out there talking to hundreds of these businesses to understand what those customers are saying, and it is quite clear. They are just saying, "It is risk. We will delay", and there are some very big examples if you wanted some specific ones about where people have taken the decision that the risk is too great to do it.

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presentation of these figures would be an 8% run rate in decline of new contracts and orders coming in from abroad, and an 11% decline in orders from within the UK, rather than a consolidation of these two figures as was suggested by the remarks made to the Committee.

Q44 **Owen Smith:** Such as?

Stephen Phipson: Particularly in capital goods. That seems to be the biggest area, where you have people providing subsystems that are going into capital projects or infrastructure-type projects in particular, where they are long term, so they do not want to commit to a contract now that might take them to a commitment of two years, because they are unsure if there are going to be tariffs or delays at customs or whether or not they can fulfil them. It is those sorts of things that are particularly difficult.

A good example specifically would be steel. We represent the steel sector. A great example is we export 300,000 tonnes a year to Turkey. It is worth £130 million. No deal means MFN straight from day one. It is a 40% tariff on steel going into Turkey and that means we will not sell anything. Margins are very tight in Turkey and it means the steelmakers just will not sell any steel into Turkey, whereas Turkey, of course, will continue to sell to us under the zero tariff regime. Things like that we know are quantifiable, but others it is a broader trend, I would say, rather than anything else. The order intake one is particularly worrying at the moment.

Mike Hawes: What we are seeing—and we do not have any facts, but anecdotally—is exactly what Stephen is saying: people are not necessarily nominating UK suppliers, for fear of the UK content not counting towards the rules of origin, so you will not be able to export internationally. It is too much of a risk.

In terms of cost, in terms of pricing, it is quite clear that the average price of a car in the UK will go up by about £1,500. Ironically, in Europe it will go up by more than that, which makes you uncompetitive. It will go up by more than that because the average price of an exported UK car is higher because we tend to build premium vehicles. In terms of costs, our big fear is delay. I do not know and I am not an expert on logistics but if there is any delay that prevents the supply chain providing the parts such that you have vehicle production stop that will cost the UK automotive sector £50,000 a minute. All of the companies are trying to avoid that; that is why they are spending hundreds of millions of pounds in preparation to try to avoid that as best they can, but obviously—as both Ian and Stephen have said—in the outset you cannot prepare for all scenarios. It is just impossible.

Q45 **Mr Fysh:** I share some of your concerns about delays and so on and the degree to which Government can help with both the certainty of what the new arrangements are going to be and help to businesses in terms of getting ready is going to be crucial. Manufacturing orders within Europe are quite depressed at the moment as well anyway, so German orders are down 8% to 10% in the first half of the year, so presumably some of the 17% drop in our investment orders going into that is due to that cyclical factor. It is not all about the uncertainty of Brexit but I would agree with you that the sooner we can give you clarity the better.

Stephen Phipson: Wherever we are going we need certainty. That is the point. Another extension would be disastrous because we are already in that scenario, so we do not want that and what we really want is a proper deal so that we have a proper transition out. Something like that gives certainty and confidence back to businesses to place those contracts back with British suppliers, and that is desperately what we need right now. That certainty is what we need.

Q46 **Chair:** Which is worse? A hard no deal Brexit or an extension?

Stephen Phipson: A hard no deal is a disaster. We cannot see anything there that is positive about it for this sector.

Q47 **Mr Fysh:** What are your assumptions within that though of what a hard deal is? Does that mean no agreements of any kind at all?

Stephen Phipson: The real issue that most people are worried about is that we have, as we know, a large proportion of manufacturing companies that have spent many decades being integrated into a European supply chain in both directions. Whether it is Mike's car companies with a relatively low UK content of around 26% buying their parts across the border on a just-in-time basis or whether it is thousands of our businesses. I think we are tracking 147,000 manufacturing businesses that are businesses supplying a part into a European product. That is what they do. They supply a subsystem that goes into somebody's product. The biggest fear about no-deal is the immediate chaos of what that might mean but certainly controls at the border, because nowadays these are fully integrated manufacturing systems and if you have an uncertain period where you cannot run just-in-time delivery systems all of a sudden we become unattractive and those suppliers become unattractive. That sort of chaos, uncertainty, around no-deal is a thing that worries many businesses about how to deal with that.

Mike Hawes: I would endorse the point that in terms of tariffs first and foremost, if you put 10% on exports of vehicles, that is a cost manufacturers cannot necessarily bear when a lot of manufacturers are aiming on a 2% to 4% return on investment. This is a scale that you cannot swallow, even though we are among the most productive automotive sector in Europe, so we are damn good at what we do but you cannot absorb those additional costs. Again, anything that disrupts supply chains and affects, undermines, the frictionless trade will undermine our competitiveness.

Ian Wright: I will add that for us it is a slightly different game, where when we are importing food it is coming into the UK and within 12 hours it is on the shelves in supermarkets. Any disruption to that means that there will be shortages. The shortages will be relatively random, because it will depend which lorries got across, and one thing that worries me a lot, and has not been given a lot of attention, is that if, let us say, the Department for Transport and the DExEU assumptions are right and the real disruption is over two or three months, what will happen is that the supply chains will react in food and drink to where they can get food most efficiently and so the geographical extremities will be the first to suffer, because if you only have so much then you will only go to so many points of contact. I am picking this at random, but somewhere like Lowestoft, for example, will probably suffer disproportionately, remote geographical areas, but the other thing is that areas that are served disproportionately by convenience stores in tertiary estates, for example, will also see disruptions to supply. Those are the areas where there are older people and poorer people who are more reliant on those small stores, and that really worries me, that the supply can be maintained at its current level of choice and quality.

Q48 **Mr Fysh:** How much of that is about the just-in-time, so the movement of goods, and how much is about the impact of the potential for tariffs where you cannot cumulate them?

Ian Wright: It is both.

Q49 **Chair:** Stephen, at this point I think you wanted to make a point.

Stephen Phipson: A slightly different take, which might be helpful, so I am trying to be positive about this. Something that would help in a no-deal scenario dramatically, which we are quite desperate for—one thing we were talking about when we had the March deadline was the fact that exporting to countries that are outside of the EU, the third party countries, is a lot longer process than this just-in-time delivery system. Very often if you are providing parts for wind turbines or whatever, you are putting them on a ship four or five weeks before they arrive. The panic last time was that we had no idea what was going to happen to those goods when they arrived at those docks. Getting easement arrangements in place quickly and publishing them is absolutely critical this time, to avoid what would be absolute panic for people not knowing. I had many chief executives saying, "I have £20 million to get on a ship. My board wants to know what the arrangements are when it lands. Where is the advice? Do we ship, don't we ship?"

Q50 **Mr Fysh:** So a Korea agreement is a good thing from that perspective?

Stephen Phipson: It is an MOU but hopefully when it is ratified, yes. Before that. Otherwise we need to know what the easement arrangements are before we get anywhere close to this, six weeks ahead of any potential no-deal happening.

Ian Wright: For us there is the added difficulty where you are exporting salmon to China, in most cases the product goes off, so it cannot sit on the dock waiting for clearance, because three days later it is unusable. Now, that is not true for Scotch whisky, but where it is a fresh product or a chilled product, that is going to be a major issue as well. Those sorts of arrangements would be extremely helpful.

Chair: Fish and shellfish.

Q51 **Mr Fysh:** Where are the key pressure points within your industries, in terms of potentially not being able to cumulate or have exemptions to your tariffs with third countries where there is a continuity agreement not yet been made, or what are the key outstanding areas? Clearly it is good that we have had Korea done, but where are the most important pressure points that we should be putting pressure on the Government to solve in terms of continuity?

Stephen Phipson: If you were to ask me for a priority list of where we should be applying effort right now it would be Canada, Turkey, South Africa. It would be those countries in terms of manufactured goods. We need to move forward quickly with that, particularly with the Canadian one. That would be particularly important for many companies. Again, it is supply chain-type products. It is not finished goods but it is parts of the supply chain. The Turkish one is surprisingly big, not only for the steel industry but for other things, defence and all the other bits and pieces we have there. These are particularly difficult because otherwise we will revert quickly to most favoured nation terms and WTO if we are not careful with those.

Q52 **Mr Fysh:** What about in food and drink?

Ian Wright: The biggest one would be the EU. That is the obvious one. I do not know if you saw the "BBC News" on Monday night where the cheese manufacturer was saying that if he cannot send his cheese to the EU, this guy in Wiltshire, he is out of business very quickly and that story will be told a long way.

The other ones would be Canada, where there is a big demand for high protein wheat in bread making, South Africa sugar and fruit and Japan. I had a conversation with the UK Ambassador to Japan last week, who is over, and I hope he does not mind me reporting this conversation, obviously the position of ambassadors is somewhat sensitive, I guess, but I don't think I can get into trouble.

Q53 **Chair:** Do not speak truth to fantasy I think is in the new rule for ambassadors.

Ian Wright: His base point is the opportunity is there. Japan is a fantastic market. They are desperate for UK product and we are fluffing it right now.

Mike Hawes: Definitely Japan, given our sector. South Africa is very important especially in terms of supply chain and, yes, Turkey will be one of the most difficult ones, almost impossible.

Q54 **Mr Fysh:** Just on Turkey, we heard from our previous panel, because they are in the customs union with the EU effectively the deal with the EU has to come first before we can know what we can do, before the Turks can know what they can do with us. How are your members preparing if they can at all for not having a deal with Turkey? Are there things that they are able to do? You mentioned that they are just not going to send steel to Turkey for the time being, for example. What other things is it possible to do?

Mike Hawes: I think there is more the Government can do here with imports from Turkey treated as low risk. We would want more provisions to maintain cash flow and that is about duty deferral, extending the transitional simplified procedures mechanism to Turkish products, reducing any barriers to trade with Turkey and, as soon as you can, a prompt reduction in the tariffs. In no deal there is no avoiding this, we will go to tariffs and as I said, given the margins in our sector, those are tariffs that we cannot absorb.

Q55 **Gareth Thomas:** I am reeling a bit from the £1,500 hike in cars in the UK, the 5% cost uplift in food prices and the end of any steel trade with Turkey that you have just described from a no-deal Brexit. Some of the questions that I wanted to ask have been touched on in your exchange with Mr Fysh, but just spell out for us whether there are any specific EU FTAs such as Canada, South Africa, Japan perhaps where not rolling them over is going to have a very significant impact on your sector's competitiveness.

Stephen Phipson: There are two points to make there. One is the list we have just talked about, including Japan, are the top ones. They are the ones we really need to maintain what we are doing in terms of manufacturing exports to those countries. That is critically important. Also it is the terms of those rollovers that are important. I would like to highlight that point. For example, when I look at the Swiss agreement, the lack of cumulation for manufactured goods is a serious problem right now, because we have had lots of companies that are supplying parts to Swiss products, and now those in the future agreement will not be considered as EU cumulation going forward for products from Switzerland into the EU.

The result of that right now is that we are being designed out of Swiss systems because they cannot take the risk going forward, so although we have a continuity agreement—I would also talk about the Mutual Recognition Agreement as well, where we have three categories agreed in there. Automotive is one of them, which is good, but there are 17 other categories of manufactured goods that are not and so people are saying, "What does that mean to us in terms of our continued agreements?" Some very large companies are supplying Swiss manufacturers with parts of their complete products that then the Swiss export to Europe. It is not just about rolling them over. It is about making sure that we have similar, if not better, terms rather than less good terms than we have at the moment.

Q56 **Gareth Thomas:** You are worried about the Swiss agreement already. Can you give any examples of where you would have concerns in countries like Canada and South Africa?

Stephen Phipson: It would be largely about mutual recognition, but it is going to vary by subsector. Making sure those are in place is really important to a lot of people because otherwise you have additional costs of recertification and retesting and those things are critical. Of course, for us the other point is for many of our companies, particularly the smaller ones, a lot of them do not know how to spell rules of origin, let alone start to help to calculate what you need to do for that, so there is a big education piece to be done in the country.

Q57 **Mr Fysh:** How much guidance have the Government been giving your members about these differences? Have they been highlighting them?

Stephen Phipson: In terms of the differences on the negotiated deals?

Q58 **Mr Fysh:** Yes, on the negotiated deals.

Stephen Phipson: They have not highlighted them particularly at all.

Mike Hawes: It is difficult, because we have not seen a South Korea agreement. No one has seen it.

Chair: If you have Google Translate apparently you can get it from the Korean Government but you cannot get it from the UK Government. That was the last I heard about it. Matt Western, I think you want to come in?

Q59 **Matt Western:** A very simple question to Mr Wright. I was speaking to a farmer who was saying that they grow specialist hops and export. What would happen in terms of certification on those crops into the EU?

Ian Wright: That is a big concern with a no-deal Brexit. When we were marched up on 29 March, there were a number of temporary arrangements put in place in terms of inspections, in terms of certification, in terms of mutual recognition, but those have all lapsed, so they all have to be done again. It is not clear to me, unless the EU is in exactly the same frame of mind, that all of the same arrangements that would have worked on 29 March or possibly 12 April would be put in place. The trouble is if you do not know more than a week in advance you are not going to send your container of hops over there.

The biggest single category that I would draw attention to is organic food, because there is not going to be a recognition arrangement for organic food from the UK in Europe so organic food producers who export will not be able to export their food as organic. Of course they can export it as not organic, but that loses the premium that they have established. It means that they will lose markets and of course there is a massive commercial advantage to European producers here to kick the Brits out, in order to have a go at those customers free and so, yes, those sorts of specialist areas are going to be massively hit. For some organic producers, if you are exporting 30% or 40% of your production, that is potentially a mortal blow to your business because the economics of your business probably do not work unless you have that 40%. Yes, you can look for other markets, but right now if you are looking in July for a market that might disappear in the middle of October you do not have much chance. That is a real concern, those specialist areas are a real concern.

Q60 **Chair:** What you have said there is quite interesting because you said that things have lapsed so in many ways the UK is less prepared for an October Halloween exit than it was for 29 March. You have to speak up for your members, you have to speak truth to politicians who maybe have fantasies or whatever that do not really chime with reality.

The new Prime Minister is an unpredictable character and let us say that as one of his unpredictable things he resurrects the article he never published and let us say he went to revoke Article 50, maybe to get his ducks in a row, maybe to get this organised because clearly it is not very well organised. It is even more badly organised now, from what I am getting from you, than it would have been in March. He goes for revocation, to buy himself time. If you heard that Article 50 was to be revoked and you are carrying on trading as you do at the moment would you be happy, sad? What would your members be saying?

Ian Wright: The largest single group of my members would be delighted.

Q61 **Chair:** On revocation?

Ian Wright: We polled our members two months ago and we will poll them again in the summer, and I will let you know what the results are, but if you offer them the option of remain on the current terms or leave on any terms the answer is 80% of them say "remain". Now, there are those who are legitimately in favour of leaving the EU. I do not think any of them are in favour of leaving the EU on a no-deal basis but there are members who are in favour of leaving because they are commercially disadvantaged by our membership of the EU, for example sugar producers, and that is perfectly legitimate. I cannot tell you, "Our members all think this", because we are not that sort of organisation.

Q62 **Chair:** Do you mean there is an economic rationale for—

Ian Wright: Of course, and it is in the interests of their shareholders and their employees, so that is a perfectly legitimate point of view, but 80% plus of our members would be in favour of revoking Article 50.

Stephen Phipson: In terms of the general manufacturing sector looking across the piece, our recent survey—and we do poll this quite regularly to get a temperature check—the right answer to that question is if there is not a deal that can be negotiated that gives a sensible transition period, is the first point, then it is around 66% would say absolutely revoke it and start again, because we want to end this uncertainty. We cannot carry on with uncertainty. It is creating investment problems, it is creating issues with customer confidence. Certainly do not do no-deal, that is really the big message, but 66% would go down that area.

The companies that do favour it, when we go through those points, are quite interesting. They tend to be smaller companies that are onshoring things into the UK, so they are smaller manufacturers that want to not have to buy things from Europe and they are trying to onshore, so they see that as an opportunity, or they are subject to some sort of regulatory regime that does not favour them. In terms of the bigger population, people that favour going out without a deal, it is around about 10% of manufacturers in that sort of area, but the majority by far would say, "If you cannot get a deal then revoke it and start again. Go through the whole process and make it much longer term".

Mike Hawes: Investment in the automotive industry, other than Jaguar Land Rover, has effectively stalled. Even this morning one of the chief executives of a major global auto maker who has an investment in the UK says, "No deal, just do not even go there" because this is the fear they all have, hence I think our members would equally say, "Take the time, whatever time you need to get that deal, because it is preferable to no deal".

Q63 **Chair:** Does that mean you prefer a revocation to a no-deal?

Mike Hawes: Yes, I suspect they would.

Q64 **Chair:** You did say earlier that the price of a motor car and I just caught this in passing, £1,500 more in a no-deal scenario?

Mike Hawes: In a no-deal scenario with the application of tariffs, that would result in the average price of a new car going up by about £1,500, just on finished vehicle tariffs. That is leaving aside any additional input costs. It is higher than that for cars exported because, as I said, we tend to export more premium vehicles than volume vehicles, so the average value goes up. If you are exporting you are exporting at a competitive disadvantage. You cannot pass that cost on to the European consumer, because your competitor product is £1,700, £2,000 cheaper. You cannot do that, whereas about 86% of the cars we purchase in the UK come from abroad, the overwhelming majority from Europe, so essentially the whole market would go up.

Q65 **Julia Lopez:** We have touched upon this, but how well do you think the Government have informed businesses that trade with third party countries of any anticipated changes to customs procedures when goods arrive in the UK?

Mike Hawes: I think it is mixed, if I am honest. Clearly it is a hugely difficult thing to do and, as Stephen said, a lot of manufacturers where they have exported it has been part of the single market. It does not feel like it is exporting, because essentially it is not. That means there is a whole tranche of regulation, customs things, processes, the whole idea of using freight-forwarded is new to many of them. Certainly when you are going into these non-EU countries where you do have experience of exporting all of a sudden there is a whole range of other issues you have to consider, most notably rules of origin, to be sure your product is going to comply with the EU preferential trade agreements and whether you would meet that rules of origin threshold. The chances are in our sector most will not unless you cumulate with Europe. There is a level of complication.

I think the Government have tried to do as much as they can. Obviously you are dealing with SMEs and they do not have the wherewithal, but it has come out from different Departments, yes, DIT, but BEIS, from DEFRA, from different Government Departments at different times and it is difficult for us to keep track of it. It is one of the things our members expect us to do, so for an individual company quite difficult.

Ian Wright: One of the things that we are concerned about, and I am not sure this is quite to your point, but we thought we knew what the tariff regime would be, post a no-deal Brexit on 29 March. We only knew that 10 days ahead. I think it is almost inevitable that once our new Prime Minister is in position and given that the House may not be sitting in August, that there will be some form of quite serious public debate about that tariff regime. That tariff regime will come under very close scrutiny, because all those who are disadvantaged by those tariffs have a month and an open goal to complain, campaign, argue against it.

If you looked at the island of Ireland, the tariff arrangement for south-north trade where there is effectively a special opt-out, puts all sorts of consequences into play. I think that regime, and we may want to discuss this later, will come under quite a lot of debate and that, going back to Stephen and Mike's point, just increases the uncertainty, because we are in effect being asked to buy a pig in a poke. We simply do not know if it is a cat or a pig, incidentally, that is what a poke is by the way, a useless piece of information, a cat in a bag. That is the same metaphor as, "Let the cat out of the bag". The point is that not knowing means you will not trade, because you are not going to send your product into a vacuum.

Chair: Pokes are for chips in Scotland, not bags.

Ian Wright: Yes, I know that, indeed.

Q66 **Gareth Thomas:** Should the Government be providing businesses with financial support as the Dutch and Irish Governments are going to do in the event of a no-deal Brexit to help access technical trade and customs advice?

Stephen Phipson: Picking up on that point, it is hard in the running of the business to know what incentives to give businesses to help them through a difficult no-deal scenario. What is really important would be a grant scheme for advice as other Governments have done in other countries. This is a really helpful process. There was a discussion that we had with DIT some time ago about export vouchers and using them for professional advice to be able to help them with the way through these issues. If not export vouchers, then some sort of grant system to enable them to get advice quickly would be good, but I think as a starting position for Government to be clearer. This whole idea with these third party countries about producing clear country guides that are not just an accumulation of policy issues, but are really step-by-step guides as to what you should be doing in each country to prepare yourself for that would be really important right now. I would urge that to be a really good output from this discussion and then you could give people grants to be able to get professional help to implement those action plans.

Mike Hawes: As a sector we are very competitive: coming out of the global financial crisis, huge amounts of investment came in because we were competitive. Now, you could say globally automotive does not normally work on a level playing field; there is always some degree of intervention, but certainly in the UK that has been minimal. It has been targeted in the right places to stimulate innovation, stimulate technological change and so forth. It is counterintuitive to want to opt for a system whereby you are going to have to go and ask for Government support for a sector. That feels uncomfortable but the position the industry would potentially be in is that they go from being highly competitive to being uncompetitive overnight and you would need to look very closely at what you can do to support an industry to maintain its competitiveness. That could be energy prices, it could be business rates, it could be VAT, it could be a range of things to try to overcome what will overnight be a 10% hit in terms of cost.

Ian Wright: I agree with that. It is interesting that in Scotland they are doing this as well, there is a grant for £4,000 I understand that you can access to support your no-deal planning. What you already have, particularly on the island of Ireland, sorry to go back to that, given that it is an integrated economy for all practical purposes, come 31 October you will have firms disadvantaged randomly by their geographical location because the firms in the Republic will be state-aided fairly significantly and EU-aided—whether or not that is allowable under the WTO rules we will not know for umpteen years, so we will all be dead by the time the case comes to the WTO court, if it ever does—and the ones randomly on the other side of the border will not. That is a very difficult situation for the Irish economy, given that 40% of it is agri-food.

From our point of view we would be saying, "Yes, there should be help". My preference would always be in these cases for it to be tax deductible because the Revenue is extremely good at implementing that, and the money can flow through very quickly, and you can plan for that very quickly. I think whichever Chancellor is lucky enough to be in No. 11 tomorrow should be thinking about this for his or her emergency budget.

Mike Hawes: If I can add one additional thing, if we go back to 2009 and 2010 obviously manufacturing orders were collapsing and one of the biggest problems was access to finance. I think the Government would have to work very closely with the financial sector to ensure there was still capital going into the sector.

Ian Wright: Yes. We have been talking to the banks about that up to March. We stopped those discussions because there did not seem much point, because we did not know what was going to happen. The Governor can give a signal, the Chancellor can give a signal, but it will be the banks that need to do this for SMEs and they will need to look at their credit terms, they will need to be helpful to allow them to get access to capital. Certainly the banks we have talked to do have a willingness to provide this, but they will need a signal from the Chancellor or the Governor that that is something that will be looked on favourably.

Q67 **Chair:** Thank you. We are just coming up to the end at the moment and maybe a couple of minutes left. Given that you represent the Society of Motor Manufacturers and Traders, Make UK and the Food and Drink Federation it is not a question where we lead you but what is your message in this situation where we have potentially three months to go to a no-deal Brexit, particularly with third countries, as is the focus today? What would you like to say? What is your message to give out that politicians should be listening to? You have probably said it.

Stephen Phipson: The No. 1 message is we absolutely cannot have no deal. We cannot. We cannot see any upside to that at all in the manufacturing sector in this country. We can see nothing but damage, so unless anyone has some very good pointers as to where we can help people, that is unfortunately going to be our situation. We can see on the third country stuff, really on that subject an area where Government can be a lot more forward-leaning than we are at the moment. Again I come back to the point about country guides being more specific exactly what companies need to do to prepare. For many of those companies that have never had to prepare in a way like this before it would be very helpful, and some sort of support for them to be able to do it would be good. Really, we struggle to see how we are going to prosper in a no-deal environment, so we absolutely encourage the Government to get to a deal as quickly as possible and we will be there to support it.

Q68 **Chair:** One of the previous panel told us there is no economic rationale for it and you are backing that up.

Ian Wright: I would echo that. Let us not have a no-deal exit. If we have to have an exit, let us have it in an orderly fashion. Let's consider that course of action very thoughtfully. The second point I would make, and this is a genuine plea, please in all of the arrangements that are going to be made today, all of the new Ministers and so on, please let us have practical people who, if we have to change the Ministers responsible, for example, in DEFRA—I do not agree with Michael Gove on almost anything but he has got the point on a no-deal Brexit. David Rutley has got the point. They have a huge amount of expertise that they have built up over the last two years. We simply cannot afford to start explaining the position three months out to another set of Ministers. Similarly, please keep the civil servants in their jobs for more than six months. We have this constant churn, you are always educating people, and it is new readers start here every afternoon. We need some continuity on the Government's side, because the received memory of all of the stuff that they have accumulated over the last few months is really valuable.

Mike Hawes: Very briefly, absolutely, no deal, and I have said it publicly before, would be a disaster for this industry. Another parliamentary Committee I think described very accurately is Brexit for the automotive industry is all about damage limitation. There is no upside. All we can try to do is manage that transition. We would want an ambitious deal. Do not just settle for an FTA. An FTA is barely above WTO and may not apply, given rules of origin, to the UK automotive sector.

The other point in relation to your last question, in terms of with third countries, again be ambitious but bear in mind global trade tensions are rising. We are seeing what is happening in China and the US, the threat of Donald Trump's section 232 measures could be as damaging if not more so to certain members with that. Whatever your ambition be realistic on the impact you can have globally when there is such a high degree of tension in international trade.

Chair: Thank you all very much. We are just up to time and everybody will be going quite quickly, but I think your message is prescient and worth giving. Thank you all.