HOUSE OF COMMONS

International Trade Committee

Oral evidence: UK trade negotiations: Agreement with New Zealand, HC 78

Wednesday 18 May 2022

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Watch the meeting

Members present: Mark Garnier (Chair); Paul Girvan; Tony Lloyd; Anthony Mangnall; Lloyd Russell-Moyle; Martin Vickers; Mick Whitley; Mike Wood.

Questions 30 to 50

Witnesses

II: David Henig, UK Director, European Centre for International Political Economy; Tim Hiscock, Export Development and International Trade Adviser, Strong and Herd, and British Exporters' Association; Jack Semple, Alliance Secretary, Engineering and Machinery Alliance.

Examination of witnesses

Witnesses: David Henig, Tim Hiscock and Jack Semple.

Q30 **Chair:** Welcome back to the second session of our International Trade Select Committee inquiry into the New Zealand trade deal. In the first session we heard about services; in the second session we are hearing about goods. We have three witnesses. Perhaps I can ask each of you to give your name, rank and serial number.

David Henig: I am David Henig, director of the UK trade policy project at the think tank European Centre for International Political Economy. I am an expert trade adviser to the UK Trade and Business Commission, and I have a few other hats that I will not bore you with right now.

Chair: They are not boring, David; they are fantastic.

Jack Semple: I am Jack Semple. I am the alliance secretary of the Engineering and Machinery Alliance, which is an alliance of 10 trade associations, broadly in the machinery and components supply chain, working right across the UK economy. We supply machine tools and tooling, automation control systems, and all the fluid power and air power that is used across the economy. We are not in aerospace or oil and gas; we are across everything.

Tim Hiscock: Good morning, everybody. My name is Tim Hiscock. I am representing the British Exporters' Association, which is a trade association that provides support to British exporting companies and also lobbies on exporting-related areas. In my daytime job I work for an import-export agency called Strong and Herd. We provide services to hundreds of manufacturing companies across the UK in terms of exporting and importing. I am an export development and international trade adviser at Strong and Herd. My primary job is to help companies find new opportunities and build their exports.

Q31 **Chair:** Fantastic, thank you very much. David, perhaps I can start with you. I do not know if you saw the beginning of the last session. I saw that you were in the room for the tail end of it. We opened it up with this question.

At the end of the day, New Zealand is a long way away and it is not a particularly big market. It is our 57th biggest trading partner in goods, as opposed to services. However, one thing that did come out of this was that, although it may not necessarily make a huge amount of difference to the UK economy that we are going to be trading with them, this trade deal is particularly interesting from the point of view that it establishes a benchmark by which you can judge all other trade deals; it establishes our negotiating position. Would you agree with that in the context of goods?

David Henig: We certainly had high hopes of the UK-New Zealand deal. You could barely find two more like-minded countries on wanting to be open to trade. Therefore, I find it slightly disappointing that the provisions on goods do not go further. There are a couple of interesting and useful things in the deal. There is one completely new provision—article 2.18, I believe it is—on consultations on non-tariff barriers, which I have not seen in a free trade agreement before. It looks like it could be really quite positive. That is good.

Just like with Australia, it has 25% origin for motor vehicles. That is positive for the UK as well. It has relatively liberal provisions generally on rules of origin. That is positive. It removes tariffs, as you would expect, since all New Zealand trade deals remove tariffs, but it does not really go much further on the regulatory barriers or alignments that have been discussed in various trade deals, which seems a shame. It feels like it could have gone further in that area. Particularly, the technical barriers to trade chapter, which covers barriers on industrial products, is pretty standard. There is not much there that is new. That is probably a little bit disappointing. Overall it is certainly positive, but I feel it could have gone a little further.

Q32 **Chair:** Here is an important question. Is that not partly because the global trade in goods is a very established thing? It has been going on for hundreds of years, and we understand it. Services is, relatively speaking, a new-ish conception. We have not really got to the bottom of that. When you come to digital trade, that is brand new. Might that not explain it?

David Henig: That is a very important point. That is probably true. If the UK and New Zealand could not agree to these things, it is possible that nobody else would. Maybe countries just do not want to go any further on putting that kind of alignment within a treaty. You want to have some flexibility on regulation, but that does have an effect back into your exporters, who perhaps do not have the same level of certainty. Yes, that is probably right. We have reached that point in trade in goods chapters; they are fairly standard.

I am pleased, as I say, that there is one pretty new provision there. That is good. You would hope that we could build on that in the future with New Zealand, but, as you say, it is not a huge export market. In general it is better to have a trade agreement than not, but I do not expect a huge impact from it.

Jack Semple: We welcome the agreement. It moves things forward somewhat. It is not huge, but it is not insignificant. One of our members is the Agricultural Engineers Association, and agriculture is very important to New Zealand. In the first quarter of this year, New Zealand was our third largest export market for agricultural goods outside the EU and the 10th largest overall. There is some interest, and there is benefit to be had.

There is also real interest in the partnership idea with New Zealand. I have already heard that from some member firms. There is also interest in comparing and contrasting what the UK does and what New Zealand does in terms of some of the key policy issues that we face around manufacturing and exporting. There is some value in comparing and contrasting there.

In the last session, Chris said that we need a really strong message in this area, and I completely agree on that. I would say this, wouldn't I? Trade associations have an important role to play there, which is not always recognised.

Chair: I must say that I have always thought that trade associations have a very big role. I certainly recognised that when I was a Minister.

Tim Hiscock: I agree that the deal is welcome. That is certainly the view of the companies we have spoken to, although New Zealand is a relatively small country. The removal of the tariff barriers themselves is significant. The biggest sectors of manufacturing goods—I am just looking at the figures here—are things like vehicles and machinery. All of these areas do have some tariffs at the moment.

New Zealand is not a high-tariff country, but there is 10% on vehicles, 5% or 10% on machinery, the things that fall under Harmonised System chapter 84, which is our second largest export. Straightaway, removing the tariff barriers does give a significant advantage.

I have some concerns about some other areas. Do you want me to go into that now or will we come to the specifics later?

Chair: We have a lot more questions, but give us the headlines so we can flag them and make sure we pick them up.

Tim Hiscock: There are commitments to simplifying and streamlining customs procedures, which any international trade company would welcome. If a trade agreement puts a commitment on HMRC to clear imports from New Zealand within a given time, say two days, my concern is that it will then be putting an arbitrary priority on imports from New Zealand to the detriment of imports from other places. I have concerns about the way that is going to move.

My other main concern on the origin rules—they have been streamlined and simplified, which is welcome—is whether there is a danger that that is going to set a precedent on future trade agreements. When we come to countries like India, will this be held up as the industry standard, such that we are going to provide simplification, which may not give us such tight control on undesirable imports that do not meet the origin rules as intended? So I have a couple of concerns in these areas.

Chair: Do you want to expand on that second point a little bit? Could you give us a bit more detail on that? That sounds quite relevant.

Tim Hiscock: On the second point, I do not have the detail of what is in the agreement for origin rules, but the headline is that the rules themselves are being simplified. The evidence of origin is being simplified. This is the key to unlocking tariff-free trade. The goods have to meet the rules of origin, and the rules of origin are a very large part of the agreement. Clearly, that is welcome. It is the way we should be moving.

From my point of view—people in the food industry may feel differently—I do not feel that we have too much to worry about in terms of our market being flooded by cheap manufactured goods from New Zealand. I would not be too concerned about the impact of making the UK more open to manufactured goods from New Zealand. If that sets a precedent and we are looking, for example, at a trade agreement with India, which is a low-cost economy and has lots of routes of supply within its own region from other countries, we need to be careful on rules of origin, moving into other areas.

I hope somebody who has been negotiating this has considered whether we are setting a precedent here. Are we going to make it easier for people to circumvent the rules—not for New Zealand, but for any future trade agreements we might get?

Q33 **Chair:** Essentially, you are saying that certain elements of this trade deal are fine for a country like New Zealand, but they would not necessarily be appropriate for other countries where there are questionable practices.

Tim Hiscock: That is what I fear, yes.

Chair: That is very helpful.

Q34 **Mick Whitley:** David, for goods to benefit from this agreement, they will need to comply with rules of origin. Can you give an overview of those rules and say how advantageous they will be for UK exporters?

David Henig: Rules of origin are crucial to trade and are crucial to preferential tariffs. Most exporters are pretty used to dealing with them. I have not been through the detail; I am not an absolute customs expert, but generally the rules we have agreed with New Zealand are in keeping with the fact that we are two sophisticated economies. That does help UK exporters a little. These are exporting companies. As this applies to India, I am less worried about the precedent point, because most of the companies that are actively exporting are companies that are used to doing this. They know they need to stick within the rules.

UK companies, particularly the car sector, will benefit from liberal rules of origin. That is good, if we can sell the kind of cars New Zealand wants to buy. I had a quick look at that. One of the issues is that we are putting a lot of trust in the car industry. We have given it the best deal as part of the New Zealand deal. As far as I understand it, New Zealand generally goes for larger vehicles, off-road vehicles and SUVs because of the terrain. Those are not the kinds of cars we necessarily produce. There is a slight concern there. Have we targeted the right things in the New Zealand deal? Could other sectors have benefited?

Jack mentioned agricultural engineering products. I am sure we are good. I was on a visit on Monday where I saw some pretty impressive equipment that was UK made. Can we export that to Australia? It sounds like we could. Will that benefit as much as perhaps cars from this deal? No, perhaps not. Those are the things where you need to get the people who have the real detail on those areas to make sure we have a good deal.

These areas are—I do not know how you might say it—the extras that perhaps we are not yet quite organised enough to have a really detailed grasp on. It is certainly an area worth further investigation. I am afraid I do not have the exact details, but in general the origin provisions are good in the New Zealand deal. I just wonder whether we have targeted the right sectors.

Q35 **Mick Whitley:** I will ask Jack for his view in a minute, but I just want to ask you a supplementary question. We have heard that the liberal rules of origin in the Australian agreement raise the possibility of third-world countries using them to circumvent UK tariffs. How far does that issue arise in respect of the New Zealand agreement?

David Henig: Circumvention is another story all by itself. Again, I have not carried out the studies. My gut feel is that it is unlikely you would get circumvention through New Zealand to any great scale. It just seems like they are a sophisticated economy and we are sophisticated importers. We will have processes in place against that.

Frankly, if you are a Chinese or Vietnamese exporter, which is who we may be talking about, there are probably easier ways to circumvent UK tariffs than going via New Zealand. I suspect that in this particular instance we are okay. India would be a different deal. We are not going to have sophisticated provisions with India. We should have sophisticated provisions with New Zealand, which is another sophisticated modern economy. It seems to make sense to me.

Jack Semple: I am not sure I have a lot to add to what David has said on rules of origin. I would agree with what David has been saying.

Q36 **Chair:** David, I want to follow up very briefly on your point about the India trade deal. Presumably, the Indian trade negotiators would come along and say, "If it is good enough for New Zealand, why is it not good enough for one of the major economies on the planet?" That is Tim's point.

David Henig: I would expect that you would take the current starting point with India, as you would with New Zealand. The current starting point with New Zealand is much further. The customs authorities in both the UK and New Zealand are able to share data. They probably have good working relationships already. On that basis, you can have a level of trust that says, "We can go several stages beyond that".

Between the UK and Indian authorities, I suspect there is not quite such a level of sophistication or such relationships. A lot of what we are doing in free trade agreements is trying to identify the areas where there is sufficient trust to go further. With New Zealand, you should have that. With India, the Gulf states and various others, maybe you do not. It is an advantage of New Zealand, which we have taken.

Q37 **Chair:** David, I completely agree with you, but you are almost proposing that we go into the India trade negotiations saying, "Actually, chaps, we would love to do lots of work with you, but we do not really trust you". That is not a good opening line, is it?

David Henig: No, but it is realistic that you start in different places. Not all trade deals are going to look the same. India will have its asks, for example, on tariffs for its industrial products. When it comes to the small print, the UK side will want to say, "We will need evidence and proof in various areas". When you go into a trade deal with India, it is realistic to think that you are starting from a different place to the place we are starting from with New Zealand. That is just reality.

Yes, both sides will play around with that as to who gets a negotiating advantage, but that is the reality of it. There are plenty of ways in which the Indian negotiators might not trust the UK. It works both ways.

Q38 **Chair:** Perish the thought. It is very important from the point of view of what we do on this committee. Analysing trade deals is, as you know, incredibly difficult. If you look at these trade deals, there are thousands of pages, all sorts of paragraphs and god knows what else. One of the ways we have to approach this is to see how things change from one trade deal to the next.

What seems to be the case—this was certainly the evidence we heard in the last session—is that each trade deal sets its own process. The next time we look at a trade deal, we will ask, "Is it better or worse than what we achieved with New Zealand; was that better or worse than what we achieved with Singapore?" or wherever it happens to be. What you are essentially saying is that a deal with India, and presumably deals with other countries such as China or the US, will have to be treated as a new discrete trade deal in its own right. You cannot compare it with something else, because the economies are so different.

David Henig: We can compare New Zealand to Australia much more easily than we could to India. There is just a very different starting point. Yes, that is right. Clearly, there will be some read-across. To go back to tariffs again, we have already heard that New Zealand tariffs peak at 10%. Most of them are actually 5%, where they are in place at all. Clearly, it was quite easy to get to zero. We are not going to get to zero tariffs with India, nothing like it. There will be a lot of haggling over different tariff lines. Then there will be a lot of haggling over the exact rules of origin; there will be a lot of haggling over the provisions. Looking at this will not make your life or my life much easier.

With New Zealand, we can assume it is probably best in class. I had a look at the India-UAE agreement. It is far short of the UK-New Zealand agreement, as you would expect. Whose precedent are we taking, anyway—the UK precedent or the India precedent? It is not so much of a problem that the UK-India deal would look rather different to UK-New Zealand.

Chair: That is very helpful.

Q39 **Martin Vickers:** Can I go back to Tim? From what you said earlier, Tim, it would seem that you feel positive about the agreement; you feel that, generally speaking, for exporters it represents a good deal. The Government have estimated that 38% of our exports to New Zealand carry some form of tariff, which is going to be removed. That is clearly advantageous to existing exporters, but which sectors are likely to benefit going forward?

Tim Hiscock: Again, I would mention the automotive sector. I was interested in the comments that were just made. The automotive sector is going through its own challenges in the UK. The greening of the industry has come quite a long way. We are quite competitive in electric vehicles, for example. I would have thought this would be a very strong advantage in the New Zealand market, which is a country with a reputation for very strong environmental controls. I would be quite excited about that. I am overstating it, because it is a small market, a long way away, and it has all the Asian countries on its doorstep, but that area would be particularly interesting.

Then we are getting into general machinery. As UK plc, the items that fall under Harmonised System 84, which is all kinds of machinery and manufacturing products, are our biggest single manufacturing export. They are our second largest export to New Zealand. We have a lot to offer there in terms of technology and things. There are tariffs on that. Those tariffs are coming off, which could give us a certain advantage.

Outside of that, there could be all sorts of opportunities within the New Zealand market, but so much else is tariff-free anyway. In terms of tariff barriers, many of the other areas that are growing in the UK may not have so much to offer. My perspective is that, in the big heavy industry sectors, which already do relatively well in New Zealand, there are opportunities to see ongoing growth.

Q40 **Martin Vickers:** That brings me to Jack. Your members presumably feel quite optimistic about this and see the opportunities.

Jack Semple: Yes, as well as finished products, industrial intermediate products can do well. They are typically tariffed at around 5%. If we can ease the administration of getting trade done, that will also help, not so much for a major piece of industrial equipment, but that is not our export.

One of the issues for the industry is that the Government have a new imperative to reverse the historic decline in manufacturing in the UK, which was stated in the levelling-up document. We do not have a lot of detail around that. On the one hand we have the specific sectors that the Government are particularly keen on, the green sectors and so on, but our industrial base is broader than that. We have to take a broad view as to how we develop.

It is really interesting to contrast the UK approach with the New Zealand approach. As I understand it, New Zealand Trade and Enterprise has a national programme, regionally implemented, to encourage and challenge SMEs to export. They support SMEs with their strategy, their IP development and their general export capability. Similarly, they have a programme for manufacturers through Callaghan Innovation, which focuses not only on innovation but on improving the working of SMEs in New Zealand—lean manufacturing and the adoption of digital technology, or industry 4.0, if you wish.

I wonder if we could learn something from the way New Zealand is doing that, albeit that it is a smaller country. Similarly, we have centres of excellence such as the High Value Manufacturing Catapult, which New Zealand does not have. Are we making good use of that in terms of mobilising the SME community? We need to do that in manufacturing, competing on the world stage, if we are to achieve the Government's imperative, which they have just set out, to reverse that historic decline.

Similarly, in terms of implementation, the SME chapter is quite interesting. How are we going to implement? How are we going to share ideas? I would be curious as to DIT's plans to roll out the benefits of this trade deal to the SME community in particular, on the basis that the very large companies can look after themselves. We have discussed this within EMA, and we are very happy to be challenged by DIT to do that.

The 2018 export strategy specifically said it was very important for DIT to co-ordinate its activities with trade associations and other bodies. We would like to keep the impetus on that. DIT has faced some cuts in terms of staffing. It has closed down its advanced engineering section in London, for example. I know other sections have been closed down or are less resourced. As DIT is reviewing how it will manage to revive UK exporting and bringing international trade advisers in-house, for example, there are some really interesting issues. It would be really interesting to compare and contrast how we do things with how New Zealand does things.

In terms of longer-term partnership, a comment was made by one of our members that is at the leading edge of the technology area. I gather that New Zealand has created the Dodd-Walls Centre for Photonic and Quantum Technology. They do not have a huge budget, but they are interested. Is there a potential for working together? We do not have many UK-New Zealand companies, but I gather, such as we have, the transfer of skilled staff is made much easier by the new trade agreement. It is not the biggest deal in the world, but it is interesting. In terms of some of the really important issues facing the UK, I wonder whether there are some interesting lessons to be learned and to be explored.

Q41 **Tony Lloyd:** You have covered a lot of what I was going to ask about rules of origin, but I will nevertheless ask you this. You have all individually said you are not into the weeds of the rules of origin provisions. The Government have described the provisions as modern and flexible. The commitment was that this will "minimise red tape for businesses" and ensure that administrative processes are "clear, straightforward and low cost". I would be interested in all of your views on whether that is accurate, but you may not have that level of knowledge, from what you have told us.

I would like to pursue Mark Garnier's question a little bit with you all, which was this. One of the things that we know this trade deal was meant to do was operate as a precursor to membership of CPTPP. Mark's question before pursued the line with respect to India as to whether there were dangers for us in what the New Zealand process has set forward. Do you see any dangers in the rules of origin provisions with respect to other members of CPTPP? It is a big market, but they are not all at the same level of administrative efficiency that we might expect from New Zealand. Do you have any comments?

David Henig: That is a big question. There are some broad points to make about that. First, New Zealand already has deals with most of its local—there is not too much that is local to New Zealand—or nearest markets, including China, Japan, Thailand and South Korea, and within the CPTPP.

Tony Lloyd: Yes, but not of this kind.

David Henig: No, I would say that all of them offer advantages. We may have a slightly better deal, but generally all trade deals will roughly offer most of the same, including CPTPP. It is not that old; the procedures are not that old.

There is a potential disadvantage to the UK. CPTPP potentially encourages supply chains around the Pacific. It already brings together countries like Japan and Malaysia, if they join. Australia and South Korea may well join. There is Singapore. It may well be easier for those countries to have those supply chains regionally. The UK then does not quite get the opportunity. However good our provision is for cars, it is still easier for car exports to come from the CPTPP region, from Japan or South Korea, than it is for them to come from the UK. That is a question mark; it is a big question mark.

Having said that—I want to follow up on what Jack and Tim were saying—there are big questions about the domestic economy. All a trade deal can do is set a framework in place, which will be used by your domestic manufacturers or not. Questions on what shape the UK car sector will be in within five or 10 years are going to be more important for what exports we have to New Zealand than the specific provisions in this deal. You have the provisions in the deal, but it is going to be up to companies to use them. Some of the UK's export strength is probably not going to be covered by any trade deal, because it is in the defence area. We are pretty good at that. Some of our exports go on that line and they will probably continue to do so. They are not covered because they are Government-to-Government trade.

On implementation, the point was made—as trade specialists, we can never stress this enough—that you can have the deal, but are you encouraging companies to use it, to know about it and to do their best to look at New Zealand as a market? There are a lot of things around those questions. Are our provisions slightly better on rules of origin? They may be. Will that be the thing that makes the difference? No, probably not. The thing that will make the difference is whether our companies are in the right shape to take advantage of this. Are they in a better shape to take advantage than companies in Japan, for example? The EU will probably have a deal with New Zealand fairly soon as well. Are we in the best position to take advantage? That would be my takeaway on all of that.

That was a slightly general answer to the second part of a pretty big question. I am not sure I answered the first part, though. Apologies, but you did say that we are not necessarily the specialists in the weeds.

Tim Hiscock: Regarding the question about CPTPP, this is relevant to the point about whether the approach to rules of origin that we are offering to New Zealand will set a precedent. CPTPP covers countries like Malaysia and Singapore, which are very close to China in their trade relations. Somebody does need to look at the implications of that.

The other thing to say about CPTPP is that we have made a formal application to join the group. There is a fine judgment to be made here about the benefits of the New Zealand agreement, which are real but limited, against the fact that, if we anticipate being in the CPTPP group within a short time, some of the benefits of this agreement may effectively be obsolete. We need to look at how much this is actually worth and what the implications of some of these details are, if they are going to set a precedent in other areas.

Q42 **Chair:** David, I am not sure you gave the best answer about the precedents for CPTPP. It is an interesting one. Tony is absolutely right to have raised it. If you look at the context of India, you say very clearly that India is very different and, therefore, we should not worry about these potential gifts that we have given to New Zealand because we trust it. The point is absolutely right that we do not have the same relationship with every member of CPTPP as we do with Australia and New Zealand. That was the point you were trying to make or, in fact, did make.

David Henig: CPTPP, as an existing trade agreement, has existing language and provisions. We are in an accession process more than we are in a negotiating process. We would have to go down into great detail with customs specialists and those who work in companies on that basis as to exactly what the differences are between CPTPP and the UK-New Zealand deal. I have not seen such an analysis as yet.

New Zealand will be slightly different. Companies have to deal with what used to be called the spaghetti bowl of different agreements. That is one of the reasons why larger companies are typically the ones that export and trade. They have to deal with the marginal differences.

Q43 **Chair:** When you do a bilateral between New Zealand and the UK, you do it specifically for that. When you are joining something like CPTPP, it is more like joining a club. Therefore, you are signing up to existing rules. That is the fundamental difference between them.

David Henig: That is one fundamental difference. I should also mention cumulation. Within CPTPP, origin accumulates between the members. It is not just coming from UK or New Zealand. The UK-New Zealand agreement has a provision potentially to have cumulation with third countries with which both parties have a trade agreement or with developing countries. That could have an impact as well. Again, that would be part of the implementation. Chair, you are asking very complex technical questions, which people will be studying for many years to come.

I would bring it back to UK companies. How much will that affect UK companies? In terms of the major parts of our export value to New Zealand, which are going to come from, at the very least, mid-sized and probably larger companies, I am not convinced. In cars, is that going to affect Nissan, for example? I am not sure it will. Again, we come back to, "What will the domestic car sector look like?"

Q44 **Tony Lloyd:** There is a danger of us exploding a one-hour session into a PhD thesis. Nevertheless, let us pursue this, because it is a really important issue. Part of the ambition of the Australia and New Zealand agreements is that they are precursors to CPTPP, though there are much bigger markets that are much more potentially valuable to the UK. In the old days, when we looked at WTO global agreements, we were looking for simplicity. That allowed our exporters to say, "There are fairly well-defined rules that are operating all around the world". The advantage of CPTPP ought to be that there is a simple regulatory framework that everybody can easily understand. If, however, in the middle of this we have a Japan bilateral, an Australia bilateral and a New Zealand bilateral, do we begin to lose the advantage?

David Henig: I will say something. Jack wants to come in as well. I am afraid that the simplicity boat sailed some time ago for international trade. It is really complex. We want to make it simpler for exporters, but the reality is that it is not that simple. Exporting and trading goods is complex. It is mostly done by large companies because of that. Does this trade deal with New Zealand, for example, make that easier? Not a huge amount, no. Again, there is an SME chapter. Does it really help? Will it really get SMEs exporting? I am not really sure it will. I have been doing some work recently on SME exporting.

It is a great question you raise about complexity. I am not sure this agreement helps that. It provides some incremental benefits, which should not be underplayed, but there is an awful lot that it does not provide. You can load trade agreements with all sorts. Let us go with, "It provides some incremental benefits". It does not change the system completely.

Jack Semple: There is a requirement to get SMEs exporting more. We have not mentioned UK Export Finance in this, so I would like to mention it briefly. What it is doing, in terms of both larger companies and SMEs, with its GEF, is very positive. I am hearing positive feedback on that from some members.

Dominic Raab, when he was Foreign Secretary, said that we wanted to bank our current level of trade with the EU but really focus now on the Indo-Pacific. I have been asked, "What is CPTPP all about?" The discussion in the last five or 10 minutes illustrates that it is quite a challenge to explain, probably even to large companies but particularly to SMEs, the trade aspirations for the UK in terms of CPTPP accession. I simply make the comment that companies scratch their heads when they think about it. They understand what the EU is all about; they are not quite so clear what the CPTPP is about.

Finally, as was mentioned briefly, New Zealand's interests and initiatives in the green area are something that we could also plug into or partner with.

Tony Lloyd: We could go on.

Q45 **Chair:** We are going to go on for 15 minutes. That is interesting. Jack, in the chapter on technical barriers to trade, the Government say, "This can help to unblock barriers to trade and reduce the likelihood of future ones forming". Have you identified anything within this trade deal that really delivers that? Is it really going to benefit your members?

Jack Semple: If I may, I would turn the question around. Has anybody mentioned, particularly given what we have been discussing recently, technical barriers to trade with respect to New Zealand? The answer is no, not really. There is not a big issue. The freeing up of movement, which has already been discussed, is one area that would be helpful. In the machinery and components sector, I am not getting any input that TBT is a particular issue with New Zealand.

Q46 **Chair:** That is fair enough. This really speaks to the point you were making a bit earlier. You can sell a machine to New Zealand, but you follow up with the service and maintenance contract, which has that service element to it. That is the bit of it where there has been a change.

Jack Semple: As I understand it, most machines sold in New Zealand's agricultural sector are sold through distributors, though perhaps not so much in intermediate industrial components. What might be interesting is how those trades will develop both in terms of developing more digital trade and in terms of getting partnerships. This is where DIT staff, working in partnership with EMA and other trade associations, can really further develop the trade between the two countries.

Tim Hiscock: I agree with the points that have been made. You were just coming on to something else that I wanted to mention. As you have picked up, there is clearly this crossover between goods and services. It would be a mistake to look at those things in isolation. Very often, the goods export trade we have with New Zealand can have service opportunities as well. Within the service aspects of the trade agreement, there will be elements that are of interest to manufacturing companies.

Q47 **Chair:** To take a really good example of exactly how that works, a company like Rolls-Royce is selling power by the hour. It does not necessarily sell an engine; it sells the delivery of the power. This is exactly where it will do well.

Tim Hiscock: Yes, there are certainly some opportunities there.

David Henig: One of the things that we, and trade policy in the future, will have to look at is where goods are sold as a service. It is not entirely clear what rules govern that within a trade agreement. Is it covered in the technical barriers to trade? Is it covered at all?

Chair: The Rolls-Royce point is not—

David Henig: The Rolls-Royce point is an interesting one. We do not have rules for that. It would be worth asking DIT, "What plans do you have?" Are we sure that Rolls-Royce is not going to get some unpleasant surprises from that? I do not know that it is. Trade deals are set up in an old fashioned way. "We sell goods from point A to point B". They are not set up as, "We sell goods within an overall maintenance contract" or whatever.

Tony Lloyd: You have just touched on a genuinely fascinating point. It is not just about this particular trade deal. It is probably manageable in the context of two like-minded nations. It is a question for the future, partly because this crossover between manufacturing and services is going to grow and not shrink in the modern world. That is one reason. Secondly, if this is something that our trade negotiators are now going to have to look at—thank you for introducing this—maybe we need to pursue this with Ministers.

Q48 **Chair:** Yes, absolutely. Jack, can I pick up on what you said a little bit earlier? You made reference to Dominic Raab. He was speaking on behalf of government policy about this Asia-Pacific tilt, as it is referred to. That is where the engine of growth is going to come from. You were talking about it in the context of this proximity and familiarity piece. New Zealand wins in familiarity, but it does not win in proximity. Europe wins in proximity and familiarity. I think you suggested that Asia, or CPTPP, fails in both proximity and familiarity in terms of the market. Is that the point you were trying to make?

Jack Semple: I was not particularly thinking about the proximity issue for CPTPP, although I am sure our member firms are. It was simply, "What difference is membership of CPTPP going to make?" I am not sure, certainly in the SME community, there is much understanding of that at the moment.

In terms of the near and the far, for all my members, Europe is still a very important market. To take the case of New Zealand, they are the third largest outside the EU and the 10th overall. The supply chain with the EU and the EU as an export market will remain important to our member firms. That is very much what their thinking is.

At the same time, it is really important that we look to turbo-charge our capability and expertise in terms of exporting. I am not sure we have kept as strong a focus on that in the last two or three years as we might have. The export strategy rather subtly shifted. There was perhaps a less ambitious goal for exporting, particularly with inflation going the way it is going. We are going to reach the goal before 2030, the way things are going at the moment. On a serious point, I am not sure that in the last couple of years we have kept the focus on mobilising our exporting efforts.

The Government have a tendency to focus on specific sectors, specific large companies and inward investment opportunities. We need to take a broader view, if we are to mobilise manufacturing and exporting. The potential is there, and industry has to do a lot itself, but there is a lot the Government can do to support that. That was what I had in mind about comparing and contrasting with what they are doing in New Zealand. They have a plan for the adoption of technology and digital skills that is much more focused and consistently delivered, perhaps, than what we have at the moment in the UK.

Q49 **Chair:** Can I break down that comment you just made into two pieces? You were talking about DIT helping to promote international trade. I have been a Minister there. In fact, it was when David was working there. One of the interesting things we found is that UK businesses tend not to export. The UK's export performance was fairly lamentable compared with the rest of the European Union. The value of our exports was 24%

or 25% of GDP. That made us the second worst performing of the 28 EU nations at the time. A similar economy to the UK, in the broadest sense, would be somewhere like Germany, where the export value was about 48% of GDP. We have not really performed very well since then.

Is it a problem of understanding how you take your product to market? Rather than trying to sell it within the UK, do people not naturally think to sell further afield? If it is that, how specifically can the Department for International Trade help? They certainly try to help in terms of trade facilitation; they do a lot of events and all that kind of stuff around the world. Is it a cultural problem that we are trying to break, or a Government-support problem?

Jack Semple: There are many aspects of it. Given the situation we have been in over the last two or three years, with Covid and supply chain problems, companies have tended to narrow their horizons a little bit. The reverse of that is that, as we come out of that, there are new opportunities. I am interested in looking at how DIT is doing this. They ended the Tradeshow Access Programme, which was not perfect by any means.

Chair: It was better than nothing.

Jack Semple: It needed reform, but it was basically just scrapped. DIT has brought much more of the effort in-house. I am not conscious of it reaching out as much. There is a great opportunity to reach out to others to support them and engage in mutual support in order to identify the issues, identify the consequences of the issues and address them. We cannot carry on just doing the same thing. The export ambition in the revised export strategy was a dilution.

We need a clear focus on mobilising the supply chain. In terms of inward investment, we need a better understanding of the capabilities of the UK supply chain and the weaknesses that may or may not need to be addressed. There is some work to do on both ends of trade.

Q50 **Chair:** Tim, I see that you are nodding enthusiastically.

Tim Hiscock: What we were just talking about is quite an area of mine. You were asking whether our relatively poor performance is cultural or governmental. I have worked in international trade all my career. My feeling is that it is a mix, but the cultural side is very important.

When it comes to New Zealand specifically, its geography is crucial. For a small company, it is extremely challenging to sell goods to a market like New Zealand. Typical sea transport times would be several weeks; most goods do travel by sea. It is a massive burden on the cashflow of a small company that is trying to trade with a market like New Zealand. That is why the potential benefits of this are pretty limited. It is a small market; it is a long way away. Those things do count against it, even though we have a lot of cultural agreement.

We need to keep in context that this agreement, while welcome, is not going to set the world on fire. When we are looking at trying to improve export performance, I do not see New Zealand being a major contender in that game.

Chair: That brings our hour to a close. Thank you to David, Jack and Tim for your contributions. It has been incredibly helpful. Thank you very much indeed for your time.