



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Culture, Tourism, Europe and External Affairs Committee

**Thursday 5 November 2020**

**Session 5**



The Scottish Parliament  
Pàrlamaid na h-Alba

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website - [www.parliament.scot](http://www.parliament.scot) or by contacting Public Information on 0131 348 5000

---

**Thursday 5 November 2020**

**CONTENTS**

**Col.**

**FUTURE RELATIONSHIP BETWEEN THE EUROPEAN UNION AND THE UNITED KINGDOM GOVERNMENT ..... 1**

---

**CULTURE, TOURISM, EUROPE AND EXTERNAL AFFAIRS COMMITTEE  
26<sup>th</sup> Meeting 2020, Session 5**

**CONVENER**

\*Joan McAlpine (South Scotland) (SNP)

**DEPUTY CONVENER**

\*Claire Baker (Mid Scotland and Fife) (Lab)

**COMMITTEE MEMBERS**

\*Annabelle Ewing (Cowdenbeath) (SNP)

\*Kenneth Gibson (Cunninghame North) (SNP)

\*Ross Greer (West Scotland) (Green)

\*Dean Lockhart (Mid Scotland and Fife) (Con)

\*Oliver Mundell (Dumfriesshire) (Con)

\*Stewart Stevenson (Banffshire and Buchan Coast) (SNP)

\*Beatrice Wishart (Shetland Islands) (LD)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Richard Carter (BASF)

Rod McKenzie (Road Haulage Association)

Paul Sheerin (Scottish Engineering)

Dr Richard Torbett (Association of the British Pharmaceutical Industry)

**CLERK TO THE COMMITTEE**

Stephen Herbert

**LOCATION**

Virtual Meeting



# Scottish Parliament

## Culture, Tourism, Europe and External Affairs Committee

Thursday 5 November 2020

*[The Convener opened the meeting at 09:00]*

### Future Relationship between the European Union and the United Kingdom Government

**The Convener (Joan McAlpine):** Good morning, and welcome to the 26th meeting in 2020 of the Culture, Tourism, Europe and External Affairs Committee. Our first agenda item is the continuation of our scrutiny of the future relationship negotiations between the European Union and the United Kingdom Government. The committee will take evidence from two panels of witnesses today, representing sectors of the Scottish economy that are likely to be significantly impacted by the outcome of the future relationship negotiations.

I welcome our first panel of witnesses to the meeting: Paul Sheerin, the chief executive of Scottish Engineering, and Rod McKenzie, the managing director of policy and public affairs at the Road Haulage Association. Thank you for coming to give evidence today, gentlemen.

I will move immediately to questions. Do you have the information that you need to proceed once Brexit kicks in? In particular, do you have time to prepare for a no deal or low deal Brexit? Could you comment on the Prime Minister's suggestion last month that we are heading for an Australia-style agreement? If you have any experience of trade with Australia, how do you think it would impact if that was the status of our deal with the EU? I ask Paul Sheerin to go first.

**Paul Sheerin (Scottish Engineering):** Good morning, and thanks very much for inviting me—I appreciate it.

Do we have the information available? There is an awful lot of information out there. There are still gaps, particularly around standards and harmonised directive responses for the immediate future. I have no doubt that there will be some leeway in that, but it is something that takes a long time to prepare for.

It would probably be better if I jumped to the second question, which was whether we are ready, given that 1 January is looming large. The short answer to that is not in the slightest—we are a long way away from that. Some of the things on

which detail has crystallised this year, such as the UK global tariff and the UK conformity assessment mark, are simply not understood by companies. Those measures have come at a time of a global pandemic and economic crisis. Companies are struggling to keep afloat and stay alive at this time, and they simply cannot make the headspace or assign the resource to understand those.

I appreciate that it is best to give evidence, so I will quote figures from Scottish Engineering's most recent quarterly survey of all its members, which had a very good response rate of 45 per cent. We asked whether companies had evaluated the impact of the UK Government's UK global tariff proposal to understand the effect on their manufactured product. Only 48 per cent of respondents had evaluated that and understood it, which we should remember is not the same as being ready, and 52 per cent had not evaluated the impact or understood the effect on their manufactured product. We might want to come back to the issue of the UK global tariff, because there are unintended consequences that run out of it.

We also asked whether companies are adequately prepared for the introduction of the UK conformity assessment post-transition and the replacement of the CE mark. The numbers on that were exactly the same: 48 per cent of respondents said that they were adequately prepared and 52 per cent said they were not.

So, are companies ready? No, they are not. There is another issue behind that. Given that, unfortunately, we do not have a high proportion of direct export from our industry in Scotland, probably my largest concern is that we do not understand the import impact of exiting the EU and the additional burden and costs that that will place on the manufacturing and engineering sector.

I will move on to your third question, convener, which was on an Australia-type agreement. At the end of this, you can maybe give me feedback if I am being too brief or too wordy. The simple fact for the sector, which has been the case all along, is that the further we go away from the status quo, the more negative the impact is on the sector. For a number of reasons, the status quo is absolutely the best outcome for the manufacturing and engineering sector, and I would say that an Australia-type agreement is a pretty long way away from that. The further we get away from what we have now—or what we had—the more impactful that will be in costs, resource and an extra burden of administration.

I will stop there and get some feedback.

**The Convener:** Thank you. Our questioning in these virtual sessions is quite formal, and we are

restricted for time. I will come back to you with my second question, Mr Sheerin, but first of all I will go to Mr McKenzie. Do you need me to remind you of the question, Mr McKenzie?

I am not hearing Mr McKenzie, so I will go back to you, Mr Sheerin. You touched on the issue of imports. We know that the supply chain is important to engineering. Can you say any more about what you would like to be in place and your concerns about the supply chain in the event of a low deal or a no deal exit?

**Paul Sheerin:** The headline is that our members would like to see something that is close to what we had. The UK global tariff is a good example of the reasons for that. From an export point of view, it is pretty clear where World Trade Organization rules will take us. However, from an import point of view, there are unintended consequences in the way that the UK global tariff has been administered. It has been set in a way that tries to simplify things by putting zero rate tariffs on certain items. Typically, those items are quite complex and integrated and are a finished system. Examples of that are particularly in the automotive sector.

To give a specific example, a manufacturer of refuse trucks in Scotland buys the bare chassis trucks from Europe, because that is where they are manufactured. Under a UK global tariff, that manufacturer will pay a 10 per cent premium tariff on the chassis. They will construct a refuse truck around the chassis using components and manufactured parts and sell it on the market at a price that reflects the 10 per cent tariff on the largest single cost component in it. However, the UK global tariff outlines that, if a refuse truck is brought in completely finished from the European Union, because it is classified as a complete specialist vehicle, there is a zero tariff rating.

Therefore, a manufacturer that is based in the UK—in this case, in Scotland—is at an unfair disadvantage compared with its EU counterparts. That is what I would say is an unintended consequence. There is an appeals process to work through, and the company that I have cited is working through it now, but understanding that requires cost, administration and management time. That issue is not solved yet.

That is one example, but throughout the UK global tariff there are things that have no doubt been done with good intent and for reasons of simplification but that have unintended consequences. The issues usually sit in the space of finished integrated systems or products with complexity and a specialist nature overall. The company that I am talking about is well prepared and has spent a lot of time and effort understanding what the impact on its business will be. However, the worry is that, as reflected in the

statistics that I gave earlier, many more companies have not looked at that yet, because they have not been able to do so. That will be a headache that lands on the plate on 1 January.

**The Convener:** Thanks very much for that.

I believe that we have Mr McKenzie back with us. I am sorry that we lost you, Mr McKenzie. In my opening question, I asked whether you have the information that you need to put everything in place by 1 January, given that we do not have a deal yet. Thank you very much for the briefing on your sector, which I found very interesting. I was particularly interested in what you said about your need to use international road haulage permits, the fact that there seems to be a shortage of them and the implications for your industry as well as for the companies that your industry serves. Are you any further forward with that? For people who are listening to the meeting, perhaps you could explain what your briefing says about road haulage permits.

**Rod McKenzie (Road Haulage Association):** Thank you for your questions, which I will try to answer.

Are we prepared? Absolutely not. This is a shambles. It has been a shambles from beginning to end, and the information that we have is incomplete, inadequate and quite often totally incomprehensible.

In your opening remarks, you mentioned an Australia-style deal. That is a nonsense. Australia is a long way away and the situation with it is in no way comparable to moving goods from the UK to the EU, which is our largest trading partner, and back again. What it really means is no deal and a free trade agreement. In other words, it is dressing things up disingenuously. We feel that we have been badly let down by the UK Government from beginning to end.

You talk about European Conference of Ministers of Transport permits. It is probably worth explaining a little bit about that very weird and old-fashioned thing. ECMT permits were originally designed to get lorries from within the European Union to outside it. For example, if you want to get a load to Russia, you need an ECMT permit. In the UK, there are 8,348 hauliers licensed for international carriage, with roughly 83,500 trucks. In Northern Ireland, the numbers are 1,800 hauliers licensed for international carriage, covering roughly 10,500 trucks. Not all of those trucks will look to transit to Europe at the same time, so let us take a 50 per cent ratio. That would mean the potential for 47,000 truck movements to Europe. There are only 4,000 permits to allow that access, so that means that more than 40,000 trucks would not be able to trade, because each movement needs one permit. That does not make

sense. It would cripple the economic operations of every haulier that deals internationally.

You could say that information on permits and licences is a moving feast and that maybe the Government will persuade the EU during the negotiations that ECMT permits will not be needed. Some people ask me, “Why can’t we just print some more or why can’t Europe just print some more?” It simply does not work like that, I am afraid—there is an allocation. It is a really big obstacle to trade between Scottish companies and Europe. That is where we are now. The current default position is that we are effectively stopping the best part of 90 per cent of companies from trading with Europe. It is bonkers.

09:15

**The Convener:** Obviously, you will have raised the issue of permits with the UK Government. Do you feel that it is taking the issue seriously? It sounds really grave.

**Rod McKenzie:** It is grave. We are, of course, engaging with the UK Government and, to be fair, our latest communication with it has been more productive than our communications were a month ago. One of our concerns about the way that the UK Government is handling the issue is that it is sending out a lot of public relations communications in which the messaging seems to be, “It’s up to business to get ready—it’s your fault if you’re not ready.” That is a bit unfair because, if the mechanisms do not exist that enable hauliers and traders to understand clearly what needs to be done—they need an end-to-end or A to Z process that sets out that they have to do this, then this and then this—you cannot blame traders if they are not ready. The information is not clear.

In July, the Government issued a border operating model. Frankly, it had more holes in it than Swiss cheese, and we pointed that out. The Government has produced a slightly improved version, but it is still inadequate. We have written to the Government with four key points that it must address. We kept it short, because we did not want it to be enmeshed in jargon and obfuscation that the Government could dodge around. First, we want clear, fair and symmetrical market access for UK hauliers after 1 January next year. Secondly, we want full funding to be available for training, outside the state-aid limitation, which is currently a £118,000 allowance for trainers, so that we can train people how to do this stuff, which we have not had to do for 40 years or so.

Thirdly, we want a full sharing of the GVMS—goods vehicle movement service—so that industry can prepare for its use. At the moment, we have a lot of Government secrecy. It has shared the GVMS with some haulage companies and called it

beta testing, but why beta test with a small number of companies when a much larger number of companies need to see it and understand how it works? We are saying that 100 per cent of haulage companies that will need to use the GVMS must be allowed to see it now, not in some weeks’ time when the beta testing has ended.

Fourthly—and finally, you will be glad to hear—we want the new haulier handbook, which is due on 16 November, to be published as soon as possible and to be updated quickly in response to changes and industry feedback. To sum up all those points in one sentence, we want clear end-to-end journey checklists.

**The Convener:** That is very clear. I know that committee members will want to dig down into those areas. Thank you for that clarity.

We will now move on to Claire Baker, the deputy convener.

**Claire Baker (Mid Scotland and Fife) (Lab):** Thank you, convener. I thank the witnesses for their comments so far. I was interested in the comments that 52 per cent of the engineering sector had not fully engaged with the UK global tariff and that respondents felt unprepared for the changes that are about to happen. Also, the haulage sector witness has been very clear about that sector’s concerns about how that will operate in the new year. For engineering, clearly, we do not have 100 per cent of the sector feeling totally prepared; however, given that 52 per cent of those in the sector feel completely unprepared, what are the consequences for the Scottish economy? If Mr Sheerin answers that question first, maybe the haulage witness can then speak about the consequences for the Scottish public in relation to areas such as food supply.

**Paul Sheerin:** You are absolutely right—that is a very large number. The fact that, only a month ago, more than 50 per cent of the sector had not evaluated the impact is a concern. The truthful answer is that there will be a substantial impact, but I cannot say how big it will be. One of the problems with the UK global tariff is that it has been rushed out with such a relatively short time to go before its actual impact. In terms of trying to understand it, if any of you have a spare minute, I suggest that you have a look at it. It is extremely complex. There are literally thousands of lines of sub-category components, and companies have to understand every single one of them to understand what the impact on their businesses will be.

Unfortunately, the issue may be that companies will feel the impact first; they will get tied in knots or perhaps fall foul of a lack of ability to import smoothly the supply chain that they need. They will then be fighting a rearguard action to

understand, to clear the backlog and to mount a process of appealing against the outcome to get a sensible solution that does not have the kind of unintended consequences that I have talked about.

**Claire Baker:** What is the size of the Scottish engineering sector? Are the businesses small and medium-sized enterprises, or do they have the capacity to address such issues?

**Paul Sheerin:** There are an estimated 10,000 engineering and manufacturing companies in Scotland going down to the micro SME level. From memory, I believe that there are about 165,000 employees in the sector across Scotland. Does that answer your question?

**Claire Baker:** I wonder whether the smaller businesses have the capacity to deal with this. You are talking about a very detailed proposal around the global tariff.

**Paul Sheerin:** You are absolutely correct. The biggest challenges here are for SMEs, which are the hardest pushed in relation to resource and cash flow, to manage and deal with such issues. Our largest companies will be well set. They have the resource to understand the impact, but that does not mean that there will not be an impact. Remember that everyone, including the people who have understood and evaluated the issues, will still have the additional administrative burdens and costs. Most of the smaller companies—the SMEs—will not be able to handle it themselves and they will contract a customs agency to manage it on their behalf. That will bring an additional cost to the business for zero value.

**Claire Baker:** Thank you. Does Mr McKenzie want to comment on the impact on the economy and on the Scottish public if those issues cannot be resolved?

**Rod McKenzie:** First, the crystal ball is pretty muddy on this; it is not clear. I cannot give you details of how I think X, Y and Z will be affected, but, as Paul Sheerin has been saying, the general picture is clear—many SMEs will be impacted negatively by what they are having to do. To pick up on Paul Sheerin's point about customs agents, we have estimated that 50,000 customs agents will need to be employed to process all the red tape that will be created, which we have not had to deal with before. At most, there are only about 5,000 to 10,000 customs agents employed in the UK to do that work. In addition to my earlier points about the lack of clarity, even if you were clear and you were trying to fill in your customs form, we are desperately short of agents who are capable of processing this stuff.

The impact on the economy goes round in a circle. If I cannot get my ECMT permit, I cannot travel to Europe. I want to do my customs forms,

but I cannot because I cannot find an agent or they are too busy and I am at the back of the queue. It would be a pretty drastic potential disruption to the Scottish economy. Let us hope that it does not happen—let us hope that I am horribly wrong—but, at the moment, that is the best worst-case scenario that I can give you.

**Claire Baker:** Mr McKenzie has made clear the frustration that there has been in speaking to the UK Government and has spoken about the need to understand the challenges that the sector faces. Could both witnesses comment on the support that there is from the UK Government and the Scottish Government in preparing for what is likely to happen? Also, what support is there from the business support agencies in Scotland? You have referred to the capacity issues in relation to customs agents and the size of Scottish businesses. Do you feel that the Scottish Government and the agencies in Scotland that are responsible for supporting businesses are able to provide support and give relevant advice at this point?

**Paul Sheerin:** The support from Scottish Enterprise, other agencies, local authorities and so on in Scotland has been good. There is good information and there is a willingness to help. Our challenge is not in respect of the information or the support that is available; the challenge is in companies being in the situation of not having the resource. They still need to put a certain amount of resource, effort and focus into this, but, in relation to the economy, they simply have too many other fires burning just now for them to get the correct amount of headspace to do that.

What the UK Government has put online is good, but, as we all know, just putting something on a website does not mean that it gets used or that the uptake is meaningful. I would go back to an earlier comment from Rod McKenzie that it is perplexing that the UK Government's approach is to blame businesses and to say that it is their fault if they are not ready by 1 January. It seems a strange approach when we know that we have such a polarising issue across the country. My concern is that such an approach drives some companies that are absolutely appalled by the concept and the implementation of Brexit to say, "Do you know what? I am not going to make the time and space for that, because I am being blamed for something that made no sense in the first place." If the Government is trying to genuinely encourage all companies, down to the very smallest, to start looking at the issue and to start being prepared, it seems a strange approach to make the blame game the starting position.

**The Convener:** Thank you. The next question—oh, I am sorry. Mr McKenzie wants to come in. On you go.



**Rod McKenzie:** You are, no doubt, up against the clock—I fully understand that.

I agree with what Paul Sheerin said. I think that lots of people are doing their very best, including in Scotland, but these are difficult and challenging times, as Paul Sheerin said. I will allow you to move on.

**The Convener:** Thank you very much. I know that there will be a lot more questions for you. Our next question is from Dean Lockhart.

**Dean Lockhart (Mid Scotland and Fife) (Con):** The committee has heard in evidence that, if a Canada-style agreement is reached with the EU, tariffs will not apply to the vast majority of products that are exported to the single market but non-tariff barriers might still be in place. I would like to get views from our guests about the relative importance of tariffs applying to goods versus non-tariff barriers, which have to be complied with, and potential regulatory divergence in the future.

**Paul Sheerin:** On the importance of tariffs, it is fair to say that, for some companies, the tariffs themselves are less of an issue. However, when you look across the piece, there are companies—as in the example that I cited—for which they could undermine and take away their entire competitive position as a manufacturing supplier. That situation will be replicated, but I cannot say, hand on heart, that I know what the percentage split will be.

09:30

To be honest, the bigger concern regarding the Canada or Australia-style approach is that, the further you move away from the current situation—and I would say that Canada is a long way away from the situation that we have enjoyed—the more negatively impactful it will be on the sector. There is the issue of tariffs, for certain, but there are also the non-trade barriers, some of which we have talked about, such as the administration burden. That is before we consider Rod McKenzie's point about the availability of the things that we need to pay extra to get.

One thing that we have not even talked about yet is divergence from standards. Divergence from harmonised standards and directives places an even harder to evaluate but even more concerning burden on the manufacturing and engineering sector, in particular. I will try to explain that quickly, if we have time. We are currently harmonised with the European standards and directives. Looking at the globe, if you go east from Europe and the UK, all the way to the far east, where the vast bulk of our manufacturing is found, through India and Russia, there is generally harmonisation that follows the EU standards and regulations. Going west towards the US and some of the other

Americas, you are into a landscape of accreditation, which is very much commercially driven; it is pay per play—you have to be a member of something and you have to pay to get accreditation for one particular route. It is a much more fragmented, commercially negotiable landscape.

Anything that takes us away from the current situation will bring cost burdens and a detrimental outcome to the sector.

**Dean Lockhart:** Thanks very much. That is a very interesting perspective. Could I ask Mr McKenzie the same question, please?

**Rod McKenzie:** I think that tariffs are simply not good news. I echo Paul Sheerin's comments. I represent road haulage and logistics and the movement of goods. Arguably, we are not at the forefront of those affected by tariffs—they will affect our customers more—but anything that affects costs, particularly when we are trying to recover from the economic shock of Covid, is very unwelcome. The prospect of tariffs is a bleak one.

**Dean Lockhart:** I want to follow up on the concern about regulatory divergence. The Scottish Parliament is currently considering the UK Withdrawal from the European Union (Continuity) (Scotland) Bill, which, as you might know, provides that future laws and regulations in Scotland will keep pace with future EU regulations after the transition period, whereas those in the rest of the UK will not. There could therefore be regulatory divergence between Scotland and the rest of the UK market. Is that a concern for businesses in your sector?

**Paul Sheerin:** I would turn that on its head and say that, for manufacturing and engineering in Scotland, if the UK decides to diverge from the EU, the double standards requirement will exist regardless. For anything that companies do that involves selling to Europe and beyond, including all those areas of the world that follow harmonisation with the European standards, the same requirement will exist. If standards within the UK diverge, regardless of what legislation you are considering in the Scottish Parliament, there will be additional burden and cost to manufacturers in Scotland because, if they are exporting outside the UK, they will have to meet one standard, and if they are supplying within the UK internal market, they will have to meet another standard. Therefore, the best solution for the sector, for Scotland and for the UK is to have standards remain harmonised throughout the UK, including in Scotland.

**Dean Lockhart:** Mr McKenzie, do you have any views on that subject?

**Rod McKenzie:** I am not sure that I can add anything to that. Anything that reduces red tape is

good for business, so I endorse what Paul Sheerin has said.

**Dean Lockhart:** That is great. Convener, that is all from me. Thank you very much.

**The Convener:** Thank you. Our next question is from Beatrice Wishart.

**Beatrice Wishart (Shetland Islands) (LD):** Good morning, panel. I would like to ask about labour supply and how that will impact on your different sectors. We know that there are a lot of drivers from the EU. What will the changes in the labour market mean for your sectors?

**Rod McKenzie:** Would you like me to go first, as you mentioned drivers?

**Beatrice Wishart:** Yes, Mr McKenzie.

**Rod McKenzie:** The UK logistics sector is heavily reliant on migrant labour, particularly from eastern Europe. All the signs are that the whole Brexit conundrum has put a lot of them off. A lot of them have gone to seek employment in Germany and elsewhere, so we are already seeing a big drop-off in migrant labour. It is estimated that, at any one point, the logistics sector is short of 50,000 drivers. In Scotland, that figure is around 10,000, we think. The number increases when we include warehousing and other subsidiary roles, which are again largely peopled by eastern European staff.

The other problem is that the industry has an ageing workforce. The average age of a lorry driver is 54 and the various Covid restrictions around vocational licence testing and so forth have made all this worse. In other words, we have a constricted, narrow flow of new blood coming in. Our big worry is that the UK Government has not added logistics-related roles to the shortage occupation list. Agreed salary thresholds, which are clearly designed to appeal to certain workers—typically, university-educated or white-collar workers, if you are looking for a generalisation of job roles—has simply not helped. We think that logistics and road haulage in Scotland will definitely suffer from a skills shortage post-Brexit. The only thing that is difficult to predict is just by how much.

**Beatrice Wishart:** Mr Sheerin, how do you think that the changes will impact on the engineering sector?

**Paul Sheerin:** It is my turn to agree with Rod McKenzie. Particularly for our sector, before coronavirus and aside from Brexit, the number 1 talking point in the industry was skills shortages. We have enjoyed the benefit of the free movement of people in that respect. Companies from the very north to the very south of Scotland have enjoyed a relatively high proportion of such workers, not just in the skilled and super-skilled roles but down

through semi-skilled and operator roles. They have been welcome and appreciated. We face the same challenges of having an ageing profile, but here is something to consider in relation to the unfortunate impact of coronavirus: coronavirus has brought devastation to the sector and, unfortunately, has had an impact on people through redundancies, but we also believe that the vast majority of those redundancies are happening among people whose choice now will be to retire.

We are losing those skills at one end of the distribution scale but, at the other end, as we stand at 1 November, only 25 per cent of the number of apprentices who were registered in 2019 have been registered in 2020. That fall represents something like 600 or 700 new apprentices who will not be available to the industry in four years' time. If we add on top of that the additional administrative burden of trying to apply through a process to bring somebody in from a country from which there was previously free movement, we have another headache to add to a skills issue that has long been there in our sector. I underline the point that, although that process will be in place and there have been moves to simplify it, it is still an extra step and, for SMEs and the very smallest companies, it will be a step too far. They will not have the resource and the patience to apply, to manage the process and to be diligent in going through that process to bring somebody in. Again, for that reason, the constant theme throughout is that what we had was absolutely the best for the sector and industry in Scotland.

**Kenneth Gibson (Cunninghame North) (SNP):** Good morning. What will be the impact on the viability and competitiveness of the road haulage sector if the issues that Mr McKenzie highlighted are not resolved by the end of this year?

**Rod McKenzie:** It is very worrying. I share an anxiety with many road haulage firms in Scotland. It is worth remembering that most haulage firms in Scotland are SMEs. They do not necessarily have a big back office that can process vast amounts of red tape. As I was saying earlier, they will probably need to engage with brokers if they do any sort of international trade. That is a big worry for them. Staff shortages have always been a concern. Certainly, for some firms it is always patchy. Some of the big firms will not struggle to attract drivers, perhaps because they have more attractive pay rates or terms and conditions. Given that our industry is not like that, as our industry is typically family-owned SMEs with a small number of trucks—five or even fewer in a company—and owner drivers and so forth, that is a huge worry.

When I talk to owner drivers and small operators, they talk about the burden of red tape

and extra worry on top of what they are doing to try to make a living. It is worth remembering that the margins that most road hauliers make is about 2 per cent. If you erode that through any one of a number of negative increasing costs on their business, you are driving them out of business. There are certainly one or two who I have spoken to, both in England and in Scotland, who have said, "You know what—I just do not think it is worth it any more. I am thinking about closing down." That is anecdotal, it is not fully researched and they may change their minds, but the very fact that people are thinking about that, in what generally has always been a very positive industry, is concerning.

**Kenneth Gibson:** I can understand. When I saw the reference to a 2 to 3 per cent margin in your submission, I thought to myself that, if people are going to have extra cost, including the cost in time of having to queue at ports and so on, that will put costs up. Of course that will impact on the competitiveness of wider industry across the UK by pushing up costs.

You talked about the four issues that you need to see resolved in order to get the best out of a very bad deal. We are only a few weeks away from Christmas and 1 January. Assuming that the UK Government was to say, "Absolutely—we agree with everything that you are saying and we will do everything we can to resolve this as soon as possible," with a fair wind, how long would it take for matters to be resolved? Alternatively, are we now at the point where, even with the best will in the world, given the mechanics of the way in which the UK and the EU are working and against the background of Covid, it could take several months into the new year and there could be hold-ups at the ports from January?

**Rod McKenzie:** I think that we cannot make this good from where we are now. What we can do, with a fair wind and if we all pull together, is mitigate some of the worst effects, but it is mitigation. You are absolutely right to say that there are very few days to go. I do not keep a running list because it depresses me too much. The clock is ticking and we are nearing this exit point. I think that it is going to be very difficult.

09:45

You raised some good points in your question. You referred to the lorry parks—they are not really lorry parks—that are springing up all over England. Frankly, they are designed to stop big queues at Dover and other ports, which, no doubt, would not look good on the television news. Instead, they are a sort of diversion—holding areas where trucks that do not have the right paperwork can be corralled and held until the paperwork has been sorted out. However, the

paperwork is complex, there are not enough customs agents and we still do not have the end-to-end journey clarity that we need. When the Government is not able to spell that out, that means that the customs agents who have to do the paperwork do not themselves know and, inevitably, some of them are making it up as they go along. That means that some mistakes will be made, some trucks will get stopped and there will be some delay to the supply chain.

We do not know the scale of it until it happens. Your question is, "Can we make it perfect?" No, we cannot. Can we make it work? We always do, because that is what logistics does. Will there be mistakes and delays? Yes, there will. How bad will those things be? We do not know. I guess that that is probably, in summary, where we are at the moment.

**Kenneth Gibson:** Thank you, Mr McKenzie. Before I move to Mr Sheerin, I have one further short question. Is there any upside of Brexit to the RHA?

**Rod McKenzie:** It is a political question. What I should say is that some of our members voted for Brexit and some of them did not. That is a very fair point to make. Our focus has simply been that a decision has been made and a vote has been held, and we are now dealing with the consequences of that and must do that in the best way we can. I am, of course, critical of what the Government has done by way of preparation. That is not so much a political point as an operational point but, certainly, where we are right here, right now, is not ideal.

**Kenneth Gibson:** Thank you very much.

Mr Sheerin, is there any upside to manufacturing of the current Brexit position?

**Paul Sheerin:** There are a few very small, isolated examples of where companies have almost been surprised to see something and have said, "Oh, there is a small benefit to Brexit," but those cases are far outweighed. There is no doubt that the balance is strongly against there being any benefit to Brexit overall. The cost burdens and the administrative resource additions make this something that does not make sense for the engineering and manufacturing sector.

**Kenneth Gibson:** You have said that

"an estimated 400 million extra customs declarations could average up to £13 billion per year additional cost to UK businesses",

and you have given the example of a technical ceramics manufacturer in Fife, CoorsTek, whose parent company is

"citing the potential impact of Brexit as one of its reasons for exiting Scotland."

Do you expect to see more of that in the months ahead, or are you hoping that that can be mitigated by Government?

**Paul Sheerin:** I hope that it can be mitigated. I think that the mitigation does not come from Government so much as it comes from companies. There are a number of inwardly invested companies in Scotland just now that are fighting to make sure that, if any tough decisions are taken at a corporate level, they are not the recipients of those. In that respect, we very much welcomed the First Minister's statement last week that it is intended to keep manufacturing and engineering going at all tiers of lockdown in Scotland. That being said publicly is very helpful to those inwardly invested companies.

**Kenneth Gibson:** This is my last question. You have talked about the impact on families of the huge change that we are about to see. You talk about the products we love, the technology behind our schools and hospitals and even the meals we consume. You have said:

"Britain is a leading exporter of innovation, product and technical skills".

How will innovation, product and technical skills be impacted if we have a no-deal Brexit?

**Paul Sheerin:** I cannot hand on heart say, "Here is the number," or, "This is what the impact will be," but I think that it is the unintended consequences that will be important. Given the level of uncertainty that we face from 1 January if we end up exiting with a no-deal Brexit, we will have companies finding out day-by-day challenges in administration, in finding customs agents and in understanding the impacts of global tariffs. That is where the resource will go. What will lose out is their focus on research and development and innovation. Any cash and cost impacts from that will mean that they will have to tighten their belt elsewhere and, unfortunately, that could be in the area of innovation. That would be extremely detrimental to the sector for Scotland.

**Ross Greer (West Scotland) (Green):** I am interested in what impact the new arrangements regarding the Irish Sea border and the border between Northern Ireland and Great Britain within the UK, through the Irish protocol, will have on your sectors. The first question to ask, because none of us is quite sure, is what your understanding is of what the arrangements will be between Great Britain and Northern Ireland from 1 January.

**Rod McKenzie:** The short answer is that those arrangements are not very clear. To flesh that out a bit, I think the Government has left itself very little time to mobilise its new trader support service. It has announced that it is investing £200 million in that service, the aim of which is to

reduce the burden on traders that are moving goods to Northern Ireland and to help them to prepare for all of this. It will be very challenging to establish the TSS in full working order by 1 January, and many Northern Ireland traders have not signed up to it. One of the reasons why they have not signed up to it is that they are worried that there is too much sharing of sensitive business information. In other words, some of the bigger companies in Northern Ireland that are very involved in TSS can see information about the smaller companies, which theoretically might give them a business advantage. We do not know that that is definitely happening, but people get worried about stuff like that—about giving away trade secrets, as it were. There is a lack of faith in that side of things.

Generally on TSS, we do not have enough staff recruited for that service. Big software projects need 18 months to two years to complete, but we are doing this in fast-forward time, in a matter of weeks or months—or, indeed, days. There is also a need to educate users about how TSS will work. That is even without mentioning the obvious, which is that there is a huge level of uncertainty about the requirements for the movements of goods under the Irish protocol and a very high chance that goods simply will not be ready to move. We do not, for example, even know whether ECMT permits will be needed to travel to the Republic of Ireland. Potentially, if someone is travelling from Great Britain, the answer is yes, but ministers have announced that people will not need an ECMT permit to cross from Northern Ireland to the republic if they have a Northern Irish operator licence. Again—taking that one example—there are a lot of unknowns.

**Ross Greer:** Mr McKenzie, before we move on to a range of other questions, I note that, the more that you say, the less realistic it feels that there will be a coherent set of arrangements in place on 1 January—whether or not something is in place that can manage this in the longer term—and that whether there is enough for business in the systems that the UK Government is setting up is a secondary concern at the moment.

What will be the disruption to the supply chain, though? What will be the impact, particularly on the sectors that use road haulage, if, on 1 January, the arrangements for trade and travel between Great Britain and Northern Ireland simply are not in place? What will that mean for your drivers?

**Rod McKenzie:** It will mean delays, I think, but I cannot predict how good or how bad it will be. As I said, it is crystal ball time, but I think it is reasonable to assume that not everything will be perfect on 1 January; however, what not perfect looks like in detail is very hard to second guess.

What it could mean, for example, as I mentioned earlier, is that, if your paperwork is not quite right and if you are not border ready, the lorry and the driver will be diverted to a holding area—perhaps in Warrington, perhaps near Birmingham, or perhaps in Kent—where they will have to stay until the paperwork is all correct, and then they will be able to move.

It is hard to tell the scale of that or the scale of the mistakes that are being made on all of this. I guess that there is an unknown in whether, in the negotiations that are still going on with the EU, there is discussion of some sort of let-off clause or easing of regulations that might be helpful. However, it is very hard to say, and I am not confident of success. I am always hopeful that things will be better than my pessimistic self is saying, but it is very hard to tell and very hard to answer your question with certainty.

**Ross Greer:** Before I turn to Mr Sheerin, I note that there is a bit of coverage in the Irish press today of businesses that are based in Great Britain pulling out of Northern Ireland or making arrangements to reduce the amount of business that they do there. I know that that has come on the back of some comments from ministers in the Northern Irish Executive. Have you seen any changes in the kind of businesses that will use road haulage or any evidence that those changes are beginning to take place whereby traffic between Northern Ireland and Great Britain is reducing or changing and people are finding alternatives?

**Rod McKenzie:** I think that businesses are endlessly creative and good at problem solving. That is why they are in the logistics trade—because logistics is all about that sort of problem solving. I am not an authority on the reports that you cite, and neither do I have any evidence that that is happening. It is not particularly surprising, but I do not think I can shed any light on it, I am afraid.

**Ross Greer:** Thank you very much.

I turn back to Mr Sheerin with my original question. I am interested in what the impact will be on the supply chain in engineering and manufacturing of disruption to the sea border and the Northern Ireland/Great Britain border. What will that look like for your industry?

**Paul Sheerin:** Again, the honest answer is that we just do not know. To be honest, of all the things that we are pressing member companies to get to just now, because of the size and scale of the flow of goods, we are very much pressing those who have done nothing to understand some of the basic principles of the UK global tariff and the UKCA mark first. The unfortunate answer to your

question is that we just do not know, which means that we are sailing into a possible outcome blind.

It maybe speaks a little bit to what Rod McKenzie said, because it is just a concern that is voiced. When you look at that arrangement, you can see it being either relatively light touch, which would mean that we would have less of an administrative burden, or very heavily enforced and therefore a heavy administrative burden. Each would have its consequences. If it is light touch, the concern is that it will become a back door for avoidance of tariff, which would make it a competitive disadvantage. There is no reason to believe that that would happen, but that concern has been voiced to me by member companies several times in the past few months.

**Ross Greer:** We could well come to a point at which it is light touch and there is faith among businesses that the administration of it works quite well. However, it feels increasingly unrealistic that that will be the case on 1 January. If it is not, what will the short-term disruption for the supply chains in your industry look like? What practical effect will people notice?

10:00

**Paul Sheerin:** On a smaller scale, anything that brings delay and administrative burden will bring additional costs for no value to the supply chain partners. If you talk to engineering and manufacturing companies that are moving goods around Europe and ask, “Where are we on things?”, you will find that it is difficult for those that are at the edge and have very well-structured processes—I am thinking of Norway and Switzerland. By the law of averages, you will hit issues there much more frequently than anywhere else, even though those are well-established, well set up and long-standing situations. If you compare and contrast the set of circumstances for the movement of goods between Great Britain and Northern Ireland—which is very difficult to get your head around; I would not pretend to say that I understand it—to that situation in which people are saying, “We already have issues because some things are just a bit different,” and then you add the unpreparedness for the new situation, I am sorry to say that I think that it will be significantly impactful.

**Ross Greer:** Thank you. That is all from me, convener.

**The Convener:** Mr Sheerin, I understand that you have another appointment, which means that you have to leave at 10 o'clock. Is that the case?

**Paul Sheerin:** That is the case.

**The Convener:** It is 10 o'clock, so thank you very much for giving evidence to us today. We will

continue the rest of our session with Mr McKenzie, and we will move on to Annabelle Ewing's questions.

**Annabelle Ewing (Cowdenbeath) (SNP):** Thank you, convener. I had a question for Mr Sheerin, but that's life.

Mr McKenzie, I do not know whether you are aware of this, but we have heard this morning that the three leading Scottish food and drink trade bodies have written a letter to the UK Prime Minister, seeking the negotiation of a six-month grace period to allow businesses to adapt to Brexit. They cite, in particular, the impact of the global pandemic, the fact that we are now in the second wave of it, the huge uncertainties that still remain and the huge costs that have been incurred by businesses throughout the pandemic. Do you support that call?

**Rod McKenzie:** Given that we started very late, anything that buys us more time is useful. I have no particular insight into the details of the EU talks, but I understand that one of the issues that has been raised in the final round of talks is the need for light-touch regulation or a blind eye being turned to problems. Anything that says or does that and that buys us more time would be useful, because I cannot think of any of my members who would say, "No, we don't want that. We're ready." It would be useful, so we would be happy to go along with that.

**Annabelle Ewing:** That is unequivocal. I imagine that many other sectors will be seeking to indicate their support today for that initiative on the part of the food and drink industry in Scotland. Of course, that sector is massively important to the Scottish economy: being worth £15 billion and involving, I think, over 120,000 people, it is four times more important to the Scottish economy than to England. We will watch that development very carefully.

Let us turn to the lorry parks. We hear the phrase "lorry park" being used, but it would be interesting in terms of elucidation if you could paint a picture of what that means. You said in an earlier answer that there will be several of those in order to avoid the bad PR of endless queues at Dover and so forth. Equally, however, I presume that there will be queues in and out of those parks, because lorries will have to get into and out of them. Depending on how long lorries have to stay in them, what will the facilities at the parks be like in terms of food, toilet arrangements and security? Who will pay for lorries to stay in the lorry parks, and what are the rates going to be if there is a charge on the haulage contractor?

As well as all those questions, there is the question of what the Covid implications will be of running a lorry park in the midst of a global

pandemic, with the rules perhaps requiring to be different from what lorry park rules would be absent a global pandemic.

If you could paint a picture of your understanding of those things, that would be helpful.

**Rod McKenzie:** I have been a critic of so-called lorry parks. I will explain why I think they are so-called. To me, lorry parks sound like nice places where you go and park your truck because it is time for your statutory rest break and where you can clean up and maybe have a shower and a nice meal—all that sort of stuff. What we have instead are not lorry parks but places where lorries will be held. That is a much more basic arrangement. Even recently, I saw earth movers creating them, so, with a small number of weeks to go, it is hard to believe that, even with the best of Scottish and British ingenuity, those places will turn into luxury venues.

I worry that we do not treat lorry drivers well in the UK anyway. The conditions that we ask them to go through even in proper lorry parks are mostly pretty poor, and the idea of these cage areas, which may not be decent places, is very worrying to me.

I am also very concerned about the Covid implications. If it is not possible to socially distance, that will be a problem. In the first wave of lockdown, back in March, we saw lavatories and washing facilities being closed, which is nuts when we are asking people to wash their hands and all that sort of thing.

I have huge, huge worries about so-called lorry parks. What if it takes 48 to 72 hours to get your paperwork sorted? You are a lorry driver, you are entirely innocent and the problem has arisen because of some probably inadvertent mistake that someone has made in the mountain of red tape that needs to be got through. I feel so sorry for them having to go through what would be a pretty unpleasant stay. If the Government can prove to me that lorry parks are going to be nice places, that is fair enough, but I do not suppose that they are going to be. It is a big worry if lorries are going to be held there for a long time.

Of course, there is also the local people aspect, which you quite rightly raise, which is about avoiding queues at Dover. Around 10,000 lorries a day use Dover port, but you might just be moving thousands of lorries to somewhere near Birmingham, Manchester or wherever. That will still mean lorries being delayed or diverted, with an impact on supply chains, people's livelihoods and people's basic comforts, frankly.

**Annabelle Ewing:** Quite. It is all extremely worrying. As you say, it does not appear that the UK Government is at all considering the welfare of

the drivers, which is crucial. Maybe we could ask whether Dominic Cummings could go on one of his driving trips and have a wee tour around, to see how it is all going and report back.

I have one last question, Mr McKenzie. I understand that the UK is commissioning ferries to deal with exports. Do you know much about that, or how many? Do you have any detail about how that will work or which contractors will be used?

**Rod McKenzie:** The Government is putting in place a whole range of mitigations, including the acquisition of ferries, which I am sure it did about a year ago, when we were going through all this before and the ferry company did not have any ferries. Everyone will remember that. I am not au fait with the detail of that, so I cannot give you a precise update on what is happening, but it is clearly a concern because we depend on transport for international and European trade. It is very important that the all-important just-in-time supply chain on which the British economy is largely built can function after 1 January 2021.

**Stewart Stevenson (Banffshire and Buchan Coast) (SNP):** Just to depress Mr McKenzie more than he might already be, my calculation says there are 1,237 hours until 1 January. The reality is that that is the blink of an eye in planning-for-business terms.

I have a couple of questions. The first one is fairly straightforward. We have talked a good deal about the transport permit but, for many of these small transport companies—there are quite a lot of them in my constituency in the north-east of Scotland—part or perhaps all of the profit on journeys will come from the backhaul. In other words, they have a major load going in one direction, but they only really make money if they are able to get some goods to bring back. Are there problems for GB-based hauliers and Scotland-based hauliers, in particular, in getting access to goods from Europe to fill the empty lorry that is going back?

**Rod McKenzie:** That is a very good question. We understand that cabotage—that is the slightly odd old-fashioned phrase that backloads can refer to, although it refers to other things as well—may not be allowed and so cannot happen. Again, that would impact profits and, environmentally, it is not ideal, because running an empty trailer is not the best thing in the world in terms of business efficiency, fuel and everything else. There is a lot of concern about the issue, and it would impact profits. As I was saying earlier, many hauliers—including your constituents in the north-east of Scotland—have profit margins of 2 per cent or 3 per cent, if they are lucky, so that is a worrying situation. I wish I could bring you some good news, reassurance or anything else, but all I can meaningfully say is that I share your concern.

**Stewart Stevenson:** Thank you. That is pretty much what I expected, but it was important to get it on the record from RHA, rather than simply from me.

You said earlier that mistakes will be made, and I think that we all expect that to be the case. I want to focus on what some of the consequences of those mistakes might be, particularly for the drivers. You made reference to drivers being marooned—that is my word, not yours—in lorry parks while they wait for paperwork to be sorted out, but I am also thinking about mistakes. I will give you a 10-year-old example of how even in the single market there were barrier issues from country to country. One of my constituents was put in a French prison cell—it took me a week to get him out of it—because he had forgotten that, when you cross a threshold with regard to the amount of cash that you are carrying, you have to declare it, even though you are in a single market. That tends to be the approach that the French, in particular, tend to take even with quite small issues. Given that we are no longer an EU state, will the set of rules for crossing from one country to another within the EU present a whole set of new issues and opportunities to simply put people in a cell and wait and see what has happened? As I said, that tends to be the approach the French, in particular, take.

10:15

**Rod McKenzie:** Yes, it is worrying. I can identify with the example that you gave. There clearly exist in every police force some people who are particularly keen on enforcement to the nth degree.

There are problematic issues. For example, we will have to display a GB stick on the rear of vehicles and trailers even if the vehicle has a number plate with a euro symbol or a GB national identifier, but, weirdly, we do not need to display a GB sticker to drive to Ireland. There is the potential for rules inadvertently to be broken. We talked about people being held at lorry parks in unpleasant conditions, so I will not go through that again.

On permits, it is absolutely vital that hauliers get ECMT permits or other permits for international journeys. They need to register vehicle trailers, and vehicle registration documents will be much more complex and so on. There are details online of how to do that and, obviously, plenty of help is available, not least from the RHA, on our website

Another problematic issue that occurs to me is the “check an HGV is ready to cross the border” service. That is a snappy title for something that proves that the heavy goods vehicle has the right EU import and commodity documents for the

goods that it is carrying before it crosses the GB-EU border. You have to use that service for HGVs travelling via the Port of Dover or Eurotunnel to get what is called a Kent access permit before you enter Kent. If you fail to do that, you can be fined £300. For all other GB ports, use of the service will be optional. There are lots of things you can get wrong, and it is a worry.

Again, to answer your question directly, we do not know exactly to what extent the French or other authorities will be rigorous in enforcing the strict letter of the law, because, frankly, we do not know what the letter of the law is, and we will not know that until the talks are over one way or another. In summary, it is a concern.

**Stewart Stevenson:** Now that the UK—GB, in particular—is outside the EU, will hauliers filling their fuel tanks in the UK be able to do so without paying customs duty? They will, of course, be exporting that fuel. I ask that as someone who happens to be a private pilot. Before the single market, we used to be able to, essentially, reclaim our customs duty on fuel if we were travelling internationally. That strikes me as an issue that has arisen.

Equally, in relation to fuel, there have been instances in the past of other jurisdictions having decided that the fuel tanks attached to vehicles are so large that the fuel that they carry constitutes an import with the potential of being used for other purposes than simply propelling the vehicle. I suspect that the issue of VAT on fuel is straightforward—maybe not—but I can see issues with the customs duty on fuel. That is quite a big cost for the industry and for many SMEs, and, of course, it involves further paperwork. Are there issues around all of that, or am I simply making a problem where there is no problem?

**Rod McKenzie:** I have to be honest with you and say that I am not aware of that being a problem at the moment, although that does not mean that it is not on the horizon. I will make some inquiries about it, but it is not something that I had heard about up to this point.

**Stewart Stevenson:** I will close by saying that it is an issue that has been raised with me, not because people have decided that it is a problem, but because people think that it might be a problem. I would certainly be grateful for your view, which may not be the final view, because it is up to the UK Government.

**Oliver Mundell (Dumfriesshire) (Con):** Mr McKenzie, I am pleased to hear you talk about driver standards and the conditions that drivers are expected to work in, because I have been absolutely appalled by that issue during the pandemic. On several occasions, I have raised with the Scottish transport minister the issue of the

closure of driver facilities, because I think that it makes no sense. At a time when we have been asking drivers to work longer hours and to bust a gut to keep food on our shelves, it seems wrong to tell facilities in truck stops that they should not open, particularly along the M74, in my constituency, where the facilities have been cleared by local health and safety officers to provide drivers with a hot meal out of their cab. I am pleased to hear that those things are on your association's radar, with Covid resurging and the challenges that we all know about in relation to Brexit.

Specifically in relation to your comments on driver shortages now that we have left the EU, what plans do you have to boost driver numbers in Scotland and attract people into those jobs, particularly with the economic challenges that we are facing?

**Rod McKenzie:** One of the problems that we have had to face is the apprenticeship levy in the UK, which was designed to generate money to allow apprenticeships to happen and new people to be recruited into industry. The road haulage sector has been able to draw down only a tiny fraction of the amount that we would have liked to have drawn down to train the next generation of drivers, warehouse workers and other logistics workers.

The RHA has launched Road to Logistics, which is a company that aims to train the next generation of drivers and warehouse and other staff. Essentially, the idea is to recruit people who are leaving the armed forces, for example, or who are on rehabilitation from prison and are looking to take up a career, as well as a variety of people from various other backgrounds. We think that that is an important thing to do, and never more so than now, when eastern European drivers and other logistics workers who have been important to us over the past 10 or 15 years are choosing to go home or, perhaps more accurately, to Germany, either because they have felt that they are not welcome in the UK because of Brexit or simply because the exchange rate has meant that the economics of sending money back home has not worked for them. We have a big problem, and we have a big problem with the image of our industry.

You spoke about the way that lorry drivers have been treated over Covid, which I think has been often disgraceful, although not universally so. Without trucks, you get nothing. More than 95 per cent of things that we get in Britain travel in the back of a lorry at some point, yet I regret to say that some people treat lorry drivers as the lowest of the low. We had many instances of them being refused the use of toilets or wash basins during Covid lockdown 1, on health and safety grounds. It



was absolutely disgraceful. We called out people who did that and complained about those instances, and we got both the Scottish cabinet secretary for transport and the UK roads minister to write letters that drivers could print out and keep in their cabs, so that they could say, “Look, there’s the proof. You have to give me a toilet. You have to let me wash my hands.”

The difficulty is that, when a young person is thinking about the job that they are going to do and they see that sort of treatment and that lack of respect for those essential workers—they are classified as such by the Government, even in the English Covid lockdown 2 and, obviously, in the five tiers in Scotland—they will think, “Wow. There’s a case of essential workers being treated like second-class citizens.” It makes me angry.

We must do what we can to make the industry more attractive. We need to recruit fresh blood—fresh Scottish blood, because we cannot rely on Romanian and Polish blood anymore. We need to do more to encourage, wherever we can, in little ways and big ways, a new breed and a new generation of people into our industry.

**Oliver Mundell:** That is helpful. I absolutely associate myself with those comments. Without HGV drivers travelling around the country, we would all be stuck. I think that it is a tough gig that often involves being away from home for days on end—that is something that I always reflect on.

How would things work the other way, with EU trucks coming into the UK? I have heard from local haulage companies that there are an awful lot of EU trucks coming into the UK. Drivers are often not always pleased about that, because they sometimes feel there is an imbalance. How will they get back out if we have a lorry park in Kent?

**Rod McKenzie:** Details unknown. Obviously, ECMT permits will need to work both ways, but what is not clear from the talks that are going on at the moment is the extent to which there will be easements or similar that will make it easier for trade to happen and supply chains to move. Again, I cannot completely answer your question. It is an extremely valid question and it is a big and reasonable concern, but I fear that I must give you a kind of “watch this space” answer.

**Oliver Mundell:** I think that that is the best that we can do for now. Thank you, Mr McKenzie.

**The Convener:** That completes our first panel. I apologise to the members who did not have the opportunity to ask Mr Sheerin a question. Unfortunately, he had to leave at 10, and he told us that well in advance. I thank Mr McKenzie for holding the fort on his own after Mr Sheerin left.

10:27

*Meeting suspended.*

10:31

*On resuming—*

**The Convener:** Welcome back, everyone. I welcome to the meeting our second panel of witnesses: Dr Richard Torbett, chief executive of the Association of the British Pharmaceutical Industry; and Richard Carter, managing director, UK and Ireland, of BASF. I thank them for coming to the meeting.

I will start by asking the same questions that I asked our first panel of witnesses. We are just weeks away from what could be a hard Brexit, and we still do not have a deal. Do you have the information that you need? Do you have the time to prepare? Will you reflect on the Prime Minister’s comments last month about our heading for an Australian-type deal? How would an Australian-type deal affect your particular industry?

**Dr Richard Torbett (Association of the British Pharmaceutical Industry):** Good morning. It is a real pleasure to be with the committee this morning.

I represent the research-based pharmaceutical industry in the UK. We supply medicines and, of course, research and develop new medicines and vaccines of the future, including for Covid. That may become relevant later on in the conversation.

We are, rightly, a very heavily regulated industry, so the decision to leave the European Union has had significant implications for us. From the day after the referendum in 2016, our industry has gone to enormous efforts to understand everything that needs to be done in order to be as ready as possible.

In answer to your question about whether we have the right amount of information, it is a mixed picture. Where we have information, we have good confidence that our businesses have done everything that they possibly can do within their power to be as ready as possible, but there are some areas, which I will go into, in which we still do not have guidance. That particularly relates to Northern Ireland, which I will come on to.

The first priority for us is to make sure that we can continue to supply medicines to patients everywhere in the UK. As was said in the previous evidence session, we expect disruption, and we have expected that for some time, particularly in relation to supply routes into the UK and particularly at the short straits between Dover and Calais.

Medicines are very heavily traded. Every month, 45 million packs of medicines leave the UK for the European Union, and 37 million packs come the other way. Before 2016, those primarily went through the Dover short straits. In order to mitigate the risk of supply disruption, which we heard about

in the first evidence session, the Government has worked with us to develop a multilayered approach to manage that risk. That includes a combination of diversifying away from the short straits and using other supply routes; working on trader readiness to make sure that our businesses get the paperwork that they need as quickly as possible and understand all the rules relating to the border operating model; and stockpiling medicines where that is feasible. Through various tactics, we are doing everything that we possibly can to minimise the risk of disruption, but not everything is within our control, of course.

As we are a very heavily regulated sector, we need information about how our regulatory framework will work as we leave the European Union. We have asked for a mutual recognition agreement to make sure that all sorts of standards and mutual recognition of batch testing and release—I can explain that to members if they are interested—are consistent between the UK and the EU, but we still do not know whether we will get one. In particular, there is a real challenge in understanding how the Northern Ireland protocol will be interpreted for medicines. Without that clarity, there may be a risk of disruption to supplying Northern Ireland. We are taking all sorts of steps to mitigate the risks in the short term, but we cannot rely on emergency measures for ever, so we really need that clarity.

You referred to an Australian-type deal. From our perspective, the bottom line is that we are a global industry and we have always asked for a fully comprehensive free trade agreement with the European Union. That is not to say that we do not recognise the political desire for trade agreements outside the EU. We will always work constructively to make the most of those agreements but, as a global industry, we need more collaboration and fewer barriers to trade, not the opposite.

I hope that that answers your questions.

**The Convener:** You mentioned Covid research. Obviously, we are all rooting for your industry's development of vaccines and treatments. How will that particular strand of work be affected if we do not get the fully comprehensive deal that you want?

**Dr Torbett:** The bottom line is that the Covid crisis is, of course, a global crisis. Pressure has been put on supply chains around the world because a large part of the global economy has been in lockdown. Since we went into the first lockdown, in March, the supply of prescription-only medicines to the national health service has, for the most part, been very resilient. We have, of course, had some challenges with a small group of medicines for which there have been particularly high levels of demand because they are used in intensive care settings, but we are not a just-in-

time industry; we are an industry that puts an awful lot of effort into supply resilience. That said, the last thing that we need when we are trying to maintain the supply of medicines to every health service around the world is more complication, delay, cost and complexity in our supply chain into the UK. I do not believe that that will affect the research effort as such, but it will put further pressure on supply chains at a time when we really do not need it.

**The Convener:** Thanks very much. I refer Mr Carter back to my questions about timings and whether you have the information that you need. What do you think about the Prime Minister's comments about an Australian-type deal being the best outcome at this stage?

**Richard Carter (BASF):** Good morning. I am delighted to be here to answer the committee's questions.

The question about preparedness is the key one. The question is: what are we preparing for? We are still preparing for various scenarios. Because we do not have certainty, our teams are working on different scenarios, which means that we are still at a very high level.

Some of our concerns have already been mentioned. We are in a highly regulated industry. The topic of the registration, evaluation, authorisation and restriction of chemicals is of existential importance to the industry, and we still do not have clarity on that.

We are preparing with our partners, and we have done multiple workshops with our customers and our haulage partners. One of the scenarios that we are preparing for is an Australian-style deal, which really means WTO rules. That is a bare-bones agreement that would lead to our having concerns on numerous fronts.

The tariff discussion has already been mentioned. Obviously, the question is, who pays the tariff? That depends very much on industry competitiveness.

In a nutshell, we are still in waiting and we are still preparing for the various scenarios, but the longer this goes on, the less time we will have to prepare for whichever scenario is agreed on. We are covering our bets but, obviously, the sooner we get clarity, the sooner we can pursue a more detailed analysis of whatever agreement is put into place.

**The Convener:** There is not very much time left.

**Richard Carter:** Indeed. That is a key point. We work in a highly regulated industry. As a company, we import about 1 million tonnes of chemicals into the UK a year, so the supply chain issues are of

critical importance to us, and we cannot exclude supply chain disruptions.

**The Convener:** Okay. Thank you very much. I am sure that members will want to explore those issues with both of you.

We will move on quickly, because I want to make sure that all members have a chance to ask their questions.

**Claire Baker:** In comparison with the picture that was painted by the first panel of witnesses, the picture that has been painted by Mr Torbett appears to be one of a closer working relationship with Government and perhaps a better understanding of the needs of the sector. You talked about the border operating model and stockpiling. You said that a variety of tactics will be used to buffer us from any supply problems.

Do you think that there is a desire on the part of the UK Government to achieve alignment with the EU on pharmaceuticals, recognising the importance of the sector? You mentioned the REACH regulation. If no decision to reach agreement is made, would there still be a need for the pharmaceutical sector to align with the EU and have a shared regulatory framework if it wished to trade with the EU? How challenging would that be if you are going to look to trade with other countries?

**Dr Torbett:** That is a really interesting question. The first thing that I would say is that medicines are obviously essential for many patients and for the national health service. I feel that we have had a very good and deep dialogue with the UK Government and, indeed, the Scottish Government since the outset of the crisis. We have had a good level of understanding on the challenges that our businesses face.

When it comes to alignment with the EU, in such a complicated area, it is not a black and white question. There will be areas where the UK Medicines and Healthcare products Regulatory Agency might well be able to compete in how it deals with licences and the speed with which it deals with licensing in certain areas.

However, there are certain core elements of the regulatory framework that ought to be global in nature. I will give a couple of examples, the first of which relates to good manufacturing practice. I am talking about the set of rules that defines what good manufacturing practice looks like and the inspections that are made by regulatory authorities in manufacturing plants. If we do not have a mutual recognition agreement that says that we have the same GMP standards, that will add cost and complexity because the standards that we have to adhere to might be different. That would incur costs in itself, but it would also lead to duplication of inspections.

Another big example relates to what is called batch testing and release. Before every batch of medicines and vaccines is allowed on to the market, it is tested in a lab. That is a complicated and highly costly process. If something is tested in the EU, should it have to be tested again in the UK and vice versa? At this point in time, we do not yet know what the long-term relationship will be on batch testing and release. We think that having a mutual recognition agreement on batch testing and release and GMP inspections ought to be a no-brainer. That is illustrated by the fact that the EU has such agreements with many countries around the world—including Canada and even the US—completely outside the context of a free trade agreement.

10:45

The bottom line is that we feel that a mutual recognition agreement is essential, alongside the other guidance that we need on Northern Ireland and so on. The UK Government has included a mutual recognition agreement in its objectives for the negotiations with the EU, so we think that it has listened and that it is trying to negotiate such an agreement. Obviously, those negotiations are still on-going and, until they are resolved, we will continue to have a level of uncertainty.

**Claire Baker:** Does Mr Carter want to comment?

**Richard Carter:** Yes. I would underscore some of those points. We have worked very closely with Government. I represent BASF on the Chemistry Council, which is the partnership between the chemical industry and Government. We have been working closely with Government and we have addressed our concerns. We have also worked bilaterally with the Department for Environment, Food and Rural Affairs and with the Department for Business, Energy and Industrial Strategy, but as the negotiations are on-going, we have very little information on the chemicals annex, which is part of the strived-for deal. The sooner we can move on to seeing the details of that, the better, because the chemical industry is the industry of industries—we supply strategic industries in the UK such as the automotive, aerospace and pharmaceuticals industries.

One of our concerns is the regulatory framework. Indeed, that is our primary concern, because the world is divided into blocs: we have the EU REACH setup, we have the US and we have China. From our point of view, we want to have an aligned mutual agreement on REACH that involves minimal costs for UK industry. The current draft of the UK REACH proposal, which will go before Parliament, would burden the chemical industry in the UK with costs of up to £1 billion. My company has made its position public.

BASF alone would face £50 million to £60 million of re-registration costs.

The point that we have made to the Government and to stakeholders is that there appears to be an assumption that all chemical companies will register all their substances. Due to the high costs, we see that as being a false assumption, because the burden is so significant that companies will do their own business case and profit-and-loss analysis on the re-registering of chemical substances. Such uncertainty cannot be good for our key downstream strategic industries, such as pharmaceuticals, which we are hearing from, and the aerospace and automotive industries, to name just a few.

**The Convener:** The next questions come from Oliver Mundell.

**Oliver Mundell:** The industry is quite integrated, with companies on the continent supplying into the UK market and vice versa, particularly in chemicals. What is the feeling within your business? How are companies on the continent feeling about things? What pressure do you think that they will put on their national Governments to make sure that there is at least an agreement that allows industry on both sides to continue?

**Richard Carter:** There is clearly a mutual interest on both sides in having an agreement on the registration of substances on UK REACH, because that affects UK companies importing and exporting, as well as European companies exporting to the UK. Therefore, it is an area of common interest.

We work very closely with Cefic, which is the European Chemical Industry Council, and with the chemical associations in the UK, and we have been underscoring the importance of the issue. The chief executive officer of my company, who is also the president of Cefic, has written to the Prime Minister and to the president of the EU to underscore the importance of substance registration, continuity and mutual alignment and agreement.

**Oliver Mundell:** That is helpful. Is the position the same in pharmaceuticals?

**Dr Torbett:** The short answer is yes—absolutely. We have been in lockstep with our colleagues in Brussels and from around Europe. I endorse Richard Carter's comment about the importance of the chemical sector for our industry. It is the supplier for many industries throughout the economy.

On pharmaceuticals, we are a very highly traded global sector. Just a few weeks ago, I issued a joint press statement with my colleague in Brussels, which was reported in the *Financial Times*, in which we made it clear that it is in the

interests of patients in the UK and in the EU that we allow that trade to continue in as smooth a way as possible.

Beyond the short-term issues, which are primarily about patients, we are talking about the long-term competitiveness of the industry. If we do not get to a point where we have a mutual recognition agreement and we end up duplicating testing and all sorts of other processes, we will be adding red tape as we leave the EU, not removing it. Ultimately, that will impact on the gross domestic product of the whole region at a time when the UK and the EU are desperately trying to find R and D-intensive innovative industries to fuel economic growth and fuel recovery from the current crisis.

**Oliver Mundell:** That is very helpful and interesting.

We have heard a lot of talk about low deals or side deals. In the event of a worst-case scenario in which we do not reach an overall deal—I still think that we will; I think that there will be movement at the last minute, as there often is in EU discussions—which keeps getting talked about, is it still possible that we could have an agreement on pharmaceuticals? Similarly, on chemicals, is there room for movement there?

**Dr Torbett:** On pharmaceuticals, I appreciate and hope that I share your optimism that there will be a deal in the end, but if there is not, there is the possibility and the precedent of, at the very least, reaching a mutual recognition agreement outside a free trade agreement. As I said, the EU has such agreements with many countries around the world, because it is a no-brainer. No side has an economic advantage in not reaching such an agreement. The only thing that will happen if we do not do it is that further cost, complexity and delay will be put into supply chains, which will only impact patients.

**Oliver Mundell:** Mr Carter, do you think that the same thing is likely with regard to chemicals?

**Richard Carter:** Because of the strategic importance of the sector and the economic benefits, we would like to think that we could come to an agreement. The subject of regulatory alignment is not a topic that kicks in in terms of interrupting supply chains on day 1, but this is a long-term strategic element for the UK and it impacts on our global competitiveness and our productivity. We all know that the UK has various challenges associated with productivity. Therefore, we would like to encourage everyone to come to an agreement.

Mention has been made of easements or grace periods. Such mechanisms can only assist, because we do not want a last-minute, hastily agreed-upon chemicals annex that might oversee

some important elements. We remain optimistic. We have made proposals to the Government on how things might work, but I make the point that it is in the gift of the UK Government to minimise the costs for UK companies of re-registering. That is a UK topic.

**Annabelle Ewing:** I have a few questions for Dr Torbett, which I will set out to make it easier for him to respond. With regard to the possibility of an Australia-type deal, where WTO rules apply, what would be the likely impact as regards the active ingredients of the compounds, which could be subject to tariffs, as far as I understand? Even if there were no tariffs, what would be the position vis-à-vis any non-tariff barriers? How would that impact on the industry?

Our constituents are highly concerned about the supply of medicines, particularly those pharmaceutical products with short shelf lives and short half-lives. Perhaps Dr Torbett can comment on that.

Given that we are no longer a member state, I understand that the UK is no longer a member of the European Medicines Agency. What impact has that had and will that have at the end of the transition period?

**Dr Torbett:** You have asked some great and very well-informed questions. On the first front, you are quite right to say that there is a distinction in medicines between final produced medicines and intermediates such as active pharmaceutical ingredients. Although there would be no tariffs under WTO rules for final medicines, there would be tariffs for active pharmaceutical ingredients. Where there is a manufacturing industry—there are at least two major plants in Scotland—there would be a direct cost impact on those businesses that import active pharmaceutical ingredients from abroad and export final products or further intermediate products.

On non-tariff barriers, the situation gets more complicated. There are many non-tariff barriers. Those that relate to supply would include things such as the duplication of testing, the duplication of inspections and so on. That sort of thing adds time, complexity and delay in supply.

Beyond that, there are many other aspects of trade agreements that are very important for an industry like ours. Some of them relate to people—for example, the extent to which we can move highly qualified people around the world and the extent to which we can participate in collaborative research programmes, which are usually of a global nature. I would characterise those sorts of things as non-tariff barriers that ultimately affect the long-term competitiveness situation. That sort of scenario of the Australia model is definitely not a scenario that is attractive to us. We are very

clearly asking for global co-operation, global high standards with respect to a regulatory regime and, fundamentally, collaboration.

Your second question was about the supply of medicines. You are quite right to point to the particular difficulty of short-life medicines, which is an example of an area where stockpiling cannot be the only answer. It is simply not possible to stockpile a medicine for six weeks if the shelf life is a matter of hours or days. That is the case for only a small number of medicines, but those medicines are of a very critical nature. That is why we need to have a multilayered approach to managing risk in supply. That means diversifying away from the short straits as much as possible and taking advantage of the Government-secured freight, on which a question was put to the previous panel. There is a Government-secured freight facility specifically for medicines, which companies will be able to book in the coming weeks, that will allow for a route in under those circumstances.

11:00

Fundamentally, our answer is to have a multilayered approach. It is the best answer that we have come up with. To the best of our ability, we are working at all those layers to make sure that we are as prepared as possible. However, of course, not everything is within our control.

That is linked to your third question, which was about the implications of moving away from the EMA. The EMA works as a network. There are national regulators in every member state and a centralised procedure for licensing. A lot of the regulatory work in the European model has been done by national regulators. In fact, the UK's regulator, the MHRA, did a large chunk of work—it is one of the most highly respected regulators in Europe—as part of that European system.

The first implication is for Europe, of course, because if the EMA is not drawing on the expertise of the MHRA, that is, from our perspective, unfortunate. On the other hand, given the political reality of where we are, we have an opportunity to think carefully about what the future of the MHRA needs to look like. Interesting conversations are going on right now with the MHRA and with the Office for Life Sciences at Westminster to talk through how to get the balance right between ensuring that the MHRA is working to international standards but that it is also trying to be as smart as possible and identifying those areas where it can be at the cutting edge. At the end of the day, a regulator being at the cutting edge helps the industry to be at the cutting edge, too. If we want to have a world-class industry in Scotland and the rest of the UK, having a world-class regulator is very helpful to us.

We do not have the full picture yet, but I am optimistic that we will find a mixed model that will allow some level of alignment or adoption of EU approaches, but which will also allow some flexibility for the MHRA to compete in areas where that might be in the UK's interest. I hope that that good compromise will be something that we can all live with.

**Annabelle Ewing:** That is worrying and interesting in equal measure. Obviously, the pharma industry is important to Scotland. You provided statistics indicating that it entails 17,000 jobs and exports worth £462 million. We would not want any measure to increase administrative bureaucracy or tariff costs, as that could be a factor in whether any company felt that it was more competitive to move elsewhere than to remain in Scotland. We certainly would not want to see any diminution of our excellent pharma industry.

I have a question for Mr Carter regarding the chemical industry. The EU has an important framework that governs the registration, evaluation, authorisation and restriction of chemicals via the European Chemicals Agency. What are the implications of a no-deal Brexit or a low-deal Brexit for that vital framework arrangement?

**Richard Carter:** That is our key concern, because our companies, being within the EU, have already contributed and paid costs to register substances. I mentioned that no deal would potentially put a cost of £1 billion on the UK chemical industry to re-register substances. Re-registration does not bring about any benefit to human, animal or environmental health. It would be a burdensome cost and it would reduce our activity and our global competitiveness.

The situation is somewhat complex because every company has a different number of substances. BASF has more than 1,000 substances that we would need to re-register. We remain optimistic that an agreement can be found, as I previously said. The costs for my company run into the tens of millions of pounds. We have made that public, so there is no lack of information on the impact.

The UK runs the risk of becoming, in layman's terms, a second-division player in certain global industries. If certain chemicals are no longer available in the UK, then downstream companies—producers in key sectors—will potentially look elsewhere to invest in the future.

We are concerned. We are open to all kinds of co-operation and collaboration. We proposed a suggestion to the previous Government whereby there could be associate membership of REACH. That was rejected, and a UK REACH proposal

was put on the table. That is our key issue right now. In the meantime, we are already having to increase our costs because we are having to bring in additional resources to prepare for that worst case. As previously noted, the sooner we can have clarity on which scenario we should focus on, the better.

**Annabelle Ewing:** It is worrying that there are 55 days to go and you do not have the clarity that you need. If you followed the earlier evidence session, you might have heard me say that the leading trade bodies in Scotland's food and drink sector—which is a very important sector for Scotland, as I am sure you are aware—have written to the Prime Minister today. They are seeking a six-month grace period to allow businesses to adapt to Brexit, taking into account the impact of living through the global pandemic, as we have been doing for many months, and the fact that the second wave is now here. What are your thoughts on that?

**Richard Carter:** We find ourselves almost in a perfect storm. We have a global pandemic and Brexit very much in front of us. Any mechanisms or agreements that could assist us in getting through to whatever model is decided on would be welcome. An easement or grace period between laws coming into play on 1 January and their being enforced in the UK would be a common-sense approach to give the chemical industry and all our downstream customers more time to adapt. All potential measures to limit the impact would be more than welcome.

We see certain challenges regarding registering data with the proposed UK REACH. We are being asked to re-register data that, in many cases, we do not own. Given the complexity and costs of preparing dossiers, we appeal to the UK Government to reduce the UK costs associated with any re-registration to a minimum and suggest that it could incentivise the chemical industry to re-register all chemicals within a certain timeframe. That would take away not the short-term but the mid to long-term uncertainty associated with operating in the UK.

**Annabelle Ewing:** Dr Torbett, for the sake of clarity, do you echo what Mr Carter said about an easement or a grace period to allow mutual recognition arrangements to be put in place in an orderly manner? Might that be of interest to the pharma industry?

**Dr Torbett:** It is more than of interest. For us, that is required specifically for Northern Ireland. Even if we had regulatory clarity tomorrow on how the Northern Ireland protocol will work, it is now too late to do everything that is necessary to change packaging, change routine and do all sorts of things that will take many months to do. The UK Government clearly knows that that is essential for

us and not just a nice thing to have. We need to have that phase-in period.

**Stewart Stevenson:** I will start with Dr Torbett and ask about something that I have not heard raised so far. At the moment, there is mutual recognition of patents. I imagine that there is a lot of intellectual property involved in both the pharma and chemical industries. Where is the future for patents pan-Europe, particularly with effect to GB and, of course, Scotland?

**Dr Torbett:** The main outstanding issue relates to something called supplementary protection certificates. That means it takes so many years to produce a medicine in the first place that, in some cases, the clock starts ticking on your patent many years before you can get to market. Supplementary protection certificates essentially top up your patent to a level that will compensate you for that delay in coming to market. The short version of this is that, as things stand at the moment, the clock starts ticking on your supplementary protection certificate at the point of first licensing. In the future, if a company happens to get a licence first in the European Union and then subsequently gets licenses in the UK, the unintended consequence is that the patent life in the UK will be shorter than it will be in the European Union. That is really unfortunate, and it is something that we have made representations to the Government at Westminster about. It is a real concern and will not send a helpful signal going forward.

**Stewart Stevenson:** My niece Jo is now a Swedish citizen post-Brexit. She is a senior research scientist and lab manager near Stockholm and has been working in the field for many years. Clearly, the people who are involved in this are relatively well paid but are, of course, quite mobile internationally. Although some of the barriers to people moving to and from the UK that might exist for, for example, seasonal fruit pickers will not exist for research scientists, are there, in practice, barriers in the minds of research scientists or otherwise in the regulations that—either now, or in the future—are expected to create problems in making sure that we continue to be part of the international research community?

**Dr Torbett:** That is an important question. The short answer is that we do not yet know the full details of how it is going to work. We have had encouraging signs from the Government that the talent visa approach, which seems to be sensible, is there to address our need to be able to move qualified scientists around. It would be remiss of me not to acknowledge that there has been enormous uncertainty in the scientific community generally. The ability of universities to retain and attract students from other countries has been

impacted, which will inevitably feed through to our companies in the future, because that is the pipeline of our talent. How the detail is worked out for that new visa process and whether junior staff who are developing will have the same ability to move around as seasoned scientists have remains to be seen. It is a critical issue for us, and we want as much openness and collaboration as we can get.

**Stewart Stevenson:** Is it also affecting the attitudes of the scientists themselves about whether they might be prepared to move to GB?

**Dr Torbett:** Absolutely. Since the referendum, the uncertainty has played out at an individual level for scientists, whether in the public or the private sector. Only getting more clarity on how a complete system will work will put people's minds at rest and allow them to prepare from a personal perspective.

11:15

**Stewart Stevenson:** Let me ask Richard Carter to flesh out what we have heard about the UK equivalent of the REACH regime. We have heard about the costs associated with that, and BASF has given the figure of £60 million for re-registration. Mr Carter, what will be the practical effects of the scheme, particularly if the registration process becomes misaligned simply because of the timings of when things get put into the database in the UK and into the database in Europe? Are there further issues associated with REACH?

**Richard Carter:** On the question of data ownership and being able to acquire data so as to put together a dossier as required, there are clear quantity tiers as part of the proposal for UK REACH.

It is challenging in terms of resources. I mentioned that we are already increasing our resources to do the analysis, first of all. One of the complexities is that, when a product portfolio encompasses many thousands of products, there is a different situation per product in terms of your competitiveness and your cost situation. One of the challenges is in reaching out to all data owners to start discussions on data. It is highly complex and is associated with resources. That is why, as I have said a few times, we are looking for clarity as soon as possible, so that we can move forward.

**Stewart Stevenson:** BASF is an international company with significant presence outside the UK. Is the dynamic internally in your company—I assume that this is representative of other companies that are in a similar position—that it is simply easier to do certain important things outside the UK, or do you, as the managing director for the UK and Ireland, make a strong

argument for there being some advantages in being outside the EU, because change brings opportunity as well as risk?

**Richard Carter:** I will address the last question first. Since the referendum, the BASF team in the UK and in the EU has analysed everything and we have not come up with any benefits for us in leaving EU REACH, because of the points that I have made.

Companies such as BASF are globally structured—we have specialists in other countries and we are the world's largest chemical company, with 120,000 people. We are headquartered in Germany, so we have a lot of expertise in Germany and we depend on the frictionless interaction between countries for collaboration. Anything that gets in the way of or that impedes our collaboration cannot be good from our point of view.

**Ross Greer:** I will continue the line of questioning that I followed with the previous witnesses about the impact of the Irish protocol in the UK and on the customs border between Northern Ireland and Great Britain. First, what is your understanding of what those arrangements will be for your industry and the impact that they will have on it? Dr Torbett, I realise that you made some useful comments in your opening answer to the convener, but if there is anything that you want to expand on, that will be useful.

**Dr Torbett:** I am happy to do that. The basis of the Northern Ireland protocol, which is that Northern Ireland must adhere to European Union regulations, is clear. When the Government published its command paper on Northern Ireland, it noted that further guidance would be forthcoming for highly regulated sectors such as ours.

While we have had some more guidance on this, there are critical pieces that are still outstanding, as we understand it, because these topics are still subject to negotiation with the European Union. There are two big areas that I would point to. The first, and most important, is that of the importation rules and the checks and balances that the medicines will have to go through, particularly when moving from GB into Northern Ireland. A majority of the supply to the Northern Ireland market comes through GB and 80 per cent of that comes through Scotland. There is a Scottish angle to this in so far as the route by which many medicines get to Northern Ireland is through Scotland, and the lack of clarity on batch testing, release and other importation checks means that we do not know how that will work.

The second area involves the Falsified Medicines Directive, which is Europe-wide legislation that aims, as the name suggests, to

secure the supply chain against the risk of falsified medicines. In practice, that means that it governs the specific type of barcode that needs to be on every single pack and how the serial numbers connect through European databases in order that that supply can be checked and tracked as it moves from place to place. We do not yet know how the Falsified Medicines Directive will be applicable in Northern Ireland. As I mentioned in response to one of the previous questions, when we do get that clarity, adjusting the packaging for millions of packs of medicines will be much more than an administrative exercise. It will be a real manufacturing job to change what will be an accepted, regulated pack of medicines and it will take time.

**Ross Greer:** Re-labelling is a good example of a substantial administrative task, along with the other challenges that you talked about—you mentioned batch testing. It may be that the additional guidance that you mentioned is eventually published and your industry is broadly happy with it and believes it can be delivered. In that best-case scenario, the question in the short term is what can be delivered for 1 January. At this point in time, if the guidance is eventually published and clarified and is what your industry is looking for, can all the arrangements be made by 1 January—whether that means substantial additional lab capacity for batch testing, or changes at the manufacturers' end? If they can be made, what does that disruption look like?

**Dr Torbett:** In some scenarios, changes could quite clearly not be made by 1 January. There is a scenario in which medicine would have to be tested in the EU, again in GB and again in Northern Ireland. That would make no sense but, more important, those lab facilities simply do not exist in Northern Ireland. If somebody decided that that needed to happen, it could not. It is as simple as that.

We have asked for at least a 12 month phase-in period to enable us to comply with the regulatory guidance. That is not a change to the end of the transition period, but we need pragmatism and a phase-in to allow time for adjustment from the point at which we get the guidance. Where we have guidance, we have planned for that. The issue is those areas for which we do not have guidance—we cannot do what we do not know.

What does that mean in the short term for Northern Ireland? This is a serious issue and, of course, I am aware that there are patients at the end of it. My very clear message to patients in Northern Ireland is please, do not panic. I fundamentally believe that where there is a will there is a way. There obviously has to be will on all sides. There is certainly will from the industry, but there must be will and pragmatism from the



Government and the EU as well. At the end of day, there are always emergency measures that can be taken to ensure that essential medicines get to patients, but nobody wants to work on an emergency basis permanently. That is not a sustainable way of moving forward, so we need clarity as soon as possible.

**Ross Greer:** I am conscious of the time and that I have probably not managed mine very well. Mr Carter, could you give a brief summary of the impact of the Irish protocol on your sector, as you understand it?

**Richard Carter:** BASF continues to analyse the data that is available to us. We do not have a production site in Northern Ireland, although we do have one in the Republic of Ireland. The issue is not completely clear to everybody right now. One of the challenges that we see is how Northern Ireland data is held in our systems. The UK is one geographical unit in our systems and, once we start diverging and trying to separate out Northern Ireland with different customs, different procedures and policies, that will become increasingly complex. For us, this is not a major issue, although we are looking at it.

As far as the industry is concerned, I cannot comment, but I could certainly come back to you with data from the chemical associations.

**Ross Greer:** That would be great. Thank you very much.

**The Convener:** Thank you. We move to Beatrice Wishart. I ask that questions and answers to be as succinct as possible because we are up against the clock.

**Beatrice Wishart:** I will put my question to both witnesses at once. We are aware of the great contribution that EU nationals have made to the UK workforce. In relation to research and development, we know that around 2,500 EU academics have left Scottish universities. How will the loss of freedom of movement affect research, development and innovation in your sectors?

**Dr Torbett:** As I mentioned in response to a previous question, we are encouraged by the signals that we have had around the talent visa policies. We are still waiting for detail on exactly how that will work in practice. Our plea is to make sure that it is not just the senior staff, if I can put it that way, but staff with many different types of technical expertise who are able to circulate between affiliates in different parts of Europe.

**Richard Carter:** BASF does not do basic research in the UK, but we work closely with multiple universities. We have over 100 partnerships with UK universities and we are in dialogue with them. Our main R and D community is in Germany, where UK researchers are also

based. This is a key issue, but I would say that BASF is one step removed from it, because we work with the institutions, universities, and R and D groups in the UK.

**Beatrice Wishart:** How is the wider workforce in your sector impacted, and what can we do to ensure that there is an adequate workforce in the chemical and pharmaceutical industries?

**Richard Carter:** I would like to say a few words about my experience. I worked in Europe for over 20 years before coming back to the UK in 2016. The UK and the chemical industry need to make a positive case for us being an attractive place for people to come to. When it comes to the mobility of people, I see a correlation between uncertainty and complexity: mobility goes up when there is lower complexity. We all need to work on that.

11:30

We depend on people coming in and out almost on a daily basis. We have experts in Europe and we want them to be able to come in and perhaps work on a problem at a plant, or at a customer's facility, as easily as possible and without red tape. We are watching the already announced visa situation. We have certain sites in our UK organisation where we have a higher percentage of colleagues from the EU and we want them to stay. They are fundamental to our operations, whatever role and whatever level in the hierarchy. We want to send signals that are as positive as possible that the UK, our sites and our industry is a place for the future, both for them to work in and, more broadly, for them and their families to live.

**Beatrice Wishart:** Thank you, Mr Carter. That is helpful. Dr Torbett, do you have any comments on the general workforce issues in relation to pharma?

**Dr Torbett:** I endorse what we have just heard. It is good that the UK and the European Union have made it clear they will respect the rights of citizens in each territory; that is a good first step. What we really need is for the immigration system to be fleshed out and the global talent visa idea made clear. Once that has been clarified, a good communication job will be needed to make sure that people understand how it works. Getting the communication right will be a practical step to think about because, at the end of the day, there are individuals and families who will want to think through the issues and they need as much clarity as possible in order to make big life decisions about where they live.

**The Convener:** The next question is from Dean Lockhart, who is now back with us. I thought that we had lost you.

**Dean Lockhart:** Thank you, convener. My connection dropped for a second, but it is back.

The witnesses have made it clear that regulatory harmonisation is important in their sectors. After the transition period, the Scottish Government is looking to keep pace with some, or all, EU regulations in the future, while that may not be the case in the rest of the UK. If there is regulatory divergence in your sectors between Scotland and the rest of the UK market, is that a concern for you? If the Scottish Government tries to keep pace with future EU regulations, will that address your concerns about regulatory harmonisation with the EU?

**Dr Torbett:** Please correct me if I am wrong, but my understanding is that the debate around the divergence in Scotland does not apply to medicines; I think it is clear that that operates at UK level. When it comes to the debate between where we end up in the UK versus the EU, I would not see it as a black or white conversation, although it has been portrayed as such at times. We have reached a point where it is quite clear there are certain areas of international standards where alignment is totally essential, but I think there is room for a bit of creativity and a bit of flexibility there as well that could benefit the UK, including Scotland.

**Richard Carter:** In the best case scenario there would be no divergence. That would be our wish, as I have made clear. If there were to be divergence, I think that most companies will maintain alignment with the EU. In our case, it is our major supplier, two-thirds of our inbound materials come from the EU and one-third outbound. Companies will have to address their specific situations. You might be aware that BASF has a production site on the beautiful isle of Lewis. We would obviously take a focused approach to any issues arising from divergence and try to work out solutions if there was a need for a solution.

**The Convener:** Thank you all for your brevity. We move on to our final questions, which are from Kenneth Gibson.

**Kenneth Gibson:** I will focus on costs, which we have heard a lot about this morning. In February last year, we had a presentation on the impact of Brexit on GlaxoSmithKline, which said that, up to that time, it had spent £70 million. GSK has 14,000 employees in the UK, so that works out at about £5,000 per employee. What is the overall cost of Brexit in terms of preparation, and what is the impact on the pharma and chemical industries?

**Richard Carter:** We have not been able to calculate the cost to date, but, for the management team and for the whole company, it has been significant. We have run workshops with

hundreds of our customers, and there is clearly an accumulated cost there that is very difficult to quantify.

The cost picture becomes clearer when we look to the future. Let us say that, for the chemical industry, tariffs are in the region of 5 to 7 per cent. BASF estimates the tariff impact to be £50 million per annum. If you add up the tariff impact and the cost of having to employ additional people, as we are doing in certain areas of the supply chain, there are tangible costs. I cannot give an accumulated cost to date, but there has been a significant time cost. Going forward, those costs will be in a very different dimension and, because of that, I think that a lot of companies will re-evaluate their activities.

Global companies such as BASF are in a different position because of the resources that we have at our disposal. An industry point that came out of the recent Chemistry Council meeting with Government is that SMEs need more support from their partners and maybe also from Government agencies to ensure their preparedness.

**Dr Torbett:** The figures from GSK give the committee a sense of the order of magnitude, and I believe that another company went public with a figure of around £100 million. Our early attempt to try to quantify the costs for the whole sector proved enormously complicated, and I am not confident that I can give you a reliable figure for the sector. In recent months, we have put our efforts more into planning for Brexit and dealing with Covid. The figures that the committee has give members the order of magnitude in terms of the immediate administrative costs.

It is worth not losing sight of the bigger picture of the opportunity cost to the economy if we get some of the decisions that need to be made soon wrong. If we do not have a mutual recognition agreement, for example, and end up duplicating all the processes that I have talked about this morning, the competitiveness of the European region, including the UK, will be affected. That will lead to a big opportunity cost in terms of the investment, jobs and R and D that could come here, which will be a far bigger figure.

**Kenneth Gibson:** The impact on inward and indigenous investment and product development is the issue that I was about to focus on.

GSK spent £70 million up to February last year, and that is just one company. That is money that is not going into product development, innovation, R and D or anything else. How will Brexit impact on the growth potential of the pharmaceutical industry in Scotland and the UK?

**Dr Torbett:** You are right that money spent duplicating all these things is money that is not spent on more productive work, such as

developing medicines, running clinical trials, putting money into discovery science and so on. That is what we want to be focusing on, particularly here in the UK, which has been one of the homes of the pharmaceutical industry for many decades.

As a representative of the ABPI, I have to work with the real difficulties of managing the transition—as I said, there is a lot to work through. Equally, we are committed to the UK and we are committed, whatever the political reality, to making the best of it. There are ways in which we can make the best of whatever situation we are in. We have good-news stories. For example, two companies have announced major investments in the UK in the past few months, which is encouraging. There will always be a reason to come here, alongside the economic activity that we might lose. My job, in partnership with politicians in Scotland and at Westminster, is to make the UK the most attractive place we can make it.

**Kenneth Gibson:** Everyone would want to agree with that—absolutely. We have to make the best of whatever situation we are in; I just wish that we were not in such a difficult situation.

Mr Carter mentioned that BASF is having to spend perhaps £50 million to £60 million on re-registering its products. What is the situation in the pharmaceutical industry? Many medicines are specialised and if we do not have Europe-wide registration, it may be uncompetitive when it comes to a company's returns. We may have few patients who require what are important medicines, so there may be a difficulty for the company in still being able to market those medicines, given the costs of re-registration. Are discussions going on with the UK Government about potential subsidies if the matter is not resolved?

**Dr Torbett:** You are right to point to that as a risk. I see it as more of a risk in the generic medicine space than in the branded pharmaceutical market. Again, concerns have been raised with me about Northern Ireland rather than GB, because Northern Ireland is a much smaller market. If there are medicines, including generic medicines, that cease to be profitable in Northern Ireland, that will have a knock-on consequence as physicians look for substitute products, which may have a knock-on impact on the supply chain in the branded market as well, at a time when supply chains are under a lot of stress.

We have not had conversations about subsidies and I do not know whether the generics industry has. However, we are looking at the issue very closely.

**Kenneth Gibson:** I have a final question for Mr Carter on where we are in resolving these issues in the chemical industry; Dr Torbett can comment subsequently on the pharma industry.

How confident are you, Mr Carter, that the issues that the chemical industry faces will be resolved prior to 31 December, or do you think that they are likely to rumble on for a number of months into the new year? I know that some individuals are putting forward an attitude of "It'll be all right on the night", but, in practical terms, how confident are you that we will be able to sort this?

**Richard Carter:** The chemicals annex is dependent upon the overarching agreement between the UK Government and the EU. I would like to hope that, as soon as there is agreement on the big stumbling blocks in the negotiations, both sides could then move rapidly to work on the chemical annex and become a lot more specific about what needs to be addressed in the industry. Ideally, an agreement would lead to mutual recognition and reduced costs—zero cost for re-registration would be our strong desire. That all follows on from whatever deal is reached. Realistically, if things are not settled quickly, I think that the topic will flow into next year. We need to make sure that we get the right deal, rather than just a quick deal, on chemicals registration. Therefore, my answer is that it depends; I am sorry that I cannot be more specific.

11:45

**Dr Torbett:** Where we know what we have to plan for, our businesses have absolutely done the work, but there is outstanding guidance that we cannot plan for. European negotiations have a habit of concluding at one minute to midnight, but businesses cannot plan on that basis. When the guidance is published, we will need time to implement it. There needs to be pragmatism and we need that phasing-in period, particularly for Northern Ireland.

**Kenneth Gibson:** I thank Dr Torbett and Mr Carter.

**The Convener:** I, too, extend my thanks to Dr Torbett and Richard Carter for an interesting evidence session today.

We now move into private session.

11:46

*Meeting continued in private until 11:58.*



This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

---

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

---

All documents are available on  
the Scottish Parliament website at:

[www.parliament.scot](http://www.parliament.scot)

Information on non-endorsed print suppliers  
is available here:

[www.parliament.scot/documents](http://www.parliament.scot/documents)

For information on the Scottish Parliament contact  
Public Information on:

Telephone: 0131 348 5000

Textphone: 0800 092 7100

Email: [sp.info@parliament.scot](mailto:sp.info@parliament.scot)

---



The Scottish Parliament  
Pàrlamaid na h-Alba