House of Commons

Business and Trade Committee

Oral evidence: UK accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, HC 483

Tuesday 23 January 2024

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Watch the meeting

Members present: Liam Byrne (Chair); Jonathan Gullis; Antony Higginbotham; Ian Lavery; Anthony Mangnall; Julie Marson; Mark Pawsey.

Environment, Food and Rural Affairs Committee member also present: Sir Robert Goodwill.

Questions 17 – 38

Witnesses

II: William Bain, Head of Trade, British Chambers of Commerce; Dr Minako Morita-Jaeger, Policy Research Fellow, UK Trade Policy Observatory; Leo Verity, Senior Political Adviser, Trade Justice Movement.

Examination of witnesses

Witnesses: William Bain, Dr Minako Morita-Jaeger and Leo Verity.

Q17 **Chair:** Welcome to the second panel of our examination of the CPTPP treaty. I am delighted that we are joined today by William Bain, head of trade at the British Chambers of Commerce, Dr Minako Morita-Jaeger from the UK Trade Policy Observatory and Leo Verity from the Trade Justice Movement. Welcome and thank you very much indeed for joining us. Our time is a little bit constrained this morning, and we have an awful lot of ground to cover, so I will run through this very quickly. William, perhaps I could start with you to help us set the stage for these questions today. Can you tell us, from your understanding, what the UK's trade policy is?

William Bain: It has a number of distinct aims. First, it is seeking to increase the number and range of companies that are exporting. Secondly, it has a particularly liberalising approach in terms of digital trade and wants to emphasise the free flow of data in its trade agreements. Thirdly, it has embarked upon approaches in relation to green trade, which, again, are similarly liberalising and seek to expand tariff-free trade for environmentally good and sound goods and services. Those seem to be the three principles that one can discern from the UK's trade policy in terms of its agreements.

Q18 **Chair:** When we look at our neighbours, say the United States or the EU, President Biden has made worker-centric trade the defining idea of his trade policy. The EU talks about open strategic autonomy. Do you think that there is a particular concept that frames UK trade policy, or is it the kinds of principles that you have just set out?

William Bain: The UK is currently still more in the free trade space than the US certainly is. Of course, with the EU it comes subject to some wider public policy requirements, such as things like sustainability of supply chains and these sorts of issues. That is the best way to characterise it. The EU similarly would say that it believes in free trade, but it is using its trade policy instruments in a more muscular way than perhaps the UK is seeking to do at this point in time.

Q19 **Chair:** Dr Jaeger, how would you characterise it if you were pushed to summarise the basic principles of UK trade policy at the moment? How would you summarise them?

Dr Morita-Jaeger: Broadly, and not necessarily about the CPTPP, after leaving the EU, the UK's trade policy is very much inclined to plurilateral agreements and trying to cover the loss made by leaving the EU, so a more export-oriented approach. That is mostly also based on the Asia-Pacific tilt. I am going to explain to you later about the CPTPP, but this Indo-Pacific tilt approach is based on the exporting opportunities of the engine of the growth of the world economy, the region. It is a more optimistic approach, in a sense, than just finding a new market. Now that the CPTPP is concluded, the UK is about to join the CPTPP and all these new bilateral FTAs will be concluded sooner or later, the UK has to go to the next step in the more volatile world and consider how to use policy framework more than FTAs.

Leo Verity: That is quite a nice summary. The Government's trade policy has been ambiguous to date. One issue that we have raised consistently is that there is no published trade strategy that the Government are working to. We would suggest that that is problematic in terms of trying to understand what the purpose of these trade negotiations is and what the Government are fundamentally seeking to achieve. That is a criticism that has been shared by a number of the parliamentary committees and business groups as well. It leads to certain ambiguities in individual trade negotiations.

What we have as a guide are the individual negotiating objectives that have been set out for each individual free trade agreement. There is variation between them. One issue that we may talk about today is the investor-state dispute settlement mechanism that has been wrapped up in some of our free trade agreements that we have concerns about. You have some free trade agreement negotiations where there is a specific objective to exclude that, for example the bilateral negotiations with Canada. There are other negotiations where that seems to be quite ambiguous, for example the UK's position in negotiations with India. We would characterise it as somewhat ambiguous. One thing that we would argue for is an overarching trade strategy.

Q20 **Chair:** There is an export strategy that sets out the big picture target, which is £1 trillion-worth of exports. We may be slightly off track in terms of hitting it, but is that not the guts of the trade strategy, basically: to hit an export number?

Leo Verity: There are more overarching issues about what trade policy is for, so some of the issues wrapped up in that about how trade interacts with climate and human rights obligations. We would like to see something that was a little more wholesome.

Q21 **Chair:** You would say that it is a bit one dimensional.

Leo Verity: I would say so, yes.

Q22 **Jonathan Gullis:** Dr Morita-Jaeger, you have written that the UK's accession to CPTPP is "a big geopolitical strategy gain with a small economic gain". Do you mind elaborating on that, please?

Dr Morita-Jaeger: Yes, for sure. Thank you for the question. I observed that the significance of the UK joining the CPTPP can be seen in the more political strategic gains rather than the economic gains. The reason is that today the trade policy landscape surrounding the trade policy is very volatile. Many Governments all over the world are shifting to managed trade. The CPTPP is the FTA that is trying to preserve or promote open and rules-based liberal trade. In that sense, now the geopolitics and the geostrategy becomes very important at every front of nations' international relations. Not only security, defence and development but also economic diplomacy is going to be the centre of the policy platform to achieve this geopolitical strategy. In that sense, the CPTPP is a gain for the UK's geostrategy.

I would also like to mention that, in that context, in the Asia-Pacific, there are three major significant plurilateral configurations. One is the CPTPP, as I explained. The other is RCEP. It includes China but the rules are shallower than the CPTPP and there are more developing countries involved, such as the ASEAN countries. The other one is the US-led IPEF, which is the Indo-Pacific Economic Framework for Prosperity. That is led by the US to counter China. It is not purely an FTA but a policy forum for negotiating rules that are in the interests of the US, such as economic security.

The benefit for the UK is that the UK can use CPTPP as a policy forum to enhance not only the economic diplomatic tie but also the economic security and other things with like-minded countries, such as Japan, Australia and Canada. In that sense, the CPTPP members are expecting the UK to play a role in enhancing the norm of the liberal order inside the CPTPP.

One more very important thing to note is that, by the UK joining the CPTPP, CPTPP expanded beyond Asia-Pacific. You see that even Ukraine already submitted a formal application. This has opened the door to all countries outside Asia-Pacific.

Q23 **Chair:** To push you on this, what is the geopolitical gain for the UK in this deal?

Dr Morita-Jaeger: The UK is the first member from Europe. CPTPP countries have a strong tie. It is a middle-power club. After the US left the CPTPP, it has been this middle-power club that tried to promote the liberal order in the world of global diplomacy.

Q24 **Chair:** No, I understand that, but what is the gain for the UK?

Dr Morita-Jaeger: Strategically, the gain is the diplomatically enhanced tie with all the CPTPP countries.

Q25 **Chair:** Okay, so this multiplies our influence with an important set of countries.

Dr Morita-Jaeger: When it comes to economic benefit, as I said, this is very modest. As you know very well, the UK Government published the new prediction in July 2023. According to that, GDP gain will be £2 billion. That is 0.06%.

Q26 **Jonathan Gullis:** Dr Morita-Jaeger, which specific sectors of the UK economy will be the biggest winners from the UK's accession into CPTPP and which, if any, will be the potential losers as well?

Dr Morita-Jaeger: The winners and losers are always very difficult to say. We cannot predict uncertainty and all these external variables outside the FTA, such as inflation, wars and pandemics. Generally speaking, the winner is the services sector, as far as I observe. The reason is that, in comparison with the UK's bilateral FTAs that the UK concluded with the nine CPTPP members, the CPTPP's service trade rules are very comprehensive, especially the digital trade chapter and also the financial sector.

Secondly, there is the service trade commitment of course, although the service commitment is very technical. I must say that there is a de facto ratchet mechanism. Normally, the Government unilaterally liberalise the market and then, under the FTA, commit part of it under the international trade law, even though CPTPP gives a kind of certainty and the predictability for the services sector as a whole, in general. Also, at the baseline, the UK's service sector is very competitive and the UK market is already open, so there is nothing to lose.

On the other hand, losers will be, in short, the agricultural sector and semi-processed agricultural food. That is much less competitive. In addition to the Australia and New Zealand FTAs, it will be exposed to further imports from Canada, Chile and these very competitive agricultural countries. That is it in short.

Q27 **Anthony Higginbotham:** Mr Verity, in a letter I think you sent to the Secretary of State, you and some other organisations called for accession to CPTPP to be paused or suspended because of what you termed were significant negative environmental and climate impacts. You then went on to say that global emissions as a result were likely to increase by just 0.025%. The Government's assessment actually puts it lower at 0.003%. For context, UK emissions are projected to fall by at least 66% over the same period in question.

Do you think that it is realistic to suggest that accession is suspended given those very low global emissions? Does it then say that no free trade agreement can be signed, because obviously there are increases in shipping emissions once you sign a free trade agreement? Is it no free trade agreement because you are never going to get to zero?

Leo Verity: In terms of our concerns about the climate and environmental impact, emissions are certainly part of it, but there are other aspects of the agreement that we have concerns about in terms of their implications. Again, it is worth alluding here to the fact that the investment chapter contains what is known as an investor-state dispute settlement mechanism. That is a system via which international investors can bring legal challenges against the Governments of member states if those Governments bring in policy and regulations that they perceive to have harmed their profits. We know that, in reality, that system, that mechanism has been used to challenge lots of climate and environmental regulations internationally through other agreements. We think that there is an additional risk of exposure there to the UK from joining CPTPP, which means that we accede to that mechanism.

Generally on the climate and environmental provisions, one concern that we have is that the language is non-binding in lots of places and aspirational. Some of the language around emissions, for example, in the wording of the agreement includes "the parties acknowledge that transition to a low emissions economy requires collective action". We are talking about acknowledgements rather than binding requirements in terms of emissions action.

Similarly, where there are violations in environmental laws between the different member states, the dispute settlement mechanism is fairly weak. It must be proven to have been committed in a manner affecting trade. We know that that dispute settlement mechanism can be quite protracted and is not fully linked to trade sanctions. We think that there are aspects of the agreement that might bring additional concerns.

Then there are concerns about specific questions around imports. For example, I know you have addressed the question of pesticides with Professor Bartels this morning. He will have set out that the agreement does not necessitate that the UK standards decrease. One debate that has just been had in the House of Lords during the passage of the implementing legislation is about the efficacy of the UK's border testing regime, for example. It would be valuable if that debate continues in the Commons as the implementing legislation comes there.

There are similar questions around deforestation. That is been unpicked, again quite helpfully, in the House of Lords. That is linked to questions of liberalisation of tariffs on palm oil. Again, there are some protections in place, but some groups have pointed to concerns about new protections brought in by the Government under Section 17 of the Environment Act and not yet in force. It is not clear how they will interact with the provisions of CPTPP. In the round, there are a few aspects of the agreement that may cause negative implications. It will be helpful if they are further unpicked as the implementing legislation comes to the Commons.

Q28 **Chair:** Do you think that those objections are showstoppers though?

Leo Verity: We would argue that, given the limited economic benefits that the Government have projected, yes, those risks outweigh the potential benefits of the agreement.

Q29 **Anthony Higginbotham:** Is there a tipping point that you can see? I appreciate that we are talking emissions, not some of the other things. It is 0.003% global emissions change, or 0.025%, depending on, I assume, how you calculate it. If you have a manufacturing business in Burnley, as I have, some of the benefits of CPTPP, the cumulative impacts on rules of origin and stuff, could be massive. We could be talking job creation. Is it not disproportionate to say that this now needs to be the showstopper?

Leo Verity: Yes, I accept that and I think that it has been set out that there are certainly winners and losers in every trade agreement that the UK brings back. We would argue that additional protections that could still be included in the agreement could potentially make it considerably more palatable, so on the investor provisions, for example.

Q30 **Anthony Higginbotham:** Would that not necessitate going back to all the parties to CPTPP?

Leo Verity: There are different questions for different aspects of the agreement, for example the investor-state dispute settlement mechanism. The UK can still bilaterally agree what are known as side letters to the agreement with different partners. It has actually agreed them on ISDS with Australia and New Zealand already, likely because their Governments have taken a position against ISDS and calculated that it is not in the public interest. Bilaterally, those kinds of provisions can still be agreed.

There are difficulties with some of the other non-binding provisions in the main text of the agreement. We would argue that the Government should still be looking for those opportunities bilaterally with partners to mitigate some of the concerns.

Q31 **Anthony Higginbotham:** There are developing countries and developed countries within CPTPP. Are we holding them to an unfair standard and essentially saying, "We will not trade with you unless you hit this very high standard, which you may not be able to hit at that point", which is exactly the point of free trade and trying to lift economies up? Is there not a risk that we do more harm than good if we take that approach and say, "No, unless…"?

Leo Verity: There is an element of supporting developing countries, definitely. There is an interesting point within that as well that there are developing country partners in other parts of the world outside of CPTPP that are concerned about the risks to them of the UK signing this agreement. I know that the federation of banana exporters in Africa, for example, has been concerned about the preferential treatment that is being afforded to CPTPP members regarding banana imports and the negative impact it will have on exports in those markets. As with all these things, yes, there will be some winners, potentially, in those developing countries, but maybe losers as well elsewhere in the world.

Chair: That is an interesting point there about side letters and the use of them.

Q32 **Ian Lavery:** We have ISDS, investor-state dispute settlement arrangements, with Chile, Malaysia, Mexico, Peru, Singapore and Vietnam. As I think you have just mentioned, Mr Verity, we have provisions with Australia and New Zealand with regards to opt-outs. With the accession to the CPTPP, it will mean that there will be a need for three other ISDS arrangements with Canada, Japan and Brunei. Do you see this as a risk? If you do, maybe you could explain why, or indeed if, you think Canada is a bigger risk than the others.

Leo Verity: Yes, absolutely. That has been a significant area of concern. As you say, we have existing ISDS provisions through other trade agreements with lots of the other member states. We have agreed those exemptions with Australia and New Zealand, as I mentioned. Of the remaining countries, Canadian investors have been particularly litigious. Essentially, they have used the ISDS system very enthusiastically internationally through other trade agreements. I think that Canadian investors have brought 65 cases under ISDS that are known about and are documented, because sometimes these cases can be fairly secretive. Lots of those cases have involved climate and environmental regulations, such as things like mining concessions and environmental practices around oil extraction, so we think that there is a specific concern there.

Interestingly, the Government have acknowledged that risk elsewhere. We are obviously embarking separately on bilateral free trade agreement negotiations with Canada. In those negotiating objectives, the Government have set a specific objective to exclude ISDS, which, as far as I am aware, is the only bilateral negotiation in which the Government have done that. That is an interesting case in point. It seems unpalatable in that separate free trade agreement, whereas the Government have been happy to accept ISDS with Canada under the terms of CPTPP.

We would argue that it is not a fringe position that we are advocating here. Lots of countries are moving away from ISDS. As I mentioned, Australia and New Zealand have committed to no future ISDS. The Energy Charter Treaty, which is a significant vehicle for these claims, is collapsing. France, Germany, Netherlands, Spain and others are withdrawing from that treaty on the basis that it is incompatible with their climate commitments. President Biden has criticised the system and recent US trade agreements have not included that model. Fundamentally, there is still an opportunity, if there is political will, for the Government to seek that exclusion. We would argue that, as it stands, there is a risk to the right to regulate in the public interest in the UK from those provisions with Canada. We think that the Government should seek to exclude them.

Q33 **Mark Pawsey:** Mr Higginbotham raised the issue of the manufacturer in Burnley, and I wanted to turn to Mr Bain, if I may, and ask you about the provisions on the ability of businesses to import low-cost components. On the one hand, that is an advantage, but there is the challenge of the cumulation of origin rules. On the one hand, there is a positive and on the other side a negative. Where does the balance lie?

William Bain: It is very important for the UK manufacturing model, because, if we look at our manufacturing exports, 75% involve both the importing and exporting in part of the process. We are importing inputs or components, making them into finished goods and then exporting. It is key for the UK manufacturing sector. This agreement basically allows you to include components, ingredients or textiles from any of the other CPTPP countries, make them into finished goods in the UK and export them to another CPTPP country, while maintaining the tariff-free principle for the vast majority of the goods.

That is quite an unusual set-up in these multi-party trade agreements, but it is something that creates an opportunity for UK manufacturers. The question is going to be whether the UK seizes that opportunity or whether it is going to be perhaps manufacturers elsewhere in CPTPP that perhaps include UK components or textiles in some of their products and more of the benefit goes to those countries. It is a big opportunity for us.

Q34 **Mark Pawsey:** Are there UK companies that are able to take advantage of the sales opportunities? I get very simply the lower cost of material coming in, because it is tariff-free coming in from a CPTPP country, but we are sometimes not that brilliant at going out and selling into export markets. Do we have the people, and businesses, who are actually going to sell more into these sectors, or is it just going to be one-way traffic?

William Bain: It connects with the trade promotion strategy. In the chambers network we have great experience in connecting local businesses to markets overseas, but also with our international network. To take the most advantage that is possible from these rules of origin, we have to have a trade promotion strategy that is firing on all cylinders.

Q35 **Mark Pawsey:** Could you give us a flavour of the type of products that UK manufacturers could be selling into CPTPP countries?

William Bain: There are great opportunities from these rules of origin in terms of food products. Intermediate food products can be turned into a finished export. Clothing and textiles is probably the greatest one, but also chemicals. Under the agreement, there is potential to import chemicals—

Q36 **Mark Pawsey:** On clothing and textiles, are there not CPTPP countries that would process the products and sell it in their domestic market? How is this deal going to help us get a foothold and increase the level of trade that we are doing?

William Bain: It is key to upscale what we are doing on trade promotion, to show that British goods are of great standard and competitive in terms of cost with goods in the host market. It really combines the two things if we are to extract the most value for a manufacturing sector.

Q37 **Mark Pawsey:** I suppose the question is whether we will be selling more.

William Bain: It is a very good question indeed. If you look at the projections and forecasts of what emerges from this agreement, it is likely that we will see increases in goods and services exports. The question is simply exactly how much.

Q38 **Chair:** Implicit in your answers, are you saying that the trade promotion strategy is not quite in the right place yet to really optimise gains from this agreement?

William Bain: It can always be improved. There are clearly areas that are identified by chambers of commerce around the country, which members of the Committee will be speaking to, that will recognise that we perhaps need more rocket boosters under the efforts that are going in to ensure stronger markets for our goods and services. Other countries do it very well in terms of knitting together companies on the ground in the UK with markets overseas. That is something that Government have to address very carefully. That is why we have called for a refresh of the export strategy and the creation of an exports council as well.

Chair: Folks, that has been extremely useful. You have told us that this is good for geopolitical influence in an important part of the world with an important set of middle powers. We have heard that it is good for services in particular and there is an expectation that sales of both goods and services will go up as a result of the agreement. We need a refresh, perhaps, of the trade promotion strategy to really optimise the gains from it. We have also heard that there are risks to other objectives that we have, particularly on climate. Thank you very much indeed. You have set the stage perfectly for our next panel, which is with the Secretary of State. That concludes this panel.