HOUSE OF COMMONS

International Trade Committee

Oral evidence: UK trade negotiations: Agreement with Japan, HC 914

Wednesday 11 November 2020

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Watch the meeting

Members present: Angus Brendan McNeil (Chair); Mark Garnier; Sir Mark Hendrick; Anthony Mangnall; Mark Menzies; Taiwo Owatemi; Lloyd Russell-Moyle; Martin Vickers; Mick Whitley.

Environment, Food and Rural Affairs Committee Chair present: Neil Parish.

Questions 42 - 68

Witnesses

I: Dr Anna Jerzewska, International Trade and Customs Consultant, Trade & Borders; Sam Lowe, Senior Research Fellow, Centre for European Reform; Dr Minako Morita-Jaeger, International Trade Policy Consultant and Fellow, UK Trade Policy Observatory (UKTPO) at the University of Sussex; and Professor Lucia Quaglia, Professor of Political and Social Science, University of Bologna.

II: Mike Hawes, Chief Executive Officer, Society of Motor Manufacturers and Traders (SMMT); Sabina Ciofu, Head of EU and Trade Policy, TechUK; George Riddell, Director of Trade Strategy, Ernst & Young LLP and Professional and Business Services Council (PBSC); and Nick von Westenholz, Director of EU Exit and International Trade, National Farmers' Union (NFU).

Examination of witnesses

Witnesses: Mike Hawes, Sabina Ciofu, George Riddell, and Nick von Westenholz.

Q42 **Chair:** Going now to our next panel, I hope you are all ready to go. We have Mike Hawes, Sabina Ciofu, George Riddell and Nick von Westenholz. I will ask you all to introduce yourselves. I understand that Nick is under time pressure, so we are going to concentrate on you as best we can at the beginning to get you out and clear. Starting with Mike, can you introduce yourself on your own terms, name, rank and serial number, please?

Mike Hawes: Thank you, Chairman. I am Mike Hawes, Chief Executive of the Society of Motor Manufacturers and Traders. We look after the automotive industry, from importers, manufacturers, bus, truck, car, trailer, as well as supply chain aftermarket.

Chair: Good to see you there. I am surprised you do not want to do this from the comfy rocking chair I see over your shoulder.

Sabina Ciofu: Thank you, Chairman. I am the Head of EU and Trade Policy at TechUK.

George Riddell: I am Director of Trade Strategy at EY and co-chair of the UK Professional and Business Services Council trade group.

Chair: Great, thank you. Last but by no means least, the agriculture sector.

Nick von Westenholz: I am Director of International Trade at the National Farmers' Union.

Q43 **Chair:** I am going to ask a quick summary question and then we will get on to Nick specifically. I will start with Mike, summarise briefly how your respective industry and sector has reacted to the CEPA agreement.

Mike Hawes: The agreement basically reflects our sector's ambitions. There are a few additional positives in there and only a few caveats. First of all, we recognise this is the UK's first major trade deal. The fact it broadly replicates the EU-Japan agreement is helpful. Obviously, our priority still has to be the agreement that the UK has with the EU and, to a certain extent, it is the third leg of the tripod; EU-Japan, Japan-UK and EU-UK.

In summary, what we were trying to achieve by this was as close as possible to the existing status quo that we enjoy. There has been a lot of talk about what benefit does this bring to industry, to society and so forth. We have said before that for us, as we leave the EU, it has been about damage limitation. This agreement does limit any damage in that sort of relationship, and to a certain extent it does go further in a couple of small areas, so we broadly welcome it.

Chair: Thank you very much.

Sabina Ciofu: Thank you. We have been very supportive of the progressive digital trade chapter in this agreement from the beginning of the negotiations. We are very happy to see a significant number of additions in that chapter compared to the EU-Japan agreement, particularly on data flows, the ban on data localisation and other elements of it that are very important. I am happy to go into detail later on, to allow Nick to respond now. Our members have been very positive about this agreement and it signals a good direction for UK digital trade moving forward.

Chair: Thank you very much, you were reading my mind perfectly there.

George Riddell: Thank you. I agree with Sabina, it has been broadly welcomed by the service industry. There are specific improvements around business mobility, digital trade and financial services co-operation. I think the main thing is that it does not put UK companies at a commercial disadvantage vis-à-vis their European counterparts, at least with respect to Japan.

Chair: Excellent, thank you very much, superb. Standing by we have Neil Parish ready to come in and pounce in the farming direction, as Chair of the EFRA Committee we would expect no less.

Q44 **Neil Parish:** Thank you, Angus. My question is particularly to Nick. How satisfied are your members with the provision in the agreement on tariff rate quotas and how workable in practice do you consider the proposed mechanism for accessing the quotas to be, especially at the end of the year?

On quotas themselves, I think we got access to 10 out of the 25 that the EU have. One of the glaring ones for me is the milk powder quota. Would it have been a big advantage to have had that and can we get access to that quota in the future?

Nick von Westenholz: You have, unsurprisingly, alighted on I think the main issue there that is of mild concern for the farming sector. Broadly we, like the other witnesses so far, have welcomed the agreement. It is very important because of the continuity that it provides for the farming sector, which has secured some important concessions through the EPA and those will now be continued by and large through the new CEPA agreement.

These issues are relatively small compared to the importance of securing the deal but, yes, the TRQs, the way they will operate and the actual TRQs themselves do give rise to some minor concerns and I will explain those. First, as you said, it is how they operate. What is very clear is that those 10 TRQs that are included under CEPA will essentially operate for the UK in headroom. We will be able to access what is left over of those TRQs, to put it crudely, which the EU producers have not already used. In most cases we think in the short term that is probably not a problem because utilisation rates are relatively low. However, the operation of it is a concern. For example, I think—as was touched on earlier—it is the importer who will pay the tariff. If you are a Japanese importer and you are wondering whether to import from an EU producer or an EU company or a UK company—one that is guaranteed access to the TRQ, you know there is room in the TRQ for them, and the UK producer is not necessarily, you will only know whether they will have been able to benefit from that TRQ at the end of the TRQ year—then I think you know which one as an importer you are probably going to plump for, which is the former. I think there is a concern at how much in practice UK producers are going to be able to benefit from these TRQs, there is certainly bit of a question mark over them.

To your second question, as you say, there are a number of TRQs we are not party to. We are not party to a very large TRQ on malt, but as we have heard there will be access for UK producers to an already existing TRQ for all countries on malt so in practice that is hopefully not a problem. However, the one that is a concern is a fairly sizeable TRQ on a number of dairy products, milk powder, butter, skim milk and condensed milk. I think that is probably the biggest shortfall of the way this has been rolled over for us. Again, I guess it is a shame but the impact in practice is probably modest.

Q45 **Neil Parish:** As a supplementary, on cheese I think it is something like 20,000 tonnes of soft cheese for the EU. How close is the EU at the moment to fulfilling that quota?

Nick von Westenholz: I do not have the numbers to me, we can certainly get those. My understanding is it is not utilised, but in the year and a half since the EPA has come into effect it actually has begun to be utilised quite a lot. That is one of the benefits of doing a trade deal, it is showing that exports from the EU are increasing. Again, at the moment those TRQs are not being filled but they may start to be filled quite soon.

I think there is a tariff reduction on hard cheese, but soft cheese and blue cheese is part of that tariff rate quota that the UK will be taking the rest of after the EU has utilised it.

Neil Parish: Thank you. If you can get those figures for us it will be useful.

Nick von Westenholz: Yes, I will have a look.

Neil Parish: Thank you very much.

Q46 **Anthony Mangnall:** Nick, thank you for being here. Can you explain the impact of the agricultural safeguard provisions in CEPA and how they differ from related provisions in JEEPA? Since we have you, I wonder if you might want to make some comment about the Trade and Agriculture Commission now that it has been put on a permanent statutory footing, and what concerns you might have about the operation of these provisions that are in place.

Nick von Westenholz: To your second point, we are very pleased with the fact that the Commission has been put on a statutory footing. Obviously, we will wait and see the legislation itself when it is brought forward, but in principle we think that is a really positive step and we welcome that warmly. Unfortunately, obviously, it is a bit too late for this deal but hopefully for future trade deals coming online it will have a really important role to play so thank you to all the MPs who supported that.

On the special safeguards, by and large the approach in CEPA is the same as EPA. There are thresholds where volumes of imports into Japan are above those then additional tariffs will be charged. Again, this is an area of modest concern for us because the UK is not in quite as good a position as our EU partners on this one. Those thresholds, as they apply to UK products, will be applied to volumes both of EU 27 and UK exports so they will be all taken together. If, together, they exceed the threshold then the safeguard tariff will be applied. However, for EU producers it will only take into account the EU 27 volumes, not the UK volumes. Again, this may be marginal in cases but what it does mean is that there is, as I say, a modest advantage for the EU 27 as compared to the UK.

Q47 **Anthony Mangnall:** As a very brief follow up, would you want to see those safeguard provisions replicated in other free trade agreements or do you think we can go further on them?

Nick von Westenholz: Safeguard provisions are often a fact of free trade agreements. In terms of Japan having safeguard agreements it would be better if they did not exist at all, because they are a limit on trade and a reduction in the preferential treatment that we have. From that point of view we would hope that they could be liberalised more. However, of course, there are two sides to this story. Quite often, particularly with some of the other trade deals we are negotiating, we as farmers would hope there would be safeguard clauses that would be applied from a UK perspective, where we have sensitive products. Therefore in principle we recognise the role that safeguard measures have.

Q48 **Lloyd Russell-Moyle:** Hello. Mainly to you, Nick, but anyone else can chip in. The Government say CEPA provides "potentially over 70" new GIs, geographic indicators, which could be protected. How exactly does CEPA differ from JEEPA with respect to actual GIs that are going to be protected, and what practical differences do you expect it to make to UK producers, if any?

Nick von Westenholz: Under the terms there are not really any differences. The GIs that are included in CEPA are the same seven that are UK GIs in the EPA, so there is not any change in the terms of the trade deal.

What we have seen, which I think is positive, is quite a clear commitment on both sides, both Japan and the UK, to try to increase the amount of GIs under CEPA quite quickly. Therefore there does appear to be a commitment from the UK Government to expand that list quite rapidly. It is not guaranteed, there is no guarantee at the moment that there will be more than seven protected food types under the agreement. However, I think we are quite pleased to see that sort of commitment, that there will be a process to try to increase those quickly, and we are very supportive of that.

Q49 **Lloyd Russell-Moyle:** That sounds good. The commitment is that British firms will be able to lodge applications directly with the Japanese that will then go through the normal process. If there are no Japanese producers using a similar GI it will almost certainly go through, although there can never be any guarantees, is my understanding.

Two questions come out of that. First, is there a particular difficulty for British firms already to register GIs in the Japanese market, or is this just an undertaking that they could already have done? The second part to that is where it says "Japanese producers", does that mean it has to be produced in Japan or does that mean also Japanese importers for similar products could object to a particular GI being registered? If you understand what I mean on those questions.

Nick von Westenholz: Yes. On the second, it would apply to importers as well so having something on the market, if it is calling itself a certain thing it would have to meet the requirements of that, whether it was produced in Japan or produced elsewhere.

Q50 **Lloyd Russell-Moyle:** What I mean is who could object. At the moment, the objections are Japanese, if there is a similar product already on the Japanese market that would be excluded in that GI they could object to prevent it becoming a GI.

Nick von Westenholz: I cannot answer the question. There is an opposition process essentially and, yes, it would usually be the domestic producers. As you say, it is unlikely there will be much opposition to many of our GIs within the Japanese market.

I am afraid I do not know what the process is if it were to be other producers from other countries in the world who wanted to oppose that, but I am not aware of that being flagged as a particular issue.

I think we would be confident that we would be able to increase the number of GIs. To your first question, at the moment of course under EPA we are alongside producers from 27 other countries that also want their GIs registered in the Japanese market. Therefore we hopefully will find ourselves in a better position where we can just focus on our GIs and getting those registered in the Japanese market under CEPA in a way that requires a bit more elbow work and is a bit more cumbersome when we are doing that alongside so many other producers in the EU.

Q51 **Lloyd Russell-Moyle:** There might be a lot more goodwill and there might be a bit more focus on our ones rather than actually any provisions that will particularly make this process quicker.

Has there been any engagement with it about maybe what the priority of any of those GIs, new GIs, going forward should be?

Nick von Westenholz: There is ongoing engagement from lots of producers themselves, which produce those particular products, in trying to get those promoted. In honesty, we have not been brilliant over the years about getting UK GIs promoted as part of European FTAs, we have been a little bit lazy about that and often fallen behind other European countries quite significantly. Japan is probably an example of that, only having seven in there. Formally the terms of the agreement do not mean an awful lot in increasing the GIs, but the noises we are hearing around this from the UK Government I think are very welcome.

Lloyd Russell-Moyle: Thank you.

Q52 **Chair:** Thank you. On the question of GIs behind closed doors, we were wondering if you have Stornoway black pudding on the market in Japan—a high-quality black pudding, obviously—and you had somebody importing Clonakilty black pudding, not as tasty, whether they could object on that basis to the Stornoway black pudding. I think what you are saying is that the answer is not clear, Nick. Is that right?

Nick von Westenholz: I am sure it could be discovered. It would depend on the Japanese opposition procedure.

Q53 **Chair:** The second point, before I let you go and I know you do want to go, is on the principle of this and the agreement of the TRQs. The whole area of the TRQs has been agreed with respect to the European Union. We are told this is a new trade deal but it is not in respect of the TRQs because the UK is the tail end of the EU. If the EU fills up those quotas the UK is kicked off the bottom rung of the ladder. Now whether it can or it cannot happen in practice in the actual operation of the thing is one matter, but what matters is the principle of the thing. I am surprised that UK negotiators agreed that. What is your own view and how do you feel in the farming community about that?

Nick von Westenholz: I guess negotiations are tough. I would not accuse the UK negotiators of having rolled over on that one without a fight. However, yes, it is clearly one of the most obvious areas in this deal where the terms do fall short of the terms in the EPA. There are 10 TRQs here rather than 25 and we only get what is left over of those TRQs, which is just a fact.

In a way it is perhaps not surprising. We know the Japanese public felt that there had been quite a lot given away as part of the EPA so it was always going to be a tough negotiation to ask for additional access. That is what it may have been seen as, because in some instances it might have been. As I say, I think it is a shortfall. It is one of the obvious areas where there is a difference between CEPA and EPA. However, I would not want to suggest that it is our negotiators who did not at least fight for it, but it was clearly a tough negotiation on this tough one.

Q54 **Chair:** You can see the argument that at one time as part of the EU the UK was at the top table at the banquet and now it has to wait until everybody else has had their banquet or their fill around the TRQs before it can come to the table and get something from there. The principle is—whether or not the UK negotiators were bullied into it or had to accept it—it shows the UK not being as strong as it possibly should be in this area, which may be a concern going forward if it should happen again. I would imagine you would not want to see it happening again.

Nick von Westenholz: As I said at the beginning, the really important thing was we got a deal that was, more or less, similar to EPA so we have continuity. Yes, there are areas where the agreement falls short. This, of course, was slightly unusual because of the time pressures under it as well. The most important thing was it was tied up before the end of the year, which may have meant that there had to be some concessions given. However, yes, we would hope that with the other rollover deals that are being negotiated at the moment—Canada, Mexico, Turkey, there are some big trade relationships there—they could maintain the preferences and the advantages we have as much as possible.

Chair: I am very conscious of your time. Thank you very much for coming, I know you have an engagement probably now, or a minute ago, so all the best. Thanks for that.

Nick von Westenholz: Thank you.

Q55 **Mick Whitley:** My questions are in relation to the automotive manufacturing sector and it is to Mike Hawes. Mike, under CEPA, UK tariffs on electronic control panels for electric vehicles will be withdrawn immediately, whereas all other automotive tariffs will be phased out over six years, just as under JEEPA. What will that mean for your members?

Mike Hawes: First of all, the thing we were asking for was basically the parallel phase out of automotive tariffs, finished vehicle tariffs, over a number of years to match what was going on with the European deal. That has been achieved and that gives business planning that confidence over the next few years. What we are ultimately seeking is cumulation, so having those tariffs on the same glide path, if you will, is going to be helpful.

You are right, there is a slightly accelerated reduction on some electronic panels. Electronic panels are worth about £40 million to £43 million at the moment in trade. It is subject to a small tariff, it was about 2.1%, and was coming off anyway. It effectively comes off at the beginning of 2021 rather than 2024, so there is a three-year difference.

While we expect trade in those panels to grow—because they are increasingly going to be used in the application and development of autonomous vehicles, intelligent vehicles, and are fundamental for that—we do not see it as having a fundamental effect on the industry and its planning. It is relatively small in tariff and is even smaller in the total value of the vehicle, so the focus and priority was always matching tariff reductions on finished vehicles.

Q56 **Mick Whitley:** A supplementary question to that, so this deal then would not have an effect on any transnational car plants or the supply chain?

Mike Hawes: No.

Mick Whitley: Thanks.

Q57 **Mark Menzies:** Again, this is to Mike Hawes. There is some debate over how accurate this question I am going to ask is and the validity of it, but let us have a go.

Under CEPA some automotive components, such as motors and air-conditioning systems, will only need 50% originating content to qualify for preferential tariffs compared to 55% under JEEPA. Is that welcome news for your industry?

Mike Hawes: The reduction or the drawbacks on originating content from 55% to 50% only really applies to certain automotive products, namely tractors for semi-trailers. Therefore it is not going to have a major impact on what we produce, first and foremost. In terms of the importation of vehicles, it does give them a little bit more flexibility to source components from outside of Japan, which probably means south-east Asia. However, it is at the margins and it is on a very specific product so we do not see it as having a material effect on trade, certainly in export from the UK.

Mark Menzies: That is great. Thanks very much, thank you.

Chair: Taiwo Owatemi, hopefully all the sound issues have been sorted. Good.

Q58 **Taiwo Owatemi:** Everything is sorted, thanks. My question is also to Mike. Under CEPA the UK and Japan agree to seek cumulation arrangements with the EU, so that UK manufacturers can continue using Japanese components to meet the rules of origin requirement when they export to the EU. We have heard from our previous panel that it is unlikely the EU will agree to this. What will be the consequences for your industry if this does not happen?

Mike Hawes: It is a good question. You are right, as an industry we are seeking that cumulation. While negotiations are still going on between the UK and the EU that is a good thing, whether they arrive at that outcome looks unlikely from what we understand the European negotiating position to be.

Obviously, the nature of the UK industry is we have a lot of Japanese manufacturers here that, as your previous witnesses said, have invested in the UK to be able to sell into Europe. The way any manufacturing operates, you will always try to source as much of your material as you can locally, build close to where you sell. The nature of the automotive industry is international. A higher proportion potentially of a Japanese manufacturer will be sourcing components from Japan or elsewhere and a European-owned manufacturer is more likely to source from Europe.

We still think there will be a tariff-free deal that accepts that cumulation will not be essential. One of the things we are trying to secure is for the medium to longer term. As technologies change we are moving towards increasing electrification. At the moment batteries, for instance, generally come from Japan, Korea and Japan so third-party cumulation may become more important. One of the things we want from the EU negotiation is a recognition that the nature of trade may indeed change.

For the short term I would probably summarise it in saying there probably will not be an immediate impact, but our ambition remains we still want to arrive at third-country cumulation not just for Japan but for Turkey in particular. Again, other witnesses have highlighted the importance of that country. Indeed a lot of our exports of engines go to Turkey for finished vehicle production so it is always a bilateral relationship.

Taiwo Owatemi: Thank you. Thank you, Angus. That is all I have.

Chair: Great, thank you very much. I think Martin Vickers is poised.

Mark Garnier: Angus, I thought I was going to—

Chair: Martin Vickers is coming in at this point and then we are going to you, Mark Garnier. Sorry, no, I apologise. I have it the wrong way around. I am checking my pile here. It is Mark Garnier and then Martin Vickers, who is coming in with a supplementary. Mark Garnier, apologies both. It has been a long afternoon and your Chairman is letting you down.

Mark Garnier: That is all right, Angus. I will not be wearing my Harris Tweed next time.

Chair: Thanks for the plug.

Q59 **Mark Garnier:** Mike, I am going to carry on with this cumulation piece. You raise a very, very interesting point. With the move to electric you are obviously looking at the batteries coming from Japan, Korea and China. I remember you and me meeting at some point a few years ago, and talking about the fact that the value of a battery in a car is something like 50% of the total value of the car. This is a very, very significant element of the cost of the car and if you cannot get the cumulation it is very, very bad news.

What I am looking to hear from you is some sort of indication of your industry’s enthusiasm to remain in the UK. Obviously, you talk about the fact that they can get over a few bumps in the road in the short term as long as we get onto the motorway if you like—to use a few motoring metaphors—and if we get into the right place at the right time.

Chair: That is very good.

Mark Garnier: The bottom line is that when you take a company like Renault-Nissan—with 60% of its products produced in Sunderland being exported to the EU—ultimately if we do not get a good EU deal it is going to make a huge amount of sense for Nissan to start manufacturing their cars at the Renault-Nissan plants in France and Spain.

I suspect your sector is probably the most sensitive in jobs and physical assets that can be exported of any. Therefore you are almost the canary in the mine, if things start going wrong it probably goes wrong with you guys first.

Where do you think we are going on this? Do you think Japanese companies have the conviction that the UK is going to get it right both with the European Union and when it comes to cumulation with other countries because, of course, 20% of the product of Nissan goes outside the EU and outside the UK? It is a very, very wide-ranging question but I will be very interested in your general thoughts.

Mike Hawes: Rather than giving you a half-an-hour answer I will try to give you a relatively short one.

Chair: Much appreciated.

Mike Hawes: The Japanese invested in the UK initially as a gateway to Europe. They have been here for 20 to 30 years. When you are thinking about what might happen next, always remember the Japanese approach to investment is they want to build long-term relationships. They do not necessarily view 20 to 30 years as long term, it has been relatively short term, they were here for the duration.

On what the thinking is at the moment, the headwinds are blowing against the industry on global trade tensions, which hopefully will begin to rescind, and change in technology. You talk about batteries and I was talking about the dependence we have on battery imports. That compounds the need to have battery production facilities in the UK and indeed in Europe, it is not just a UK challenge. There are other shifts in digitalisation and so forth. All these things are happening at once and you have two major plants that are Japanese owned in the UK that also have the challenge of Brexit before them. They are trying to navigate a path against those headwinds. Fundamentally they made significant investments in the UK and would not want to necessarily up sticks and move. However, as you rightly identify, they are high-volume and low-margin businesses. The imposition of a 10% tariff on businesses that generally look for a 2% to 4% return on investment is significant. They are already highly efficient so your opportunities to have productivity gains is that much harder. Therefore they will always look at alternatives.

I think intuitively, given the investment and the success they have had in the past, they will want to stay here if they can. However, if you put a series of bricks in front of you, you cannot get over that wall—be those bricks be tariffs, be they exchange rate shifts or be it change in policy towards internal combustion engines, because that is what they both make at the moment although there is obviously electrification at well—and cumulatively there is a danger it becomes uncompetitive. The UK-Japan agreement is essential to try to maintain it, especially in parts and components, but also you need to make sure you are not building other walls with other barriers, other costs, which make it difficult to overcome.

Q60 **Mark Garnier:** It is a relationship we should cherish and certainly not take for granted.

Mike Hawes: Absolutely.

Mark Garnier: Brilliant. Thanks, Mike.

Q61 **Martin Vickers:** My question is specifically to George Riddell. How does CEPA benefit the UK’s financial services industry?

George Riddell: Thank you. I think there are a couple of interesting points to be made around the financial services chapter in CEPA. One of the principal differences is around the fact that it makes processing for applying for a licence to operate in a more transparent manner, particularly around reasonable periods of time. Certainly for UK operators going into Japan that is going to be a welcome move. There are also those additional safeguards around the storing and processing of financial data, which is linked to the data-flow point that has been mentioned previously.

One of the important things around the agreement is on the regulatory co-operation aspects of the agreement. A lot of barriers to trade for services are regulatory in nature. Therefore the setting up of the new forum for regulatory co-operation is a good step in the UK-Japan agreement, in particular including the Bank of England and the FCA. Previously, under the EU agreement, it was only the European Commission representing the EU side. I think having those regulators in there is going to be a good step forward. However, as with all of these dialogues, you only get as much out of it as you put in. By agreeing this agreement the work certainly does not stop here, there is a lot that can be done going forward in order to actually realise the benefits of the agreement.

Martin Vickers: Excellent, thank you, you have answered my supplementary question as well.

Chair: Thank you very much. We are going this time—he checks notes several times—to Mark Garnier, who has his microphone unmuted, excellent.

Q62 **Mark Garnier:** Thanks very much. George, I was going to come on—you have probably answered the question already—to what extent does this agreement help other service-based industries, but I suspect your regulatory co-operation point is probably the most important one. Do I have that right?

George Riddell: The two biggest things in the service industry are our people and data. Certainly if you look at the two areas in the agreement, Sam in the previous session went through what the exact improvements are. The one thing I would add to his comments is the implementation of those. With the new points-based immigration system coming into force at the beginning of next year, making sure that is up and running in a really coherent and effective way to make sure that those new provisions can actually be used by Japanese business visitors will be incredibly important, and making sure that the Government enforces and talks to their Japanese counterparts to make sure that is done on their side as well.

Q63 **Mark Garnier:** Thank you. Sabina, can we talk about intellectual property protections? Are you satisfied they are going to protect certainly UK businesses and particularly the creative industries?

Sabina Ciofu: Thank you for the question. Indeed, there are a few additions in the IP chapter that are particularly beneficial to the creative industries. They refer to new provisions on enforcement in the digital environment. We have seen things like remedies to prevent infringement online but also remedies as a deterrent to further infringements, which are very important. They include in that chapter limitations of liability for online service providers for intellectual property right infringement. Therefore if users infringe IP provisions they are responsible for it and not the online platforms. That has been a bedrock of the digital economy so it is very important to see those protections for infringement liability.

Q64 **Mark Garnier:** That is a good thing, yes?

Sabina Ciofu: That is a very good thing because that is basically the e-Commerce Directive principle of 2000 allowing the digital economy to grow. If they become liable for what their users post online then that creates a whole filtering of the internet. We have built the digital economy on the principle of limitation of liability so it is good to see that in the IP chapter as well.

There are other additional provisions in there on raising awareness among the public about why IP infringements are bad for the economy and society and also co-operation with the industry, which is something we always appreciate. Both parties commit to working with the industry to figure out better ways to tackle IP infringements online. There are some very good provisions added to the EU-Japan agreement in this space.

Mark Garnier: Brilliant, thank you.

Q65 **Anthony Mangnall:** I am very interested in how ambitious the digital and trade provisions contained with CEPA are compared to other trade agreements. That is to Sabina, please, and then George.

Sabina Ciofu: That is basically our bread and butter in this trade agreement. We always follow the particular digital trade chapter in this provision and it is a very good signal to see that this particular chapter, which is the first one of its kind for the UK, includes very ambitious data-flow provisions.

There are a couple of things to mention here. First, there are provisions for cross-border free flow of data, which is essential for digital trade. It has been a key barrier to data flows until now and a very high cost for smaller companies, so it is very good to see this provision. Obviously, that comes with a commitment to upholding high standards of data protection. We see that in the trade agreement but also separately in the adequacy decisions, obviously that is key for ensuring that we have trust in the digital economy and also in the trading relationships that the UK is developing. There is a ban on data localisation, including for financial services, which significantly reduces the barrier to entry for smaller companies in the Japanese market. It allows them basically to test the demand side to provide services in the Japanese market without actually having to invest in local infrastructure, so that is important.

Some of the things that are normative in this agreement are provisions around open Government data, so parties commit to opening

Government data sets in machine-readable formats. This basically gives UK AI companies, for instance, the opportunity to develop and train their products and deploy them readily in the Japanese market. There are a number of other provisions around source code, algorithms and encryption technologies that are different to the EU-Japan agreement where there are additional benefits to the industry.

Therefore it is definitely one area where we have seen probably 10 to 12 new provisions that are very welcome by the tech sector.

Q66 **Anthony Mangnall:** George, do you have anything to add to that? I think you have probably covered the second part of my question already, which is about the provisions to UK e-commerce and those benefits.

George Riddell: I would add two things from our perspective. It is certainly seen as one of the higher class digital trade provisions in trade agreements around the world at the moment, which is notable.

I would also emphasise the importance of regulatory certainty. At the moment this is an area that has seen a very high degree of uncertainty around the world. That uncertainty means that companies are usually unwilling to invest, they are unwilling to expand into new markets because they are not sure what the regime is going to look like in a month or a year's time. Providing these certainties, these prohibitions and guarantees in the trade agreement should allow digital trade to expand as a result.

Anthony Mangnall: Thank you very much.

Chair: Thank you. Mark Garnier, you might want to come in on this as you are quite active around these areas.

Q67 **Mark Garnier:** Can I follow up on that regulatory uncertainty? This is not an area I am an expert in but, as I understand it, there is a certain tension with the regulations and rules about this between the big actors on the global stage. On the one hand you have the European Union, which has its regulatory framework, and then you have the US. The problem we have in the UK is that on the one hand we are trying to do a deal with the EU to secure adequacy in order to get access—75% of our financial services are done in the EU and therefore it is incredibly important—and at the same time we are trying to do a trade deal with the US that, of course, drags in a very different direction, as I understand it, on these regulations.

George, I was going to ask you a question but, Sabina, you are nodding your head enthusiastically so I might go to you first, if I may. Could you talk around that big picture stuff?

Sabina Ciofu: Sure. I will pick on the data flow specifically because that is the core of the issue we are seeing here.

Obviously, the UK is coming out in a world where we have different—if you want even philosophical—approaches to how data should flow, how data should be protected and how data should travel across the world. You have mentioned the EU and you have mentioned the US but there is also a Chinese model. There is definitely a massive competition among the big players on how we actually create a framework that works but protects data and also allows data to travel across borders. I do not think anyone has an answer to it, obviously everyone has their own. Therefore the UK is currently navigating a place where you want to actually have a good trading relationship with a number of players that have different rules in this space.

One of the benefits of how the calendar has worked out, in a way, is that we have an adequacy decision with Japan that will be valid from 1 January. We will have an adequacy decision from the EU, positive or negative, sooner than we will conclude trade agreements with, for instance, the US or Australia, which do not have adequacy decisions with the EU. The UK still has to make up its mind and create those adequacies for those countries. Therefore the fact that it has not been established sequencing but just happened this way, with the deadline for the transition period, is actually beneficial because you will have those decisions first based on what you know you are able to do, following from there what you are able to agree on data flows with the US, Australia and others based on those decisions coming first. I think that is obviously beneficial because a lot of our data flows are with the European Union, so making sure we do not jeopardise that process by concluding data-flow agreements with other countries in the world is very important.

Q68 **Mark Garnier:** I want to be clear about one small point, the issue here with regard to what we are talking about is the data flows between the UK and Japan. There is not necessarily that triangulation point, unless you are talking about a Japanese bank that has invested in the UK and then wants to get into the EU. The major bulk of what we are talking about is directly between the UK and Japan, so therefore adequacy agreement is important but is not a deal breaker in whether Japanese banks, for example, will invest in the UK.

Sabina Ciofu: It is not a deal breaker but it is very important. Transferring personal data between the UK and Japan is based on an adequacy decision and that is key to business. It is very important for companies to be able to operate, basically. The fact that Japan has an adequacy decision from the EU simplifies things massively because it allows us to conclude a trade agreement, have an adequacy decision and not have any kind of questions on the EU-UK negotiation in this field because Japan is deemed adequate by the EU. Therefore, it is important but it is less important because of the relationship between the EU and Japan.

Mark Garnier: Brilliant. That is fantastic.

Chair: Thank you very much. I think we are coming to the end of our evidence session, unless anybody has any pressing questions for the witnesses we have left. I will go back to gallery view and make sure. No, I cannot see anybody desperate to get in.

I thank the second panel today for giving us their time and their expertise. At the moment we are about half an hour away from the close of time for evidence. We have 10 to 15 bits of evidence in to consider that will come around to us tomorrow. I am going to bring the Committee to an end but before I do I will remind members of the Committee I would like to reconvene instantly on Teams for some private discussions. To the panellists, I thank all four of you very much for your time. You have contributed greatly. Thank you.