International Agreements Committee

Corrected oral evidence: UK-NZ free trade agreement

Thursday 17 March 2022

11.05 am

Watch the meeting

Members present: Baroness Hayter (The Chair); Lord Astor of Hever; Lord Gold; Lord Kerr of Kinlochard; Lord Lansley; Baroness Liddell of Coatdyke; Lord Oates; Lord Razzall; The Earl of Sandwich; Lord Udny-Lister; Lord Watts.

Evidence Session No. 4 Heard in Public Questions 43 - 55

Witnesses

I: Sam Lowe, Director of Trade, Flint Global; Professor Michael Gasiorek, Director, UK Trade Policy Observatory, University of Sussex.

Examination of witness

Sam Lowe and Professor Michael Gasiorek.

Q43 **The Chair:** Good morning. This is a meeting of the International Agreements Committee and we will be taking oral evidence on the UK-New Zealand free trade agreement. We have two witnesses here today. One is Sam Lowe from Flint Global, and the other is Professor Michael Gasiorek from the Trade Policy Observatory at the University of Sussex. We have various questions to put to you.

I will start the first question, which is a fairly general one. Could you both, from your own points of view, take us through the main parts of the trade agreement and maybe comment on whether it is fair to characterise as New Zealand selling us food in exchange for our selling cars and services to New Zealand.

Sam Lowe: Previously, I joined this committee to discuss the UK-Australia agreement and, in essence, the UK-New Zealand agreement is very similar, with some differences, which I am sure we will get on to.

As for characterising the agreement as food for cars, that is not quite fair, because New Zealand already has a zero-rated tariff on cars. What we

could be exporting at a lower tariff rate than before is buses, if we are being specific, which attract a 5% tariff.

It is true to say that what New Zealand gets out of this agreement is preferential access to the UK's agri-food market and, in return, the UK gets some reduced tariffs, with the caveat that New Zealand's applied tariffs are already very low, and some firmer commitments on services if not necessarily on new market access.

Professor Michael Gasiorek: I agree with what Sam Lowe has just said. If you think of it in terms of the trade flows between the UK and New Zealand, nearly 60% of what the UK exports to New Zealand is vehicles and machinery in goods and about 40% is in services. A lot of what the UK trades with, exports to, New Zealand, is indeed cars and services, so in that sense, it is an agreement that might help to promote trade in cars and services, although, as Sam Lowe has said, that depends on what the existing tariffs are.

Conversely, nearly 60% of what the UK imports from New Zealand is in beverages and spirits and meat products, so food and drink. Those are the main products that we are exchanging and the main products that we are likely to continue to exchange. Those goods and services are the main aspects of the agreement that there may be benefits from for both parties. There are other aspects of the agreement, apart from simply accessing goods and services, that I am sure we will talk about later, such as possibly the temporary movement of people for business purposes or environment and climate, and so on.

Q44 **Lord Kerr of Kinlochard:** The Government put out an impact assessment that forecasts an almost 60% rise in trade as a result of this agreement. That seems rather high to me. I wonder what our witnesses think of its plausibility and about how the benefit is likely to be divided. Is it right to think that, because the New Zealand tariffs start very low and we are making the bigger concession on tariff levels, that benefit—at least initially, before services kick in—will be skewed in New Zealand's favour?

Sam Lowe: You are correct that, of the two parties, the UK is granting the greater liberalisation of trade, because the UK's tariffs were initially much higher.

Regarding the impact on trade flows, a 59% increase does sound rather large, but we are talking about quite small figures in the first instance. I am not going to say that it is implausible, because it is not that hard to have a 50% increase if the starting figure is not very high. It is certainly possible.

Going back to the previous question, I wanted to mention that it is perhaps useful to compare this trade agreement with the Australian agreement in this instance, just to draw out some of the specific aspects of this agreement. In terms of the UK's tariff liberalisation, the New Zealand agreement goes further than the UK-Australia agreement. It

goes fully duty and quota-free over time, whereas in the agreement with Australia, the UK retains some tariffs, for example a 1,000-tonne quota for long-grain milled rice.

Professor Michael Gasiorek: Can I turn to the question on the increase in bilateral trade and say a few things about that?

First, a note of caution about the Government's impact assessment. These are not predictions of what will happen; these are numbers generated by a simulator model that says that if nothing else changes, this is what the model predicts. They are orders of magnitude as opposed to a precise prediction. That is the first caveat.

The second caveat is that the rise that is predicted also takes into account the changes in GDP and demand over the next 15 years. It is a prediction of what trade might be in, I think, 2035, with and without an agreement.

Another caveat—and I must be really clear here—is that this is not a prediction about the total rise in UK's trade; it is just a prediction about the bilateral increase in trade between the UK and New Zealand. The increase in total UK trade as given in the Government's impact assessment forecast is essentially an increase in both imports and exports of the order of 0.1%. The aggregate impact on UK trade will be very small.

Finally, and this reflects the asymmetries in the tariff reduction and in the nature of trade, the increase in bilateral exports that the models predict/forecast is of the order of 40%, whereas the increase in imports from New Zealand is of the order of 75%, so there is a much bigger increase in imports than in exports. However, I do not think that should be read as saying that New Zealand benefits more from this than the UK does, just because one country's exports are going up more than the other country's.

Where exports increase, that is clearly good for the producers in that sector; exporters in New Zealand are seeing a bigger increase in trade than UK exporters. We must also remember, however, that consumers in each country benefit from the increased imports and from the lower prices derived from those imports. One should therefore not equate the changes in exports and imports simply to changes in wealth or to how good it is for each country.

The Chair: Given that the impact assessment was before everything that is happening in Ukraine and is based on assumptions about GDP, presumably it is even more of a finger in the wind now than it appeared at the time. Would that be a fair statement?

Professor Michael Gasiorek: Yes. The model can only simulate known events. The modelling is basically competently done. I am not criticising the modelling. However, all models have their limitations, and clearly something like the events of the last few weeks is not likely to be in such

a model. We do not yet know what the long-run consequences of the events of the last few weeks will be, because there is potentially still a long way to go in the resolution of the conflict, and we do not know how GDP and trade, or global relations, may be impacted. None of that is remotely in the modelling, nor even could be.

Q45 **The Earl of Sandwich:** Will any increased trade be at the expense of developing countries? That seems almost inevitable to me. Do you agree with the impact assessment that the risks of trade diversion from preference erosion are not substantial? Will the impacts be monitored, and will there be any mitigation if there are impacts on developing countries?

Sam Lowe: I agree with the impact assessment that any impacts will probably be quite minor. My reason is because we need to think about the type of products that we may be buying more of from New Zealand—dairy, lamb and other food products. It is quite difficult to import those types of products, products of animal origin, from developing countries because of prohibitions in the sanitary and phytosanitary rules and the like, and lots of developing countries are not subject to existing authorisation. Looking at the composition of the trade, I am not so worried.

Of course, preference erosion as a general principle is something that we should be concerned about. If we were signing an agreement with other countries, I might make a different argument and say that there was a bigger risk. In the context of New Zealand, however, given the relatively small trade flows and the composition of the existing trade, which is what I am assuming will be expanded, I am not so concerned.

The Earl of Sandwich: Will there be any monitoring or mitigation?

Sam Lowe: I believe there will be monitoring. I am never quite sure what the mitigation could look like. We have encountered this before when there have been provisions to monitor and observe whether trade diversion has occurred. My follow-up question would be, "And then what?" I have never been given a very satisfactory answer to that.

Professor Michael Gasiorek: If we are thinking about the impacts in particular on developing countries or possibly trade with the EU, I agree. I do not think this agreement will impact imports from or exports to developing countries in any substantive way. It is very unlikely to because of the nature of the products that are being traded and the values of the trade.

A slightly different question potentially applies to the impact on domestic producers. There is often some concern about this, at least from some UK producer organisations, and it is potentially slightly harder to assess. On balance, I think the effects on domestic producers are unlikely to be substantial. The areas that one might naturally think of are possibly wine and lamb imports. Roughly 8% of UK imports of wine come from New Zealand, and UK tariffs range from probably about 6% but can

sometimes be higher. Clearly there will be an increase in wine imports, which may impact some wine producers, but I would not anticipate the effects to be great.

Another area that comes up in these discussions is lamb imports. Depending on the precise cuts of lamb or tariff lines, between 20% and 50% of our lamb imports already come from New Zealand, but about 65% of UK consumption is from domestic production. New Zealand supplies roughly 20% of the UK's domestic consumption. In most years, New Zealand appears to fill its quota of lamb imports, so it is certainly possible that there might be some effect on UK domestic producers. It is very hard to predict that. Obviously the quotas come in over an extended period, and we are seeing a general trend of a decline in meat consumption anyway, so it is hard to know what the impact could be, but there is some possibility of an impact.

Looking at the data, clearly you might see an impact on some very specific sectors. However, if I am reading the data correctly, about 70% of honey imports into the UK come from New Zealand, which is very high, and the UK tariff is quite high; it is around 17%. Any impact will depend on how much honey consumption in the UK is from domestic production. A lot of our imports might come from New Zealand, but most of the domestic consumption of honey is from domestic producers. I do not have those statistics. That example is just to illustrate that some domestic producers in some sectors could be affected.

Q46 **Lord Watts:** Will the UK have to make any changes to its food rules as a result of the FTA? Do you think the negotiators should have insisted on minimum animal welfare standards in return for a reduction in tariffs?

Sam Lowe: To the first question—will the UK have to change any sanitary and phytosanitary rules in the process of implementing this agreement?—my answer is no. I should also provide some supplementary information here. The UK and New Zealand have a pre-existing sanitary and phytosanitary equivalence arrangement that provides for reduced documentation and a reduced frequency of physical inspection of products of animal origin arriving from New Zealand. The aim, as a result of this agreement, is to expand the existing arrangements slightly to incorporate composite goods, for example, and to look at some other areas, but it does not require any change to the rules.

The fact that the equivalence agreement exists probably leads into the answer to the next question. I have discussed this in the context of Australia. Could the UK have made market access conditional on the delivery in Australia or New Zealand of specific animal welfare rules? Yes, subject to those countries agreeing. However, I think you would find very few farmers, even on the UK side, making the case that New Zealand does not already have very high animal welfare standards. The arguments being made in this instance are not identical to those that were being made in the UK-Australia negotiations, where there were specific concerns about certain practices in Australia. Could the UK have still tried to condition some of the market access on animal welfare? To

my mind, yes, but I just do not see the demand or the necessity in this instance.

Professor Michael Gasiorek: I agree with everything Sam Lowe said. I do not think the agreement will require the UK to make any changes to food rules and, as Sam says, we already have an SPS agreement with New Zealand with regard to trading live animals and animal products. There is a provision in the agreement that each country can recognise the equivalence of measures in the other country. There is a procedure for that, to encourage and facilitate further trade, but there is no requirement. Neither country, certainly in this case the UK, would have to lower its animal welfare standards. As Sam Lowe also said, it would have been hard to try to get higher animal welfare standards in place in the agreement.

Q47 **Baroness Liddell of Coatdyke:** There are certainly deeper commitments on the environment in this agreement compared to that with Australia. There is no surprise there. How important are they? Given that New Zealand is a leading advocate for the elimination of fossil fuel subsidies, is the agreement ambitious enough in the pursuit of both parties' interests in net zero targets?

Sam Lowe: My view is that this agreement with New Zealand is probably the ceiling for what realistically can be achieved in the context of a free trade agreement, taking into account the domestic and political constraints. The UK wanted ambitious provisions. At the time of negotiating, the UK was hosting the climate talks. New Zealand, by virtue of who is in power there, is quite in favour of ambitious climate targets.

Also, as you said, the agreement includes some unique, or at least world-leading, provisions on the elimination of fossil-fuel subsidies, a commitment not just to Paris but to specific temperature-reduction targets and the like. I would caveat that slightly and say that these are two countries committing to do things that they were going to do anyway. I am not sure if the agreement has led to any further commitments or increased ambition, but in terms of what is achievable, what we can realistically expect free trade agreements to deliver, I think the UK can be quite happy about the commitments made in this one.

I would add a further caveat. Of course, some people are not happy. They wanted to go further. Everyone wants more ambitions if you are working in these fields. This is where I would reiterate my point that this is the ceiling. I do not see the UK achieving the same level of ambition in respect of these types of commitment in its agreement with India, for example, or with the Gulf. If this is the ceiling and you are not happy, I do not know what to say, because I do not see anything in the future being more ambitious.

Baroness Liddell of Coatdyke: Good point. Michael?

Professor Michael Gasiorek: Again, I agree with Sam Lowe that this is probably the ceiling, but I would also caveat that by saying that although

it is more ambitious than the agreement with Australia, for example, it is not necessarily much more ambitious. Yes, there is the explicit recognition of the commitment to reduce greenhouse gas emissions and restrict the rise in global temperatures to below 2 degrees, which was not in the UK-Australia agreement.

Of course, there is no specific policy in the agreement to ensure that this happens and, as Sam Lowe just said, this reflects the stance of both Governments: that it was a measure that they wanted to do anyway. So the statement being in the agreement is by and large symbolic. That does not make it unimportant, but there is no explicit commitment there. There are commitments to multinational environmental agreements, marine capture fisheries and sustainable forest management, but, by and large, those clauses are also in the agreement with Australia.

The one area where there is, I think, a significant difference—and in this sense, it is at the upper end of what could be achieved—is the article on fossil fuels. Each party has committed to taking steps to eliminate harmful fossil-fuel subsidies; to end new direct financial support for fossil-fuel energy in other countries, in what is called non-parties; and to end international aid funding for fossil-fuel energy. Those are quite specific commitments that are also subject to dispute settlement, and are not in the UK-Australia agreement. I am not saying that they are unimportant. They are important. It is very good that they are in there, and I agree that it is unlikely that we will get these sorts of measures in other agreements, but most of the other clauses in the 20-odd pages on the environmental chapter are very similar to those in the agreement with Australia.

Sam Lowe: Can I add one thing? It is important to highlight that the UK Government's decision in respect of dispute settlement and its application to its trade and sustainability commitments in the Australian and the New Zealand deals is a break from precedent, in that, although the UK was a member of the European Union, the chapters that covered trade and the environment were largely not subject to dispute settlement, so there was no real stick attached. There was no plausible prospect that benefits could be withdrawn in the event of no compliance, but that has changed now because it is a component part of the UK-New Zealand agreement, and of the UK-Australia agreement, and it will be a component part of the CPTPP. Given my past as environmentalist, I know very well that environmentalists have been calling for enforceability for quite a long time. In that sense, it is to be welcomed.

Baroness Liddell of Coatdyke: That is very interesting. Thank you.

Q48 **Lord Gold:** My question is for both Sam Lowe and Michael Gasiorek. How do you assess the services provisions in this agreement? Do you think that the negotiators have gone far enough? I am particularly interested in financial services and insurance, where it seems to me that there are opportunities, and I wonder whether we have taken them.

Professor Michael Gasiorek: Essentially, I will largely pass on this question, and probably the next one. I have not had time to assess the services provisions in much detail.

My general assessment is that New Zealand is already relatively open with regard to services barriers to trade and that, from what I have seen from the bit of reading I have done, the agreement generally goes further, or has fewer restrictions on services trade, than the UK-Australia agreement.

Sam Lowe: It is important to take a step back and remind ourselves of what is realistically achievable in the context of services provisions in free trade agreements. By this, I mean that barriers to trade in services are largely the result of regulatory measures and domestic political preferences, and free trade agreements can very rarely do very much about those things.

To frame it differently, when you ratify this agreement and go through the legislative process, are you being asked to change any UK services regulations so as to ensure its implementation? The answer will most probably be no, with the exception of procurement, where sometimes tweaks are needed. That should tell you a lot of what you need to know about the new access which these agreements deliver. However, that is not to say that the services provisions are not useful. They are. Similar to the environmental commitments, they lock in or at least provide additional reassurances with respect to existing levels of market access. They provide firms with some additional reassurance that the way they are being treated now will not change or that, if it does change, it will not be to their detriment.

I can highlight specific areas where you can see some additional benefits. The New Zealand agreement is interesting, because it is the first time New Zealand has made specific commitments in respect of contractual services suppliers. This is the ability of a British person to go to New Zealand to deliver a temporary services contract. New Zealand allows that under certain conditions, but it has never made a commitment to continue to allow that in the context of a free trade agreement, so the UK got something from New Zealand that no other country has. I caveat that by saying that the commitment that New Zealand has made is heavily caveated to the point where I am not sure how useful it really is. It is subject to an economic needs test and the like.

To your question about financial services, I would say that the specific provisions in respect of, say, data and financial services are good. There is an article that states that neither party shall force firms to physically locate their financial data on local computer servers as a condition of market access. That is good. That is modern. That is not in all free trade agreements. It is not in CPTPP, for example.

My point here is that in terms of being able to assess how beneficial this is to services providers, I need to start talking to the regulators, because all these commitments are highly caveated by the fact that you are not

allowed to do that unless it is justified. It is subject to a prudential carve-out, which allows regulators to intervene in the event that they think there is a risk to financial stability or there are certain consumer risks. It is also subject to a national security carve-out. It is subject to a public policy carve-out. The interaction between all the carve-outs and the specific commitments means that the commitments are only worth something if the regulators have bought into delivering it.

To give a quick example, even if we think about the UK context, we might not require financial services firms to locate data within the UK as a condition of market access, but we have anti-money-laundering checks and know-your-customer checks that have links to GDPR compliance, because we are talking about personal data, which means in effect that you often have to locate that data in the UK even though it is not a condition of market access.

Working out how all these things interact is hugely important to the effective implementation of what on the surface are good commitments.

Lord Gold: Goodness.

Professor Michael Gasiorek: Could I briefly add to what Sam Lowe said about the temporary movement of people for business purposes, in particular for contractual services suppliers?

It is interesting to note the differences between the agreements with Australia and New Zealand on the sectors that are covered. The ability for contractual service suppliers to supply services to New Zealand, for example, includes medical services, midwives, nurses and so on. That is not in the agreement with Australia. Conversely, in the Australian agreement, a bunch of other sectors have been included that we do not have in the agreement with New Zealand, including engineering services, computer-related services, and environmental services. I will not go through them all, but there are differences between the two agreements in the sectors for which the temporary movement of people for business purposes is allowed.

Sam Lowe: The Australia agreement, in this specific aspect, is probably also better in terms of the sectors that it applies to, because it explicitly removes the need for an economics needs test, which is there in the context of contractual services suppliers with New Zealand, although I do not believe it is there for intracorporate transferees.

There are some things in the New Zealand agreement that I am disappointed with. I am annoyed that there is no advanced mobility arrangement incorporated into the agreement. There is a commitment to continue discussing it, but it is not a component part of the agreement, unlike in the UK-Australia agreement, where, for example, we extended the youth mobility scheme for an extra year and upped the age to 35.

I am talking about this now in the context of services, because services are still delivered by people, and making it easier for people to move and

work contributes to delivering the objectives of the agreement. I am disappointed with this agreement in that respect.

Lord Gold: I rather agree with you. The people point is key. The ability to move over to a different place and work without restriction is very important.

The Chair: Can I apologise to the committee, because we have got into services and I should have declared earlier that I am on the board of the Association of British Insurers. Lord Gold might also want to declare any interests he has.

Lord Gold: Yes. I am part of a litigation fund that funds litigation, certainly in Australia. We have not gone to New Zealand yet. We would like to.

Q49 **Lord Lansley:** Can I take us on to procurement? If I may, I also want to talk briefly about SMEs. The agreement is, as I think they tend to say, built on the WTO general agreement on procurement and the CPTPP provisions, but I wonder whether our witnesses might be able to tell us in what respects this is the case.

Clearly, the Government, and indeed the Federation of Small Businesses, which was quoted in the original press release announcing the agreement, see this as being of particular benefit to SMEs. I think Mike Cherry from the FSB said that nearly one-third of SMEs that are already exporters have links with New Zealand. I am not sure where that data comes from. The implication is that there are significant additional SME opportunities, and I wonder what our witnesses have seen, in addition to the chapter that says that we should be working together, that tells us that this agreement might lead to significant SME benefits.

Sam Lowe: Could I come back to the committee on this? It is a long agreement, and I do not feel that I can answer that question adequately right now.

Lord Lansley: Okay. No problem.

Professor Michael Gasiorek: I am in the same position as Sam Lowe. I am happy to go away and think about that question and come back to the committee. I am not in a position to give an effective answer now.

The Chair: Thank you for your straightness.

Q50 **Lord Razzall:** Can we go back to regulatory barriers? I know they were touched on in the answers to Lord Gold's question, but, looking in general, I would be interested in the views of you both as to whether the agreement goes far enough to remove regulatory barriers for both trade in goods and trade in services. If you do not think that it goes far enough, in what ways should it have gone further?

Professor Michael Gasiorek: Sam Lowe has just talked about the barriers to trade in services. Let me focus a little more on the barriers to trade in goods.

Regulatory barriers to the trade in goods are notoriously difficult to reduce/remove in free trade agreements. Very few free trade agreements do much by way of mutual recognition of standards, regulations or conformity assessment. Many free trade agreements have clauses in this regard, and lots of them are often best-endeavour clauses about co-operation, technical consultation, technical committees and so on, but actual clear reductions in barriers can be quite hard to achieve.

What this agreement has, and this is similar to the agreement with Australia, is a clause that says that each party, each country, can consider accepting the regulations of the other country as equivalent. That does not mean that equivalence has been granted, but there is a procedure at least for each country to propose to the other country that, "These are our regulations. We know they're different from yours, but we want you to assess them. We have assessed them. We think they are equivalent to yours, and we are asking for equivalence". There is a procedure. How that will pan out in practice is hard to say.

Some of the Government's material on the agreement talked about reductions in barriers in cosmetics, medicines and medical devices. My reading of the agreement is that there is no actual reduction in regulatory barriers in cosmetics, medicines and medical devices, but that there are various best-endeavour clauses to facilitate greater co-operation to allow for future reductions of regulatory barriers.

An extremely important element when one is thinking about differences in regulations between countries is not just whether there are differences in mandatory standards but how you prove that you conform with those differences in standards. It is all about conformity assessment. There is an interesting clause, a review clause, in the New Zealand agreement such that the way in which conformity assessment is handled between the UK and New Zealand will be reviewed within a year and depends on whether the UK has acceded to the CPTPP or not.

I am getting a bit technical here, so forgive me. Essentially, the conformity assessment arrangements in the CPTPP are what are known as national treatment conformity assessments, which essentially makes it slightly easier for countries to prove that they conform to standards. What this agreement is trying to ensure is that, at least within a year, that should be the case between the UK and New Zealand.

I hope I have explained that as clearly as possible. It is quite a complex area.

Sam Lowe: I would add to that by reminding the committee of the existing context, which is that the UK and New Zealand already have a mutual recognition agreement covering conformity assessment in a number of areas, including electromagnetic compatibility, low-voltage equipment, machinery, medical devices, pressure equipment, and good manufacturing practice for pharmaceuticals.

This builds on what Michael Gasiorek was saying. This is not an agreement that says that the UK and New Zealand have identical standards, but it allows for notified bodies physically located in New Zealand to assess and certify products produced in New Zealand to UK standards, and so leads to quite a large reduction in the amount of paperwork, especially when you consider the distances involved. If companies in New Zealand were having to get their products certified on location in the UK, it would add a lot of cost. The fact that it can be done at home helps, and that already exists.

In terms of regulatory barriers in other areas—food, for example—the UK and New Zealand already have an equivalence arrangement that drastically simplifies the paperwork and reduces the frequency of physical inspections at the border to near zero as a percentage of consignments.

In terms of a trading relationship between countries that are not greatly regulatorily integrated, we are already in quite a good spot with New Zealand. Of course, if you want to make that relationship deeper, if you want to remove regulatory barriers further, you are probably starting to get into a harmonisation discussion or at least expanding our concept of equivalence quite drastically, which has proved difficult in the past.

Q51 **Lord Razzall:** Do you both think that, because of the specific nature of New Zealand and our existing arrangements with New Zealand, the way the issue of regulatory barriers will be dealt with here will not be a model for other trade deals?

Sam Lowe: It is interesting that we do not have an equivalence agreement on food standards with Australia, but we do with New Zealand. That points to differences in domestic approaches and what we perceive to be compatible.

I think we will use this general approach elsewhere. Michael Gasiorek's point about the CPTPP is important in that, if and when the UK does accede to the CPTPP, our general approach to conformity assessment might have to change quite drastically. At the moment, there is quite a large emphasis on conformity assessment taking place within our own territory—with the exception of the EU, because of legacy Brexit issues and the countries with which we have MRAs—whereas in the CPTPP model, that is the default unless there is a good reason otherwise, so it changes the approach somewhat.

We have focused on goods. In services, addressing regulatory barriers is much more difficult in so far as there is a huge liability mismatch. By that I mean that if you are a regulator in the UK having to trust that a company in a jurisdiction far away that you have no control over, with no means to penalise, is selling to your customers on the same basis as firms that you are regulating, you might get quite tetchy, because if something goes wrong, you might not be able to hold them to account, and the blowback will land on you or the politicians that have given you the mandate. Overcoming that requires high degrees of trust, regulatory dialogue and co-operation. It cannot be done quickly. FTAs and trust-

building exercises can create the framework for those discussions, but would struggle to deliver the benefits on day one.

Lord Razzall: A good point. Thank you.

Professor Michael Gasiorek: On that last question about the general direction of travel with regard to the removal of regulatory barriers, this agreement reflects the desire of the general direction, which is more equivalence with regard to both the regulation of mandatory standards and the treatment of conformity assessment procedures. Very much in the spirit of what Sam Lowe just said, that requires a lot of trust and information between countries, and, typically, moving in that direction in free trade agreements has been hard to achieve.

Q52 **Lord Udny-Lister:** Could I quickly declare an interest, because we started to talk about services earlier? For the record, I am an adviser to HSBC Bank.

You talked earlier about the lack of something in the agreement about movement of labour. Is there anything else in the agreement that you feel is missing and should be in there?

Professor Michael Gasiorek: Let me answer a slightly different question. Rather than addressing whether there is something missing, let me address a slightly different variant, which is whether there is anything surprising in this FTA. We have mentioned some of the stuff on the missing side. Nothing immediately springs to my mind as overtly missing, but there were a couple of things in the agreement that I found interesting that are very specifically to do with the trade in goods, in particular the rules of origin.

Once again, a comparison with the Australia agreement is quite interesting here. Rules of origin are specified at a very detailed product level. In both agreements, you have rules for about 5,500 products, and they determine whether the good can be traded and take advantage of the preferences. It is important to note that although we say that this is a free trade agreement and that tariffs are abolished on all goods, it is crucial to remember that no tariffs will be paid only if producers can satisfy the underlying rules of origin and say that, yes, this is genuinely a New Zealand or a UK good.

We know from the agreement between the UK and the EU TCA, for example, that only about 7% of eligible exports of the UK to the EU are entering duty free, and the remainder are still paying tariffs. Rules of origin really do matter, and there are about 5,500 products that are specified from both New Zealand and Australia. I found it interesting to see that in, I think, 45% of cases, the rules in the New Zealand agreement are different from the ones in the Australia agreement. That that reflects how each agreement is very bespoke and different.

Secondly, I confess that I have not been through each of the 2,500-odd rules, but from a fairly decent look at them it appears that the New Zealand rules, where they are different, are generally easier to fulfil than

the Australian rules, so these are "better" rules of origin than in the Australian agreement.

The final thing that I found interesting, and it pleased me to see this in the agreement, is on cumulation. There is a generic clause inviting future consideration of diagonal cumulation if both the UK and New Zealand have an agreement with another country, but that is not what I wanted to focus on. There is a clause allowing for the possibility of cumulation with developing countries. That does not mean that cumulation with developing countries is automatically there. The principle to allow it is there, but, first, a working group is needed on the countries eligible for cumulation and on the applicable conditions. If that could be made to work, it is very welcome.

The Chair: Is that the first time you have seen that?

Professor Michael Gasiorek: Yes, it is the first time I have seen a clause like that.

Lord Udny-Lister: That is interesting. Thank you.

Sam Lowe: I have raised the issue that I am most disappointed about, the mobility provisions, which I would have liked to have been at least equivalent to what was agreed with Australia on youth mobility. My understanding is one reason why did not happen is because of the Home Office's desire to avoid setting a precedent when it came to mobility provisions being attached to UK free trade agreements, which to my mind is very disappointing.

I note other areas of interest. Regarding the digital commitments, there is a commitment prohibiting both parties from making market access conditional on firms sharing cryptographic techniques with regulators or with other companies. This is interesting, because it does not include something that is included in the UK-Australia agreement, and that is source code. In the Australia agreement, it is cryptographic techniques and source code. In the New Zealand agreement, it is just cryptographic techniques. This seems to be something that New Zealand has an issue with, and I am not quite sure why, although I am in the process of inquiring. The digital economy partnership agreement, which is a plurilateral agreement on digital services started by New Zealand, does not cover source code. It is not there, although it is in the Australia agreement, and I am not quite sure why.

It is notable that the UK has made a commitment to recognise the intellectual property behind the Haka, which it does in one of the side letters. There is also an interesting side letter on the New Zealand side committing it to enforce trademark rules on Scotch whisky. It will stop companies in New Zealand calling themselves by something they should not, and that is useful.

The other one that was expected but will form a bigger part of UK trade discussions in future is investor-state dispute settlements. As with

Australia, this provision was not included in the UK-New Zealand agreement. It is not something that New Zealand necessarily likes for domestic reasons, but when we enter the CPTPP discussion, investor-state dispute settlement is a component part. I would expect us to have a side letter with New Zealand that exempts us from its coverage in respect of our relationship with New Zealand, but of course this will not necessarily be true of all the parties, including Canada, which we are about to start renegotiating a bilateral with. It is perhaps something for the committee to bear in mind for future sessions.

The Chair: Thank you. On source codes, is this partly because of the consumer demands on it? I know that consumer groups here want source codes to be accessible in certain circumstances. Could that be behind it?

Sam Lowe: It could be, and that would make sense, but in this specific instance I will not speculate, because I am unsure. The only thing I can note is that it appears to be a trend in New Zealand's agreements, and it reveals that the UK, because it is included in the UK-Australia agreement, is okay with it.

The Chair: That is interesting, thank you. If you find out any more, I am sure you will update us.

Q53 **Lord Oates:** In light of the services discussion I should also declare an interest as the chair of the advisory board of Weber Shandwick UK.

My question is about the commitments in the text to co-operate. As you will be aware, there are a number of those, including on women's economic development, trade and development, Maori involvement in trade, and regulatory practices in other areas. What is your view on how significant commitments like that have proved to be in previous agreements?

Sam Lowe: It is a difficult question to answer, because it goes back to some of the themes of my responses, in so far as it depends. Having these dialogues created via the agreement is a useful endeavour, but it requires the regulators, or the officials involved in those discussions, to have a mandate to deliver improvements and the desire to do so.

It is difficult to generalise on that point. There might be an area where there is a lot of political support and desire on the part of the officials involved to progress and that might be very successful. In other areas, there might not. I always worry about the financial services commitment because of the regulatory dialogue to create it, and there are huge opportunities to deliver benefits in future even if it is just clarifying issues. Going back to the data localisation point, that is hugely important for SMEs. If you are talking about barriers to market access, a requirement to store data locally might make you decide not to even try.

These are the sorts of things that you should be able to discuss, but if you are meeting only once a year just to run through some talking points, it is useless. If it is an ongoing process driven by outcomes, it could be quite beneficial. Then again, you also have to consider that this

is just one of hundreds of dialogues in some instances that exist in loads of other constructs.

That was a long way of saying that I would like them to be useful.

Professor Michael Gasiorek: It is a very good question, but a very hard one to answer. One reason why it is a hard question to answer definitively is that many of these areas of co-operation are broader than issues of market access, for example in services or trade in goods, but cover a wider range of areas—SMEs or women in trade, and so on. They often reflect areas where there is a general direction of travel in the countries with regard to policy in those areas that has nothing to do with the trade agreement per se. It is hard to disentangle whether an agreement has impacted those sorts of outcomes or not. Nevertheless, there is some empirical evidence that having these sorts of soft agreements to co-operate can yield positive impacts, but the evidence is mixed. It would depend very much on the types of agreement and the types of countries involved. There is no clear picture here.

Sam Lowe: An example of an area where it does appear to be working is the UK's relationship with Switzerland. It is slightly more complicated than the standard free trade agreement and with the context of it having to be renegotiated with the UK exiting the EU, but that is an agreement subject to constant interaction and improvement.

One example of an issue that appears to have been resolved is to do with the number of the UK free trade agreements, which means that products produced in special economic zones or free ports or benefitting from something called duty drawback do not qualify for tariff-free trade under those agreements, and this is a legacy of the rollover deals. This was an issue with Switzerland, and to my knowledge that issue has been resolved and fixed through regulatory dialogue. So, yes, if there is enough desire, these dialogues can produce quite significant outcomes.

Lord Watts: I wonder how many people are working on those sorts of issues in the UK. We have signed an agreement that commits us to ongoing dialogue. Have you any idea how many staff in the UK will be working with how many staff in New Zealand, for example, to further this, or is that just something that is written down and no one actually bothers about following it up?

Sam Lowe: There will definitely be people on the UK side whose job it is to engage with these committees, and some of the commitments are not just about officials. In agreements with South Korea and others, civil society dialogues have been created off the base of them. I have seen calls for interest recently to recruit to it.

As for numbers, the UK has very many trade officials, not just in the Department for International Trade but across all the other departments. I do not think that finding people to staff dialogues would be a problem. The issue would just be the dialogues being prioritised and viewed as contributing to the Government's objectives.

Professor Michael Gasiorek: I have no knowledge of how many people would be working on these sorts of committees, but where we sign free trade agreements there is a place for a monitoring review, possibly annually. It does not have to be a big glossy document; it can be a simple statement on how that FTA has been operating in practice, how many times technical committees have met, what degree of dialogue has there been, what issues have arisen—a sort of annual report on the state of play on each FTA. In the United States such a report is produced, and I have argued in other fora that we should be doing something similar in the UK.

Q54 **Lord Astor of Hever:** I have an easy question for you both. Much of the text draws on the precedent of the CPTPP. Do you think it will be helpful to our accession process, or does it mean that this FTA is not as tailored to the UK as would otherwise be the case?

Professor Michael Gasiorek: My answer will be fairly brief. I think that the agreements with Australia and New Zealand will facilitate accession to the CPTPP. They are not essential for accession to the CPTPP, and clearly that is a separate process, but I think they will facilitate that. I suspect that, to some extent, knowing that the UK has applied to accede the CPTPP may have impacted some of the articles in this FTA, as with Australia. We previously discussed this with regard to the regulatory barriers to trade. On balance, I think it will be helpful.

Sam Lowe: I would go slightly further than that and say that it has made it much easier for the UK to accede to the CPTPP because, on the market access commitment side of the discussion—here I am talking about explicit tariff reductions—the UK has agreed with New Zealand and Australia to go duty and quota free in the context of the bilaterals. That means that the UK does not necessarily have to make that same offer to the rest of the CPTPP membership as a condition of acceding to the CPTPP. It means that Australia and New Zealand, which have committed to do so in the context of the bilaterals, will not make a fuss. If we were acceding to the CPTPP without the bilaterals, that would have been Australia and New Zealand's only opportunity to get us to remove all tariffs, which could have made it more difficult if the UK did not want to do so in respect of imports from other CPTPP members, Canada and Japan, which might not give the same in return. So that is quite helpful.

As to whether having the CPTPP in mind negatively impacted the bespokeness of these bilaterals, it certainly informed the text, but you can find examples of where these bilaterals go further than the CPTPP commitments, particularly in digital, where there are explicit commitments in the bilaterals with Australia and New Zealand not to condition financial services market access on storing data locally. That specific provision is not in the CPTPP. It has informed these bilaterals, but in quite a few areas they go further, so there is still evidence of it being a bespoke fit, although I have opinions on how quickly they were negotiated, in that you could always have done a bit more if you were not in such a rush.

Q55 **Lord Lansley:** I raised my hand here because I thought I might have some success with something else I wanted to raise. I am very interested in the differences between the agreements we have reached with Australia and New Zealand, and to some extent I am just trying to spot the differences and understand why they are there.

Do you have any knowledge of two particular areas of difference? One is that the Australia agreement has a chapter on innovation in relation to trade, and there is no such agreement with New Zealand. Is the chapter with Australia not only novel but interesting, should it have been replicated, and is there some reason that you know of why it has not been replicated?

Professor Gasiorek, you were talking about manuka honey from New Zealand. As far as I am aware, we offer access to geographical indications for products brought to this country. The structure of what is in the intellectual property chapter with New Zealand appears to be based on the proposition that it does not have such protections, but there is the potential to give us access to them if it gives them to somebody else, or there may be a review in a couple of years.

My proposition, and I am going to be a little pushy here, is that in agriculture, where New Zealand will get significant market access, we sell relatively little to New Zealand, but we do sell some very high-quality geographical-indication goods. Should we not have pushed New Zealand not to have a review at some point in the future with no commitment, but to have a commitment to protecting our geographical indications for some of our really high value products?

Sam Lowe: On the GI discussion, this is a product of the political desire for expediency. Negotiating on GIs could have held up the discussion for years. This is one reason why the EU is struggling to conclude an agreement with New Zealand. To my mind, the UK has effectively outsourced that negotiation by saying that we will not make it an issue here. It does not say this explicitly, but it is saying in a coded way: "If the EU convinces you to accept geographical indications in future, we will want to have the discussion then".

Lord Lansley: I get it. I did see that. The reference is to non-party agreements leading to a review with us. So we are just piggybacking on the EU agreement, even though we are not party to it.

Sam Lowe: I think that is the intention, yes. A decision was clearly taken not to push this issue any further, and I would assume that is because we wanted to get the agreement done quickly.

The innovation chapter is an interesting one. I do think that the innovation chapter in the UK-Australia agreement is a first. In a sense it is sui generis to that agreement, because both Australia and the UK decided that this was something that they wanted to have. I have read it and I am not sure that it does very much, but it is nice, it is there. It is not necessarily surprising that we have not replicated that with New

Zealand, because it is perhaps not something that New Zealand was thinking about. We decided that we were going to do this with Australia, and this could be something we could shout about. I am not sure it that has much impact.

Lord Lansley: We might well look at that in the future and say that it should be introduced into the CPTPP, because the innovation might have significant benefits across the wider market.

Sam Lowe: It is certainly something that we might look at in future. Conceptually it is a useful idea. Even if does not look like it very much in the UK-Australia agreement now, there is no reason why it could not be built upon and made into something more substantial.

I would remind everyone that the CPTPP is an accession negotiation. We need to negotiate on market access—what are our tariff reductions, what is our servicing schedule, what is our procurement offer? However, the rule book is set in stone, with the caveat that were the US to indicate that it wanted to re-join, or even if the EU decided that it wanted to join, that might trigger a renegotiation of the rule book, but the UK's accession will not do that. This question comes up elsewhere. The CPTPP does not have this provision for financial services data, and it would be really nice if it did. People ask whether we could get that negotiated as part of the accession, and my answer is no, unfortunately.

Professor Michael Gasiorek: I agree. On the innovation chapter more generally, it is interesting that it is there, and in a sense it is nice that it is there, but how meaningful is it? From my recollection of it, everything in that chapter is a best endeavour clause. It is about co-operation, information exchanges, working together and so on. It might lead to something. It is one of those chapters that will be interesting in years to come when evaluating whether it actually led to anything. As part of that general monitoring procedure, I argued for earlier tracking of what has been going on. It would be interesting to see whether it has led to anything or whether it is just a nice bit of text on co-operation.

The Chair: I think your final plea about monitoring is a good point for us to draw stumps on this, and I am sure we will consider that when we come to our report. Thank you enormously both of you for this. We are aware of quite how many pages you had to plough through to give us the benefit of your wisdom, and we appreciate that. It will give us very helpful signals as we take our work forward.