Select Committee on the European Union
Internal Market Sub-Committee
Uncorrected oral evidence—Brexit: Competition

Thursday 18 July 2019
10.05 am

Watch the meeting

Members present: Baroness Donaghy (The Chairman); Lord Berkeley; Lord Lamont of Lerwick; Lord Lansley; Lord Lilley; Lord Mountevans; Lord Robathan; Lord Shipley; Lord Wigley.

Evidence Session No. 6 Heard in Public Questions 67 - 76

Witness

I: Professor Steve Fothergill, National Director, Industrial Communities Alliance.
Examination of witness

Professor Steve Fothergill.

Q67 The Chairman: Professor Fothergill, good morning and welcome again to the Committee. Thank you very much for coming back to see us. As you can see, there is a new Chairman. Lord Whitty has moved on under our rotation system, and just over half of the Committee are new members.

This is a public session, so it will be recorded. Members of the Committee will say whether they have particular interests before they ask you questions. Perhaps you would start by giving an introduction and saying a bit about your report.

Professor Steve Fothergill: By all means. Good morning, and thank you for having me along.

Let me start by saying a bit about myself and the organisation. I am the national director of the Industrial Communities Alliance. As national director, that makes me the chief officer, not the political boss. There is a lovely photo of my political boss on the opening page of the document. I have another role, which runs in parallel. I am an academic and have always had a foot in academia. I am professor of regional economic development at Sheffield Hallam University. You could say that this subject matter is meat and drink to me; it is core business.

The Industrial Communities Alliance is an association of local authorities in Britain’s older industrial areas, an all-party association covering England, Scotland and Wales. We have something approaching 60 member authorities. That is not a clean sweep of older industrial Britain, but it is a substantial chunk of the territory which we do our best to represent. The role of the alliance is to lobby for funding and policies to help rebuild the economies of our areas. The alliance has been around in its present form since 2007 when it was created by a merger, but the predecessor bodies date back to the 1980s. One of them was the Coalfield Communities Campaign, which one or two of you may have come across in the past.

The alliance and its predecessor bodies have long had an interest in state aid, and regional policy more generally. We have been particularly involved in discussions about successive iterations of the UK assisted map, which is a key part of the state aid rules governing what can or cannot be done to help promote jobs and growth in our areas. Our elected members decided earlier this year to look more closely at the whole issue of state aid rules and at what ought to happen post Brexit, because that will throw everything into the melting pot, or at least could do so.

The document, which I think has been circulated to all Committee members, is brand spanking new. We let your secretariat see an advance copy before it had even come back from the printers. At this stage, it has barely been circulated. Our local authority representatives have seen it,
but I do not think it has gone out anywhere else in the world yet. In a sense, this is its first serious airing.

Brexit raises a lot of questions about the future of state aid, in particular what might be done to help our older industrial areas. Our working assumption has been that some form of state aid rules, perhaps quite close to the existing EU rules, are likely to apply for the foreseeable future. If Brexit is based on some sort of deal, it is highly likely that the deal will include the continuation of existing state aid rules, certainly to the end of the transition period, and if we want ready access to the single market we are likely to be required to accept most, if not all, of the EU state aid rules as things roll forward.

If there is a no-deal Brexit, the Government have said that, at least in the first instance, the Competition and Markets Authority will continue to administer new UK rules, which will be the same as the present EU rules, although beyond the short term there are obvious possibilities for changing the rules to suit UK requirements, but again that will interact with trading relationships with the EU. If we do not leave the European Union, obviously we are still looking at working within EU state aid rules.

To be absolutely clear, we at the Industrial Communities Alliance—I am speaking with that hat on—are certainly not saying there should not be state aid rules. We support the concept of state aid rules. This is an area that needs policing to ensure fair competition, but at the same time the EU rules as they have stood, and as they should stand in future, have always recognised that some forms of state aid are desirable because they allow desirable objectives, such as regional development, to be pursued.

I do not want to work mechanically through the document, but I will summarise its main points. One is that it looks at what is possible within the EU rules. The striking thing is the range of things that are allowed under the rules, not all of which, I have to say, the UK Government seem to act upon.

We looked at how much the UK spends at present under EU state aid rules. If you look at the rankings of member states according to the share of GDP spent on state aid, you will notice that the UK comes 21st out of 28, well down the list. As a share of GDP, Germany spends twice as much and France four times as much as the UK. France and Germany are always two good comparators to look at.

We move on to look at what the UK spends state aid on. It spends the money on a range of things, in particular these days support for clean energy generation. Looking at the totality of what we spend the money on, it is striking that we do not spend very much on regional economic development; it is a comparatively small part of the jigsaw. We spend twice as much on supporting the film, television and theatre industries as we do on the whole of regional economic development in the UK.
Regional aid, as you might expect, is the prime concern of our member authorities. We look at how much we spend compared with the other big member states. Obviously, regional differences are likely to apply mostly in big countries, rather than small places such as Malta, Latvia or Lithuania. We are bottom of the league by quite a margin. Germany spends three times as much on regional aid as we do, and France spends eight times as much.

Those are the figures for 2017. We note that spending on regional aid has been sharply declining. The 2017 figures include a lot of expenditure from the old regional growth fund that was still coming through in 2017. If we were able to get comparable figures for 2018 or 2019, it would be substantially lower still. Our best guess is that the UK as a whole is now spending probably less than £100 million a year on regional investment aid under the state aid rules.

We draw some conclusions and make recommendations for the future. I will run through them quickly, if that is okay. If we continue to live within EU rules, or something pretty similar to them, we think the UK Government should be doing two things. The first is to support actively a wider range of sectors. At the moment, the aid is rather narrowly focused on a handful of things. They are desirable, but there is far greater scope within the rules for supporting a wide range of manufacturing industry in particular.

The second thing we recommend is that there should be restoration of a budget line for regional investment aid in England. Since the demise of the regional growth fund—I think the last bidding round was in 2014 or 2015—there is no longer a budget line to support business growth in the English regions. The Scots, the Welsh and the Northern Irish still have their own budget line. That means that in many respects the poorer English regions are now at a bit of a disadvantage compared with the devolved nations, never mind at a disadvantage in relation to other parts of Europe.

The other scenario is that, if we have much greater flexibility to set state aid rules in future, we think that a number of things could be done. This is what might happen if there is a no-deal Brexit and the UK is much more detached from what is going on over in Brussels. We think it would be good to draw a more inclusive assisted area map, because coverage at present is restricted to 25% of the UK population, and, given our regional inequalities and the extent of disadvantage, that looks too low by quite a lot.

There is a need to raise aid intensity ceilings, because in the category C areas, which cover most of our assisted areas, the aid intensity ceiling for large firms is only 10%. That is the maximum you can give in capital grant to try to make a project happen. Frankly, I do not think that 10% is likely to influence many budget decisions. You need a higher rate of intensity ceiling than that.
We think there is a need to restore flexibility to support reinvestment by larger firms in existing plants. That is prohibited in category C areas at present. If we are trying to retain businesses in a post-Brexit environment, and stop firms deciding to shift production from the north-east of England to elsewhere in Europe or the world, we need to be able to support reinvestment in existing plants.

We would like to see the ban on aid to specific sectors lifted, and we are thinking in particular of the steel industry. At the moment, regional investment aid cannot be given to the steel industry, because the view is taken that there is too much capacity in Europe and it all needs to be reduced, whereas the real challenge comes from Chinese steel production. If we are to make the UK steel industry, and indeed the European steel industries, more competitive, we need the flexibility to give regional investment aid to help them.

Finally, a higher de minimis ceiling would be helpful. That is the state aid that gets through under the radar. At the moment, it works out at about £55,000 per business per year, which is next to nothing. A higher de minimis ceiling would be very good in allowing a little more initiative down at local level for the players to try to back good ideas, schemes and businesses.

There are some proposals in the context of our working within the existing rules. We are basically saying that we should use them better, and, if we have much greater flexibility, let us change the way we do things quite a lot.

Q68 **The Chairman:** Thank you very much, Professor Fothergill. I will open up with the first question.

As you know, this Committee’s report is now 18 months old. We asked the Government to clarify the future status of the state aid regime and the role of the CMA. In addition, this House passed a statutory instrument on the role of the CMA in the future. It has not got through the Commons yet, so the CMA is still slightly in limbo. What would be your assessment of the Government’s preparations for a domestic state aid framework, and what kind of interaction have you had with the CMA over the last few months?

**Professor Steve Fothergill:** I have to admit that we have not focused particularly on the CMA because we see it as the policeman of the rules, and our interest is largely in what the rules are and the rule-setters. I cannot say very much about the Competition and Markets Authority, but we have had a dialogue in recent weeks with government departments about state aid rules.

That dialogue was triggered in particular by the fact that about six weeks or two months ago the European Commission initiated a consultation on the regional aid guidelines operating at present. We were concerned to try to find out the thinking within government. What was government going to say to the Commission? We may live in future under rules that are not a million miles from those that operate at present.
What came back from the discussion is that the Government are not engaging in that debate; they are not even making a submission to the Commission about how the present rules are or are not working effectively enough, or whatever. They are completely standing back from it. That might be a pragmatic decision on the part of Ministers and civil servants because aspects of the Brexit deal are still very much up in the air, but, given the likelihood that something similar to the present rules will apply in future, I was a bit disappointed that civil servants were not engaging with the consultation that the Commission has issued.

Q69 Lord Lansley: Can I turn to the first of your scenarios, which is that we continue for the time being to operate within EU state aid rules, whether or not we are in the European Union? In that context, you said that you felt there was scope to support a wider range of sectors. Would you elaborate on what sectors would be supported, and where and why? What in particular do you and your colleagues have in mind?

Professor Steve Fothergill: We have particularly in mind industry and manufacturing industry generally. If you look at what we are spending state aid on at present in the UK—there is a list in table 3 of the report—the big money is going into a fairly narrow range of things. In particular, almost half the money is going into the contracts for difference on green energy projects, and, as I mentioned, the film and television industry is getting a large amount.

Through the regional aid guidelines in particular, it is possible to provide investment support for manufacturing industry, and to do so in some of the weaker economies where often manufacturing industry is still a substantial part of the overall economy. It would be very helpful for a broad swathe of manufacturing industry if the present rules were used a little more energetically by the Westminster Government.

Lord Lansley: When you are looking for additional capital grants, do you have a sense of what the balance is between grants to support internationally mobile investment coming to the United Kingdom, or to England in particular, and grants for support for reinvestment in existing capacity?

Professor Steve Fothergill: There is some evidence from Scotland on that. Scotland has continued to operate what it calls regional selective assistance, which was running at £50 million or £60 million a year prior to the 2014 rules coming in. The 2014 rules were the ones that for the first time said you could not give aid to larger companies for reinvestment in existing plants. The effect in Scotland has been to cut the flow of money going out under the regional selective assistance scheme by about two-thirds.

Reading into that change suggests to me that probably about two-thirds of the money that you might give under regional investment aid, if it was applied in England, would be spent on reinvestment in existing plant, so that is a big factor.
Lord Lansley: With the exception of specific sectors that are excluded from access to that kind of support, in practice it is made available to manufacturing in a number of other EU countries. Let us leave steel out of it for a minute.

Professor Steve Fothergill: I do not know the full details of exactly what the French and Germans do. Given the scale of their expenditure on regional investment aid, one can only assume that a substantial chunk is in the form of regional investment aid to manufacturing in their regions.

Lord Lansley: Can we turn to steel in particular? Clearly, under the existing EU state aid rules, support of that kind would not be permitted in relation to steel.

Professor Steve Fothergill: Yes.

Lord Lansley: We heard about that in a previous evidence session. In your report, you take the view that there might be ways in which the steel industry could be supported, even within existing state aid rules. Could you elaborate on what those might be?

Professor Steve Fothergill: If you look on the Commission’s website at which individual companies have been receiving funds under state aid, you find that Tata Steel has been a significant recipient, not under the regional investment aid guidelines but under the guidelines that govern state aid for R&D, or particularly for environmental measures. Relief from some of the renewables obligations that apply to some energy-intensive industries, which include steel, is one of the forms of state aid, so the steel industry gets some forms of state aid.

Lord Lansley: But you could say the same for this country—for example, when Tata received government support for lost carbon tax receipts. The issue is whether, in the circumstances we faced a few weeks ago, the Government can step in and help maintain existing capacity. Under present EU state aid rules that would not be permissible, would it?

Professor Steve Fothergill: Some things are permissible; some are not. You cannot simply go in and bail out a bankrupt company. In the context of the current crisis with what is called British Steel—the Greybull-owned enterprise—if someone buys up that business and wants to invest for the future, for example in the Scunthorpe plant, the present EU rules do not allow the UK Government to give any investment aid for whatever that business might wish to do on the site. It might be refurbishing a blast furnace or putting new equipment into a rolling mill.

You cannot provide aid of that kind under the present EU rules, despite the fact that Scunthorpe and all the other significant steel plants in Britain are in areas that have assisted area status. That is a great tragedy, because these days competition for the Scunthorpes of this world is not from other plants in Europe but from Chinese steel. It is not a zero-sum game within Europe. The question is whether Europe can retain its steel industry against the influx of very cheap and often subsidised Chinese steel.
Lord Lamont of Lerwick: When you were making your opening statement, you rather dismissed the argument about excess capacity in the world. Regardless of whether it is in China or Europe, it is a world problem. There are restrictions on aid for the steel industry in Europe because everyone has the problem of overcapacity. Even when we are outside the EU, we will still face the problem that there is far too much capacity in the world. The British steel industry has had a big benefit from the depreciation of sterling, as it is. Is there really such a strong case for breaking out of the EU state aid regime, which I accept is restrictive, but actually has a very good reason for being restrictive?

Professor Steve Fothergill: At the point in time when the restriction on aid to the steel industry was introduced, the European Commission was thinking very much about internal competition within Europe, and its view was that there was too much capacity in Europe, so it made sense not to have a game of subsidies and countersubsidies. The world has moved on. It is not that Europe itself has such a surplus of steel-making capacity; it is that the surplus is being created by the vast influx of Chinese steel to the European market. That is where the global oversupply is now coming from—China.

Lord Lamont of Lerwick: We can buy from there.

Professor Steve Fothergill: We can buy from China, yes. Quite a lot of the Chinese production that is coming into Europe comes in, as best we can tell, below cost, and the European Union has had to put quite a lot of trade defence instruments in place to try to stop the subsidised flow of steel. It might be argued that there is some spare capacity in the car industry, but that does not mean that you do not want to try to protect your supplies in the car industry against other supplies in the car industry elsewhere.

Lord Berkeley: I am new to this Committee, so I need to declare my interest. I have been involved in railways in Europe for many years and still am. I also live in Cornwall, in the Isles of Scilly, so I am very interested in your comments about the map being redrawn, because of course Cornwall and the Isles of Scilly are recipients of aid at the moment.

When I hear you say that you want to redraw the map, and then we talk about the steel industry, as we just have done, I immediately wonder whether, although you might want more aid to come to specific areas, and to a wider area of the country, that is more necessary compared with the aid that should go to the less prosperous areas, as defined on the map.

The first thing, surely, is that total aid needs to be greater; the pot needs to be bigger compared with Germany and France. I have seen all that on the ground, and it is very evident. What is the reason for saying that you think that other areas of this country should get more aid, perhaps, compared with those that get it at the moment, just because it is a good thing to support cars or steel, or something like that? It is all to do with
jobs. Surely it is the difference between the more prosperous and the less prosperous areas.

Professor Steve Fothergill: Let me differentiate two debates or discussions about assisted areas. The assisted area map is not a map of where the European Union allocates its money. There is some overlap at some points, but when we talk about state aid we are not talking about the money that comes from Europe to promote regional development in Cornwall or west Wales and the valleys. This is a map that defines where our UK Government and our local authorities and so on can give support to businesses.

At present, the fact that Cornwall is on that map does not benefit Cornwall, not to any significant extent at all, because the Westminster Government are simply not spending money on regional investment aid. If you totted up how much regional investment aid has been going to Cornwall in the last five or six years, since the demise of the regional growth fund you would be lucky to get into the low tens of millions. This is not about how the European money, which is on a much bigger scale, is currently divided up across Europe.

Lord Berkeley: Are you supporting a continuation of the differences given in the map, or are you suggesting that it should be levelled out across the whole country?

Professor Steve Fothergill: No, not levelled out across the whole country, but if 25% of the UK’s population is included on the assisted area map, it is probably not a reasonable representation of the extent of areas of economic disadvantage across the country.

It is not a zero-sum game in terms of funding, either. We say that the Westminster Government need to spend more, particularly in England, where there is no major funding stream at present, but that money could also be made available more widely than just in those assisted areas. That is quite a modest proportion of the country.

Q72 Lord Shipley: Professor Fothergill, I used to be deputy chair of the advisory panel to the regional growth fund, so I was particularly interested in your comments. I want to ask you about the success of regional aid. You talked about France giving eight times and Germany four times as much as England, but what is the evidence of success in their doing so? Is it material that France spent eight times as much? Did it have eight times the success?

Professor Steve Fothergill: I cannot comment on the difference in success. What is always important when any state aid is given is that it should be given only where it makes a difference, and makes a project happen that otherwise would not happen or that would not have happened in a particular location or on a particular scale.

In the UK, because we have been dealing with these issues for several decades, we have well-established procedures. You must have been part of those procedures to scrutinise bids and to ask, “Would this project
have gone ahead if we did not support it?” Whether all the other EU member states are quite as rigorous, I do not know.

On the narrow UK front, there is a range of evidence on whether it has made a difference for jobs, varying from National Audit Office studies on the impact of the regional growth fund through to work that academics, including some of my colleagues, have engaged in. Broadly, the conclusions from the studies are that there is definitely a positive impact on employment of giving regional investment aid. Having said that, it is not cheap. You do not buy new jobs for small sums of money. It costs serious money.

Q73 Lord Lamont of Lerwick: I refer to the register of interests, which I should have done the first time around.

I want to follow up on Lord Berkeley’s question about the 25%. Leaving aside the total size of the pot and concentrating on the 25%, I could not really follow your argument against Lord Berkeley. The object of the 25% is to concentrate the aid on the worst-developed parts, with the highest unemployment and the lowest ratio to GDP. If you spread it to 50%, you are disadvantaging the 25%. Surely, the object is to concentrate on the 25%, or you spread the aid too wide to have any effect.

Professor Steve Fothergill: If you had a magnifying glass, or were able to look in very fine detail at the category C assisted areas, which are the main ones in England, you would see that the map, as constructed at present, is extraordinarily convoluted. It had to be drawn like that to try to target as many key areas of industry in the regions as possible, but even then it is missing quite a lot of bits.

I am not arguing that 50% or 60% of the population should be covered by the assisted area map, but in order to draw a map that covered 25% of the population, officials in the business department had to jump through extraordinarily difficult hoops to produce something at least half sensible. The need for population coverage is a lot more than 25%.

Lord Berkeley: That is fine, but you have not actually answered Lord Lamont’s question. It is not about what is on the map. The question is whether 25% is the right figure, or whether it should be nearer 50%. The map is irrelevant, to some extent.

Professor Steve Fothergill: I am not pinning it down to a specific figure. In a slightly earlier version of the map, for example, before the mid-term review, large chunks of north-east England did not have assisted area status. It now covers the whole of Durham and Tees Valley. That is simply because, in the mid-term review, the performance of that area had declined to such an extent that the whole area was included. We have been excluding chunks of Britain that were in need and remain in need.

Q74 Lord Wigley: I declare a couple of interests before I ask my question. For over 20 years, I was vice-president of the Federation of Industrial Development Authorities, which I believe was a predecessor of your
organisation. More relevantly, possibly, I worked in the manufacturing sector for companies that benefited very significantly from state aid, such as Hoover, where I was financial controller. Particularly relevantly, I was chairman for 11 years of a small company in Llanberis, which was eventually merged into Siemens and which opened a manufacturing facility based very largely on receipt of state aid and employed 400 people in Llanberis as a consequence.

With that as background, I turn to the question of the possible implication of the changes to EU state aid rules proposed on page 19 of your report. What might the implications be for future UK-EU trading relationships?

**Professor Steve Fothergill:** We could not do a lot of the things on page 19 if we wanted ready access to the single market. Ready access to the single market is likely to imply that we accept present or future EU state aid rules in whole or in large part.

The list on page 19 presumes that there is some significant parting of the ways. Unless we get that significant parting of the ways, I do not think it will be possible to do a lot of the things on page 19, whereas we could definitely do a couple of the things on page 18, even if we were to continue to live within the existing rules, or something pretty close to the existing rules.

**Lord Wigley:** Is that because the interesting proposals in points 3 to 7 on page 19 are now outside the EU rules and therefore could not be applied directly, or because you believe that they could not be negotiated if we needed to try to maintain access to a single market?

**Professor Steve Fothergill:** At the moment, those things are outside the present EU rules, such as raising the population coverage. The EU rules, and the way the arithmetic flows from the rules, define the total population coverage in the UK. It is the EU rules that define the aid intensity ceilings, and the EU rules that say you cannot support reinvestment in existing plants, and so on.

I do not profess to be an expert on the detailed negotiations between Brussels and the UK Government, but it would be a working assumption by me and a lot of my colleagues that the Commission will always say that, if we want easy access to the European market, we will have to live within something close to the existing rules. Whether that leaves a bit of leeway, we will have to see. I am not privy to that.

**Lord Wigley:** If there were negotiations going on, with us having left and wanting to get access to the single market and get the best deal we can in those circumstances, which of the five items on page 19 would you regard as the most important to try to get negotiated?

**Professor Steve Fothergill:** I shall pass on that one, because that is very much a matter for my politicians and their decisions about priorities. At the moment, they would say that they want all five. It is not for me to say that one is more important than another. I am sorry.
Q75 **Lord Mountevans:** What avenues, if any, will be open to your organisation to influence policy-making at EU level after Brexit?

**Professor Steve Fothergill:** The simple answer is probably not a lot. I have been in this game for many years, and I fondly remember the olden days when we had an EU of 15, and we had a British commissioner for regional policy and a British director-general for regional policy. Although I could not exactly pick up the phone and speak to them just like that, it was not far off that sort of relationship.

As the EU has expanded to 28 member states, the centre of gravity of EU regional policy as regards both the EU’s own spending and the EU regional aid guidelines has shifted towards central and eastern Europe. That has made it much more difficult for a British local authority association to exert much influence.

We have put our eggs in the basket of trying to influence central government and what the UK Government are saying to Brussels, building a relationship as best we can with civil servants and, where appropriate, with Ministers. That has been the route. I am afraid that the days when we could do it directly, by hopping on Eurostar—as it would be these days—over to Brussels, have gone.

**Lord Mountevans:** In earlier evidence in 2017, you talked about the very healthy relationship you had with EUR-ACOM, and I wonder how you see that relationship developing.

**Professor Steve Fothergill:** EUR-ACOM was an association that we in the UK helped to establish; in fact, we took a lead role. It brought together local and regional authorities in former coal-mining areas across the whole of Europe. At one point in time, it was central to our lobbying strategy. As events evolved, it was more difficult to argue the case for aid to particular types of industrial areas. In any case, the closure of the pits in Britain has retreated a bit into history.

Our engagement with EUR-ACOM has moved more into a back-seat role, and we place much more emphasis these days on the relationship with central government here, and on influencing what they say to Brussels. In a sense, that is why we were a bit disappointed when we asked them what they would say to the Commission in the consultation it issued on the present regional aid framework, and they said, “Well, we’re not going to say anything, actually”. We went ahead and put in evidence anyway.

**The Chairman:** Did they mean that they would not say anything publicly?

**Professor Steve Fothergill:** No, they are not going to put in evidence. That was the message. They had decided not to put in evidence, despite the fact that the European Commission was asking member state Governments in particular to make submissions. It said that on the spec of the consultation.

**The Chairman:** I am conscious that the time when you wanted to leave
has passed. It is 10.52. Do you have time for another supplementary?

*Professor Steve Fothergill:* Yes, I am willing to hang on a bit longer.

**The Chairman:** Does any member of the Committee wish to ask something that they felt they were stinted on?

**Lord Lilley:** Professor Fothergill, you referred to access to the single market being in some way restricted, but surely if we leave on WTO terms we will have the same access to the single market as any other WTO member, and the relevant rules on state aid will be the WTO rules. You did not mention that.

*Professor Steve Fothergill:* But we would face tariffs. There would be tariff barriers between the UK and the EU if we left on WTO rules.

**Lord Lilley:** Averaging 4%.

*Professor Steve Fothergill:* I do not know.

**Lord Lilley:** I assure you that it is, as against the 15% improvement in our exchange rate competitiveness. Surely what we should be looking at on state aid are the WTO rules, and what would be permitted under the WTO to help and subsidise exports. I think it is Article 22.

*Professor Steve Fothergill:* If we are looking at that scenario, the points listed on page 19 would become possible. The constraint then becomes the WTO rules, and if my interpretation of the rules is accurate they do not allow you to make direct subsidies to exports. There may be something on discrimination against imports as well.

You can provide state aid as long as nobody else objects to what you are up to. The parameters of what can and cannot be done are not very tightly defined. You could push the edges of the envelope, which would be defined by when you annoyed somebody, or another country, and they objected to what you were doing. Yes, you could do a lot more, no question, but there would be some trade barriers between the UK and the EU.

**The Chairman:** We covered that in our report. We put various scenarios, and that was certainly one area.

Thank you very much indeed, Professor Fothergill. The fact that we had prior sight of your report is a privilege. It was extremely clear and accessible. There will be different views on the Committee, as you appreciate, because it is a highly political subject area. Are there any thoughts you would like to leave us with before we conclude the session?

*Professor Steve Fothergill:* The general point is that we are missing a trick in the UK if we do not use state aid, whether it be under EU or new rules. State aid is not just an opportunity to help the areas I work on behalf of—the older industrial areas in difficulty. We are missing a trick, because we are losing out on an opportunity to support British industry and to help to improve its competitiveness in the world. That does not
mean that we should throw money around indiscriminately—certainly not. State aid is something in the economic development armoury that we have rather neglected in recent years.

**The Chairman:** Thank you very much indeed. You will get a copy of the transcript, Professor Fothergill, and we will ask you if you would like to look through it for corrections.

**Professor Steve Fothergill:** Thank you.