



House of Commons

Business, Energy and Industrial
Strategy Committee

**The response from
business to the
Withdrawal Agreement
and Political Declaration**

Sixteenth Report of Session 2017–19



House of Commons
Business, Energy and Industrial
Strategy Committee

The response from business to the Withdrawal Agreement and Political Declaration

Sixteenth Report of Session 2017–19

*Report, together with formal minutes
relating to the report*

*Ordered by the House of Commons
to be printed 6 December 2018*

Business, Energy and Industrial Strategy Committee

The Business, Energy and Industrial Strategy Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Energy and Industrial Strategy.

Current membership

[Rachel Reeves MP](#) (*Labour, Leeds West*) (Chair)

[Vernon Coaker MP](#) (*Labour, Gedling*)

[Drew Hendry MP](#) (*Scottish National Party, Inverness, Nairn, Badenoch and Strathspey*)

[Stephen Kerr MP](#) (*Conservative, Stirling*)

[Peter Kyle MP](#) (*Labour, Hove*)

[Mr Ian Liddell-Grainger MP](#) (*Conservative, Bridgwater and West Somerset*)

[Sir Patrick McLoughlin](#) (*Conservative, Derbyshire Dales*)

[Albert Owen MP](#) (*Labour, Ynys Môn*)

[Mark Pawsey MP](#) (*Conservative, Rugby*)

[Antoinette Sandbach MP](#) (*Conservative, Eddisbury*)

[Anna Turley MP](#) (*Labour (Co-op), Redcar*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

Committee reports are published on the Committee's website at www.parliament.uk/beis and in print by Order of the House.

Evidence relating to this report is published on the [inquiry publications page](#) of the Committee's website.

Committee staff

The current staff of the Committee are Chris Shaw (Clerk), Ben Sneddon (Second Clerk), Ian Cruse, Becky Mawhood and Ashleigh Morris (Committee Specialists), James McQuade (Senior Committee Assistant), Ellie Goodchild (Committee Assistant) and Gary Calder (Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the Business, Energy and Industrial Strategy Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5777; the Committee's email address is beiscom@parliament.uk

Contents

Summary	3
1 Introduction	4
Our inquiry	4
2 Withdrawal Agreement	6
Overview	6
Providing certainty and averting a no-deal	6
Ambiguity and influence	7
3 Political Declaration	9
Overview	9
Ambition and intent	9
Frictionless Trade and Regulatory Divergence	10
Northern Ireland	12
Cooperation on Space	12
Skills	13
4 A no-deal Brexit	14
Overview	14
Delays, disruption and contingency planning	14
5 Conclusion	19
Formal minutes	20
Witnesses	21
List of Reports from the Committee during the current Parliament	23

Summary

In this report we are providing to the House the views of four business sectors we previously examined in this session on the Withdrawal Agreement and Political Declaration. The sectors are aerospace, automotive, processed food and drink, and pharmaceuticals. These sectors are varied in structure, but all are vital to the UK's future manufacturing success. Their concerns will reflect those of many other sectors that export to the EU. The overwhelming and consistent message from these sectors is that they want certainty. For them, the Withdrawal Agreement provides this certainty, at least for the transition period, and is therefore preferable to the uncertainty and damage associated with the alternative of a no deal scenario. Despite the preference for certainty, there was also a strong consensus that the Withdrawal Agreement would leave them worse off and less competitive than the status quo of EU membership.

1 Introduction

Our inquiry

1. Earlier this year we published a series of reports on the impact of leaving the European Union (EU) on specific sectors of the economy: automotive, aerospace, pharmaceuticals, and processed food and drink.¹ Over the last two weeks we have undertaken four follow-up evidence sessions to provide these sectors with the opportunity to comment on the negotiated Withdrawal Agreement and Political Declaration.²

2. Business models within these sectors include complex, just-in-time, international supply chains that are inextricably interlinked with those of the EU. Our previous inquiries found that these businesses overwhelmingly favoured retaining the regulatory harmony and friction-free trade assured by the single market and customs union over the securing of new trade deals with third countries. Extended journeys, with risk of delay and added customs bureaucracy would reduce the efficiency and competitiveness of UK businesses. For many businesses, regulatory divergence was deemed “self-defeating” and would, in reality, lock them out of global trade.³ Businesses were clear that for them Brexit is an exercise in “damage limitation”.⁴ Accordingly, in each of our reports we recommended that the Government seek to retain as close as possible a relationship with the existing EU regulatory and trading framework.

3. Our four additional sessions provided businesses and trade bodies an opportunity to: explain what they view the likely consequences for their sectors to be of the Withdrawal Agreement and Political Declaration; detail what progress they have made with contingency planning; and in light of such preparations what they now expect the impact of a no deal Brexit to be on their sectors.

4. In making this report, our objective is not to make recommendations. Rather, it is to ensure the House is fully updated on how businesses—in these four sectors at least—assess the likely impact of the proposed deal on their current and future prospects.

5. Alongside these four evidence sessions, we have also written to the Minister for Energy and Industry, Richard Harrington MP, to seek clarification on unresolved matters affecting the civil nuclear sector and our departure from Euratom, following on from our report last year.⁵ Our decision not to hold an evidence session for this sector reflects the Government’s prioritisation of civil nuclear in its Brexit preparations. We note progress in signing safeguards agreements with the International Atomic Energy Agency and in developing nuclear cooperation agreements with our key trading partners, as well as the

1 The Committee published its Second Report of Session 2017–19, [Leaving the EU: implications for the civil nuclear sector](#), HC 378, on 13 December 2017; its Fifth Report of Session 2017–19, [The impact of Brexit on the automotive sector](#), HC 379, on 1 March 2018; its Sixth Report of Session 2017–19, [The impact of Brexit on the aerospace sector](#), HC380 on 19 March 2018; its Seventh Report of Session 2017–19, [The impact of Brexit on the processed food and drink sector](#), HC381 on 22 April 2018; and, its Ninth Report of Session 2017–19, [The impact of Brexit on the pharmaceutical sector](#), HC 382 on 8 May 2018.

2 See HM Government, [Withdrawal Agreement and Political Declaration](#), (25 November 2018). For analysis see: House of Commons Library, [The UK’s EU Withdrawal Agreement](#), (2 December 2018); House of Commons Library, [The Political Declaration on the Framework for Future EU-UK Relations](#), (30 November 2018).

3 UK Trade Policy Observatory, [\(BRS0005\)](#)

4 Fifth Report of Session 2017–19, [The impact of Brexit on the automotive sector](#), HC 379, para 28.

5 Letter from the Chair to the Parliamentary Under Secretary of State, regarding [Committee inquiry on the civil nuclear sector](#) (4 December 2018)

provision of quarterly updates to the House, as recommended by our report.⁶ Together these provide an indication that the UK should be able to maintain adequate safeguards and trading arrangements, provided that the EU Withdrawal Agreement is agreed by the House. In light of these, our letter seeks confirmation of the Government's plans to ensure ongoing functioning of nuclear facilities in the event that no deal is agreed.

6. As part of the inquiry we took oral evidence from several stakeholders who contributed to our previous inquiries, including leading trade bodies, manufacturers and suppliers. In addition, we visited Northern Ireland, where in Belfast we met Bombardier and some of its suppliers, local businesses and politicians; and in the border town of Newry we met local businesses and the Police Service of Northern Ireland. We are grateful to all those who have contributed to our inquiry.

6 Business, Energy and Industrial Strategy Committee, Second Report of Session 2017–19, [Leaving the EU: implications for the civil nuclear sector](#), HC 378

2 Withdrawal Agreement

Overview

7. Given the choice between the Withdrawal Agreement and no deal, businesses overwhelmingly favoured accepting the deal.⁷ Industry argued that although it fails to address all their concerns about the future relationship, it would deliver certainty for the moment and take the UK further away from a no deal Brexit and its associated “chaos”.⁸ All businesses were united in saying that, from an industry perspective, the Withdrawal Agreement offers a scenario inferior to the status quo of full membership of the EU.⁹

8. The overarching view was captured by Paul Everitt, Chief Executive of aerospace trade body ADS Group, who told us that the Withdrawal Agreement “definitely does not take us back to business as usual.”¹⁰ Instead, he viewed it as “not as good as it is today and it will never be as good as it is today, but it is an awful lot better than the chaos that we would have [...] leaving the EU without a deal”.¹¹ Similarly, Ian Wright, Chief Executive of the Food and Drink Federation, stated: “We like what we have now. No deal is infinitely worse than anything we could imagine. Therefore, the deal on the table is better than no deal infinitely, but it is not as good as the status quo.”¹²

Providing certainty and averting a no-deal

9. In relation to the Withdrawal Agreement, we were told that “there are lots of positives about what we have on the table”.¹³ The benefit most strongly emphasised was that the Withdrawal Agreement would help businesses and its customers avert the “calamitous” consequences of leaving the EU without a deal and thus provides “some welcome respite”.¹⁴ Businesses stressed that the transition period is essential.¹⁵ By allowing for frictionless trade, resolving questions on the border between Northern Ireland and the Republic of Ireland, and providing clarity for their workforces, the Withdrawal Agreement sets a trajectory for the interim period that the sectors could work with.¹⁶

10. The aerospace industry stated that the deal is not perfect, but the longer it takes to gain certainty the more likely it is that investment decisions will go against the UK.¹⁷ Airbus signalled that if the Withdrawal Agreement is in some way successful the company would consider unlocking new investment in the UK.¹⁸ This could end the current freeze that Airbus has placed on investment in the UK as a result of Brexit uncertainty.¹⁹ Katherine Bennett, Senior Vice President of Airbus UK, stated that the company has been “in a holding pattern” over the past year with “nothing new” invested.²⁰ Similarly, for

7 [Q78](#) [Wright]; [Q271](#) [Sterne]; [Q70](#) [Mobley]; [Q271](#) [Nash]; [Q348](#) [Walker]

8 [Q90](#) [Mobley]; [Q78](#) [Wright]; [Q271](#) [Sterne]; [Q70](#) [Mobley]

9 See for example: [Q245](#) [Thompson]; [Q345](#) [Walker]; [Q163](#) [Everitt]; [Q94](#) [Wright]

10 [Q163](#) [Everitt]

11 [Q164](#) [Everitt]

12 [Q94](#) [Wright]

13 [Q141](#) [Rayson]

14 [Q78](#) [Wright]; [Q271](#) [Sterne]; [Q70](#) [Mobley]; [Q271](#) [Nash]

15 [Q271](#) [Nash]; [Q227](#) [Thompson]; [Q271](#) [Walker]

16 [Q90](#) [Mobley]; [Q271](#) [Walker]; [Q164](#) [Everitt]

17 [Q208](#) [Bennett]

18 [Q147](#) [Bennett]

19 [Q147](#) [Bennett]

20 [Q146](#) [Bennett]

the automotive sector, senior policy manager at the Society of Motor Manufacturers and Traders (SMMT), Sydney Nash, told us that mounting uncertainty surrounding Brexit had left “investors sitting on hands”, and that 12.4 per cent of member companies had already relocated some of their operations to continental Europe.²¹ A 115,000 drop in vehicle production is anticipated for this year, representing a 6.8 per cent fall from 2017.²²

Ambiguity and influence

11. Despite supporting the Withdrawal Agreement, a series of concerns were expressed by businesses regarding the future relationship. For example, Diageo raised the ambiguity over the future status of the third country Free Trade Agreements (FTAs) that the UK enjoys via its EU membership.²³ Dan Mobley, Corporate Relations Director at Diageo, noted that the European Commission has asserted that third countries should treat the UK as if it were a member through the transition period, but that this requirement is not legally binding.²⁴ Consequentially, the company does not yet know whether the FTAs will apply to the goods they ship from the UK to countries including South Korea, Colombia and Mexico.²⁵ If tariff barriers are raised, they would weaken the competitive edge against both local producers and exporting European companies still covered by the FTAs.²⁶

12. Most sectors viewed the loss of “rule making” influence within regulatory regimes during the transition period as regrettable but not disastrous.²⁷ However, this was a concern for the pharmaceutical sector. Mike Thompson, Chief Executive of the Association of the British Pharmaceutical Industry (ABPI), referred to the Withdrawal Agreement’s provision for the UK’s Medicines and Healthcare Regulatory Agency (MHRA) to have observer status—rather than membership—in the European Medicines Agency (EMA) during the transition period as “a really significant step back for us.”²⁸ He also warned that by no longer having a role in designing new scientific programmes as part of EU funding, the attractiveness of the UK for exemplary scientists would be diminished:

“If you have world-leading scientists in your universities, as we do, they are not going to stick around if all they can do is essentially be a trial site. They clearly want to be driving the thinking forward. They want to design the programmes of the future.”²⁹

13. While welcoming the time the Withdrawal Agreement would offer for the final structure of our relationship with the EU to be worked out and accepting that “ambition tends to take time”,³⁰ there was concern over whether a deal would be reached early enough to enable businesses to sufficiently adapt their systems for any new arrangements.³¹ Tony Walker CBE, Deputy Managing Director at Toyota Motor Europe, stated:

21 [Q256](#) and [Q267](#) [Nash]

22 [Q292](#) [Nash]

23 [Q88](#) [Mobley]

24 [Q90](#) [Mobley]

25 [Q88](#) [Mobley]

26 [Q121](#) [Mobley]

27 See for example: [Q306](#) [Sterne]; [Q170](#) and [Q171](#) [Everitt]

28 [Q227](#) [Thompson]

29 [Q227](#) [Thompson]

30 [Q275](#) [Nash]

31 [Q276](#) [Walker]

“We would strongly ask that the transition period does not become the negotiation period and we would strongly ask that we do not end up at three or four months to go, a bit like we are this time, with another cliff edge giving us a very short time to implement.”³²

Pinder Sahota, General Manager of pharmaceutical company Novo Novodisk UK, told us similarly that “a long transition period where we do not have active involvement will not be great for us.”³³ The aerospace sector asserted that the supply chain would “prefer to know exactly what the new conditions are and then have a two-year plus period to adapt to them.”³⁴ ADS Group welcomed the opportunity to extend the transition period but recognised that it “is a political issue over which we have little or no control.”³⁵ When looking to the end destination of the transition period, Food and Drink Federation members are questioning “what it is a transition to.”³⁶ Businesses noted that the Withdrawal Agreement can only be extended once legally, and with no guarantees that a deal will be reached, queried whether the transition period will in the end just act to defer the “chaos” of no deal and by the end of December 2020 the UK might be at the same cliff edge.³⁷

32 [Q307](#) [Walker]

33 [Q228](#) [Sahota]

34 [Q167](#) [Everitt]

35 [Q167](#) [Everitt]

36 [Q89](#) [Wright]

37 [Q227](#) [Thompson]; [Q90](#) and [Q142](#) [Mobley]

3 Political Declaration

Overview

14. The principal message conveyed by businesses was that by committing to a free trade area for goods that provides no tariffs or quotas, combining a regulatory and customs relationship, the Political Declaration delivers welcome intent and aspiration.³⁸ However, they were clear that it does not provide the detail or clarity to enable businesses to plan confidently for the future.³⁹ The regrettable absence of a common rulebook for goods and an assurance of frictionless trade in the Political Declaration means that businesses cannot rule out increased bureaucracy and costs.⁴⁰ Witnesses signalled that they expect such burdens to be bearable,⁴¹ but reiterated that in a highly competitive market, small margins could weigh heavily on UK industry's ability to compete for investment.⁴²

15. Mike Thompson, Chief Executive of the Association of the British Pharmaceutical Industry (ABPI), summarised the general sentiment of businesses:

“If you look at the outline Political Declaration, it is essentially trying to get us back to where we were [...] because we work in a completely integrated supply chain within Europe, and a completely integrated regulatory system, that makes enormous sense from our perspective.”⁴³

Mark Hicken, Chair of the American Pharmaceutical Group and Managing Director of Janssen UK, concurred “[w]e are trying to rebuild what we may have taken apart.”⁴⁴ Paul Everitt, Chief Executive of aerospace trade body ADS Group, stated:

“We cannot dispute that there will be additional costs once we are outside of the EU, irrespective of the type of deal we get. The only comfort that we have is that, with a deal or an agreement, there is the opportunity for us as an industry to use our own creativity, inventiveness and hard work to minimise impacts [...]. In the no-deal scenario, that opportunity is taken away or taken out of our control.”⁴⁵

Ambition and intent

16. Businesses welcomed the language in the Declaration around zero tariffs and streamlined customs procedures,⁴⁶ for the automotive sector it represents a clear “call for ambition”.⁴⁷ The food and drink industry were pleased with references to retaining geographical indicators that will protect the integrity of scotch, gin, Irish cream and other products they sell around the world.⁴⁸ Businesses in the pharmaceutical industry valued

38 [Q294](#) [Walker]; [Q299](#) [Nash]; [Q108](#) [Mobley]

39 [Q243](#) [Thompson]; [Q92](#) and [Q104](#) [Rayson]; [Q93](#) [Wright]

40 [Q210](#) [Everitt]; [Q296](#) [Walker]

41 [Q168](#) [Everitt]

42 [Q198](#) [Everitt]; [Q68](#) [Rayson]; [Q329](#) [Walker]

43 [Q253](#) [Thompson]

44 [Q255](#) [Hicken]

45 [Q210](#) [Everitt]

46 [Q108](#) [Mobley]; [Q294](#) [Walker]; [Q299](#) [Nash]

47 [Q299](#) [Nash]

48 [Q108](#) [Mobley]

the Political Declaration's efforts in trying "to maintain a degree of collaboration across scientific discovery, which is not the purview of one geography, one university or one organisation".⁴⁹ A good deal for the aerospace industry would ensure: remaining part of EASA⁵⁰ and the European Chemicals Agency; no friction at the borders; participation in major EU research and development programmes; and access to the right pool of skills.⁵¹ The sector's assessment was that against most of those measures there was language in the Declaration to reflect their priorities.⁵²

Frictionless Trade and Regulatory Divergence

17. While welcoming the intent behind the declaration, businesses expressed caution. Ian Wright, Chief Executive of the Food and Drink Federation, told us:

"the Political Declaration is aspirationally excellent but it is really a list of new year's resolutions. We do not know whether they will still be there come the end of January."⁵³

"As soon as you write down what your aspiration is and you accept that you have to negotiate it with 27 different leaders, you know immediately that they are going to say, "You can have that if I can have this" [...] I simply do not see how it can be delivered in its totality. Much of what is attractive about it is the totality of the narrative it produces."⁵⁴

18. The sectors expressed disappointment that the Political Declaration did not include an explicit commitment to pursue frictionless trade, retreating from the Chequers agreement.⁵⁵ The need for frictionless trade is particularly important for the automotive and aerospace sectors because they operate just-in-time supply chains.⁵⁶ The World Trade Organisation [WTO] Agreement on Trade in Civil Aircraft eliminates tariffs on aircraft and most aircraft components, so the possibility of non-tariff barriers between the UK and EU remains the aerospace sector's primary concern.⁵⁷ The industry estimates that a default third country position would add around 10 per cent to aerospace supply chain costs.⁵⁸ Paul Everitt told us that "[w]e do not yet know, in the Political Declaration, how much of that cost we can eliminate."⁵⁹ If businesses can minimise the added costs ADS Group would not expect to see huge shifts in the supply chain,⁶⁰ but warned that Brexit creates a "higher hurdle" for the UK to jump to secure investment.⁶¹ There is:

49 [Q227](#) [Hicken]

50 The [European Aviation Safety Agency](#) (EASA) is responsible for developing technical aviation rules, issuing initial and ongoing type certification of aircraft and components, harmonisation in aerospace across the EU and EASA's non-EU members, and engagement with international stakeholders. EASA also has responsibility for aviation licensing, air traffic management and aerodromes.

51 [Q164](#) [Everitt]

52 [Q164](#) [Everitt]

53 [Q93](#) [Wright]

54 [Q107](#) [Wright]

55 [Q272](#) [Walker]; [Q299](#) [Sterne]

56 [Q302](#) [Nash]; [Q165](#) and [Q186](#) [Bennett]

57 [Q165](#) [Bennett]; [Q186](#) [Bennett]

58 [Q186](#) [Everitt]

59 [Q186](#) [Everitt]

60 [Q168](#) [Everitt]

61 [Q198](#) [Everitt]

“a future emerging and those future products could be built anywhere. There is very aggressive international competition, whether it is from India, China, Singapore or Thailand. Everybody is keen to have a slice of a global industry that is growing and that generates high-value, long-term jobs.”⁶²

19. Simon Henley, President of the Royal Aeronautical Society, cautioned about walking on a “tightrope”, the more a nation wishes to diverge from EU rules set, the more barriers to frictionless trade businesses will have to overcome.⁶³ Our earlier inquiries found that in an era of increasingly global standards regulatory convergence is a welcome trend. The Political Declaration leaves this question open. Ian Wright noted:

“A common rule book was talked about at the time of Chequers. The rule book seems to have been put away now, and we are now using another set of words.”⁶⁴

Regardless of what is eventually agreed on our future relationship, we heard that—for these four sectors at least—most businesses will continue to align with EU rules. Regulatory divergence would lock businesses out of international markets, increase bureaucratic burdens and drive up costs.⁶⁵ Costs which are likely to be passed on to consumers.⁶⁶ The pharmaceutical sector told us:

“if you are dealing in a single market with a single set of regulations, a single approach and a single set of packaging, that is going to be less expensive than if you have to have two sets of packaging, two sets of licences and two sets of regulations to respond to or to obey. The more the market breaks apart, the more expensive and complicated it becomes for any business, inevitably.”⁶⁷

20. The automotive industry’s biggest exporting market is the EU. 54 per cent of exports go to the EU, compared to 15 per cent for the United States, the second biggest exporting market, so the sector needs harmonisation and regulatory alignment.⁶⁸ Tony Walker, Deputy Managing Director at Toyota Motor Europe, emphasised that the company does not view complying with EU rules as a negative thing: “[w]e have had no difficulty in Toyota, or I think in the wider car industry, in being innovative or being compliant with EU regulation in the past and no reason to think we would have difficulty in the future either.”⁶⁹ He dismissed claims that EU regulation stifles innovation: “I really don’t think so, look at the German car industry. There is hardly a more innovative car industry.”⁷⁰ Similarly, the aerospace sector warned:

“The danger for the UK outside of the EU, it seems to me, is that the US and Europe are where international rules will be developed, or the leading

62 [Q198](#) [Everitt]

63 [Q185](#) [Henley]

64 [Q91](#) [Wright]

65 [Q243](#) [Hicken]; [Q303](#) [Walker]

66 [Q303 and Q304](#) [Walker]; [Q243](#) [Hicken]; [Q178](#) [Everitt]

67 [Q243](#) [Hicken]

68 [Q319](#) [Nash]; [Q302](#) [Nash]

69 [Q305](#) [Walker]

70 [Q305](#) [Walker]

edge of those, and we have to sell into those markets. Irrespective of our position, we have to meet whatever the regulatory requirements are to sell into Europe, the US or other global markets.”⁷¹

Northern Ireland

21. During our visit to Northern Ireland, we were reminded that one of the main reasons for the recent economic progress on the island of Ireland has been the successful implementation of the Good Friday/Belfast Agreement and subsequent agreements, which have enabled businesses to flourish by trading freely across borders.⁷² We heard that the introduction of new regulatory or customs checks, however minor or remote from the border itself, would risk unsettling the political context in which businesses have been able to thrive. On our visit to the border town of Newry we heard that for many, the border is psychological more than physical and that the reference to a “hard border” can be misleading. We were told by the Police Service of Northern Ireland that organised criminals, including paramilitary elements, would seek to exploit increased regulatory or financial divergence across the border to illegally profit. This would undermine fair competition and reduce revenues to the Treasury, as well as increasing the pressure on enforcement agencies. The enforcement of new regulatory checks by the relevant authorities would risk rekindling the latent tensions which have been so effectively contained in recent years, to the benefit of businesses and the economies of both the UK and Ireland.

Cooperation on Space

22. While supporting the Government’s announcement to invest in a UK version of Galileo,⁷³ the aerospace sector expressed reservations about the lack of clarity provided by the Political Declaration on space cooperation.⁷⁴ It was emphasised that in response to UK companies being blocked from bidding for future work on the European Galileo satellite navigation project, European countries are taking on work that the UK would have otherwise been expected to win.⁷⁵ Airbus has moved 80 jobs to continental Europe to complete its final Galileo contract.⁷⁶ Katherine Bennett, Senior Vice President of Airbus UK, cautioned that British industry risked missing out on a possible €1 billion benefit if it was unable to take part in the next stage of the EU’s Copernicus earth observation programme.⁷⁷ Airbus is now bidding to participate in the next phase of the venture through its Portsmouth, Newport and Stevenage sites.⁷⁸ However, under existing rules, non-EU nationals are prohibited from working on the project, suggesting that Airbus’ UK sites may be unable to take part from March next year.⁷⁹

71 [Q178](#) [Everitt]

72 For an overview of these agreements see: House of Commons Library, [Brexit negotiations: the Irish border question](#), (July 2017).

73 [Q195](#) [Bennett]

74 [Q196](#) [Everitt]

75 [Q153](#) [Henley]

76 [Q156](#) [Bennett]

77 [Q156](#) [Bennett]

78 [Q156](#) [Bennett]

79 [Q157](#) [Bennett]

Skills

23. Businesses agreed that a reduction in access to EU labour would create new skills shortages and exacerbate existing workforce gaps.⁸⁰ The Food and Drink Federation noted the sector's dependence on European labour "from farm to fork",⁸¹ and raised concerns that it would be difficult to replace these workers, citing the sector's ageing labour force and the time it takes to train new workers.⁸² Diageo said that it would be a particular problem for its suppliers and the hospitality industry because the sector is already short of 40,000 to 60,000 workers.⁸³ For the automotive sector, SMMT, Toyota and Applied Component Technology told us that some companies in the supply chain sourced up to 80 per cent of their workforce from the EU.⁸⁴ There was evidence that, as some EU workers returned home because of uncertainty over Brexit, labour shortages were appearing.⁸⁵ Witnesses urged that the overdue immigration white paper should be linked to skills not salary, avoiding those paid under £30,000 being automatically classed as low skilled workers, and thereby limiting the industry's access to a range of vital skill sets.⁸⁶ Several companies we spoke to in Northern Ireland were particularly concerned that uncertainty over Brexit or a 'no deal' might lead to employees being attracted to work in the Republic of Ireland.⁸⁷

80 [Q64](#) [Wright]; [Q65](#) [Mobley]; [Q114](#) [Rayson]

81 [Q111](#) [Wright]

82 [Q115](#) and [Q116](#) [Wright]

83 [Q65](#) [Mobley]

84 [Q308](#) [Walker]; [Q309](#) [Sterne]; [Q310](#) [Nash]

85 [Q308](#) [Walker]

86 [Q310](#) and [Q311](#) [Nash]; [Q309](#) [Sterne]

87 We spoke to a range of companies in Northern Ireland, including those close to the Republic of Ireland, that spanned a range of sectors.

4 A no-deal Brexit

Overview

24. In our previous inquiries, the sectors we considered made clear that a no deal Brexit cannot be an option. Given that it is still on the table, industry reiterated this view. The costs of reinstating customs checks, import duties, and tariffs for some goods travelling between Europe and the UK—or to third countries which the UK has a trade agreement with via EU membership—would be inescapable for business.⁸⁸ Potential border delays could seriously undermine just-in-time supply chains.⁸⁹ Businesses emphasised that although they can prepare in crisis management terms for a no deal exit, they cannot mitigate against all the risks.⁹⁰ They have been forward buying, stockpiling and duplicating licenses, but warned that over the last year it has become clear that a no deal Brexit would be far more complex than they had anticipated - as some problems are solved, new ones are discovered.⁹¹ The overarching message was that it is difficult to quantify just how damaging it would be, but that this scenario would seriously undermine these sectors' ability to provide competitively for their consumers and to use the UK as a base for serving European and global markets.

25. Ian Rayson, Director of Corporate Communications at Nestlé UK, advised that the interconnectivities in the food and drink industry's supply chain that have been built up over 40 years, mean that leaving the EU and single market is not as simple as pulling out a three-pin plug.⁹² Rather, it is "is much more like ripping all the wires out of the back of a huge mainframe, and then when you are standing there with all these wires, it will take an awful lot of time to rewire us into a different trading system."⁹³ In summarising the prospect of a no deal scenario Ian Wright, Chief Executive of the Food and Drink Confederation, stated: "It is almost impossible to quantify, partly because none of us want to, but it is clearly going to be, in the very short term, very disruptive."⁹⁴ In the longer term, a no deal scenario was deemed "a grizzly prospect" because of doubts over how the disruption would end.⁹⁵ He warned that while disruption ensues at home, it will be in other European companies' interests to "hoover up the markets that have previously been well served by UK companies".⁹⁶

Delays, disruption and contingency planning

26. Many of the businesses we took evidence from operate just-in-time, international supply chains, where goods cross multiple borders before final product assembly, and are often sent back and forth between UK and EU partners for processing before reaching consumers. Adding just 15 minutes of delays at key border points could cost millions of pounds for the biggest manufacturers.⁹⁷ Businesses remain unconvinced that Government

88 [Q271](#) [Walker]; [Q243](#) [Thompson]; [Q200](#) and [Q201](#) [Bennett]

89 [Q271](#) [Walker]; [Q186](#) [Bennett]; [Q312](#) [Nash]

90 [Q77](#) [Rayson]

91 [Q223](#) [Thompson]; [Q218](#) [Sahota]

92 [Q120](#) [Rayson]

93 [Q120](#) [Rayson]

94 [Q118](#) [Wright]

95 [Q118](#) [Wright]

96 [Q118](#) [Wright]

97 Seventh Report of Session 2017–19, [The impact of Brexit on the processed food and drink sector](#), HC381, para 26

contingency planning can resolve the very “acute” problems likely to arise at the Dover-Calais border in a no deal scenario.⁹⁸ Lorries arriving at Calais will be subject to third-country checks taking between 7 and 15 minutes, compared to less than 30 seconds at present.⁹⁹ We were told that in this situation there would be no space for the lorries, so the boats will turn around with lorries on them, or would not allow the lorries on to the boats.¹⁰⁰ The motorway would rapidly become a lorry park and all the lorry drivers and capacity will be taken out.¹⁰¹ Meanwhile, European drivers would be unlikely to come to the UK if they think their lorry is going to get stuck on the return visit.¹⁰² It was stressed that this situation would result in produce not being able to get in, and some not being able to get out.¹⁰³

27. To avoid shortages and added costs, Nestlé UK confirmed that they have started to stockpile products in the UK and some products in other European markets, but that these supplies will last only a matter of weeks because of warehousing constraints and limited shelf life of certain ingredients.

“Essentially, we are stock-building some products that we import into the UK, and we are stock-building in some other European markets products that we would export from the UK to there. We are stock-building at both ends but this is only for periods of weeks.”¹⁰⁴

28. In response to producers and retailers activating their no deal plans, demand for frozen and chilled food warehouses has increased. We were told that the country is running out of food warehousing facilities required by retailers and manufacturers to stockpile goods.¹⁰⁵ Ian Wright revealed that most of the UK’s viable warehousing space, particularly for frozen and chilled goods, was “for all practical purposes booked out”.¹⁰⁶ What is unknown, he told us, is whether businesses have booked to be careful or whether they are genuinely gearing up to put product in there.¹⁰⁷ The shortage of availability has increased the cost of chilled warehouse space, even though the shelves may be bare.¹⁰⁸ We were told that there is still availability for ambient goods—food that can be safely stored at room temperature—but not necessarily where it would be required on companies’ supply routes.¹⁰⁹

29. In the case of Toyota, disruptions to their integrated just-in-supply processes would result in “stop-start production” for weeks or months at their UK car plant.¹¹⁰ The value of the cars Toyota make is £10 million a day; any stoppages would be very challenging to cope with.¹¹¹

98 [Q120](#) [Rayson]; [Q130](#) [Wright]

99 [Q130](#) [Wright]

100 [Q130](#) [Wright]

101 [Q130](#) [Wright]

102 [Q130](#) [Wright]

103 [Q130](#) [Wright]

104 [Q75](#) [Rayson]

105 [Q78](#); [Q82](#) and [Q86](#) [Wright]

106 [Q82](#) [Wright]

107 [Q82](#) [Wright]

108 [Q83](#) [Wright]

109 [Q101](#) [Wright]

110 [Q271](#) [Walker]

111 [Q271](#) [Walker]

“We have 50 trucks a day coming through the (Channel) Tunnel [...] we carry just four hours of parts at our plant. We collect the parts in sequence to the build and we build the cars one by one to customer order. There is no batch build, so we have to have not just the 50 trucks a day but we have to have them in sequence. It will be no good if we have 49 and truck 17, for example, is missing. We will then stop. [...] We would have stop-start production for weeks, possibly months.”¹¹²

When looking back at the three weeks of industrial action in 2015 by French ferry staff that caused severe disruption to both ferry services and the Channel Tunnel,¹¹³ Toyota told us that because their trucks were out of sequence it took the company two months to get back to where it should have been.¹¹⁴ Toyota’s 50 trucks are only a small proportion of the estimated 1,100 trucks moving from the EU into the UK each day for the automotive industry.¹¹⁵

30. In a no deal scenario, and without a trade deal with the EU, the automotive sector would be subject to WTO tariffs: ten per cent tariff on a finished vehicle and between 2.5 per cent and 4.5 per cent on components.¹¹⁶ This would add around £4.5 billion to the cost of importing and exporting completed vehicles, with an incalculable additional cost due to tariffs on components.¹¹⁷ We heard that these costs would not be easy to absorb, nor enable the industry easily “to remain competitive”.¹¹⁸ For Toyota it would be “unimaginable that we could implement overnight full import-export customs arrangements in line with WTO third country.”¹¹⁹ A no deal scenario would increase the need to reach trade agreements rapidly. These typically require local content to be around 50 per cent; whereas we heard from Tony Walker, Deputy Managing Director at Toyota Motor Europe, that the typical UK content for rules of origin purposes was around 35 per cent.¹²⁰ We heard that it would be “crucial”—in order to benefit from tariff-free trade—for these rules of origin issues to be taken into account in negotiating future trade deals, whether with the EU or with third countries.¹²¹

31. Airbus warned in their June 2018 risk assessment that in a no deal scenario disruptions to their integrated just-in-time processes would result in up to €1 billion weekly loss of turnover.¹²² This they cautioned would force Airbus to reconsider its investments in the UK.¹²³ Katherine Bennett, Senior Vice President of Airbus UK, told us that the company was serious about reviewing UK investment - even if it was “not going to move overnight”.¹²⁴ As it is not easy to build a new assembly line, Airbus would have no choice but to absorb those costs.¹²⁵ Airbus is 50 per cent of the global marketplace, so if it is uncompetitive this

112 [Q271](#) [Walker]

113 For information on the impact of the prolonged industrial action by French ferry staff see: House of Commons Transport Committee, [Operation Stack](#), (HC 65; June 2016); BBC News, [Operation Stack: What is the cost of Calais chaos to the UK?](#), (July 2015); BBC News, [How do you solve a problem like Operation Stack?](#), (July 2015).

114 [Q314](#) [Walker]

115 [Q312](#) [Nash]

116 [Q327](#) [Nash]

117 [Q327](#) [Nash]

118 [Q327](#) [Nash]

119 [Q271](#) [Walker]

120 [Q330](#) [Walker]

121 [Q336](#) [Walker]

122 Airbus, [Brexit Risk Assessment](#) (21 June 2018)

123 [Q197](#) [Bennett]

124 [Q197](#) [Bennett]

125 [Q201](#) [Bennett]

would impact on the supply chain which employs 100,000 people.¹²⁶ Airbus has spent €15 million so far on preparing for a no-deal exit.¹²⁷ Katherine Bennett told us that she “would much rather that money had been spent on research and development or more skills”.¹²⁸

32. Border delays are likely to have more severe repercussions for the pharmaceutical industry. Mike Thompson, Chief Executive of the Association of the British Pharmaceutical Industry (ABPI), emphasised that “in some sectors an 80 per cent solution will be considered good enough, that would be a catastrophe in our sector. We need to make sure that we deliver medicines to 100 per cent of patients”.¹²⁹ He explained that different medications require different transportation processes, illustrating the example of a stem cell medicine:

“You take a bit of DNA out of a patient. You need to get it to where it is processed. There is one plant in Europe where it is processed. You have to get it there in 24 hours. It is processed and then you have to get it back in 36 to 72 hours to infuse it back into the patient. You cannot take it through an airline because it cannot be Xrayed. Those are the sorts of things for which we have to work out a back-up plan, because you cannot stockpile someone’s DNA.”¹³⁰

33. Mike Thompson described no deal planning to secure a supply line of 12,000 individual medicines as the “biggest logistical challenge that we have ever faced”.¹³¹ ABPI’s members have stockpiled an extra six-week supply of drugs,¹³² as instructed by Government, but predicted that “[t]here will absolutely be unknown consequences where things do not go right, and those are the things that keep us awake at night”.¹³³

34. In some cases, pharmaceutical companies have organised for duplication of licences or marketing authorisations to guarantee that they have the respective licences within the UK and the EU.¹³⁴ The Government, when publishing no deal technical notices, said that they would in the event of no deal recognise medicines that are manufactured on the continent to be available to British patients, but this has not been reciprocated by the EU.¹³⁵ Consequently, AstraZeneca and GSK have had to build duplicate laboratories for batch test releasing on the continent.¹³⁶ We were told that “they are clearly very frustrated” because this is essentially duplicating what is available here.¹³⁷ ABPI told us that while they will bear transition costs, in the longer term it would be a cost borne by the NHS and taxpayers:

126 [Q201](#) [Everitt]; [Q197](#) [Bennett]

127 [Q186](#) [Bennett]

128 [Q186](#) [Bennett]

129 [Q218](#) [Thompson]

130 [Q223](#) [Thompson]

131 [Q234](#) [Thompson]

132 [Q221](#) [Thompson]

133 [Q234](#) [Thompson]

134 [Q218](#) [Hicken]

135 [Q216](#) [Thompson]

136 [Q216](#) [Thompson]

137 [Q216](#) [Thompson]

“In the short run, they will be borne by the industry because, when we agree a price with the NHS, that is the price we agree [...] in the long run, industries cannot stay profitable and find investors to invest in them if their profits are going backwards.”¹³⁸

5 Conclusion

35. We invite the House to take into account the views of these four important sectors on the likely impact of the Withdrawal Agreement and Political Declaration on their current and future prospects, and consequently on investment, jobs and economic growth. The consistent and overwhelming message expressed by these sectors is that to make business decisions they need certainty and it is for that reason they support the Withdrawal Agreement. Leaving the EU without a deal would have catastrophic consequences and must be avoided. That said, no businesses that we have taken evidence from held the view that—from an industry perspective—the Withdrawal Agreement and Political Declaration provide a deal as good as the one we already have with the EU. While the certainty provided by the assurance of a transition period is essential for businesses, concerns remain that it will be used up by another prolonged negotiation, leaving them with a further major change to manage.

Formal minutes

Thursday 6 December 2018

Members present:

Rachel Reeves, in the Chair

Stephen Kerr

Peter Kyle

Sir Patrick McLoughlin

Antoinette Sandbach

Draft Report (*The response from business to the Withdrawal Agreement and Political Declaration*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 35 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Sixteenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 18 December at 9.45 am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Tuesday 27 November 2018

Dan Mobley, Corporate Relations Director, Diageo, **Ian Rayson**, Director of Corporate Communications, Nestlé UK, **Ian Wright**, Chief Executive, Food and Drink Federation

[Q64–143](#)

Wednesday 28 November 2018

Katherine Bennett, Senior Vice-President, Airbus UK, **Simon Henley**, President, Royal Aeronautical Society, **Paul Everitt**, Chief Executive, ADS Group

[Q144–211](#)

Wednesday 28 November 2018

Mike Thompson, Chief Executive, Association of the British Pharmaceutical Industry; **Mark Hicken**, Chair, American Pharmaceutical Group, and Managing Director, Janssen UK; **Pinder Sahota**, General Manager and Corporate VP, Novo Nordisk UK

[Q212–255](#)

Tuesday 4 December 2018

Tony Walker, Deputy Managing Director, Toyota Motor Europe; **Sydney Nash**, Senior Policy Manager, SMMT; and **Dermot Sterne**, Chief Executive, Applied Component

[Q256–355](#)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	A framework for modern employment	HC 352 (HC 966)
Second Report	Leaving the EU: implications for the civil nuclear sector	HC 378 (HC 881)
Third Report	The safety of Electrical Goods in the UK	HC 503 (HC 920)
Fourth Report	Pre-legislative scrutiny of the draft Domestic Gas and Electricity (Tariff Cap) Bill	HC 517 (HC 865)
Fifth Report	The impact of Brexit on the automotive sector	HC 379 (HC 1018)
Sixth Report	The impact of Brexit on the aerospace sector	HC 380 (HC 1049)
Seventh Report	The impact of Brexit on the processed food and drink sector	HC 381
Eighth Report	Pre-appointment hearing with the Government's preferred candidate for Chair of the Competition and Markets Authority	HC 985
Ninth Report	The impact of Brexit on the pharmaceutical sector	HC 382
Tenth Report	Carillion	HC 769
Eleventh Report	Pre-appointment hearing with the Government's preferred candidate for Chair of Ofgem	HC 1353
Twelfth Report	Draft National Policy Statement for Geological Disposal Infrastructure	HC 1092
Thirteenth Report	Gender pay gap reporting	HC 928
Fourteenth Report	Electric vehicles: driving the transition	HC 383
Fifteenth Report	Small businesses and productivity	HC 807
First Special Report	Industrial Strategy: First Review: Government Response to the Committee's Second Report of Session 2016–17	HC 337
Second Special Report	Corporate governance: Government Response to the Committee's Third Report of Session 2016–17	HC 338
Third Special Report	Apprenticeships: Government Response to the Second Joint Report of Session 2016–17	HC 450

Fourth Special Report	Leaving the EU: negotiation priorities for energy and climate change policy: Government Response to the Committee's Fourth Report of Session 2016–17	HC 550
Fifth Special Report	Pre-legislative scrutiny of the draft Domestic Gas and Electricity (Tariff Cap) Bill: Government Response to the Committee's Fourth Report	HC 865
Sixth Special Report	Leaving the EU: implications for the civil nuclear sector: Government response to the Committee's Second Report	HC 881
Seventh Special Report	The safety of Electrical Goods in the UK: Government Response to the Committee's Third Report	HC 920
Eighth Special Report	A framework for modern employment: Government response to the Second Report of the Work and Pensions Committee and First Report of the Business, Energy and Industrial Strategy Committee of Session 2017–19	HC 966
Ninth Special Report	The impact of Brexit on the automotive sector: Government Response to the Committee's Fifth Report	HC 1018
Tenth Special Report	The impact of Brexit on the aerospace sector: Government Response to the Committee's Sixth Report	HC 1049
Eleventh Special Report	The impact of Brexit on the pharmaceutical sector: Government Response to the Committee's Ninth Report	HC 1426
Twelfth Special Report	Carillion: Responses from Interested Parties to the Committee's Tenth Report	HC 1392
Thirteenth Special Report	Carillion: Government response to the Committee's Tenth Report	HC 1456
Fourteenth Special Report	The impact of Brexit on the processed food and drink sector: Government Response to the Committee's Seventh Report	HC 1461