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 39 – 101

Witnesses

III: Rt Hon. Kemi Badenoch MP, Secretary of State, Department for Business and Trade; Matt Davies OBE, Director, Trans-Pacific Negotiations and Policy, Department for Business and Trade.

Examination of witnesses

Witnesses: Rt Hon. Kemi Badenoch MP and Matt Davies.

Q39 **Chair:** Welcome to this third panel of the Business and Trade Committee's investigation of CPTPP. I am absolutely delighted, Secretary of State, that you have been able to join us this morning. You have brought with you Matt Davies, who is the director of the trans-Pacific negotiations and policy team in the Department. Thank you very much.

We will plunge straight in, if you do not mind. I would like to ask you a couple of questions about trade strategy to help us set the stage for some of the questions about this specific treaty. President Biden has set out a very crisp definition of American trade policy: worker-centric trade. The EU has defined their trade strategy as open strategic autonomy. How would you crystalise UK trade policy now?

Kemi Badenoch: It is very much having an independent trade policy that deals with the ever-coming and ever-new challenges that the global geopolitical environment is providing. It is really embedded in the Integrated Review. That is where our trade strategy derives from. As with every strategy, you have the diagnosis of a challenge; you have a guiding policy; and then the actions that bear that out show in its entirety what the strategy is.

What is the challenge that we are facing? We are facing limited growth across the world and in the mature European economies. We are looking to where the growth in the world is coming from. It is mostly in the Indo-Pacific. Making sure that we strengthen our ties with countries in the Indo-Pacific is the policy. CPTPP is a classic example of that.

The actions are the FTAs that we are signing, of which this is one, and lots of smaller trade initiatives and individual FTAs with other countries, where there is an overlap. That broadly encapsulates what the strategy is.

Q40 **Chair:** The Integrated Review is the fountainhead of trade policy. It sounds like what you are saying is that the trade policy is to go to where the growth is, as it were.

Kemi Badenoch: Yes. That is certainly not the entirety of it, but that has been our focus. We have just left the European Union. We are trying to make sure we send a very clear signal about what we are doing independently. Some of that is about going where the growth is and signing free trade agreements, but it is also about strengthening alliances with many of the countries that perhaps, if you look at the various axes, may not necessarily be on the Western side.

Q41 **Chair:** The goal that was set in 2019 was that we would have free trade agreements to cover about 80% or 90% of trade.

Kemi Badenoch: It was 80%, yes.

Q42 **Chair:** It does not feel like we are on track to hit that by the end of the Parliament. Do you have a sense of where you want to land by the end of the Parliament?

Kemi Badenoch: Yes. The biggest thing that had an impact on us reaching that objective was the change in Administration from President Trump to President Biden. We were carrying out negotiations for a US FTA. The Administration changed, and the Biden Administration is not doing FTAs.

Q43 **Chair:** Is the US trade deal now basically dead?

Kemi Badenoch: They have said they are not doing FTAs with anybody. It is not about us. Despite the narrative that you might read in the press, their strategy is not about using free trade agreements. It is more about smaller packages on single issues. If you look at what they are doing with us, India or Japan, it is about critical minerals or semiconductors.

That is how they are carrying out their trade policy. You have to work with that. In the same way that we do not allow other countries to dictate what our strategy is, we have to work with what their strategy is. That is why we pivoted to MOUs, which are informal agreements. They are not backed legally.

Q44 **Chair:** Do you have a goal for what fraction of our trade will be covered by FTAs by, say, the end of the Parliament, which looks like it is going to be this year?

Kemi Badenoch: In the very first Select Committee that I had when I became Trade Secretary, I pivoted away from that. I thought it was a very helpful signal right at the beginning to cover 80%, but, as things developed and as the situation evolves, you get a clearer picture.

One of the things that I said was that FTAs are not the only thing in this trade policy. I described them as the motorway. It is the exports, the investments and the actual trading that is the business that we should be focused on. I am looking more at FTA utilisation. Signing the agreement is one thing, but are people using them? We are developing an FTA utilisation programme. Those are the things that will be the meat. The framework is provided by the FTAs.

Q45 **Chair:** Are we on track to hit the export target of £1 trillion of exports by 2030?

Kemi Badenoch: Yes, we are.

Q46 **Chair:** Last year, the IoD said that, based on current performance, we would need export growth of about 3.5%. Like me, you have probably read the OBR's economic forecast published in November last year. On page 46, it says that it anticipates real exports to have an average growth of just 0.1% a year, down from 0.5%. The OBR thinks we are going to miss those targets. You are in a different place to the OBR.

Kemi Badenoch: I am. The OBR's forecasts are just that. We also have to respond to those forecasts. If we think the trajectory is off, what do we do as a Department or a Government in order to change that? Those are OBR forecasts. I do not have the export figures and projections with me, but I am sure that we can get those. There are many other research papers showing that we are going to hit our exports target early. We are thinking about stretching them. I can provide them.

Q47 **Chair:** You think that the OBR is wrong.

Kemi Badenoch: This is not really about whether the OBR is wrong. I am not in a spat with the OBR. The OBR provides forecasts, and we may have a different opinion. We will take its forecasts into account. Our job is to make sure that we can respond, where we think the analysis underpinning the forecast is correct. If it is not, we may have a different approach.

Q48 **Chair:** That is very helpful. Philosophically, do you think that free trade agreements help foster faster growth?

Kemi Badenoch: I do. It can be too easy to rely on just the signing, but yes. If you look at NAFTA for instance, which is one of the most successful FTAs, of course they do.

Q49 **Chair:** Now that we have joined CPTPP, we will get to ratify new members. We have just road-tested the accession process. You have said that you want our export strategy to follow where the growth is. You will know that Asia-Pacific countries accounted for about 70% of global GDP growth over the decade to 2023. China accounted for 32% of that growth. If China went through the accession process, would we ratify China joining the CPTPP?

Kemi Badenoch: One of the things that all the member countries have agreed is that we are not saying who we are going to ratify and who we are not going to ratify. This is a country-agnostic approach. It can create various tensions for some countries. Working as a bloc is really important.

We have maintained that this is a high-standards agreement. We had to demonstrate that the UK was a country that fulfils its international obligations. There were standards around the environment, human rights and so on. Every applicant has to meet those high standards. That is really as far as I can go. I cannot freelance what we would do outside the CPTPP meetings.

Q50 **Chair:** That is really helpful. On 31 March, Liz Truss said, "I would expect the British Government now or in the future to oppose any such proposal", when it came to China joining the CPTPP. It sounds like you are in a different position.

Kemi Badenoch: I am not saying I am in a different or the same position to her. I have a different responsibility as Trade Secretary. She is able to give her opinion as a Member of Parliament. That is not something I am able or willing to do. What I say really matters. Other countries will be listening because I am representing the UK Government. Speculating endlessly outside of a process is not helpful.

Q51 **Chair:** In principle, you are not ruling it out.

Kemi Badenoch: I do not have anything further to say.

Q52 **Chair:** What about if Taiwan decided to join?

Kemi Badenoch: It is exactly the same. I would give this answer for every country. We need to look at the country's history with international agreements, whether it meets its obligations and other countries' relationships with it. If there are some CPTPP countries that have difficulty with perhaps an aspirant economy, we have to take that into account.

Many of the meetings that we have reinforce how we must communicate about accession. It cannot be something that is seen as a club for favourites or a way to antagonise other economies. It is just not a conversation that I am very comfortable having without the other member countries present.

Q53 **Chair:** Should the UK Government encourage Taiwan to join? It has a new Administration. We are working with the Taiwanese Administration on, for example, semiconductor strategy at the moment. Would CPTPP be better, stronger and faster-growing if Taiwan were a member?

Kemi Badenoch: The purpose of CPTPP is to be a growing trade bloc. We have got in on the ground floor. That is our ambition. We want to see it grow. We want to see it becoming a force for good, reinforcing the rules-based international trading system.

In terms of individual countries, I am just not in a position to give commentary on any specific country. I have outlined the broad principles, which include what a country's economy looks like, what it would bring in to CPTPP, its history of honouring international agreements and how it behaves at the WTO. Those are all factors that CPTPP countries would be looking at before deciding who to take in next for accession.

Q54 **Anthony Mangnall:** Could I just ask where you see CPTPP in comparison to RCEP and the IPEF?

Kemi Badenoch: They are totally different beasts. I do not know much about IPEF. These are trade blocs that do not have European countries in them. What is significant about CPTPP is that, even though it is about the trans-Pacific, it is looking at how it can expand and look at bringing in other countries that might not necessarily be in the region.

The internal politics of those two other groupings are not really things that come across my desk. I am not focused on that. My focus is very much on making sure that our accession is successful and that the trade bloc we are in is one where we are able to be fully participating partners, have influence and make sure we do not make the previous mistakes from other blocs and it continues to be strong.

Q55 **Anthony Mangnall:** CPTPP had no European countries in it until we joined. IPEF was set up by the United States. Are you saying that we have no interest in joining IPEF?

Kemi Badenoch: I am saying that our strategy now is very much focused on what we have put in our roadmap. It is about CPTPP and the individual FTAs. We could speculate on everything: should we join IPEF? Should we join APEC? It is not a very helpful conversation. It is certainly not strategic. We have to look at the problems we are dealing with and focus. We have to stay very focused. If we are not focused, it is not a strategy.

Q56 **Anthony Mangnall:** We heard in the previous sessions this morning about the sometimes annoyance from the private sector and charitable organisations about the lack of strategy when it comes to international trade. Could you perhaps say a little bit about our strategy when it came to approaching joining CPTPP? What were the key sectors in mind that were going to benefit from us joining this organisation?

Kemi Badenoch: I would not have been privy to the discussions that have taken place. These happened in 2017. The first time CPTPP was ever mentioned was when Liam Fox was Trade Secretary. This was before we had even left the European Union. The work began then. That was also before the Integrated Review.

However, the findings of the Integrated Review reinforced many of the things that were said under the previous Prime Minister. It was all about global Britain. If you remember the conversations that we were having before we left the European Union, it was about global Britain trading with the world. I think those were the things that were in mind at the time. Of course, CPTPP was a very new trading bloc then. It had not had the ratification of all the members then.

We can look to the past, but I am very focused on what the future holds. Going back to the question about what the trade strategy is, it is exactly what I said right at the beginning. What many organisations are looking for is a piece of paper that says "trade strategy". If we had written something like that in 2019, it would have been out of date post Covid or after the Russia-Ukraine crisis and so on. We have a foundation, which you can see across our trading policy, of building close relationships with allies, removing regulatory barriers, looking for where the growth is and using that geopolitically to strengthen the relationships that we have.

Q57 **Anthony Mangnall:** There are understandable limitations as to how much information can be provided during negotiations and ahead of negotiations because we want the UK to get the best outcomes from each of the trade deals that we sign.

The reason I am making this point is because it is quite helpful in terms of our scrutinising of the success of trade deals, when they are ratified, to have the opportunity to see what those key objectives were at the very beginning. Would there be an opportunity for your Department to publish the process and the objectives at the time, even all those years ago, so we can compare them to where we are now and what the outcomes are?

Kemi Badenoch: That would not be helpful because it would have an impact on other ongoing negotiations.

Q58 **Anthony Mangnall:** Like what?

Kemi Badenoch: We are still negotiating with Mexico and Canada for the bilateral FTAs. If I were to publish what the objectives were for CPTPP, that would still be releasing information that could impact those things. We think the CRAG process for looking at the outcome is really the best way of doing this. I do not want us to hamper the efforts we are making elsewhere. Matt, I do not know whether you have anything further to say on that.

Matt Davies: I absolutely agree with you. When you are in a negotiation, it is some of the marginal detail that is really important in the discussions that you have.

What I would add to the Secretary of State's point, though, is that we cannot publish the exact detail, but, at the launch of every negotiation, we do publish our outline strategic objectives. These give a clear sense of where we think there are important benefits to the UK and where there might be certain things that we want to protect. We have done that consistently with every negotiation we have launched.

Alongside that, we do a lot of engagement with the likes of your predecessor Committees and Parliament to try to keep you as informed as possible as to what is going on. There are private briefings—I know I have done a couple with you before—and statements typically after every negotiation round. In CPTPP, we do not really call them rounds, but we make a statement every time the main parties meet together to discuss key aspects. We are trying to keep people informed.

Chair: Let us zero in on the debate.

Q59 **Anthony Mangnall:** Just on this, we do also hear a lot from your Department that every trade agreement is unique in its own way, so you would not necessarily see that much crossover. I am not entirely sure I am persuaded by your argument that—

Kemi Badenoch: They are unique, but CPTPP is different because it is multilateral. The others are bilateral. There is an overlap with some of the ones that we are conducting in parallel.

Q60 **Anthony Mangnall:** I am going to park that. You have mentioned it already and yesterday in the House of Lords was the first example of it being used. The Constitutional Reform and Governance Act is a legislative Act that was created in 2010 by the Labour Government. It has just been used by the House of Lords to disrupt a treaty.

Can I just ask for your comment about how CRAG has worked so far on our free trade agreements in the House of Commons and whether or not you are also going to commit to a debate on the Floor of the House of Commons under CRAG with a votable motion as well?

Kemi Badenoch: You are talking about a substantive versus a general debate.

Q61 **Anthony Mangnall:** I am talking about using the law for the exact purpose it was passed in 2010 on international treaties.

Kemi Badenoch: I was not around in 2010.

Anthony Mangnall: Neither was I.

Kemi Badenoch: Far be it for me to speculate on exactly what the intention was. Given that we are in a different space now to where we were then—we now have an independent trade policy—the scrutiny process that we have with CRAG is working.

What would be helpful—we had it with the Australia deal and with the New Zealand deal—would be if the Committee could give an example of something they thought would have been different or better if we had done things differently. We could then see how we can improve that going through CRAG this time around.

In terms of changing CRAG, this was legislation that was put in by a Labour Government. It got cross-party consensus. The scrutiny process is not where the challenge is. We do everything we can to be as transparent as possible with these deals.

Q62 **Anthony Mangnall:** I have to say, Secretary of State, under you there has been a significant movement and improvement in the way in which your Department has engaged with this Committee and its predecessor Committee in terms of information. That is a point worth making.

If you are asking for an example of where CRAG has not worked, we have never had a vote, which is what is outlined in CRAG. We have had, in the run-ups to Australia and New Zealand, a delay in the presentation of documents and in the responses to the Trade and Agriculture Commission. That is Section 42. We have had a significant amount of pushback from your Department.

I am not going to blame you for the mistakes of your predecessor, but this is one of the most sizable trade agreements that the UK has signed in the last four years. Will we be using CRAG to full effect or should CRAG be amended?

Kemi Badenoch: No, CRAG should not be amended. The scrutiny process that CRAG is being used for is sufficient. A vote can be had on the Bill. We have just had the Bill go through the House of Lords completely unamended. I am particularly pleased about that, because that is a testament to how hard we have worked in order to get this in the right place. There is always more scrutiny and always more transparency that could happen, but the law of diminishing returns does kick in.

Q63 **Chair:** You have given us a helpful test for the report. Will we have a debate in Government time within the CRAG time period?

Kemi Badenoch: I have no issues with a general debate, but it is not up to me. That is something that is up to the Leader of the House.

Q64 **Chair:** You would support it.

Kemi Badenoch: I am happy to support a general debate. I am happy to support a general debate because this is not happening during negotiations.

Q65 **Chair:** You would not support a substantive motion.

Kemi Badenoch: No. I would support a general debate.

Q66 **Anthony Mangnall:** Can I just ask one final thing? Could you please then follow up with the Leader of the House and request a general debate within the CRAG period? That means a written letter to her.

Kemi Badenoch: I am happy to support a general debate. This is something I would say very carefully and very strongly: we have had previous situations where MPs were very critical of other countries in a way that was unhelpful, rather than on the substance of the trade agreement.

Chair: That point is well made.

Kemi Badenoch: Whatever the Committee can do to make sure we are debating on the substance rather than personalities or individual countries, et cetera. China is not in CPTPP. A lot of people wade into this talking about things that are completely out of scope. Those are the things that we are really trying to avoid.

Chair: We want a constructive debate. That is very good.

Q67 **Mark Pawsey:** I just want to explore the value of CPTPP to our economy. You have told us that it is important because it is targeted and it is working with growth areas within the world economy. Your Department’s impact assessment said it would be worth £2 billion each year over the long run. How was that figure arrived at?

Kemi Badenoch: Mark will probably be able to give you a little bit more detail about exactly how the modelling is done. I am very sceptical of a lot of modelling. Models are not even forecasts. Many of the things that are assumed do not necessarily happen. For instance, take the assumption that this is a zero-sum game and, if you have increases in a particular sector, there must be corollary decreases in other sectors. That is not particularly helpful.

What the modelling does show that is most helpful is whether this is a negative or a positive. This is a positive. As a Department that is very focused on economic growth, we think that figure is significant.

Q68 **Mark Pawsey:** This is a deal with the fastest growing part of the world. This must be a pretty big positive, mustn't it?

Kemi Badenoch: Yes, it is huge. I am afraid that the modelling happened before I became Secretary of State. I would have put many more caveats around it. The modelling does not take into account CPTPP growing. It used very old data.

Q69 **Mark Pawsey:** It was based on CPTPP's original membership without any new members joining.

Kemi Badenoch: It was also based on 2017 data, which is out of date. It does not model dynamic effects. We use this modelling for all sorts of things, such as immigration and so on. It is just something that gives an indicator of direction rather than quantum.

Q70 **Mark Pawsey:** We agree that it goes the right way. Whether or not we achieve that growth and that benefit to our economy does not, with the greatest respect, Secretary of State, have anything to do with Government. It is to do with businesses.

Kemi Badenoch: Yes, that is correct.

Q71 **Mark Pawsey:** It is to do with individual businesses seizing the opportunities that this presents and then knowing what to do with those opportunities. How much does the manufacturer in Burnley, to which Mr Higginbotham referred to earlier, know about CPTPP? How ready are they to go sell into markets that historically they would have never had any communication with at all?

Kemi Badenoch: This is where the FTA utilisation programme comes in. This is something that the Department is very focused on. We are hiring more independent trade advisers. We are building our network across the country and overseas because it is not just about people here selling abroad but also about people who want to do business with the UK and want to strengthen supply chains and so on.

You are absolutely right. It is business that creates economic growth. It is not Government. Government need to create the right environment for it. Quite a lot of the time, Government need to get out of the way.

This is something that I spoke about last year. FTAs are just the motorway. Our export programme is really critical. What are we doing to bring in investment? We have an export support service. We have a peer programme where other exporters show smaller and medium-sized businesses in particular how to do this.

One of the challenges that we have is that, for a business in the UK compared to an equivalent business in Sweden, that small business in the UK does not export because we already have a large internal market within the UK. They do not need to export. They are quite happy. They can make enough money. They do not really think about growth.

We need them to grow because that is going to have an impact on all of us. We need to get that message out and remove the barriers, where they are, to exporting across all countries because it has a knock-on effect on the perception of what exporting is like. Those are the sorts of things that the utilisation programme is going to cover.

Q72 **Mark Pawsey:** What additional work did the £2 billion allow for? Did it assume that many businesses that are currently not exporting would start exporting?

Kemi Badenoch: Honestly, I personally do not really like talking about the model. This is a statutory requirement. "Here is a model. There you go". In terms of what this deal can do, we need to focus on the narrative that we have presented around the Integrated Review, what the possibilities are and the work that the Government are doing to make sure we get that growth. I anticipate it will be a lot more, but it will only be more if people use the agreement.

Q73 **Julie Marson:** To join CPTPP the UK will be giving market access concessions to all 11 existing members. We will only get extensive liberalisation in return for the two members with which we do not have an FTA, namely Malaysia and Brunei. Can you set out how that is a good deal?

Kemi Badenoch: It is about looking at what extra comes in with CPTPP. We should not assume that what is in an FTA—many of them are rollover FTAs—is exactly the same as what you are going to be getting in CPTPP.

We had a good discussion about this. Matt, it might be easier for you to go into some of the detail around rules of origin and the benefits that we get there, in particular the additional services benefits.

Matt Davies: Yes, that is absolutely right, Secretary of State. There are a number of benefits. The first point to make is that, through our accession to CPTPP, we have gained additional market access in some of the nine other countries with which we already had agreements. That is largely because the terms that they have offered through the CPTPP membership might liberalise more quickly. Mexico is a good example. Under our current bilateral agreements, chocolate producers have to pay a tariff of 25%. Under CPTPP accession, that will go to 0%.

Similarly, one of the key objectives that we wanted within CPTPP was access to the quotas that the existing parties offered around. We have full access to that. We have access in a full way right from entry into force. For example, with Peru we had access to a small TRQ for beef in the bilateral. We now have full liberalisation by 2028. There is additional access.

Thinking perhaps about the non-agricultural access that the Secretary of State was mentioning, the other thing is about rules of origin. This is a relatively complicated provision within trade agreements about how you determine what access is a preference by how much content comes from a country.

One of the good things about CPTPP is that we can count content from any country as part of our qualifying content. It opens up a new way, particularly for manufacturers, to exploit and make use of different supply chains. They might produce components in the UK that would then be sent on to another CPTPP country, which then does something to them and sends them to another CPTPP country. Because we will be part of that group, they will be able to count the UK content as part of their qualifying content, which further incentivises them to buy more of that from the UK.

Kemi Badenoch: One of the really great things about this deal is that it is more heavily services-focused than we have seen before. I would say probably even more than what we were doing with the EU. With each new agreement, new things come in. We have new transport commitments from Singapore and Peru; we have new data localisation commitments from Canada, Peru, Vietnam, Mexico and others. There is also a ratchet mechanism for the first time. If those countries relax restrictions with someone else, we get the same benefits. Every time we sign one of these agreements, there are additional benefits that join in.

Q74 **Ian Lavery:** According to your Department, the CPTPP's single set of rules of origin and single culmination zone right across the other countries would allow UK companies to participate more easily in international supply chains. Secretary of State, are you able to say what sectors will benefit and what the economic gains will be worth?

Kemi Badenoch: The rules of origin provisions—this is probably my bias because I deal a lot with the auto sector—will be quite game-changing for auto. If you look at what is happening across automotive globally, it is a very competitive space, especially as we are using electric vehicles. The minerals for electric vehicles are critical minerals. They are very difficult to keep in a supply chain. Having more countries that recognise where a component is made from and accepting it as part of their supply chain and component chain in terms of building a vehicle is really important.

Japan and Mexico are two countries where auto is absolutely huge. Being able to integrate a lot of the supply chains and components that come from those countries into our auto industry will be quite significant.

Q75 **Ian Lavery:** I am just wondering which sectors would benefit most.

Kemi Badenoch: It will be the auto sector.

Q76 **Ian Lavery:** What will the economic gain be worth?

Kemi Badenoch: I do not have a figure, but the auto sector has been very complimentary about the deal. They are very happy. They can see that this is really going to help them. The gains will be dependent on what they choose to do. That is not something that is within our control.

Q77 **Ian Lavery:** Will any other sectors, apart from the auto sector, benefit greatly?

Kemi Badenoch: They will. Anything that involves manufacturing or where there are rules of origin regulations will benefit. It is really the manufacturing sector. That is where it matters. I mentioned auto because it is the key sector that people think about, but across manufacturing there will be multiple benefits.

Q78 **Chair:** Can you just say a word about how the trade strategy dovetails with the advanced manufacturing plan? As you know, the Committee has just launched an inquiry into industrial policy. I do not know whether that is language that you use. Some of your colleagues do; some do not. Nonetheless, there is an advanced manufacturing plan that is championing a number of sectors. How do you think about the interrelationship between trade strategy and the kinds of supply chain opportunities there are and where the UK Government put investment into particular sectors?

Kemi Badenoch: The advanced manufacturing strategy has five pillars. Trade comes in mainly around the supply chain and critical minerals strategy. Who we are doing deals with has a huge impact. If you look at the companies that sell the most vehicles in the UK, Toyota and Nissan are Japanese companies; India is doing a lot with Tata and Jaguar Land Rover. A lot of what we are doing is happening behind the scenes. We are negotiating an India FTA. All of those things will have an impact on our advanced manufacturing plan.

The AMP's core purpose is to make sure we create a level playing field with many of our peer countries in the EU primarily around energy costs, for example. We want to make sure that, where they are investing, as we saw with the new BMW and Nissan plants and the gigafactory that Tata is putting into Somerset, we are creating the right regulatory environment for that investment to be successful to make sure we keep those jobs here.

Very sadly—I say this as a free marketeer—there is no true free market in auto globally. This is something that absolutely broke my heart, the more I looked into it while doing this job. Everybody is subsidising. We have to be very clever about what we do. We cannot do what the US is doing on IRA. It is already running into problems. Its auto sector has been on strike in a way that we have not seen here.

We are not going to do what the EU is doing on GDIP. We have to do what is right for the UK. That means targeted support, not hosing money for a sector and not giving out subsidies willy-nilly. It means looking at what we can afford and targeting it at where we find the problems. That is how our trade strategy interacts with the AMP.

Q79 **Chair:** Can I just pursue this case study for a moment? It is fundamental. You have just said that the auto sector is one of the supply chains that will do well for the UK in CPTPP. The auto sector needs steel. There is a debate this afternoon about whether the UK should retain virgin steelmaking capability. Your Department is putting some money into the steel industry, but our virgin steelmaking is in peril. Should we have sovereign capability for making virgin steel?

Kemi Badenoch: We do not have sovereign capability for virgin steel. This is one of the myths that I am continually trying to bust. Even in Port Talbot, we have to import ore and so on to get the steel we make. A lot of the steel that we do make is not necessarily used for the military uses that many people are thinking about when they are talking about sovereign capability.

In terms of cars, we are fine. The electric arc furnaces will still be able to make steel that the car industry will use. We will hopefully see it when we have the debate this afternoon. We need to tell the truth about what is going on with steel in the world. There is a global oversupply of steel. That is mainly from China. It is a little bit from India but mainly from China. Even India is feeling the pressure.

This is a conversation that we have at the World Trade Organization. Everybody has steel safeguards and so do we. We are protecting steel in our economy. The two companies, British Steel and Tata, have been losing over £1 million a day. Steel is totally different from what it used to be.

We have to think about how we continue to maintain not sovereign capability but certainly steelmaking capability in the UK. The technology will move on. We will get effectively what we call virgin steel in a few years.

We also have a strategy to hit net zero by 2050. Port Talbot is the biggest carbon emitter in Wales. We cannot say one thing and then be surprised when the trade-offs come in. We have to look at all the trade-offs in their entirety.

Q80 **Chair:** I just want to double-check this interrelationship between the trade strategy and the industrial policy strategy. When you look at the opportunities for sectors like automotive, you do not then conclude that we need blast furnace capability in the UK in order to optimise the way that we trade into those supply chains in the future.

Kemi Badenoch: We absolutely do.

Q81 **Chair:** We do need blast furnace capability.

Kemi Badenoch: No, we do think about it. The steel that is made by electric arc furnaces is used in cars as well.

Q82 **Chair:** You do not conclude that we need blast furnace capability.

Kemi Badenoch: It depends on what you are trying to make. Blast furnaces are expensive. These are private companies. We need to think about what it costs. We can get the steel from all over the world, but we are choosing to keep steelmaking. Whether it is by blast furnace or electric arc furnace depends on what you want to make.

The question I would ask is, "What do we want to make now that we will not be able to make with electric arc furnaces?"

Q83 **Chair:** I am not hearing you say, "Yes, Chair, we need blast furnace capability in this country".

Kemi Badenoch: The Government have always said that we want to keep steelmaking in the UK, but what steelmaking is going to look like is not for us to decide. It is for industry to decide. This is like me saying, "We are going to make sure we keep typewriters going in the UK". It is what we make with them that is important rather than the actual mechanism.

What we have seen and what we have been told by industry and the supply chain is that the technology will come where electric arc furnaces will be able to do everything that blast furnaces can do in time. If we sit and wait, we are going to lose everything. We have to make decisions now.

Q84 **Chair:** When your Department is putting money into big trading companies like Tata, you are interested in both the trade growth and the industrial policy. Is there a package deal with Tata on Port Talbot and the gigafactory? One has got £500 million; the other has got £500 million. Is it a £1 billion package with Tata?

Kemi Badenoch: Those are two totally separate things. The gigafactory is auto, cars and batteries. Port Talbot is steel. They are different parts of a big conglomerate. Steel is just one of those things where not many people want to go into steelmaking anymore. It is a very difficult industry.

My priority was making sure we kept jobs and growth in this part of south Wales. The plans include regeneration, but even a company that is spending £2 billion, as I understand the whole package comes to, needs some support to make the economics work. If we just say, "We are not doing anything. It is up to you", we could end up losing everything.

That is why the Government brought in a £500 million targeted support. I hate using the word "subsidy". It is a targeted support of £500 million, of which £100 million specifically is to help with the transition for many of those jobs that will be lost. The fact is that the kinds of jobs that you use in blast furnaces are different from the ones you use in electric arc furnaces.

I was faced with a choice between losing 8,000 jobs and probably another 10,000 to 20,000 in the supply chain—losing everything—and losing 3,000, saving 5,000 and the supply chain surviving. That is the option that I took. The narrative that this is about us losing some jobs that are being taken is complete nonsense.

It is a very difficult decision. We have been dealing with steel over and over again over many years. This is a package that we think completes the process. We are going to have the transition. Electric arc furnaces are going to be great. Port Talbot will be regenerated. It looks so dystopian right now. We can do something better for the people of south Wales. That is what we are working on.

Q85 **Chair:** I am going to put this question for the last time, just to make sure we are super-clear. It is not a strategic objective of yours to retain blast furnace capability in the UK.

Kemi Badenoch: Liam, I know what you are trying to do with this.

Chair: I am just trying to be clear.

Kemi Badenoch: I have answered the question. I would refer you to my earlier remarks.

Q86 **Jonathan Gullis:** Secretary of State, in one of your earlier comments regarding Port Talbot, you talked about our net zero commitments. There is a real fear from energy-intensive industries like ceramics in Stoke-on-Trent, which you will know I am shamelessly going to take the opportunity to plug, about the net zero agenda. When it comes to trade deals around the world, they are afraid that energy-intensive sectors will be sacrificed. They worry that we will offshore our CO_2 emissions in exchange for being able to say we have hit this net zero target.

Going forward, what reassurances can you give to the energy-intensive industries, which includes manufacturing in most cases, that they are going to be protected in trade deals and that the UK sees them as an asset to export around the world?

Kemi Badenoch: We absolutely see them as an asset. If there is anything I can say to reassure those businesses, I would refer to my remarks in that debate several years ago when the House passed the net zero legislation. I was very sceptical about what the plan would entail.

Now I am a Minister, I have some say in how things go. I need to emphasise to industry that we are not going to distort the playing field to the point where they cannot compete. That makes absolutely no sense. It is bad for growth and it is bad for jobs in the UK. We are on your side.

The British Industry Supercharger, for example, which we did last year to try to minimise energy costs for industry, is an example of the type of policy we are putting in place. We will continue to look at this. It is embedded into the advanced manufacturing plan. We have to crack the energy problem, especially as Russia's war in Ukraine has made things so much worse. We see that instability in the Middle East is likely to have an impact there as well.

That is where the policies from the Department for Energy Security are really critical. What we are doing on, to use the Chair's words, sovereign capability and renewables is going to be essential in our energy mix. That includes what we are doing on nuclear. Building and creating more of our own energy is the long-term plan that is going to deliver for those companies.

Q87 **Jonathan Gullis:** We were talking earlier about steel and being able to import from around the world. Is there a danger that we could potentially weaken the UK's energy security because we will be overly reliant on particular materials or resources that will have to come in? As you have rightly pointed out, other European countries like Germany were hit heavily by Vladimir Putin's illegal invasion of Ukraine. That had an impact on the Middle East when it came to oil prices as well.

Is there not a danger that we become overly reliant on the rest of the world? I am not a steel expert, but some people are saying that it is important to retain the blast furnace so that we have our own capability and we have that reliability.

Kemi Badenoch: I understand the point. It is a clear danger. This is not a UK problem. This is a problem that every single country is facing right now in terms of being over-reliant on certain countries to provide steel.

We are using the levers that we have available, such as steel safeguards, for example. To be fair, those are controversial. The downstream users of steel, the people who buy steel, want to have the cheapest steel possible. Anything that we do to make it expensive, even if it is from importers, affects them.

For instance, car manufacturers are agnostic on where their steel comes from. If you want the cheapest cars, you want the cheapest steel. Us raising the price to benefit our producers does have an impact. We have to look at it in its entirety. We are very alive to these challenges, but it is not just us.

Q88 **Jonathan Gullis:** I have one final question about CPTPP. We heard from the previous panel that the service industry is a big winner when it comes to the trade deal that has been done there. What will UK service providers be able to export that they cannot already export now? Are you able to quantify the economic benefit to the UK of those changes?

Kemi Badenoch: The way that I try to explain what you can do now versus what you cannot do now is that it is never really about what you can or cannot export. It is about the rules that make it easier.

For instance, data localisation is a classic example. Matt can give you more of the detail because he would have been doing the actual writing of it. It is about what you choose to put as a threshold or whether you have to be a UK-based company, for instance. You can be a UK-based company and open up a business somewhere else. You could always do that, but the rules would have previously asked you to go into a joint venture with somebody from that other country. You do not necessarily have to do so now. Those are the sorts of things.

Matt Davies: That is exactly right. Services decisions are often about giving certainty to companies that they will be able to invest in a territory and there will be stability around the rules.

Data flows and data localisation are classic examples. In the absence of provisions within a trade agreement, it could be the case that a country could specify, "If you are operating cross-border, if you are providing a service for our people and using our data, you need to set up a server farm in this country". That would stop the provision of services for quite a lot of companies. Through things like CPTPP and other FTAs, we can embed provisions saying that countries will not be required to do that to offer services cross-border.

It is similar with investment decisions. Lots of countries have rules around the make-up of the senior boards or managers within companies. They often specify that they have to be of a certain nationality or that the company has to have a presence in the country. In FTAs, we tend to make sure there are limits on how those rules can be applied so that, as people are looking to make investment decisions, they know they can set up a company and that trading basis is not going to be taken away from underneath them.

Q89 **Sir Robert Goodwill:** I am guesting from the EFRA Committee. We have been particularly concerned about the water industry here in the UK. The Canadian institutions are the second biggest investor in our water companies. The Ontario Municipal Employees Retirement System, OMERS, owns 32% of Thames Water. We heard in the previous session from Mr Verity how the investor-state dispute settlement arrangements have been used by Canada and how it has been particularly litigious.

We also heard how, whilst in the bilateral negotiations we are seeking to exclude this particular arrangement from that, as a full-blown member of CPTPP that could come into play. Will this impact the way in which the regulator can insist on better investment in reducing sewage outfalls and keeping bills down?

Under the previous leadership of the Labour Party, there was talk about the confiscation of assets to nationalise water. Indeed, if one of these companies were to fail and we had to come in with a rescue package, could that be used against us to prevent us either securing investment or securing the best deal for water consumers here in the UK?

Kemi Badenoch: I will start off by saying that these free trade agreements do not interfere with any country's sovereign rights to regulate. In the same way that free trade agreements are based on international law, the right to regulate is also embedded in international law.

We have ISDS arrangements with about 90 countries. We have never been successfully sued on the basis of that. This is not something that we are worried about because we have high standards in our country. We have very high legal standards. People come to the UK because of the rule of law. They know this is a safe place to invest; they know that their investments will not be expropriated in the way that you see in other countries. In terms of ISDS as a framework, it is not something that we are concerned about.

Specifically around the water companies, this is a more interesting and broader problem that goes beyond the Canadian pension companies. The issue is that our own pension companies are not investing in UK companies. We have created regulations that mean they are very cautious because of what happened with Robert Maxwell and the reforms that were brought in after that. We have become—

Sir Robert Goodwill: We are getting off track.

Kemi Badenoch: No, we are not. This is important. We cannot complain if other countries then come in to invest. If they do not, a lot of those services would just fall apart. It is really important, as the Trade and Investment Minister, for me to emphasise that we do want investment. We do not penalise foreign companies for doing so.

What we are seeing around water is a long-running issue that touches on how we have chosen to regulate. It is not just about the investors. Those are things that we are looking at across Government.

Q90 **Sir Robert Goodwill:** It is about investors taking massive dividends and big interest levels in the past. That has meant that these companies are very highly geared, which has exposed some of these investors, such as the one I mentioned.

Kemi Badenoch: Yes, you are absolutely right. The job is for our regulators to solve. If the concern is that ISDS will stop our right to regulate and stop our regulators from doing the right thing, that is not something that we are worried about. We cannot think of a use case that would occur where these things—

Q91 **Sir Robert Goodwill:** I know a friend of mine got his port confiscated by Fidel Castro at one point. That is the sort of situation that would come up.

Kemi Badenoch: We are not Cuba—certainly not yet. I am doing everything in my power to make sure we never get there.

Q92 **Sir Robert Goodwill:** Just turning to cheese, at the weekend I was in fact at the Wensleydale Creamery and saw Wensleydale cheese being made in the Prime Minister's constituency. There is an issue because the UK's temporary access to the EU's quota for tariff-free cheese exports to Canada has expired. Canada refuses to cut tariffs on UK cheese, which currently stand at 245.5%, which is punitive and almost prices it out of the market. How far can this be resolved by accessing Canada's dairy quotas under CPTPP, which Canada has recently been found to have been manipulating for protectionist purposes?

Kemi Badenoch: I will not go into that part of the question, but the quotas that we will get from CPTPP will help to mitigate against this. While we know that UK exporters have to compete for that new access with other CPTPP countries, the Canadians are very restrictive about dairy. We just believe that there will be new export opportunities for UK dairy producers, not just to Canada but to other countries.

It is a very challenging discussion to have with them. They feel a lot of pain from their dairy industry in a way that other countries simply do not. This is something that they are rationalising across the board, but CPTPP will help in that. I had a meeting with the Canadian Trade Minister just before Christmas on this issue. The Foreign Secretary did as well. We are actively working on it. When this deal is ratified, we will hopefully be able to find other ways in order to access those quotas.

Q93 **Sir Robert Goodwill:** It would be a shame if we were to deny the Canadians access to our Wensleydale cheese.

Kemi Badenoch: Yes, absolutely. I am working very hard for Wensleydale.

Q94 **Chair:** I just want to wrap up with some thoughts from you, if I may, on how you want to drive CPTPP in the future. The Integrated Review did talk about the virtues of expanding our geopolitical influence in this critical region. Your Department produced what was quite a thought-provoking piece of work, *The strategic potential of the UK's accession to CPTPP*. It has some very useful modelling on page 4. I appreciate that you have pronounced some scepticism about the value of the models.

Kemi Badenoch: I am very sceptical about models.

Q95 **Chair:** Some of the figures are eye-catching. It says that, if we admitted a pretty broad group of countries, you would be talking about a £21 billion uplift to UK trade. That would definitely help you hit that £1 trillion export target, which we are off track with at the moment. Are you going to do some new modelling that might help you think about how to drive the future of this alliance?

Kemi Badenoch: At the moment, we are carrying out a general review within CPTPP on the accession process and the general landscape of what the bloc is trying to achieve. Domestically, we are going to do everything we can, as a Department and as Government, to try to make sure people utilise these things, as I mentioned when I was talking about FTA utilisation.

It is not easy because you cannot force businesses to take certain decisions. We are trying to just open pathways. Matt, you might remember which report this is. Is this the 2021 one or is it something more recent?

Matt Davies: This is something that we published after signature. As the Chair says, we were trying to demonstrate, in a very broad-brush way—when you are considering all these countries, it has to be a very broad-brush—what the future direction of travel could be and some of the benefits of that.

As you have said, Secretary of State, we joined CPTPP because we want it to be a growing agreement. With the UK joining, we know it is more attractive and others will want to join. Thinking about that and how that fits into our broader objectives, we are trying to understand some of the impacts.

As the Secretary of State says, there are some very practical steps that we have to manage first, the very first of which is we have to manage our ratification of the agreement. We have to get fully inside the tent so that we are an active member. Alongside that, we can participate in the general review—this was something that was previously committed to by CPTPP members—to make sure that CPTPP remains an agreement with the highest possible standards. We think it has excellent standards already, but, in terms of some of the things we have talked about this morning, such as digital, it is a fast-moving world in trade. We will have to look at how we can continue to ensure that the provisions in the agreement are at the cutting edge of what is being done globally.

Q96 **Chair:** I flag the issue because in 2021 there was an FOI that revealed that UK semi-processed food producers would be adversely affected if South Korea or Thailand were to join the organisation. We have an FTA in place with South Korea. I am just interested in how we are going to conduct this debate between Parliament and the Executive in a rational and evidence-based way if we have no models that we both have confidence in? How are we together going to have a debate about the future of this alliance in a way that makes for better policy?

Kemi Badenoch: It goes back to exactly what assumptions underpin a lot of this modelling. This was illustrative modelling. That FOI was in 2021. We probably have to take a step back and look at how we think of trade. If we assume that trading with other countries is always going to take something from the UK, we end up in a zero-sum world.

We all know that trade increases economic growth, but you need to have certain principles that underlie that. You need a level playing field; you need to make sure people are working towards the same standards. That modelling is about countries that are not yet in CPTPP. Whenever the countries talk about new accession partners, it is always about those countries that meet the high standards. We do not want other people undercutting our standards. We do regulate them, and we can choose exactly how that works.

I am not concerned about our markets or our sectors being destroyed because we are trading with other countries. We get something, and it is always a net benefit.

Q97 **Chair:** We all want the win-wins. How do the Executive and Parliament together conduct a debate, if we do not have models that we can both trust? How are we going to have what used to be called evidence-based policy-making about how to prioritise, for example, the countries that we should be encouraging to join CPTPP?

Kemi Badenoch: On this you and I are in complete agreement. We need to find a way to use models and forecasts rather than just picking things off the shelf that do not necessarily work for certain scenarios. I am all for that. I am not sure that change can come from within a Department. That is effectively us marking our own homework.

There does need to be something. I have spoken to the Regulatory Policy Committee about this. They have said that we do not necessarily need to do some of the things that we are doing because they are not applicable. We need to find something that is a bit better, that uses the right assumptions and that has the right caveats. A lot of what we are doing at the moment is plucking figures, making different assumptions and not necessarily talking about the same thing, which is making it very hard for people to get a clear picture of what we can expect to see in the future.

Q98 **Chair:** This is something that the Committee and your Department can perhaps work on together.

Kemi Badenoch: I would be very happy for us to do that.

Q99 **Chair:** That nearly brings us to the conclusion of our time. I know this is the first time you have been before the Committee while I have been in the Chair and it is the first time this year. You will probably want an opportunity to comment on what has been the biggest story of the year, which is the Post Office. Mr Hollinrake provided some excellent evidence to us last week, for which we are very grateful. He said he is interested in this Committee undertaking pre-legislative scrutiny of the Bill that is being brought forward.

In the light of Mr Bates's letter to Mr Hollinrake, which I can commend to you, received by this Committee yesterday, the $1 billion question will be whether we can commit, on the face of the Bill, to a hard deadline for making sure payments are paid to those who have suffered the greatest injustice.

Kemi Badenoch: First of all, I would start off by saying that this has been an issue that we have been looking at since the Post Office as a portfolio came to my Department.

Kevin has been a brilliant Minister. We have worked very closely to find a way forward, even though we have had bureaucratic obstructions, including the repeated request to wait until the inquiry had finished. The people who are affected do not have all the time in the world. I have constituents who are affected. I am going to do everything within my power to make sure people get what they need as quickly as possible.

Whether putting a deadline on the face of the Bill is the right approach is not something that I can say for certain. We are certainly looking into it. I want to reassure not just the Committee but all those sub-postmasters and sub-postmistresses who have been affected that we are working night and day to get this sorted for them.

Q100 **Chair:** In his letter, Mr Bates suggests that there should be, in essence, a deadline of about 40 working days under which an offer should be tabled, particularly to those GLO complaints, and then a further 40-day deadline for settlement. When the Bill is presented, will we be able to get into a debate about how to enshrine, in some way, hard deadlines for the cheques being paid to those who need justice?

Kemi Badenoch: We can certainly have a debate. What the outcome will be, what the various options are and what the best of those options is will come out then. I would not be in a position to make a firm commitment at a Select Committee. I do not make policy in Select Committee. Kevin and I still have meetings where we are discussing this and looking at what else is on the table that we can do. We are very front-footed on this. I just want to leave you with that assurance.

Q101 **Chair:** You may be open to a Mr Bates clause, if it is supported across the House.

Kemi Badenoch: We will certainly take all such proposals into consideration.

Chair: That concludes this panel. Secretary of State, thank you so much. Thank you too, Matt, for your evidence. It has been extremely helpful. We look forward to sending you a copy of our report and working with you to try to ensure there is a proper debate on this treaty in Parliament. That concludes our session.