HOUSE OF COMMONS

Committee on the Future Relationship with the European Union

Oral evidence: Progress of the negotiations on the UK's Future Relationship with the EU, HC 203

Wednesday 30 September 2020

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Watch the meeting

Members present: Hilary Benn (Chair); Mr Peter Bone; Sally-Ann Hart; Stephen Kinnock; Nigel Mills; Mr Barry Sheerman; Dr Philippa Whitford.

Questions 826 - 876

Witnesses

I: Paul Everitt, Chief Executive, ADS Group Ltd; Neil Hollis, Regulatory Affairs Manager, BASF; Dr Richard Torbett, Chief Executive, ABPI.

Examination of witnesses

Witnesses: Paul Everitt, Neil Hollis and Dr Richard Torbett.

Q826 **Chair:** Good morning and welcome to this meeting of the Committee on the Future Relationship with the European Union. Can I, on behalf of all of the Committee members, express a very warm welcome to our three witnesses today? I would just like to invite each of you to introduce yourself by name and organisation for the record.

Dr Torbett: Good morning, everybody. My name is Richard Torbett. I am the chief executive of the Association of the British Pharmaceutical Industry. We represent the global research and development-based pharmaceutical industry here in the UK.

***Neil Hollis*:** Good morning, everyone. I am Neil Hollis, regulatory affairs manager in the UK for BASF, the world's largest chemical manufacturer, serving downstream industries such as pharmaceutical, automotive and aerospace, to name but three.

***Paul Everitt*:** My name is Paul Everitt. I am the chief executive of ADS, which is the UK's national trade association for the aerospace, defence, space and security industries.

Q827 **Chair:** Thank you all very much for giving up your valuable time this morning. Colleagues will direct questions to you individually, but please put up your hand if you wish to add something. Richard, can I begin by asking you about Northern Ireland? There has been a lot of debate over the last few weeks, about the Bill and so on. Are your members clear about the basis on which they can move pharmaceutical products from GB to Northern Ireland after 1 January?

Dr Torbett: Chair, you ask for succinct answers, and the succinct one is no. To slightly expand on that, we are a very highly regulated sector, as you know. Northern Ireland is the most complicated situation for us right now. There are a number of reasons why. Much pharmaceutical product goes to Northern Ireland via Great Britain. In turn, much of that is imported through the European Union. When it comes to importation rules, we are not clear what importation rules or checks those medicines may be required to go through.

We have another very important framework for our industry that safeguards against falsified medicines in the supply chain, and that stems from a piece of European legislation called the Falsified Medicines Directive. Practically, what that means is that barcodes and tamper evidence is put on to packaging and the data associated with those barcodes is all connected up to the European system. Exactly how that will work in Northern Ireland is completely unclear. The reason that is a problem is that, of course, as soon as the companies know what the rules are, it takes time to adjust packaging, production lines, distribution routes and so on.

We really need that clarity as soon as possible, but we also now really do need a phase-in period. At the point where it becomes clear what rules we need to adopt, we will need adequate time to implement that in practice.

Q828 **Chair:** You are talking there about a period to implement the changes after 1 January.

Dr Torbett: Yes. There certainly does not need to be any adjustment to the transition period itself, of course. Practically, it takes time to adjust packaging; it takes time to adjust distribution routes, for instance. In normal times that would be a very significant job for the industry to do. In these very unusual times, that is even more complicated, when we are already struggling with the restrictions of Covid as well.

The key message from us is that we are very highly regulated and, as such, we need more detail than has been available in either the Government's Command Paper that was published a number of weeks ago or any of the recent discussions.

Q829 **Chair:** As things stand at the moment, given the uncertainty and lack of clarity that you describe, are you or your members able to give doctors and patients in Northern Ireland an assurance that, whatever happens, they are going to continue to get their medicines in Northern Ireland?

Dr Torbett: It is very important that patients in particular do not panic. Companies will do everything they possibly can to make sure we are managing risk to the best of our ability. I know for a fact, for example, that there are huge stockpiles being built up exactly to deal with this eventuality. Where there is a will, there is a way to get medicines to patients, and the companies will always do that. We have been working very closely with the Government in the UK on a multi-layered approach to managing supply, including diversifying supply routes and stockpiling, where appropriate.

Ultimately, there will always be emergency measures that can be taken to get medicines to patients. However, we cannot work with emergency measures all the time, of course. That is a really big ask for the entire market.

Q830 **Chair:** In a word, would a derogation from the Falsified Medicines Directive temporarily help?

Dr Torbett: A derogation from the timing of the implementation of the protocol would help to allow that adjustment so that we have the flexibility to get medicines to patients in as seamless a way as possible, particularly without duplicating many of the processes around importation checks, and so on.

Q831 **Chair:** Can I turn to you, Paul? A central focus of the negotiations is whether we will end up charging each other tariffs, but of course there is the complication of rules of origin. Everyone will have seen the correspondence that was reported this morning, where the UK's proposal for cumulation has apparently been rejected by the European Union. The car industry has expressed concern about that. Can I check with you how the consequences of cumulation not being agreed for the purposes of rules of origin would affect your members?

***Paul Everitt*:** It is less of an issue for the aerospace sector, because there is a pre-existing WTO plurilateral agreement that effectively means that for the overwhelming majority of aerospace parts there are zero tariffs, and they are not counted as part of rules of origin.

Q832 **Chair:** That is really helpful. Can I ask you something else? Obviously, your members sell highly complex products that require servicing and fixing if anything goes wrong. What is your understanding of where the negotiations may have got to as regards the ability of your service engineers and technicians to travel to other European countries to do what they do under the arrangements that will come to an end on 31 December?

***Paul Everitt*:** We are not concerned about the movement of people at this particular point in time. In terms of people being able to move freely from the UK to the European Union, we are reasonably confident that people will be able to do their day-to-day jobs reasonably effectively.

For us, the big issue is around the aviation safety and certification issues, of which maintenance is a key part. Some of that links to the recognition of people's qualifications and their certification. Like medicines, we are a heavily regulated and certified sector, which means the products, the people, the places where goods are manufactured and the process by which they are manufactured and subsequently repaired, on aircraft, are all governed within a regulatory framework, one which continues today to be centred on the European Union Aviation Safety Agency.

Q833 **Chair:** Finally, I just have a question to you, Neil. We will be covering a lot of these issues as colleagues explore them in more detail. Thinking about chemicals regulation, how concerned are you as a company about the cost of moving from the REACH system we have been part of for quite some time to having to register under the UK REACH arrangements?

***Neil Hollis*:** This is something that BASF and the sector as a whole is extremely concerned about. First, there are the additional registration costs that UK REACH will bring. This is estimated to be approximately £1 billion across the industry. This will bring no tangible value to enhancing safety for chemicals and it will disadvantage UK industry with respect to global supply-chain competitiveness.

One of the other concerns we have is that this cost will be a disincentive to register chemicals or chemical volumes that are now available across the EU and the UK. Therefore, to put it bluntly, chemicals that are available now across the EU and the UK will remain on the EU market but will disappear from the UK market.

In the longer term, we believe this combination of increased costs and reduced choice could result in negative impacts on factors such as productivity, innovation and investment decisions here in the UK.

Chair: That is a pretty grim assessment.

***Neil Hollis*:** There is no positive spin on this one, I am afraid, Chair.

Q834 **Nigel Mills:** Good morning. Can I ask a couple of questions about the UK's approach to the negotiations? Were you consulted by the Government in their process of establishing what they were going to ask for in these negotiations, or was this process done to you rather than with you?

***Paul Everitt*:** It would be fair to say we have had close dialogue with the Department and Ministers through this period. There are things we have definitely asked for that have been rejected. Certainly from an aviation

point of view, we were seeking to remain part of the European Union Aviation Safety Agency, and that was deemed to be inappropriate.

On the detail of the bilateral safety agreement that is currently the subject of negotiations, the UK Government have taken on board all of our comments and sought to try to present them to their EU colleagues.

Dr Torbett: I would say we have had very good dialogue with the Government. We have had a ministerially chaired group more or less ever since the referendum to talk through the detail. The day after the referendum result, we put huge resource into understanding all of the regulatory implications of leaving the European Union. We are a very highly regulated sector, as I said, so we have a lot at stake here. We have always been careful to respect the political realities of the decisions made, but we have had quite a deep dialogue with Ministers and officials across a number of Departments working on this.

We are pleased that, in the Government's negotiating mandate, they include things like a mutual recognition agreement, which is very important for us. We have had that same dialogue in Brussels as well. The lack of progress is disappointing for all of us, but we do not know exactly what goes on behind closed doors in that negotiation. We are concerned that, ultimately, patients have not been prioritised by the joint dialogue between us and Brussels.

Q835 **Nigel Mills:** Neil, I get the impression that BASF are keen for chemicals to remain in EU REACH, so I guess you are not going to feel very well listened to by the Government in establishing our own version of REACH.

***Neil Hollis*:** Yes, you could say that. We have good communication channels with Government, and I would like to extend my thanks to those at the Defra and BEIS teams, who are supporting us continually with conversations with our customers, for their professionalism.

We have provided Ministers, MPs and representatives of the House of Lords with our positions and analysis. These have been given to Government, and we welcomed the Defra proposal earlier this month to extend implementation timelines. This makes UK REACH a more workable concept.

We also welcome the UK's approach for a chemicals annex in the free trade agreement and for this to include an information-sharing mechanism. This is not only crucial to the chemicals sector but also crucial for the downstream industries such as those represented by my fellow witnesses this morning. If this were to be agreed, this would remove our concerns to a large degree.

Q836 **Nigel Mills:** Is it fair to say that, in establishing our successor regulatory bodies and frameworks, industries are being consulted to try to make sure these regulators can work effectively and that the transition can be managed in a way that means we do not have a cliff-edge, to go back to

that awful phrase, on 1 January?

***Neil Hollis*:** Yes, the stakeholder teams have been very active. As I mentioned, the lengthening of the timeframes is very much welcomed by industry. However, we regard this as a small step in the right direction. This approach will not allay our fears with respect to supply-chain competitiveness and, ultimately, the reduction of chemicals available on the UK market.

Q837 **Nigel Mills:** Richard, is that the same for you?

Dr Torbett: I would acknowledge there has been good consultation with us on the detail. Certainly, the Ministers responsible for healthcare have been really championing this across Whitehall. Of course, in the final analysis there is a bit of a black box as to how the final priorities are decided on both sides in terms of the outcomes of the negotiation.

From our perspective, there are some bare minimum things that we need to get out of this negotiation in order to safeguard any risk to the supply chain at all. That is not to say we have an imminent crisis or something, but, if we do not get some of these bare minimums, there will be increased complexity, duplication and cost in the supply chain for medicines, which frankly is the last thing we need at the moment. Yes, we are being consulted, but ultimately there is a frustration here that we do not have the clarity that we need.

Q838 **Nigel Mills:** How optimistic are you that in a year's time, say, it will all be operating fine and we will have got through this smoothly? Presumably you are quite confident that any issues can be resolved over that sort of timeframe, are you not?

Dr Torbett: I would say that it is still not too late to agree the bare minimum. I am a "glass half full" person, and I hope that that will be agreed by both sides. If that is the case, we will certainly be able to adjust in terms of that minimum regulatory mutual recognition.

If we do not get it, there will be a permanent increase in the complexity of our supply chain here. We will find a way of managing that, but it is imperfect. It would be operating in an environment with more red tape, not less. That ultimately will be damaging to the attractiveness of not just the UK but actually the European Union as well, from the perspective of global investment in life sciences. That is why we do not see any economic interest in not agreeing the bare minimum between both sides.

***Paul Everitt*:** We started this process back in 2016 probably hoping that we would get as close to business as usual as possible, respecting the outcome of the referendum result. We have had to downgrade our ambitions, and as we stand here today we already know that our businesses are going to face significant additional cost and complexity. That will have a longer-term impact on our competitiveness.

We are facing the next few months, both this side of the end of the transition and the other side, acknowledging that, whatever happens now, we will be involved in a day-to-day struggle to ensure that the goods we need are flowing across our borders and we are meeting the relative certification processes. It is more about making sure that it happens. It will happen at whatever cost it has to bear, but that will obviously shape and impact people's future investment plans. It is not a happy place for us to be, but we are confident we can get through.

Q839 **Sally-Ann Hart:** Good morning to our witnesses. I just wanted to pick up, first, on mutual recognition agreements. Richard mentioned the importance of mutual recognition agreements, so I just wanted to explore that a little bit more. How important are they? What will they actually help with? What would happen if these agreements were not negotiated? Would it impact on things other than the supply chain, for example, which you highlighted, Richard?

Dr Torbett: Mutual recognition agreements are extremely important for our industry. They are very prevalent around the world. The European Union, for example, has many mutual recognition agreements with countries it does not have free trade agreements with. They are often agreed, frankly, as no-brainers outside of full and comprehensive trade talks. The UK itself has just agreed a mutual recognition agreement as part of the agreement with Japan.

What they do is they allow alignment of good manufacturing practices. Again, as a regulated sector, all of our facilities are inspected by experts in regulatory authorities to make sure that good manufacturing practices are being followed. Mutual recognition of inspections is very helpful, because it means those inspections are not duplicated and both regulatory time and company time is not wasted by that duplication.

Another big area for us is called batch testing and release. Every single batch of medicines that is manufactured has to be tested in a laboratory to ensure it conforms to appropriate standards. We have operated as part of the European Union for many years. It would be really wasteful and duplicative, and it would add time, cost and complexity, not to recognise each other's batch testing and release. If we had to test everything that had already been tested in the European Union, it would add maybe up to a six-week delay for each of those medicines.

We mentioned a Northern Ireland case early on. We are still not clear whether medicine coming from the EU into the UK and then into Northern Ireland would have to get tested again. If somebody decides at some stage that they would need to be tested specifically in Northern Ireland, those facilities do not exist. It is not clear how that would happen.

To answer your question about whether it is just supply or whether it is anything else, it absolutely is a real concern for supply. Not to put too fine a point on it, we have worked incredibly hard around the clock during the Covid crisis to make sure there is a very resilient supply chain in

prescription-only medicines. We supply over 12,000 different types of medicines to the NHS. There have only been about five or six—those used in intensive-care settings—where we have had national stock-outs. Apart from that, it has been pretty resilient. It is very tough. The last thing we want right now, in the middle of a global pandemic, is concern that we do not do mutual recognition that would complicate things further for us.

Beyond the supply chain, as I mentioned, the fact that it would leave this region of the world tied up in red tape for supply means that both the EU and the UK would be less attractive places to invest in manufacturing and other pharma activities, which is a real shame, particularly at a time where we are looking to grow this industry. The UK life sciences sector is a £30 billion exporting sector. It is one of the few sectors with a real potential to grow and add more R&D here. We just see this as a no-brainer that needs to get done.

Q840 **Sally-Ann Hart:** I have two points there. We are looking at a mutual recognition agreement that is for the benefit of both the UK and the EU. It benefits both of us and it is essential. Secondly, when you are talking about batching, is that about conformity assessments? Is that the conformity that you mentioned?

Dr Torbett: There are various types of conformity, if that makes sense. Yes, in a sense it is making sure that every batch of medicines is correctly manufactured and conforms to all of the regulatory requirements we have, but there is also a whole set of inspections that facilities have to conform to as well. All of these conformity assessments are tied up in mutual recognition.

Q841 **Sally-Ann Hart:** Paul is a mutual recognition agreement important between the UK and the EU in the aviation and aerospace sector?

***Paul Everitt*:** Yes, it is absolutely essential. The way in which it is characterised in aviation is through something called a bilateral aviation safety agreement. These are common. The UK has some with other non-EU countries and the EU itself has a variety of these.

Because we are going to have a separate regulator in the CAA, these agreements provide the framework for ensuring that certificates and the work it undertakes to verify the operations, the people and the designs in UK businesses are accepted both in Europe and elsewhere in the world. It is an absolutely essential part of the agreement.

However, bilateral aviation safety agreements are themselves negotiated. There is no set form. Therefore, in the current negotiations, the UK has put forward what we would view as a very comprehensive agreement, which means there is mutual recognition and a very high degree of information-sharing but also the opportunity to work with EASA on future designs and technologies. For us, that is incredibly important.

Currently, the EU proposal is a much more basic bilateral agreement, which would mean that, effectively, those certificates issued by the CAA in the UK would have to be verified by EASA. Therefore, for companies, there is not just the cost of certification but actually the uncertainty associated with whether or not what is done in the UK will be seen as appropriate by the EU regulators. That has knock-on implications for where people might choose to invest.

Q842 **Sally-Ann Hart:** Looking at the biggest risk to the UK if we do not have a mutual recognition agreement in the aviation and aerospace sector, what would that be? Is it the lack of investment?

***Paul Everitt*:** There are operational issues and challenges that will come alongside that. Forgive the complexity here, but it is possible. One of the ways in which we were preparing for a no-deal Brexit was to adopt what is called third-country approvals. That is basically to get EASA to oversee the facilities and activities here in the UK.

For the overwhelming majority of things, we could actually do that. That means we are able to continue with business as usual. One of the key areas where it is more difficult is what we call design approvals or design organisation approvals. If you have an existing product that is being used and you need to modify or redesign it for any reason, effectively our European regulators would not accept that redesign if it was undertaken in the UK under CAA oversight, so it is a bit challenging.

The bigger issue for us is certainly around when we are beginning to design new products and where it would make most financial sense for companies to make those investments and the associated R&D activities as well. For us, without a very high degree of mutual agreement within this bilateral agreement, there is a very strong risk that people will just opt to do their investments in their facilities elsewhere in Europe and not here in the UK.

Q843 **Sally-Ann Hart:** Neil, in the chemicals sector, in terms of the importance of agreeing mutual recognition agreements between the UK and the EU, can you just outline why it is so important and what the risks would be if the agreements are not negotiated?

***Neil Hollis*:** Yes, sure. With respect to the regulatory information for chemicals, the EU and the UK are in two quite different positions. The EU holds data at the European Chemicals Agency that it has gathered since REACH came into force in 2007. Subsequently, we believe, therefore, that an information-sharing mechanism is more important than mutual recognition. This would enable UK industry to submit registrations without the costly exercise of negotiating access to regulated data. This would also nullify the requirement to repeat studies to comply with UK law. When I say, "repeat studies", this also implies vertebrate studies, unfortunately.

As I mentioned a few minutes ago, we are encouraged that the UK has identified a data-sharing mechanism as a necessary requirement to support business as part of this chemicals annex. To this extent, it is vital for the chemicals sector and the chemicals-using sectors that not only can an FTA be agreed before the end of the year, but so can a framework for an information-sharing mechanism.

Regulatory data in chemicals depends on volume. The higher the volume, the more data is required. The EU is a larger manufacturer and a larger market for chemicals compared to the UK. This means the European Chemicals Agency will always have more information on chemicals compared to the authority here in the UK. In our opinion, a data-sharing mechanism is not only crucial for industry, but highly important for the regulator and to maintain the safety, health and environmental standards that we have at the moment.

Q844 **Sally-Ann Hart:** Looking at the aerospace sector, which has obviously been actively preparing for a new relationship with the EU after the transition period—you mentioned that you have been doing that—can you explain the level of integration between your industry in the UK and the EU? Clearly there is a huge level of integration. British aerospace is quite a big sector in aviation. Can you give us a bit more information about that? Would there be any benefits arising from divergence in the future in terms of the integration between the countries?

***Paul Everitt*:** We do not see any upside from going our own way, so to speak. The UK is a strong aerospace nation: we produce engines, wings aerostructures and the avionics systems that run aircraft, but we do not produce, by and large, our own aircraft. We are part of a complex supply chain providing those pieces of equipment to, in the large-aircraft market, two major players, Boeing and Airbus. Whilst we have significant work related to Boeing in the US, the overwhelming majority of the UK industry is focused on Airbus, which is the major ultimate customer for wings, aircraft engines and those other things.

We currently have materials and goods that criss-cross across Europe as they are developed into systems and final products that are then shipped for final assembly at a number of sites around Europe and around the world. We are an integral part of those supply chains, and the larger companies and the supply chains that sit beneath them are themselves hosted or located across both Europe and other parts of the world. It is not just a European but very much an international supply chain that is utilised to develop products and ensure they are manufactured and operated in a safe way.

Q845 **Mr Sheerman:** We have excellent witnesses with an awful lot of knowledge. Can I ask Neil a question, carrying on with chemicals? I started my working life working for ICI and then became a Member of Parliament for Huddersfield, where we have a very large chemical input from Syngenta and other companies. I am particularly concerned, because it is a sophisticated sector. Supply chains and just-in-time are

very important for the chemicals industry. Neil, are you being a bit kind about the situation? I am picking up real concerns from my local manufacturers about the disjuncture there could be, and it is not helped when the Secretary of State, Michael Gove, talks about thousands of trucks stuck on the way to ports. Are you being too kind or not realistic enough in terms of the future of the chemicals industry?

***Neil Hollis*:** No, I do not think so. I have already put over points with respect to supply-chain disruption, cost and a lack of availability of chemicals in the UK as a potential future scenario. That does not paint a pretty picture at all. We are concerned about supply-chain impact and border delays. Very similar to aerospace, we have highly integrated supply chains depending on just-in-time processes. Without a doubt, if UK REACH is enacted in the UK in its current form, this would put UK industry at a major disadvantage compared to other European value chains that do not include UK actors.

Q846 **Mr Sheerman:** Have there been structural changes in the chemicals sector anticipating what they think might be the impact of us leaving the European Union? Have there been mergers? Has there been investment in the European mainland rather than the UK? Has it had a negative effect on investment in the chemicals industry in the UK?

***Neil Hollis*:** Yes. Mr Sheerman, I would also like to say that I am also based in Huddersfield, so I know quite a lot of the SMEs you are talking about. Without a doubt, from my discussions with other companies, I know they are looking to move operations and offices abroad to negate the impact of Brexit.

At the moment, certainly, BASF has not made any investment decisions regarding the current political situation. I know that the smaller companies are extremely concerned. Perhaps they do not have the European presence and the amount of legal entities across Europe that BASF has and therefore they are looking at moving offices and operations on to the continent.

Q847 **Mr Sheerman:** It is the small and medium companies that I am concerned about. The big companies like BASF and Syngenta, as you say, have teams. Are you nurturing those SMEs? Is there a move to help them in this difficult transition?

***Neil Hollis*:** We have to. As an industry, chemicals supply chains are highly integrated. Whilst BASF is a huge company, it may be that we do rely on very key raw materials from SMEs. I am aware that some of the chemicals that we manufacture here in the UK are at the seventh level of the value chain. Therefore, there are six levels of raw materials and manufacture below this prior to the manufacture of our products.

It is key that the chemicals industry as a whole receives a good package out of the Brexit scenario and out of the negotiations, because it is the industry as a whole that needs to develop and support itself.

Q848 **Mr Sheerman:** Can I turn to Richard now? I learned a lot from your earlier remarks. I feel very worried, especially when we think of the dislocation. We have heard evidence from the Road Haulage Association and others, and from the Secretary of State, that there would be miles and miles of dislocation of traffic from the ports.

What assurance can I give my constituents, and what assurance can you give me to pass on, that the supply of medicines and the supply of pharmaceuticals will continue if there is a real problem, say, at Dover? One of our biggest ports is Heathrow Airport. Do you suddenly switch supplies to air delivery? What situation are you facing there and are you making plans to cope with that?

Dr Torbett: This is a very important question. Before getting there, if I may, to bridge with your previous discussion with Neil, I want to underline something that Neil said earlier on: the chemicals industry underpins so many other industries in this economy, including pharmaceuticals. Anything you are hearing affecting chemicals is a real concern for us, too.

In terms of your question about supply, this has been at the top of our list ever since the referendum result itself. One of the things we learned about our own supply chain was quite how much the industry relied on the Dover short straits. A huge amount has been done between companies and the Government to have a multi-layered approach to trying to secure supply.

What does that mean? First, it means diversifying away from the Dover short straits, and a lot has been done to make sure there are multiple routes into the country. We have a request for stockpiling of medicines from the Government, which companies are keen to support where that is practical. Of course, with some of our products, it is not possible to stockpile for six weeks, because the shelf-life is even shorter than that. Certainly, where it is possible, that is part of the story. We have Government-secured freight capacity, which is available for companies. That is a very important plank of this multi-layered plan that we have set up with DHSC.

Finally, we need to be doing much more with the NHS itself to have as good an analysis as possible of exactly what levels of demand we are likely to see in what type of medicines. Again, we are in a very unusual situation right now with Covid, and that has meant that there has been much more demand than we would normally see for certain medicines. Equally, as you will know, very sadly in many cases there are patients who have had their treatments put on hold or stopped during the crisis. That has led to there being more stock of certain medicines available in the country. That is obviously for the wrong reason, from our perspective.

The key message is that a huge amount has been done to minimise any risk of disruption. Companies have done as much as they possibly can to

manage this. Of course, not everything is within the companies' control, but we are in as good a position as we can reasonably be.

Q849 **Mr Sheerman:** If a mysterious person offered you a magic lamp and you could rub it and get your three wishes, what is your top wish? Is it to suspend all this and give you more time?

Dr Torbett: My top wish would be a mutual recognition agreement. That is a very easy win for both sides. The second wish would be real clarity on Northern Ireland. That is the piece we are really desperate to get clarity on right now, ASAP. We will always plan for anything we can reasonably plan for, but we do not know what to plan for in Northern Ireland. That is the real challenge. We need that clarity and we need time to implement it.

Mr Sheerman: Paul, we have the advanced manufacturing centre in Yorkshire, as you will know. We know just how complicated the network of supply chain is for the manufacture of airplanes and much else. We have already seen what has happened with Bombardier and with other parts of the Airbus supply chain. Can you give me any indication of what the big companies like Airbus, Bombardier and Boeing have been doing to nurture their supply chains post 1 January?

***Paul Everitt*:** I can assure you, again, as you have heard, that all companies are keen to ensure they can continue their operations. Part of that is ensuring they have good visibility and a good understanding of how their supply chains are going to fare.

If we were having this conversation a year ago, it would be fair to say that we would probably have been in a slightly more robust position. The last six months and the impact of the pandemic has been very difficult for the aerospace industry. The level of resources—both financial resources and people—that companies are using to manage the transition arrangements is probably less than ideal.

Again, people's focus is on how they can ensure their businesses will continue to operate, and a key part of that is their supply chain. As the trade association and individual companies, we are flowing information down and through their supply chains to ensure they have the best possible information and advice and, where necessary, support to ensure they have taken the steps.

Q850 **Mr Sheerman:** Paul, I read the interesting stuff that you provided to the Committee in terms of the broad picture. One of the things that seemed to jump off the page was air safety. I chaired an air safety committee and I have been interested in aviation safety for many years. What comes out of that all the time is this huge new responsibility on the Civil Aviation Authority. Is the CAA up to it? Does it have the competence? Does it have the staff? Does it have the wherewithal to take on that huge new responsibility from Europe?

***Paul Everitt*:** We have been having bi-weekly sessions with the DfT and the Civil Aviation Authority. They are resourcing themselves for the new responsibilities they will have. I know they have people either in place or under contract. They are definitely making progress and getting themselves into a good place.

The crucial issue for them is around what we call state of design, which is their ability to oversee either new or modified designs. That is a resource they are now having to put in place. They are confident that they are going to have it and that it is going to be able to operate effectively. Part of the challenge in the negotiations is whether or not that is accepted by the European Union Aviation Safety Agency initially and/or how long they will need to gain confidence that the CAA has the appropriate level of competence.

They are doing all they can. I would say that I had a conversation yesterday with Ministers at DfT and the CAA yesterday and I did pose the question to them whether they could assure me that they would provide all the resources necessary in order to ensure that both the CAA and the Department for Transport had the resources necessary. They were less than clear. They said, "We have the resources and we are prioritising". What we see in the weeks and months ahead is that a lot of effort is going to be necessary to ensure, on a day-by-day basis, that problems get resolved. I sit here not wholly convinced that all of those resources are in place yet.

Q851 **Mr Bone:** These questions are for all our witnesses, but I am going to start with Paul. I was in the travel industry for many years before becoming an MP. I was slightly surprised to hear the implied criticism of the CAA there, which I thought was widely regarded in Europe as a very good organisation.

How prepared is your sector for the end of transition? I am going to make the stipulation, of course, that we do not have a comprehensive free trade agreement, because, if we did, many of the problems we are discussing today would go away. Assume for the present that we do not have that. How prepared are businesses in your sector?

***Paul Everitt*:** They are reasonably prepared. We are prepared as far as we can be within the current circumstances. As I have mentioned, the key issues for us include the current economic circumstance, which is making life difficult for everyone in terms of the availability of cash and people to deal with the problems.

The regulatory situation is our No. 1 priority. As I have said, the step that we as an industry took the last time we were preparing for a no-deal exit was to transfer much of our activity to being directly controlled or authorised by the European Aviation Safety Agency. We are confident that the majority of people who could and should have done that have done that. We are fearful of gaps, but we are working with the CAA to make sure those are minimised. From a borders position, the questions

earlier indicated that we do not really know. We know in broad terms what we need to do, but we do not know what the detail is going to be. That also reflects the situation on the regulatory front. We know broadly how it is going to work, but we do not know all of the detail and we do not know all of the specific circumstances that may come up.

As I said earlier, the challenge for us is our resources are now going to be focused, on a day-to-day basis, on dealing with the problems that arise. Clearly, that has longer-term implications. I guess we are as set as we can be. We are fearful of what the future holds, but we are going to get through it as best we can.

Q852 **Mr Bone:** What you have just said is what businesses have been saying to me basically since the decision in 2016 to leave the EU. Of course, we have now left the EU. They are preparing for all circumstances, as I would do if I was still in business. It seems to me that what businesses are more concerned about is not exactly what the regulatory regime is going to be; it is knowing what the regulatory regime is going to be. Do we need a decision pretty soon, perhaps by the end of this month, so there is at least November and December to get things in order? It seems to me that what industry wants is certainty. It has a preference for a free trade agreement, of course, as we all do, but it wants certainty on what is going to happen. Is that fair? Does there need to be at least a two-month lead-in?

***Paul Everitt*:** I will answer half of Barry's earlier question. We want a deal; we want a comprehensive bilateral aviation safety agreement; and we want the time to implement it. For us, we will need to have a bilateral aviation safety agreement. Whether that is agreed as part of a free trade agreement or agreed post the failure to achieve one, we will still need one.

As I say, the options for us are the emergency measures that we are trying to put in place so we can deal with any eventuality. Clearly, we would prefer to have a clear, understandable set of regulatory requirements that we can work with. Preferably, those would suit and be in line with what industry, both in the UK and across the rest of Europe, have put in place or have been promoting to both the UK and European negotiators.

Q853 **Mr Bone:** Could I switch now to Neil? I want to ask you basically the same question. How prepared are businesses in your sector for the end of the transition?

***Neil Hollis*:** I hope you can understand that it is difficult for me to speak for the industry as a whole, but I can certainly give you a BASF perspective. Approximately 90% of the products that BASF sells in the UK are manufactured at our European Union sites. We have a number of work streams in place concentrating on aspects relevant to our business to manage the Brexit scenarios.

From a regulatory perspective, my area, we have analysed the movement of goods and imports. We do import approximately 1 million tonnes of chemicals each year into the UK from the EU. This is the business that we are talking about. This relates to approximately 1,300 unique chemical substances, supplied either as an individual product or within complex mixtures. These substances will all require registration under the UK REACH regime.

We have stated publicly on several occasions that the duplication of this work will probably cost us in the region of £70 million. This is without adding any value at all. This is simply to repackage and resubmit existing data. This cost will not enhance human safety or environmental protection in any way.

We are currently putting measures in place to comply with the provisional measures that have been enabled in UK REACH to ensure continuity of supply over the coming years. However, we also have to examine the longer-term economic viability of supplying certain substances. For example, the average cost for compliance per substance is expected to be in the £50,000 to £60,000 bracket, so we have to look at each substance individually and decide whether it is economically viable.

We have spoken at length with the coatings sector—the manufacturers of inks, paints and pigments. Some of their preparations can contain up to 100 different chemical substances. Each one of these has a reason to be there and has a purpose. Some of them are referred to as "salt and pepper" chemicals. They are used in very small amounts, but they make a world of difference. They are extremely concerned that businesses such as BASF will decide that low-volume chemicals are not viable in the UK any more and therefore we will exit the market.

Q854 **Mr Bone:** It sounds to me as though actually you have made quite a lot of preparations for a deal not being struck. I personally think there will be a deal struck. It is clear that all major businesses will have done that, but can I just go back to my other point? Would it be very useful for you to have at least two months' lead-in on what is actually going to happen on 1 January? We cannot, surely, be negotiating up until 31 December without giving your company knowledge about what the situation is going to be. Is not knowing and not having time to prepare more of a problem than the actual details of what the regime may be?

***Neil Hollis*:** This may be the case with respect to supply chain and border delays, but I would say, as a regulatory person, we like the current scenario of being in the transition period. At the beginning of the Brexit process in 2016, the chemicals industry had a 100% remain position. It saw the benefits of being in the European Union; it saw the benefits of being part of the REACH framework.

We are currently still in the REACH framework for the next three months, and that is the place the chemicals industry in the UK likes to be. If there

is to be a further extension in the transition period, from a regulatory perspective, this would be welcome, without a doubt.

From a customs, supply chain, border and transportation perspective, it may be that they would not like the uncertainty and that they would like a decision to be made as soon as possible. I cannot comment on that; I apologise. I can submit a company opinion to you on these subjects after this event, if that would help.

Q855 **Mr Bone:** Richard, can I move to you? You have had the easiest time because you have heard the questions. What is the view from your sector? Are businesses prepared or are they just hoping?

Dr Torbett: It has been a huge priority to prepare for every eventuality, right from the referendum date. We were as prepared as we could possibly be for any of the no-deal deadlines that we have discussed in previous years. Similarly, as I said before, we have taken every step we can reasonably take to secure the supply of medicines for this deal now.

However, not everything is within our control. We still have significant uncertainty around the mutual recognition agreement and Northern Ireland, as I have mentioned. In a way, we had more certainty to plan to for the previous no-deal deadlines that eventually did not come to pass than we have for this deadline that we know for sure is going to come to pass. We still do not know exactly what that regulatory environment is going to be quite yet.

Q856 **Mr Bone:** As you say, mutual recognition would solve the problem. I actually think we are probably going to get there, but, just for this exercise, assume we are not. Surely, the longer the lead time there is, knowing what the situation is going to be, the better for your sector.

Dr Torbett: That is absolutely the case. Certainty is incredibly important. We need certainty now, frankly. For some aspects of the situation in Northern Ireland, even if we get certainty tomorrow it will take more time than we have available to adjust, so you are quite right. I hope I share your optimism about getting a mutual recognition agreement and a comprehensive deal, which is what we really want, out of this. If we do not, it is not just a matter of uncertainty. We will be in a materially worse position from a competitiveness perspective into the future.

Q857 **Mr Bone:** Can I just go on to something slightly different? Barry mentioned it about SMEs. What proportion are SMEs in your sector and how many of them just deal with the UK, or does that not happen?

Dr Torbett: There are certainly a lot of SMEs in the pharmaceutical industry, both in terms of manufacturing final medicines but also generally part of the ecosystem of suppliers, and what have you. Generally speaking, it is a global industry, and so anything that gets manufactured is typically very highly traded. That is the case for medicines manufactured by large companies, just as it will be for small companies. To give you a feel for it, 45 million packs of medicines move

from the EU to the UK, and 37 million packs of medicines move in the other direction, every month.

Wherever the medicines are manufactured, whether it is a large or small company, trade is incredibly important. Global trade is incredibly important. It just happens that 80% of those imports come from the EU, and 40% of our exports go to the EU. That is why we have a lot at stake in these negotiations.

Q858 **Dr Whitford:** This is a question for all three witnesses, but I want to start with Paul. You and your colleagues this morning have talked about the importance of mutual recognition. You also mentioned that, whether or not there is a trade deal, there will have to be some form of bilateral agreement with regard to engine parts, aeroplanes and mechanics. I have aerospace at one end of my constituency and pharmaceuticals at the other, so I am aware of these issues. What would be the impact on achieving mutual recognition, or keeping it, if the UK diverged in its regulatory standards after the transition?

***Paul Everitt*:** We should say straight away that we are not aware of any real, good reasons why we would want to diverge. Effectively, from an aviation and safety perspective, and the technology standards that support that, there are two big market players: EASA, for Europe, and the FAA, in the US. Whilst China is coming on to the scene more and more, those are the key markets that people want to be in, and therefore those are the regulatory frameworks and standards to which your products need to comply.

Q859 **Dr Whitford:** Are they already quite similar? Do they have similar standards?

***Paul Everitt*:** Yes. They are not identical. The drive in aerospace, alongside a number of other global industries, is towards global harmonisation. There are some well-worn mechanisms about how we deal with those differences and how we organise and orchestrate common approaches.

From a UK perspective, on a day-to-day basis there is no real competitive advantage by diverging. More importantly, what we need to have is some influence, within both the European and US authorities, as to how future products and technologies might be framed, and the approvals that might be required in order to get them to operate. We are not alone in this. We and a number of other sectors are facing very large and significant technological changes as we drive towards net zero. Therefore, particularly given that engines, wings, aerostructures and avionics systems are going to be a key part of that, we need to ensure that, through the bilateral agreement that we are now agreeing, there is a mechanism for us to be able to input and influence the shape of future regulation.

Q860 **Dr Whitford:** One of the impacts, if there was no deal, or particularly if it

was quite acrimonious at the end of this year, could be a failure of co-operation, at least, between agencies and regulators. What would you see would be the consequences of that, if we end up with not just no deal regarding tariffs, but an acrimonious end?

***Paul Everitt*:** Trust and confidence is an absolutely key element in the relationship between regulators. There needs to be a sense that peers are discussing and agreeing approaches that they know are going to be respected. If there is a breakdown and a lack of trust and confidence, that will make it more difficult to deal with some of the challenges and inevitably mean, certainly from our European colleagues, a more rigorous approach to ensuring that all of its standards are met. Some of the mechanisms that we may have hoped to use to minimise some of the cost and administrative burden may not be as open to us as we would like.

Q861 **Dr Whitford:** Companies might have to go through more than one checking process, and obviously that would increase costs.

***Paul Everitt*:** We are already resigned to the fact we have two regulatory systems and there will, as a consequence, be more costs. We are now just talking about what the scale of those additional costs will be. Clearly, the CAA are well regarded, and certainly well regarded by industry, but they are taking on new tasks that they have not done before, or have not done for a very significant period. Therefore, there is going to be a journey of trust and confidence-building, not just in Europe but in the FAA in the US as well. An unsatisfactory or disorganised end to the transition is in nobody's interest, and will make it more difficult and costly to rebuild the essential processes that we have to have in place.

Q862 **Dr Whitford:** Neil, you were more focused on things like the mutual recognition of data, which in the modern world underpins everything, such as access to chemicals databases. How achievable do you think that is likely to be, and what do you think would be the impact in your industry—not just regarding tariffs and moving goods around—if there was a very negative atmosphere at the end of the transition?

***Neil Hollis*:** I am always an optimist, so I am hoping that there will be an FTA before the end of the year and there will be a comprehensive chemicals annex to support chemical business here in the UK. With respect to the divergence, it is a more of a question of when, rather than if. We are already aware that the EU will enact two adaptations of the two primary chemicals legislations, REACH and CLP—the classification, labelling and packaging of chemicals—on 1 January 2021, immediately after the transition period has ended.

Due to this timing, it is our understanding that these actions will not be carried into UK legislation. It is always been industry's expectations that the legislation would be identical on day one and diverge slowly afterwards. However, what we will actually witness is immediate divergence on and from day one. Divergence brings additional

complexity, added costs and increasing bureaucracy, rather than improving safety, which is what chemical legislation is there to do.

We fear divergence will ultimately fragment the UK from the EU, and companies will need to differentiate their portfolio of products between the two jurisdictions. Considering that 75% of chemicals imported by UK companies are from the EU, and 60% of chemicals exported by UK companies are to the EU, divergence is not something that we welcome.

Q863 **Dr Whitford:** Have you got any impression about whether the UK Government will bring forward matching legislation to follow at least that first step of change? I know there is not a global commitment to keep pace, but do you think there is any likelihood of that at all?

***Neil Hollis*:** UK REACH is actually highly aligned to EU REACH. In a way, this is very positive. The problem that businesses have with UK REACH is that there no acknowledgment of the compliance that UK businesses have already undertaken. EU REACH came into force in 2007, and it is estimated by the European associations that business has spent in the region of €10 billion in compliance with EU REACH. British companies and supply chains have contributed to that. They have already paid indirectly or directly for REACH compliance. The problem that we have is that we now have to go through this process again, and it is this additional work, cost and duplication of effort that we ultimately believe will make supply chains in the UK uncompetitive compared to other European and global value chains.

Q864 **Dr Whitford:** Do you think UK companies will try to match whatever the new EU standards are, but obviously it is going to be the issue of who certifies that you match them?

***Neil Hollis*:** Yes. If UK companies wish to maintain a presence in the EU market, they have to transfer their REACH registrations to an EU-based legal entity. This is something the European Chemicals Agency is actually facilitating, in a pragmatic and a relatively low-cost way. The EU is already putting plans in place so that UK suppliers can continue their business into the European market.

Q865 **Dr Whitford:** Richard, you were asking for mutual recognition. What would be the impact of divergence and if there was a failure to have a good, co-operative relationship with the European Medicines Agency and MHRA?

Dr Torbett: We have focused on mutual recognition, but I just want to say that we are describing mutual recognition as the bare minimum. You mentioned data with Neil just now. Absolutely, data and the ability to use data across the borders is incredibly important for us as well.

Dr Whitford: There is the new clinical trials system.

Dr Torbett: Yes, very much so. We spend more in research and development in the UK than any other sector, at over £4.5 billion, and

much of that is in clinical development. It is incredibly important that you have an agreement that allows data to be appropriately transferred. The science, people and the trade side of things, as well as the regulation, really ought to be part of a comprehensive deal.

To answer your question on mutual recognition specifically, the mutual recognition agreement part really covers the technical and practical checks that there are, in terms of the inspections around good manufacturing practice, batch testing and release. Beyond that, there are a whole set of questions about how close the UK regulator, the MHRA, is to how the European regulator works. We have a very good regulator here in this country in the MHRA. In fact, as part of that European network, they were one of the key agencies that previously would have done many of the assessments.

In terms of both agencies, we will always want to work to international standards. High regulatory standards are incredibly important for us, and we would want the MHRA to stick to those high international standards. Divergence, in the sense of doing things a bit differently, starts to become feasible and more productive if it is about meeting those international standards in perhaps a creative, efficient or quicker way. It is probably not feasible that the MHRA competes with the EMA, FTA and others in every single area, but it might well be possible for the MHRA to carve out a niche for itself such that in in certain specialisms, where it has significant expertise, it might be able to do things quicker and more efficiently than elsewhere. That would be a good thing and probably bring every regulator up to standard. An acrimonious ending to this is in nobody's interest—of course it is not—but there is a space there for healthy competition between regulators that can improve international standards

Q866 **Dr Whitford:** You mentioned batch testing, and there is lot release and the quality assurance side. There are some centres in Scotland where that is what they do for drugs that were coming into the EU from America or elsewhere. Is there a concern that some of these jobs are going to have to be moved to the EU if that batch testing is not recognised going forward?

Dr Torbett: That is a possibility. There are so many potential outcomes at this stage; it is very uncertain. The immediate thing we are concerned about is the industry having to duplicate processes. It would not be so much closing down facilities here and setting them up abroad, but the duplication in multiple parts of the world is just very inefficient. It adds complexity to the already complicated journey of getting a medicine from a manufacturing facility through to a pharmacy and ultimately a patient. I know I keep saying it, but supply chains in every sector are under incredible pressure right now. The Covid-19 situation needs to inject a significant degree of urgency to getting the basics clarified as soon as possible.

Q867 **Dr Whitford:** How much has Covid-19 impacted on your ability to

stockpile, which you referred to? There are global shortages of drugs, and of course manufacturing has been down, rather than up, in many sectors.

Dr Torbett: Generally speaking, so far the supply chain for medicines has been pretty resilient. I talk about prescription-only medicines that you would find in hospitals and pharmacies. There have been different types of problems with over-the-counter medicines, like paracetamol and ibuprofen, which have been well documented. We have been resilient, because we are not a just-in-time delivery sector.

Q868 **Dr Whitford:** Have you built stockpiles? Have you been able to build a six or 12-week stockpile for insulin, or the other drugs that we import to the UK?

Dr Torbett: Yes, in many cases. There has been significant work to build stockpiles where it is possible, but clearly the whole industry is under strain, and what we are looking to do is to not inject any more risk than is completely necessary at this time.

Q869 **Stephen Kinnock:** Many thanks to our witnesses for really useful and informative presentations. I wanted to ask a couple of questions about the role of various EU institutions in this, focusing specifically on the agencies and then on the European Court of Justice. Regarding the agencies, could all three of you give an assessment of the impact of the UK leaving the EU agency? As far as I can see, for the purposes of this conversation, the three key agencies would be EASA, the ECHA and the EMA. They will obviously play a very important role in shaping directives, standards and regulations going forward. Under any scenario, the UK is clearly not going to be in those agencies, and I am assuming will not have observer status either. Can you just give an assessment of what you think the impact of the UK leaving those agencies will be?

***Neil Hollis*:** HSE has an excellent reputation for chemicals management. It will be sorely missed from the European Chemicals Agency, not only by UK industry but by the chemicals sector across Europe. It has a reputation for making its decisions on science and evidence rather than political agenda. As I mentioned earlier, the REACH data provision is based on volume, and I do have concerns that when the UK's REACH scheme is totally independent of the European agency, the level of information that the HSE will own or hold will be considerably smaller than what is available at the European Chemicals Agency. This is why I believe the annex within the free trade agreement is highly important, not only for a data-sharing mechanism but to allow the respective agencies—the European Chemicals Agency and the HSE—to still have a communication channel to share best practice and have regular discussions on the development of chemicals management.

Q870 **Stephen Kinnock:** Do you think that our absence from the agency will turn us into a rule-taker rather than a rule-maker?

***Neil Hollis*:** I do not know. If there is no deal, we will essentially be totally independent. It may be that, in order to maintain some alignment

within the UK industry, we will end up copying decisions that are made in the UK. I believe it is the objective of the regulatory authority to take the evidence that it holds in the UK and make its decisions independently.

***Paul Everitt*:** The European Aviation Safety Agency will sadly miss both the UK input it gets directly from the UK Civil Aviation Authority and the direct input it gets from UK businesses. The UK is one of the major aerospace economies in the world, particularly in Europe, and the expertise and input that it will no longer be getting first-hand will clearly have an impact on its own capability. Having a separate regulatory authority in the UK will also mean that it, too, faces a higher degree of complexity than is ideal.

***Paul Everitt*:** On being a rule-taker, it is highly likely that we will have to accept a high degree of the decisions made by the European Aviation Safety Agency. The issue is about how much of an influence a separate organisation, the CAA, has in its ultimate decisions.

Q871 **Stephen Kinnock:** If you are not at the table when the decisions are being made, because by definition you are not in the room—you are not in the agency—that, of course, massively limits your ability to influence and shape the discussion.

***Paul Everitt*:** Yes.

Dr Torbett: The first part of the answer is very similar to what you have heard from Paul and Neil. The MHRA is a very highly respected regulator and used to perform a significant share of those assessments that would go through the EMA, which worked as a network of national agencies. In that respect they will certainly be missed.

To go further and talk about the implications for leaving, it depends; that is the bottom line. It depends on whether we get that mutual recognition agreement and it depends on whether or not the approach to defining a role and a vision for the MHRA for the future is realistic and at a realistic level of cost, if I can put it that way.

As I said before, the stringent, top-quality regulators of the world in medicines are very important for us. We absolutely support high regulatory standards and we want to make sure that the MHRA is part of that international global community of regulators. Given the size of the UK, it is important to be realistic about where the MHRA can potentially be a de facto rule-maker, if I can put it that way, by innovating and doing new things. It is going to be a little bit of a mixed picture between areas where we are likely to be very aligned with the EU and areas where, if we get it right, the MHRA could still be at the cutting edge. If we can achieve that, we would like to support it.

Q872 **Stephen Kinnock:** My final question is on the role of the European Court of Justice. In areas where there is close alignment and we are, in effect, copying the standards, directives and regulations that are generated from

Brussels, how do you see dispute resolution working in that context? Would it, in effect, end up being the European Court of Justice that acts as the referee in these situations?

***Paul Everitt*:** From an aerospace point of view, in aviation safety there has never been an occasion where any dispute resolution mechanism was required. We are not anticipating that it would be in any new arrangements either.

Dr Torbett: Similarly, from our perspective, moving away from the European Court of Justice has not been one of the big issues that our members have come forward with as a complicating factor. We think that that is solvable by being a bit creative about who makes the final decision within regulation. If there is any point of detail on that that we could usefully follow up with you afterwards, I would be happy to do so.

***Neil Hollis*:** In the chemical industry, we have always believed remaining within the REACH and the European frameworks would be beneficial for the businesses, and the positives would outweigh the negatives.

Q873 **Chair:** Paul, can I ask you a question about the replacement for Galileo? What is your understanding of the Government's intention? It seems the Government have said, "It does not matter that we are leaving it because we are going to build our own". It now seems that it is not so clear that the Government intend to build their own.

***Paul Everitt*:** My understanding is that, from an industrial point of view, we would like to continue participation in Galileo, but we now know that that is no longer going to be the case. The UK Government announced that they were embarking on their own programme. A week or so ago we had confirmation that that is no longer the case. The Government and the UK Space Agency are effectively launching a space-based time and navigation programme, which will be looking at how the UK wants to deal with some of the challenges that we were going to use Galileo for. It has also purchased its interest in OneWeb.

Our understanding is that the programme that has been launched will look at what we are going to do collectively, from a UK point of view.

Q874 **Chair:** The Government have moved from, "We will build our own", to, "We will have a think now about what we might do". Would that be a fair summary?

***Paul Everitt*:** Yes, that is right. There were always some concerns about whether it was going to be practicable and affordable to replicate some of the security interests that we would expect Galileo to deliver. Government are now acknowledging that what they need to do is to look at a range of options that are available and see where they want to invest and prioritise their work.

Q875 **Chair:** We have all listened very carefully to what you have said. If I can sum it up, it seems that the concerns of all of you are to try to minimise

the extent to which this process is going to make your life more difficult, because you have talked about uncertainty and extra cost. I must say, Neil, the £1 billion cost of moving from REACH to UK REACH is a really striking figure. There is the potential to reduce supplies, functions being moved abroad, investment going abroad, becoming a rule-taker and so on. Can I put this question to you? Can you name three things that you are so looking forward to doing from 1 January because you are free to do them and you could not do them before? Are there such things in relation to your sectors?

***Paul Everitt*:** No. We are focused on problem solving now. We presented what we thought was the best way forward on aviation and safety arrangements. We thought that that was negotiable, and that has proven not to be the case. Now, we are really just in damage limitation mode.

***Neil Hollis*:** My answer is very similar to Paul's. I work closely with various other functions within BASF, and we see very few positives from the UK leaving the EU and the transition period ending at the end of this year.

Dr Torbett: There is no doubt that the European Union, and everything that comes with it, has been incredibly important for our industry. In many respects, the first part of my answer aligns to Paul and Neil. There is a lot of damage limitation. Most of our trade is with the EU. We are very closely knitted in with science.

We are a global industry and ultimately we will adapt. We will always want to make the best of the new context, and whether that is through trade deals out of the EU, we have to be realistic about their leverage. I welcomed the UK trade deal with Japan a couple of weeks ago, and it is important for us, but it is 2% of our trade, not 40%.

In the interests of looking forward, for innovative sectors that invest in research and development, if the UK could be a very strong global voice in support of strong intellectual property rights, high regulatory standards and appropriate reward for innovation, then you can start to create a more optimistic vision for the future that could lead to investment. There is a big challenge for us, but we are fundamentally looking forward and we will always seek opportunities.

Q876 **Chair:** Richard, you told us that the UK exports a lot of pharmaceuticals to the EU. Given what we are looking at at the moment, do you expect UK pharmaceutical exports to the EU to increase, decrease or stay the same?

Dr Torbett: I do not have a scientifically reliable answer for that. My hope is that if we can get a free trade deal, it will increase, because I hope that we can make the UK a more attractive place for investment, which will drive more exports in the future. If we get it wrong, that will obviously be a challenge.

Chair: That concludes the session. On behalf of all of the members of the

Select Committee, can I thank our three witnesses this morning for the evidence that they have given? It has been extremely informative and will help us in our deliberations. Once again, we are very grateful to you for giving up your valuable time to enable us to be better informed.