

Business and Trade Committee

Oral evidence: Export-led growth, HC 289

Tuesday 23 April 2024

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Members present: Liam Byrne (Chair); Douglas Chapman; Jane Hunt; Ian Lavery; Anthony Mangnall; Julie Marson; Andy McDonald; Mark Pawsey.

Questions 188 - 241

Witnesses

I: The Rt Hon. Lord Frost of Allenton CMG; David Henig, Director, UK Trade Policy Project, European Centre for International Political Economy; Shanker Singham, CEO and Chair, Competere Group.



Examination of witnesses

Witnesses: Lord Frost of Allenton, David Henig and Shanker Singham.

Q188 **Chair:** Welcome to this morning's session of the Business and Trade Committee. I am delighted that on our first panel we are joined by three excellent witnesses to discuss the future of UK trade policy as part of our inquiry into export-led growth.

Lord Frost, perhaps I can begin with you. Are you pleased with the way trade has progressed since Brexit?

Lord Frost of Allenton: "Yes" is the short answer, because all those who predicted a dramatic change in our trade and a dramatic turn for the worse have been proved wrong by events so far.

Q189 **Chair:** We now have the lowest trade openness in the G7.

Lord Frost of Allenton: We have always had relatively low trade openness because of the size of our economy and structural factors. The issue is how much it has changed as a result of Brexit. It has not really changed significantly at all. I can go into details.

Q190 **Chair:** I am looking at this excellent report from UK in a Changing Europe. I do not know what you make of them; they seem a pretty good crowd to me. Their last trade monitor shows that trade openness has fallen to levels last seen in 2017. That does not sound like a roaring success.

Lord Frost of Allenton: These levels fluctuate up and down. I repeat that the issue is not trade openness; the issue is whether there has been the kind of significant change in trade levels that has been predicted by so many, including UK in a Changing Europe. So far, all those people have been proved wrong.

Q191 **Chair:** If we look at, for example, goods exports to Europe—we will spend a bit of time on goods exports today, I think—between 2014 and 2018 they were growing at about 2.9%. If goods exports had carried on growing at that level from, say, 2021, we would have had about £54 billion-worth of extra exports of goods into Europe. That would seem to outweigh the gains that have been listed against the free trade agreements, which, looking across Japan, Australia, New Zealand and the CPTPP, are about £784 million. That is an order of magnitude lower than what our goods exports might have been if goods exports had carried on growing at the same rate as before Brexit.

Lord Frost of Allenton: We have all learned in the last few years about the risks of simple extrapolation from previous trends. Your base period is one when we were still coming out of the financial crash. These figures are all extremely sensitive to the base years that you choose. To be clear, there has been a very small effect from leaving the single market and the customs union to our goods trade of maybe 2% or 3%, but services trade has gone up hugely. Let us not forget that that is about half of our trade.



Trade and growth are not the same thing. I would disagree with those who say that there is a mechanical relationship between openness, exports, trade levels and growth. The last few years have borne that out.

Q192 **Chair:** In the *Telegraph* yesterday, together with Mr Jenrick, you listed a series of largely supply-side reforms that you thought were now available to us. If we push those through, do you think that that would capitalise on the freedoms that we now have outside the EU?

Lord Frost of Allenton: I do. As I said, my view is always that there was a very slight hit to leaving the single market and customs union, but that should be well compensated for by the ability to do structural reforms in the domestic sector. Unfortunately, we have not done as many of those as I would wish. If you look at our productivity and growth record over the last couple of decades, it has got gradually worse. That is because our domestic economy has been furring up the arteries and we need to liberalise, reform and do a lot of things to bring growth back. That is now in our hands.

Q193 **Chair:** It is quite a long list of things that you mention in the article. Are there particular things that you would put at the top of your list?

Lord Frost of Allenton: Where to start? A lot of these things have a mix of what would have been purely domestic policy and EU policy. I would certainly put the current version of net zero and high energy costs at the top of that list. I would want to see a lot more house building and changes to planning regulation. More broadly, we need to change our economic model so that it is less reliant on immigration. We need to get tax and spending down, because there is no future for the country as a high-tax, high-spend social democrat economy.

Q194 **Chair:** This is the language you use: “We can lift the suffocating red tape around nuclear and gas power stations, cut hefty renewables subsidies and get energy prices down to bring manufacturing back”. That is something that you think is more possible outside the EU than inside.

Lord Frost of Allenton: I do. A lot of these things have a mix of domestic and EU competence in old terms, such as employment law, environment law and planning law. All those are influenced by EU regulations and doctrines, as well as by the way we do things here domestically. Now we can do all those things, and we should be doing them.

Q195 **Chair:** The other thing that you flag is the opportunity to cut tariffs in order to get food prices down, as your line of argument. Are you happy with the pace at which we have signed free trade agreements? We have got four done, basically—Japan, Australia, New Zealand and CPTPP—in the period since Brexit. Is that a good track record, or do you think we could have gone a bit further?

Lord Frost of Allenton: It is not bad, and of course we rolled over virtually all the existing trade agreements that we had through the EU,



HOUSE OF COMMONS

and we have an FTA with the EU itself, which often does not get mentioned. I am basically happy with the pace, yes. The missing element is the US trade deal. I wish we could have made better progress on that. There have been moments in the past five or six years when we could have made better progress, but the current US Administration do not seem to want to do bilateral trade deals as a matter of principle at the moment, so it is not surprising that we do not have one.

Q196 **Chair:** We are now in a world where trade barriers are multiplying. The IMF said in a report earlier this year that in 2016 or 2017, there were about 500 trade restrictions globally a year. We are now at 2,500, so we are shifting, if you like, from a world of free trade to trusted trade. Do you think it is realistic that we will be landing new free trade agreements at a time when everybody is now paying far more attention to strategic autonomy and de-risking supply chains?

Lord Frost of Allenton: These things come and go, and they are not entirely incompatible either. I agree that at the moment we are in a mode of focusing on domestic security, reshoring and all that agenda. It is at the margin and the mood can change. It could change under a new US Administration. It could change for wider reasons, so I do not give up on these things.

Q197 **Chair:** We have about seven free trade agreements that are not done but are under way: India, the GCC, Canada, Mexico, Israel, Switzerland and South Korea. Are there any of those that you would prioritise?

Lord Frost of Allenton: I think we would all love to get an India trade deal. When I was doing EU trade, back when I was a civil servant, we were trying to get an EU-India deal and it failed, principally because EU member states had too many divergent interests. It is easier to have a purely bilateral trade deal, as we are now negotiating. My understanding is that we are actually quite close. I am not directly involved in the negotiations, but I think good progress has been made. It is within reach, certainly.

Q198 **Chair:** Which of these trade deals do you think would become less attractive or less possible if we signed up to a policy of dynamic alignment with the EU on, say, goods trade?

Lord Frost of Allenton: They all get less possible if you subtract areas from your own negotiating offer, because you have given the right to determine them to some other entity. That is effectively what would happen in dynamic alignment in a meaningful form: we would have given up the right to change those rules. As free trade agreements are precisely about trying to find a balance of those things, we make it more difficult in all of them at the margin if we do that.

Q199 **Chair:** Would Japan, Australia, New Zealand and the CPTPP have been impossible if we had had dynamic alignment on goods with the EU?



Lord Frost of Allenton: They would have been much more difficult. I hesitate to say that they would have been impossible. They would definitely have been less good. To take the case of Australia, one big advantage of that—and I wish that we had gone further, to be honest, but we are where we are—is agricultural trade. If we have given up the right to set our own terms of trade, it is going to be more difficult to reach those agreements. It just stands to reason.

Q200 **Chair:** The original target was that 80% of UK trade would be covered by FTAs. Do you think that that goal, as it stands today, is possible or impossible?

Lord Frost of Allenton: It depends on the Americans and the American deal. I do not think that anything else can shift the dial hugely. It does not look as if the current US Administration are interested in such deals. That is not true of the whole American political system, of course, and the Administration are not the only player in US trade policy. The politics in America could change and things could get easier, but I guess not until 2025 at the earliest.

Q201 **Chair:** If President Trump is re-elected in the United States, does that change the dynamics and the possibilities?

Lord Frost of Allenton: I think it does. Who knows for sure how these things are going to play out? What I have heard from US Republicans at least is that we should not assume that a President's—Trump's—general scepticism about free trade would necessarily be an insuperable obstacle to a UK-US deal. Of course, I cannot speak for them. I can only say what I think our policy should be. I think that we should be keen to do such a deal and ready to talk about it.

Q202 **Chair:** Do you think it becomes more or less possible if there is a change of Administration?

Lord Frost of Allenton: The Biden Administration have not been particularly interested in bilateral free trade agreements, but second terms can be different from first terms. Indeed, they very often are on things like this, so I would not write everything off. One problem is that in the last couple of years, we have looked a bit reticent from our side about such a deal. We should change that.

Q203 **Julie Marson:** David, you have written that trade agreements are not a good fit for the UK in tackling trade barriers. For the benefit of the Committee, could you expand on that a little and perhaps explain what trade policy tools the Government should be prioritising instead?

David Henig: Thank you for the invitation to appear here. It is very much as Lord Frost has already mentioned about services. In the UK, 50% of our trade, or perhaps more, is in services. Free trade agreements actually do very little for services. Similarly, most modern trade barriers now are regulatory in nature. They are about companies, and companies are, after all, what does all this trade.



We often talk about how Government actions are all that matters. It is actually companies that do most of the trade. They face regulatory barriers from different regulations. Those are very difficult to bind in free trade agreements; in fact, we have not really done so in the free trade agreements we have signed to date, because countries are very reluctant to sign away their rights to set future regulations.

In that sense, free trade agreements are more about tariff reduction where you are a major commodity producer. We are not, in most areas, a major commodity producer. We might get the tariff reduction in India, say, on Scotch whisky. That would be worth something. In general, for most of the things that we would be looking to export more of—for example various services, or you could look at defence manufacturing—these are not areas where tariffs are the main issue, or indeed at all the issue.

Unfortunately, where that leaves you is that there is no one single tool that can do this for you. I know that we look for the magic bullet post Brexit. What is the single thing we can do that will change everything? I am afraid that there is not one. You have to do an awful lot of things right. You have to be talking to a lot of countries about all these barriers. You have to be doing, for example, what was I think a successful agreement with Switzerland on mutual recognition of financial services.

We also need—Lord Frost was absolutely right here—to look at the domestic agenda. We may have different suggestions as to what we think would make a difference on the domestic agenda, but ensuring that we are set up to support exporters in our domestic policy choices is hugely important as well. It is an often overlooked part of the trade policy agenda.

Q204 Julie Marson: You have also written, “It is hard to imagine a UK presence making a meaningful difference to a struggling WTO”. What should the UK be looking to do at a more multi or plurilateral level?

David Henig: It is fair to say that in the UK we have a view that we are generally supportive of trade. I am afraid to say that for the US, for example, that is not necessarily the case. Even with the EU, there is a certain amount of withdrawal from that position at the moment. The UK and many other mid-sized powers, as we call them—Japan, for example—want there to be trade. We want there to be trade rules. I am pretty worried that at the moment other countries are moving away from that.

We need to do as much as we can to protect the trade rules. I do not think we are going to get any new agreements, but we should be foremost among the countries saying that trade rules are important and, whoever puts them under pressure, whether that is the US or the EU, our view is that we need a single set of trade rules, even if we cannot expand them. Maybe we cannot.



HOUSE OF COMMONS

We are in a situation where there is not a formal set of e-commerce rules at a global level, even though eBay has now been up and running for, I think, coming up to 30 years. It seems to me that we cannot have much faith in new agreements with the WTO when that is the case. There is a negotiation ongoing, which we are part of, to put in place some rules for e-commerce at a plurilateral level. We should do what we can.

The UK, in my opinion, needs to be open to talking with other countries. We need to say that we believe the rules are important. We should join the replacement for the appellate body. The US has vetoed its actual functioning. This is about dispute settlement. The UK should show a signal that we think that is important to us and we should join it. Generally, it is the same thing. It is about trying to do multiple things, talking to a number of countries, trying to keep trade flows open and trying as much as we can to support our companies in exporting and generally trading.

Q205 Chair: Can I just check something: did you say that you do not think that new deals are going to be possible? Does that include that list of seven: India, the GCC, Canada, Mexico, Israel, Switzerland and South Korea?

David Henig: No, that was about the WTO. I do not think that new deals are possible at the WTO level.

Q206 Julie Marson: Good morning, Shanker. I am quoting everyone here, using their own words. You have written that UK accession to the CPTPP "is a seismically important geostrategic event" and that the CPTPP is increasingly seen "as the alternative liberalising framework to the World Trade Organisation". Could you expand on what you meant by that, please?

Shanker Singham: You have to go back to the genesis of the trans-pacific partnership agreement, which was the predecessor to the CPTPP, and why that was developed. It was developed initially as an agreement between New Zealand and Singapore, really because in the early 2000s, in the WTO system, we had had the Seattle ministerial and the collapse of the momentum in the WTO that David Henig referred to. Liberalising countries were looking for an alternative mechanism to continue the process of liberalisation, even though it was not really occurring at the WTO level. That then became the P4 or the P4+1, and ultimately it became the CPTPP. The US joined it, helped to craft a lot of the language and then withdrew when President Trump came into power.

The reason that this is such a powerful tool is that it is a dynamic agreement, so countries are being added. You are looking at countries such as Indonesia, Thailand, or even China, although I doubt that China will be able to accede to the CPTPP. There is interest from a lot of the most successful trading countries, where the growth actually is. The growth is primarily in North America and Asia, and that is what the CPTPP is about.



HOUSE OF COMMONS

It is also a liberalising plurilateral agreement based on mutual recognition, as opposed to regulatory harmonisation. It is challenging the WTO. The multilateral world, the WTO world, is the most important and the optimal way of securing liberalisation and deepening trade openness around the world, and therefore increasing our global GDP per capita, but you have to work on multiple levels. If the WTO system is stalled, the CPTPP becomes much more important.

When the UK joined the CPTPP, Rahm Emanuel, who is the US ambassador to Japan, sent a tweet out saying that now the Atlantic and the Pacific are singular. A former Obama chief of staff recognised the importance and the significance of that. I suspect that, with the UK acceding to the CPTPP, that will not be the last country that is not a Pacific country that accedes to this agreement. It makes the agreement not just a regional agreement.

It is where you see most of the innovations in trade. David referred to trade agreements not really covering services or domestic regulation. Services has lagged goods. We have had decades of goods tariff liberalisation. Services is relatively new to the international trading system in terms of disciplines on it. It really came out of the general agreement on trade in services in 1995.

You have seen successive agreements, such as NAFTA and others, that have progressively started to try to develop disciplines in services. CPTPP is one of the most advanced of those. It is the first to have a good regulatory practice chapter, the first to look at things such as cost-benefit analysis and how state-owned enterprises affect global trade.

The difficulties in the WTO that were referred to with the appellate body are primarily because of the US being concerned about the definition of public body and how that is interpreted in international trade. We need to push the boundaries of those things, which are particularly important to the UK. As David rightly says, we are primarily a services economy and, therefore, domestic regulation and those sorts of things are extremely important to us. For all these reasons, CPTPP is very important.

Q207 **Chair:** Shanker, in the theoretical scenario in which China met the rules, should the UK support China's accession to CPTPP?

Shanker Singham: China is such a major topic and a major issue that you have to have a multi-tiered approach to it. This is where the UK can play a role, because frankly the US has tended to oscillate between doing nothing about China distortions, state-owned enterprises and so forth, and the pendulum swinging completely in the other direction, with national security tariffs, all these other things and talk about decoupling, which is neither possible nor desirable. That could have a significant impact on the global economy.

With China you have to recognise that the distortions caused not just by its state-owned companies but by private companies that benefit from



HOUSE OF COMMONS

Government privileges and so forth affect global trade and our own producers. If you look at steel producers in the UK or US, they are certainly adversely affected by China's state-owned steel industry. It is the same with textiles and so forth. You can go through the list.

You need to develop a mechanism to deal with China distortions that is a robust tool. I have proposed a tariffication of distortions tool to deal with those distortions. Where the Chinese economy is not distorted, if it can be proven that there is an import coming into the global system that is not distorted, we should welcome that import.

Chair: It is a kind of "yes, if", as it were.

Shanker Singham: You have to be able to send both signals at the same time. The difficulty in our policy on China has been that we have been unable to send any signal, really, to China.

Q208 **Chair:** I am going to move us on, because we have a long list of questions to get through. Lord Frost, did you have a view on China and CPTPP? If it met the market entry conditions, should we welcome it or block it?

Lord Frost of Allenton: I would have the same view as Shanker. It is too complicated to simplify with a yes or no. The policy has to be multi-layered and must take into account security as well as trade issues.

Q209 **Chair:** David, what is your view on China and CPTPP?

David Henig: It is broadly the same. I was working on China issues in Government about 15 years ago. It was always the view then that the UK, as a country that supports trade, has to hope that other countries will support trade. If they do, we want to welcome them in. If they do not, the answer is no. Can CPTPP be the process that helps to do that? I suspect, in the current context, no, and therefore I suspect that it is not going to happen, but we should at least hold out the possibility that it could.

Q210 **Douglas Chapman:** Lord Frost, you were the chief negotiator for the UK on the trade and co-operation agreement with the EU. How satisfied are you with the effect on UK trade that that agreement has actually had?

Lord Frost of Allenton: I am very happy with the way things have developed. There are massive measurement difficulties here: whether you are looking at value or volume, the fact that it is very sensitive to base year, all that kind of thing. A fair picture of where we are is that goods exports have fallen off maybe 2% to 3% in volume. Overall goods trade is flat in volume terms and we have seen a big services boom, so overall trade is up. There are many other things going on, though, so attributing causality, positive or negative, to the TCA is really difficult. When you consider that many people said that trade would fall by 15% and growth would fall, this is a very different picture so far.

Q211 **Douglas Chapman:** You do not accept the OBR's figures on the drop in



trade and its more pessimistic view of the impact of Brexit on trade more generally. Do we have the cake and can we eat it? That is the question.

Lord Frost of Allenton: I do not. The OBR's figures are not the OBR's own figures. They are the OBR's mash-up of a bunch of studies that date from, principally, 2018-19, mostly before we even knew what the TCA was going to be. Most of that 4% figure that is so often cited rests on the belief that trade openness is linked to productivity and growth, which is disputed in the economics profession. I would certainly dispute it. A fairer assessment of the impact is probably a bit under 1% of GDP one-off, as Rob Jenrick and I said in our article the other day.

Q212 **Douglas Chapman:** SMEs, for example, especially in high-growth sectors, are in a position where many of them have decided to withdraw from export markets almost entirely. There are going to be more challenges facing them towards the end of the month as other border checks kick in. Is that good for UK trade? We are taking perhaps quite a significant sector out of our export potential into other countries. What would you do to encourage that SME sector to re-engage with its past export markets? What would help?

Lord Frost of Allenton: A lot of the evidence is anecdotal rather than reliable in this area. I was reading with interest the evidence from one of your previous witnesses—I think it was the witness from the Brussels chamber of commerce—saying that where pre-existing trading relationships existed or SMEs traded outside the EU as well as with it, it had held up pretty well. The task was encouraging SMEs to believe that they could still trade within this new environment. I certainly think that the Government have a role in doing this. They have done a fair bit in the last few years. There is more they could do, particularly in making information available in a useful way. By and large, the Government have responded to the needs.

Q213 **Douglas Chapman:** David, I have read that you have suggested that the next Government, of whatever political shade that may be, should introduce a nationwide trade strategy consultation, which would look at tying together things such as industrial policy, net zero and much more shared benefit for a majority of workers and people involved in industry and commerce. How is that going to operate? Is that going to reverse—I do not accept Lord Frost's view on the figures—some of the worst impacts of what we have experienced with Brexit?

David Henig: Starting with SMEs, because that was being discussed, there is no doubt that the current global trade system is pretty biased against small and medium-sized enterprises exporting. There is a marked difference between the share of SME trade within the single market, as against anybody's record outside it. SMEs are the companies that get most hit, but it is not just the decision that the UK made around the form of trade relationship we want with the EU that causes that; it is also that there are a number of regulatory issues.



HOUSE OF COMMONS

Every year, the EU, UK and many other countries introduce more regulation. We can argue whether that is for good or not so good reasons. The cumulative effect, though, is to make it harder and harder for SMEs to trade. Put that into a trade strategy. What are we trying to do here? What do we want our economy to look like? How much do we want it to link to the industrial strategy?

For example, one thing that we could sign up to in the European region as a whole, not with the EU specifically, is something called the pan-Euro-Mediterranean convention on rules of origin. It sounds terribly dull, and it is, but it supports the participation of UK component manufacturers in cross-European supply chains. That is something that we have struggled to do since we completed the TCA. Broadly, that is probably positive, but then you have to judge that against whether that would stop us from doing any other trade agreements. I think in this case it would not, and it is therefore something that you should do. It is a step forward.

But then there are some other choices. Lord Frost has alluded to immigration; there is a huge choice in the way we think about immigration in terms of trade. We talked about services having gone up. One of the big success stories of UK sectors is higher education, but higher education gets caught in the immigration numbers into the UK. What are we going to choose to do there? This is where the trade strategy comes in. What are we actually trying to achieve? It is very easy to say, "Let us sign some free trade agreements." As I have alluded to, that does not tell us whether that is going to support UK companies in exporting.

What are we trying to do? For example, if we think that green goods is a growth area, we want to support our companies. How are we going to do that? We could do mutual recognition perhaps with our largest markets. I hope that we have gone past the point where we are saying that we need to dynamically align with the entirety of EU law or not, and that that is the choice. It is not that choice. The choice is which sectors. What are our benefits in certain sectors? If we align in this sector, does that provide a benefit? Can we stabilise our regulation to provide companies with a boost? How do we get people to invest? Those are the kinds of questions you need to look at in a trade strategy.

That then supports the kind of cross-Government working and the trade-offs you need to make to have successful trade policy. I do not think that we have done most of this. We needed to replicate all the agreements we already had. We had to get an agreement with the EU. I am aware that the Government had to get new agreements to show that they were succeeding in trade policy. We now need to take a slight pause and say, "This is where we have got to so far. There are certain things that do not seem to be working. This is how we can make them better."

My sense is that there has been a little bit more of an impact than Lord Frost suggests on EU trade, but in a way he is right. I never thought that



UK-EU trade would completely fall off a cliff like some people. I thought that there would be some impact, and there has been. Now we need to look at that and ask, particularly in SMEs and goods, "Could we do something to reverse some of that?" Those are the sorts of things I would like to see in a trade strategy, which we would then pursue not just with the EU but with countries in the region and, frankly, more widely.

Q214 Jane Hunt: David, following on from that, what can we do to help SMEs to trade more widely? Lord Frost, what are we not doing with what we already have? Are we being stick-in-the-mud, old-fashioned and just sticking to what we knew before, rather than getting on with the trade deals that we have in place?

David Henig: I almost feel that I want to answer Lord Frost's question. I go on about implementation so much. It is so important that we do that, but never mind: you have given me the harder part, which is SMEs.

We have to recognise the influence that these regulations are having. If you think that it is important to prioritise SMEs, Government need to do more to provide them the kind of service that they often do for larger companies of saying, "Here are the barriers you are facing. We are going to try to tackle them in negotiations with other countries".

Jane Hunt: What is the "more", specifically?

David Henig: Specifically, SMEs will be facing certain barriers in other markets. There are some of them that you cannot get around. If there is a regulation that is too costly for them, there are some customs checks that are taking too long, or it is too expensive to do the forms, are there ways in which Government can basically reduce the costs of SMEs to make their exports competitive? It is not just about information. It is actually about the kinds of actions.

The Government do that with larger companies often. I dare to mention this, but the organisation Lord Frost used to run, the Scotch Whisky Association, is remarkably good for all its members, whether small or large, at identifying the barriers and talking to Government about them. Then Government and our embassies around the world take those cases up with Governments. They may be tax issues that they need to resolve. It may be about particular regulations, things on the bottle, anything that can be done to facilitate those exports.

I am afraid that, again, there is no magic bullet to this. It is just about asking, "What are your problems? Can we do something more to fix them?" Governments do not generally prioritise SMEs. They generally prioritise larger companies because obviously that means greater exports, but that has an impact. These are the decisions that have to be made. Are we going to be serious about prioritising SMEs? Given that, actually, the way of the world is that it is large companies, maybe another way is that you say, "SMEs, you are mainly going to be feeders to large companies and we are going to encourage large companies to



HOUSE OF COMMONS

source from smaller companies in the UK.” There are a number of things to discuss and I fear I am already going on too long, but it is that sort of thing.

Jane Hunt: I am sorry I gave you the tough question!

Lord Frost of Allenton: It is sort of the same answer in some ways. It is important not to get too focused on one category of problem. Of course we should be doing more trade agreements if we can, but it is only one part of the problem.

I agree with David on a trade strategy. You were coming close to saying that Governments need a clear economic policy and philosophy, of which trade is a part. That has perhaps been one of the issues in the last few years.

You have that at the top: you have trade agreements. You have the need to implement trade agreements and manage the disputes within them, if any. You have, ideally, regulatory dialogue within and outside those agreements. You then have Government support. The Scotch Whisky Association model is a good one, where industry needs are taken up by embassies and Governments. You have to be able to do all those things. If you focus on just one of them, it is not going to work very well.

Q215 **Ian Lavery:** Lord Frost, you are obviously vehemently opposed to any form of dynamic alignment and that has been the position throughout the negotiations, basically on the grounds that you want to maintain UK sovereignty in terms of UK regulations. How do you think the general export community would view the idea of any form of dynamic alignment with the EU rules as a way of possibly overcoming post-Brexit trade friction?

Lord Frost of Allenton: There is some lack of clarity about what is meant by dynamic alignment sometimes. Simply a commitment from us to mimic EU rules in a particular sector does not in itself deal with the problem, because you are still dealing with two separate legal entities. There is still friction between those two things. There is still a degree of paperwork. Maybe if you can get mutual recognition between the two, that would help a lot. Perhaps you can reduce the levels of paperwork, but it does not solve the problem. It is not single market-like.

The only way we can do that is if we accept EU legal supervision so that its laws are enforced in our country in particular areas, and then it knows that we are operating the same things. That is a line that we have always been unwilling to cross, for wider reasons: you are outsourcing your law-making ability to another entity, and I do not think that that is what Brexit was about.

Q216 **Ian Lavery:** What is your view on what the export community see—not just the position you see, but how they feel at this moment in time? Reading through the briefs, it looks as if there are a lot of differences of



opinion in this.

Lord Frost of Allenton: There are differences of opinion. It hugely depends on sector, size of company, what your trading patterns are globally or at the European level and so on. It is a truism to say that companies will always want fewer barriers to trade. That is obvious, right and correct. What is realistic to get by way of reduced barriers depends on the political environment that you are working in. When you are working between two sovereign entities, you will always be able to reduce the barriers less than you would where there is one single law-making body. We are not in that environment, so companies' views will be reflected by the reality of the environment that we are in.

Q217 **Andy McDonald:** In any agreement or relationship, are we not giving up some degree of sovereignty? Are we not swapping some surrender to the EU, which you are not very happy with, to giving that up elsewhere, in terms of dispute resolution and the rest of it?

Lord Frost of Allenton: No, not really, or only to different extents. Any trade agreement or agreement of any kind involves making commitments to behave in a certain way. No agreement would work if that were not the case. In an FTA-type relationship, the final decision-taking authority remains within the two parties, the nation state or the EU. In a more integrated relationship, it does not. That is a fundamental difference between the two.

Q218 **Andy McDonald:** On this dispute with the OBR about the trade growth—thanks for the comments earlier on the 4%—does the OBR say that it is basing its calculations on our trade openness? Is that its position? You said earlier that you think its interpretation of the world was based on that prism. Did it say that?

Lord Frost of Allenton: All that the OBR has done is look at other people's studies. It is quite open about this. It is not doing its own calculations; it is deriving this from previous studies that have been done.

Q219 **Andy McDonald:** I want to focus on a discrete area, CBAM. The Centre for Climate Change Economics and Policy and the Grantham Institute have said: "A robust carbon pricing framework with anti-carbon leakage measures is needed to support deep decarbonisation of industry on the pathway to net zero greenhouse gas emissions." You have both expressed strong opposition to the Government's plan to follow the EU in introducing a carbon border adjustment mechanism. Are UK exports facing an EU CBAM tariff wall? Shanker, do you want to comment on that?

Shanker Singham: Let me just say make one quick suggestion on SMEs. Under the chairmanship of Lord Frost's colleague Lord Agnew, we have established a trade facilitation commission that is specifically designed to help SMEs and use digital trade corridors, customs simplifications, trusted trade schemes and so forth to improve their lot. I encourage the Committee to look into that.



On CBAM, the first question is whether we need to do something about carbon leakage and what the carbon leakage problem is. The carbon leakage problem is primarily being brought about by a series of market distortions in some of the larger carbon emitters in the world—particularly China, but to some extent India and other places as well. If the question is whether we should do something about the distortions in those markets that lead to carbon leakage, the answer is absolutely yes.

However, I submit that we need to do something that is more forensic and deals with the actual issue of distortion and internalising that particular externality. There are many proposals, of which the EU CBAM is only one. In our modelling of the impact of the EU CBAM on GDP per capita for UK households, it has a pretty significant effect, because it will increase the cost of very basic items—things like steel, but also things like fertilisers, which will increase the cost for farmers in the UK considerably. Fertiliser costs are already high for them. It will increase energy costs substantially. There is a real cost to this.

I would advocate that we look at different mechanisms and tools to deal with carbon leakage and make the decision based on what achieves your goal of dealing with carbon leakage and is not imposing such severe constraints on the rest of your economy and your households in terms of energy prices. There has been a rush to just copy the EU CBAM, because that is the carbon leakage mechanism that we know about. If I go back to 2021, the Trade and Agriculture Commission, which included the NFU and many environmental groups, agreed a mechanism for dealing with carbon emissions and climate change that was more like the tariffication of distortions mechanism that I raised earlier. That kind of mechanism is much more effective.

Q220 Andy McDonald: How close are we to even knowing what that alternative mechanism is? You say that an alternative is desirable, but the EU CBAM is with us. If we do not follow suit, are we not running the risk of other cheaper, carbon-intensive products landing here on these shores?

Shanker Singham: EU CBAM is with the EU and is scheduled for phasing in, in terms of tariffs and sectors. We have to remember that there are currently six sectors to which EU CBAM applies, but there are 42 products in the pipeline. The danger here is that every industry that wants to be protected will use this as the reason. Fairly soon, we will have a substantial increase in our tariffs across the piece, which will have a significant negative effect on the economy of the country.

In terms of the alternatives that need to be investigated, that Trade and Agriculture Commission report from 2021, which is on gov.uk, has been sitting there. It has the support of lots of different groups—the NFU, environmental groups, consumer groups and so on. It was a hard-won consensus in the Trade and Agriculture Commission, yet we have not really done anything with it in the intervening three years. That is



disappointing, to say the least. There are also other mechanisms around the world that look at the pricing of carbon in other ways.

A decision of this magnitude needs not to be taken at the speed at which it is being taken. There is an opportunity to go back to develop better and more forensic tools that deal with distortion. The distortion mechanism that is proposed in the TAC report is the right way to go. I absolutely commend that to this Committee.

Q221 Andy McDonald: Lord Frost, can I bring you in here? Is there time to do this?

Lord Frost of Allenton: I agree with Shanker that if you must do this thing, there are better ways of doing it. I guess my reservations would be deeper: we only have CBAMs at all in Europe because collectively we have a misguided energy and climate policy that pushes up energy prices. It is driving high-energy production out of the country. It produces an entirely notional reduction in carbon emissions. With CBAMs, we compound that error by pushing up the costs of the necessary imports of the goods that we used to make in the UK.

Q222 Andy McDonald: Are you questioning the desirability of the reduction in carbon emissions?

Lord Frost of Allenton: I am questioning the desirability of the way we are going about it, which is a high-fundamental-cost, high-energy-price-cost, inefficient way of going about it. It is a bad policy, so it is going to drive bad policy in other areas.

If I can add one point, the Windsor framework has a number of unfortunate effects in this whole area. One is that it puts pressure on the British Government to adopt the same system as the EU in order to avoid creating further barriers between GB and Northern Ireland. That is also unfortunate in this context.

Q223 Chair: While we are on border mechanisms, I think the Cabinet Office says that the new operating model at the border is going to mean about £330 million of extra costs, which are going to come on to the prices that consumers pay. The true cost may be much higher than that. Do you think the cost estimates are accurate? Could they be higher? Should we be trying to reduce these costs, not raise them?

Lord Frost of Allenton: On the cost estimates themselves, who knows? These things have always turned out to be wrong in the past, so I would hesitate to say.

Q224 Chair: Do you think the Cabinet Office may have got that wrong?

Lord Frost of Allenton: It is entirely possible. If one looks at all the estimates that were made about the costs of bringing in customs controls before Brexit, a lot of them turned out to be exaggerated.

Q225 Chair: Could they be higher?



Lord Frost of Allenton: They could be higher. They could be lower. I myself opposed bringing in these measures within Government. I have said that, and it is a pity that we have brought in these internal control measures in quite this way. I do not think it is necessary. We should be focusing on having one single set of controls for all countries, as light-touch as we can possibly make them. Personally, I think it is a bit unfortunate.

Q226 **Anthony Mangnall:** Is the management of UK-EU trade well undertaken by the FCDO?

Lord Frost of Allenton: It is shifting from a purely political relationship, or one where the high politics is the most important element of it, to one that is more technical and more like other big trade relationships around the world. You need a lot of expert input to do that. It is less about which Department than about how you get the right experts in and focused on the right things.

Q227 **Anthony Mangnall:** You have written an article about whether we are recognising the opportunities. It is quite fair to argue that Ministers are perhaps the most powerful Ministers, in terms of their roles outside the European Union, for about 40 years. Are we taking advantage of that? Is there not an argument to be made that either DBT should be merged into the Foreign Office or the Foreign Office should be relinquishing its control over UK-EU trade to DBT?

Lord Frost of Allenton: Different countries do their trade operations in different ways. I do not think that there is one perfect structure. You have to ensure, whether it is in one Department or with a mechanism of some kind, that you can look at all aspects of the relationships with a country. That is one of the big gains in this area of Brexit. We can look at the security, trade relationship, development relationship and foreign policy relationship all together. You need a mechanism that is capable of doing that. The important thing is that you have it and everyone knows what it is. It is a bit like David's point on a trade strategy. You have to be explicit about it. Everyone has to know what they are trying to achieve and be working for the common goal.

Q228 **Anthony Mangnall:** One of the key aspects of the trade and co-operation agreement was the creation of—I am sorry, I do not want to make this predominantly just about the EU, but let us use it as the example—specialised trade committees in which we would be able to help set the agenda and discuss issues that might be controversial or difficult, where trade flows were not operating in the way that they should.

As you well know, I represent one of the largest fishing communities in this country. They feel particularly aggrieved about things. Who should rightly be responsible for the agendas of the specialised trade committees? Who should be going in to ask for negotiations or renegotiations in areas that are highly technical and highly linked to



imports, exports and tariffs related to them? Who bears the responsibility for that?

Lord Frost of Allenton: Ultimately, these committees should primarily be staffed by the experts in the area of each committee, but they all have a political character. I am not saying that you should only have DEFRA fisheries officials at this committee. In the end, if problems are to be resolved, they are often resolved through trade-offs that go beyond one committee. You need some awareness of that somewhere in the system.

Q229 **Anthony Mangnall:** The lack of engagement, though, with those specialised trade committees since we have left the European Union and the transition period ended has been pretty woeful, I would argue. In fact, you have not really seen much resolution to some of the issues, not just in fishing but in other areas. Is there not a problem here that the diplomatic arm of the Foreign Office is getting in the way of the economic and trade perspective of DBT and other parts of Government?

Lord Frost of Allenton: The honest answer is that I do not know, because I have not been in government for the last two and a half years. It would not at all surprise me if the politics and the official trade expert bits of the machinery were not working entirely smoothly together, but I cannot say that that is the reason, because I have not been there.

Q230 **Anthony Mangnall:** Would a merger of DBT into the Foreign Office work?

Lord Frost of Allenton: The problem with that is that you would then create a super-Ministry that was really big, had lots of money and had somebody bestriding it like a colossus at the top. The job would then be unmanageable, so you would essentially have a series of very powerful deputies. If you were not careful, you would recreate the same problem in a different way. You cannot get round the need for a single strategy and total clarity for everybody in managing the relationship.

Q231 **Anthony Mangnall:** Given our precedent of putting Members of the House of Lords in as Foreign Secretary, you may have done yourself out of being the colossus that bestrides that merger.

Could I go to David very quickly on the questions I have just asked? I also saw that Shanker had his hand up.

David Henig: I agree with some of that. Certainly I would not be merging the Foreign Office and DBT. I would not want to do this Committee out of a job, either.

Andy McDonald: Don't worry. We have other things to do.

David Henig: More significantly, Lord Frost talked a lot about sovereignty. I think that it is actually a little more blurred than that. We have to make decisions on things like carbon pricing. There are different reasons why we may or may not give away some of our sovereignty. The same applies to a US trade deal. We know that the reason we are not



HOUSE OF COMMONS

doing a US trade deal is that we would have to change our agricultural standards. We have to make those choices.

How do we make those choices as a Government? Traditionally, the way government works best is when the Cabinet Office is in charge of working with all the Departments to facilitate agreement between them, and where the experts in each Department are engaging with their fellow experts in other countries. DBT should have responsibility for EU trade, just as DEFRA would have responsibility for talking with the EU about technical matters around food.

You are being a bit harsh on the specialised committees, if only because they need somewhere to go politically. We need a thicker level of political contact with the EU. We have had a problem in the past where the EU has been seen as all or nothing. This came out last week in the whole question of youth mobility. The EU said, "We would like to do this." The UK, including the Conservative party, the Labour party and everyone, said no. "No" is not a very good answer here. The answer is, "What you want to do is very interesting. Here's what we want to do. Let's talk about it."

We do not have the right relationship up and running. Those are the opportunities we need to thicken the ties. This is not about remain or leave, or anything like that. This is about moving to the right structure that works for the UK. The right structure is that our specialists should be talking to the specialists in the EU, the Cabinet Office operates as the place in which the trade-offs and the political-level decisions are made, and we have a much thicker contact. We have to make those choices. I am afraid that trade policy, at the end of the day, is about making those trade-offs. I fear that we have been ducking too many of them.

Shanker Singham: You need to have a single trade negotiator. David is right that trade policy consists of trade-offs. The person at the sharp end of the negotiations needs to know that they have the ability to make the trade-offs necessary, albeit with consultation across Whitehall, across Government and so forth. They need to know that they make that offer and the other party, the person they are negotiating with, needs to know that they are capable of making that kind of trade-off. The white heat of deal making is when you make those trade-offs in the room with the two trade negotiators together. There are good reasons why we have the negotiating machinery that we have had up to this point. From this point on, we need to be clear that there is a single trade negotiator.

I would bring all the trade negotiations, including the EU negotiations and the further EU discussions and improvements that can be made to the EU-UK TCA, under one roof, so that those proper trade-offs can be made. We have been struggling with some of our trade negotiations because we have not had that kind of structure and our trade partners have been able to say, "You cannot really deliver because you are not in charge of a particular aspect," whether it is agriculture, SPS or whatever.



Q232 **Andy McDonald:** David, you wrote: “The relationship between the Department for International Trade and stakeholders is on the surface relatively constructive, but private conversations reveal a different picture sometimes verging on the dysfunctional.” Announcements are “accompanied by supportive quotes from business, that rarely reflect often-scathing private opinions”. It all seems a bit difficult. I know that you are a recovering official. Is that right? You were formerly an official.

David Henig: That was a long time ago.

Q233 **Andy McDonald:** You have said that the stakeholders see trade officials as “arrogant and naïve, in general obsessively secretive, and therefore uninterested in a partnership approach”. On the other side, officials “see stakeholders as liable to leak any information given, whatever the sensitivity, and preferring to whinge rather than engage”. It is all a bit dysfunctional, is it not? How can that be fixed? You have the experience. You can tell us the answer.

David Henig: The straightforward answer is that there has just been too much secrecy. You cannot be in a situation where the Government hardly want to talk to stakeholders, because they think that they are going to leak everything, and stakeholders are afraid of talking to Government or saying what they really think in case their access gets removed. That is just not the way. When I was working in government, that was not the way in which good government was being done. That was under both Labour and Conservative Prime Ministers.

You have to share things with stakeholders. Most of what happens in the room in trade negotiations is not that secret. That is a terrible thing to reveal, but most of the time people can work out what is going on from outside if they have a pretty good idea of what both sides want. There is a little bit that is secret, which is that nobody knows what, at the end of the day, what each side will compromise on. What the text is going to be is not terribly secret.

Open up more and share more, including with Parliament, by the way. The approach needs to be a lot more collaborative. This is about team UK getting the best for the whole of the UK. Get rid of all the non-disclosure agreements and the non-reports on negotiating rounds. Just open up.

The best example here—I am suggesting that you might like a trip there—is New Zealand. New Zealand is doing this really well. It has something called Trade for All. It got all its stakeholders together and put together a really good report. It works really collaboratively. Everybody supports its objectives. The net result is that New Zealand is probably seen as the leading exemplar of trade policy. That is what we need to learn from.

Andy McDonald: That is great.

Lord Frost of Allenton: I agree with that. We should be less defensive and much more open.



HOUSE OF COMMONS

I have two comments. First, it is important not just to take account of stakeholders who currently exist and benefit from the way things are, but to try to make some assessment of how we could change things and wh—by way of firms that do not yet exist but could—might benefit from doing things differently. You have to avoid regulatory capture by incumbents. That is the short version.

The second point is just to say, as I always do on these trade occasions, that it is really important that Parliament gets a proper say. I believe that the arrangements we have inherited for parliamentary scrutiny of trade agreements are not right. There was a vote in the European Parliament on every trade agreement conducted by the EU. It does not seem satisfactory to me that this Parliament does not get such a vote. It should.

Q234 Mark Pawsey: To sum up, we have had some really useful evidence from each of our witnesses to help us to understand how we might grow our economy by exporting more. I want to bring things together by lobbying in the word “strategy”. Each of our witnesses has made reference to strategy, but we do not have an explicit strategy for exports. We know there is an objective to get to £1 trillion by 2030. How do we inform that strategy?

I am reminded that 20 years ago I used to train salespeople. I used to say, “To fail to plan is to plan to fail”. Do we have a plan? Do we have a strategy? Does the £1 trillion figure drive that? What do we need to do? David, you raised trade strategy first. Should it be explicit? Should we have a roadmap? Should we have some way of knowing what we are all aiming for and how we are going to get there?

David Henig: Yes, we should, but it needs to be realistic. We have had lots of export strategies, plans and various things. They have not really addressed some of the issues.

The No. 1 thing is something you will recognise, having been involved in sales. In a previous life, I was involved in business development as well. We need to get to the companies. We need to attract investment here in productive capacity. We need to play to our strengths—of which we have many, by the way, but they are so variable that sometimes I think there is nobody who likes all the UK’s strengths, whether it is financial services, culture, defence or universities. Frankly, we need to try to expand all of them. That is how we will start to hit our target.

I have one final point. We need to decide whether exports are what we are prioritising. In many ways, what has happened is that we say we are prioritising exports, but we are not. There are other policy goals. There will always be other policy goals, but we do not think very much about exports when we are putting in place a lot of our other policies. It does not matter where you are on the political spectrum. Whether it is immigration policy, regulatory policy or whatever, we do not think



HOUSE OF COMMONS

enough about exports when we are putting in place a lot of domestic policy, and we need to change that.

Q235 **Mark Pawsey:** Lord Frost, whether or not we thought Brexit was a good idea, the one big win is the opportunity to drive exports in parts of the world where we did not do so before. We were lazy and hid behind the EU strategy, and we now have to develop our own. Do we need something more explicit to provide the focus that David Henig says we need?

Lord Frost of Allenton: I am not totally convinced that a single number plucked out of the air for exports is the best way of doing this, in some ways.

Q236 **Mark Pawsey:** That is the best we have right now, is it not?

Lord Frost of Allenton: It is what there is. More important than that is getting the mechanisms, the machinery and the collective direction of travel right. Let us not forget that trade is also about imports, opening your own market and making your own market as competitive as you can. For both intellectual and practical reasons, I am slightly sceptical about the target, but the target is trying to get us to do the right things. It is doing the right things that is important.

Q237 **Mark Pawsey:** Shanker, where are you on strategy?

Shanker Singham: As Lord Frost has just said, you cannot just focus on exports. If you are a manufacturer and you are exporting around the world, you are importing a lot of your raw materials or key inputs. You need to have a smart global strategy.

On trade strategy, I have one caveat. You have to be flexible and be reactive to a very dynamic environment. I will give you an example of a big trade initiative that did not arise from somebody having a grand strategy. NAFTA happened because President Carlos Salinas of Mexico went to George Bush, Sr., and said, "I want to be part of the Canada-US bilateral." Why? He wanted to lock in the reforms that he was doing in Mexico. That is how NAFTA occurred: it was the US reacting to an opportunity that arose.

A lot of trade strategy is about putting yourself in a position where you can react to a changing environment. CPTPP is also an example of that. You need to have the broad contours of a global strategy, which includes your trade openness, your imports approach and your domestic regulatory environment, which is very important to your global competitiveness.

That global competitiveness strategy is basically built along the same lines for all countries. What can I do to improve my own domestic environment? What can I do unilaterally? What can I do in terms of these FTAs and trade deals? What can I do with plurilateral actions like CPTPP? What can we do to move the multilateral agenda forward? You need to work on all those things at the same time.



Q238 **Mark Pawsey:** Is “Race to a Trillion” just a meaningless slogan, then?

Shanker Singham: It is a useful target. It is always useful to have targets. It is a useful target if you are trying to encourage UK businesses to export more. That is a separate and very small element of your overall strategy. What I would do with that is ask, “How are we going to get to that target?” We need to increase the number of trusted traders that exist in the UK. We have a very low number of trusted traders. Perhaps we need to improve our trusted trader schemes so that they are more conducive to small businesses.

You can use targets in that way, but that is not a grand competitiveness strategy for the country. You need to have some sense of where you are going with your overall competitiveness. Exports feed into that.

Q239 **Mark Pawsey:** All the measures that we are undertaking are a bit hit and miss. They are just happening to come together without any real focus on where we need to be and how we need to get there.

Shanker Singham: There is a revealed preference in what the UK is doing. The only element of the revealed preference that has not happened on the bilateral side is the US deal. That is not because of us, but because, as was said earlier, the Biden Administration are not interested in trade deals with anyone. That may change in future.

We have had a broad approach across those four dimensions. We perhaps have not had a connection between all of them. If you are the Secretary of State at the Department for Business and Trade, which is looking at trade, business regulation and domestic regulatory reform, you need to ask, “What can I do to maximise the overall competitiveness of the country?”

There is a regulatory dimension, there is a trade dimension, there is an import-export dimension and there is a trade facilitation dimension. Let us not forget that it is not just about doing the deals, as David Henig said, but about making sure that people take advantage of them and traders actually benefit from them. You have to have all of that going forward.

Q240 **Chair:** Lord Frost, I want to check this: is having a trade strategy a good thing, in your opinion?

Lord Frost of Allenton: Yes, as long as you are realistic about what it can do. As David was saying, some of the core last-minute trade-offs in negotiations are always going to be confidential, but if this is a strategy that sets out what you are trying to do for the country and, broadly, the mechanisms that will help get you there, that is worth being explicit about, yes.

Q241 **Chair:** We should be trying to increase the contribution of trade to the economic rate of growth.



HOUSE OF COMMONS

Lord Frost of Allenton: In my view, the evidence on the relationship between trade and domestic productivity and growth is equivocal. You should be trying to improve trade, but you also have to be trying to improve your own domestic regulatory environment in different ways as well. It goes together.

Chair: I am sorry that we overran, but that was a really interesting session. Thank you very much indeed to all our witnesses for your evidence today. The Committee is hugely grateful.