



International Relations and Defence Committee

Corrected oral evidence: The UK's future relationship with the US

Wednesday 14 May 2025

10.35 am

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Members present: Lord De Mauley (The Chair); Lord Alderdice; Baroness Blackstone; Lord Bruce of Bennachie; Baroness Coussins; Baroness Crawley; Lord Darroch of Kew; Baroness Fraser of Cragmaddie; Lord Houghton of Richmond; Baroness Morris of Bolton; Lord Soames of Fletching.

Evidence Session No. 7

Heard in Public

Questions 68 - 80

Witnesses

I: Professor Michael Gasiorok, Professor of Economics, Sussex University; Dmitry Grozoubinski, former Australian trade negotiator, founder, ExplainTrade.

Examination of witnesses

Professor Michael Gasiorek and Dmitry Grozoubinski.

Q68 The Chair: Good morning, Mr Gasiorek and Mr Grozoubinski. Thank you both for coming to speak to us this morning. This is our seventh public evidence session on the UK's future relationship with the US. Last Thursday, as we all know, it was announced that the UK and the US had struck a trade deal. Part of this session will be devoted to it. The session will be streamed live on the parliamentary website and a transcript will be taken. Once available, you will be sent a copy so you can make small corrections if necessary. If members of the committee have any interests, please declare them when first speaking. Perhaps, Mr Grozoubinski and Professor Gasiorek, you would like to introduce yourselves briefly before we get stuck into questions.

Dmitry Grozoubinski: It is always an honour and a privilege to try to inform the thinking of the House of Lords on these weighty issues. I wear a number of hats but I was a former Australian trade negotiator who has since built a consultancy that trains corporate officers and civil servants in how trade policy works. I am the author of a book called *Why Politicians Lie About Trade*, which does not name any of you personally—I double checked before we started. It is really an attempt to create an accessible guide to trade policy for voters and ways for them to parse what is being talked about in the news on trade. I run a think tank in Geneva called the Geneva Trade Platform that also aims to increase the accessibility of trade policy.

Professor Michael Gasiorek: It is also an honour and a privilege to be invited to give evidence to this committee. Thank you very much for the invitation. I am professor of economics at the University of Sussex. I am an academic, an economist and an international trade economist, and I have been doing trade for as long as I remember, more or less. Well, not since the cradle but for a long time. I am director of the UK Trade Policy Observatory, which was established immediately after the 2016 referendum. I am also director of the Centre for Inclusive Trade Policy, which is a broader research grouping that comprises the UK Trade Policy Observatory, universities and research institutes, and all the devolved Administrations. It is a broader research centre for trade across the UK.

The Chair: I will kick off. One of the key things in unravelling all that is going on is to try to understand where the UK and the US share economic interests. So the question is: are there indeed specific economic interests, current and future, that tie the UK and the US together? What are they?

Professor Michael Gasiorek: That question can be addressed in two ways. One can think about the bilateral economic relationship between the UK and the US, and clearly there are shared economic interests. Trade between the UK and the US is substantial. Trade with the US is

particularly important for the UK. Roughly 21% of our trade in goods and services is with the US. That is a big number. It is about 15% for goods, and a bit more for services and so on, but it is an important number.

The importance of the UK for the US is much less so; it is in the order of 3%, let us say—that is a ballpark figure. It is an asymmetric relationship and that is important. Then there are specific sectoral interests. The main sectors where we share common interests are probably aerospace, pharmaceuticals, financial services, professional business services and so on. There are clearly areas of interest and mutual engagement. Investment flows are important between the countries. It is right to say that the US is our first and most important destination for outward investment flows. For the US, the UK is the second most important. Yes, there are important shared economic interests.

More globally, do we have shared economic interests in terms of our relations with other countries? That is a much trickier question to answer. For us, the relationship with the EU is extremely important. The US has a slightly different approach to its trade with the EU and so on—China as well. I would add to that the approaches to the international trading system. My guess is that we may explore some of those issues later this morning.

Dmitry Grozoubski: I do not have a huge amount to add to that. I would say that, historically, the US viewed the UK, and vice versa, as close ideological economic allies. The US would certainly have considered the UK, while it was part of the European Union, to be a voice of reason inside European discussions: the voice calling for science-based regulation and for keeping government out of trade flows—except where necessary and where called upon to intervene—as well as a champion for predictability and protecting intellectual property, while not letting it become a tool of protectionism, and so on.

There is obviously a slight decoupling of that now, in part because, given what made the system so valuable to an economy in the UK's weight class—that predictability and alternative to pure power-based politics—the US has realised it can achieve the same goals by bilateral means, and that is simply not an option open to the United Kingdom. I should probably finish there because there was such a good summary from my co-panellist.

- Q69 **Baroness Coussins:** Good morning. What is your assessment of the announcement made on 8 May by the US and the UK? I say "announcement" because I cannot bring myself to call it a deal, although that seems to be what everybody generally is calling it. But it clearly is not a deal. In fact, the Minister here, when reporting it to the House of Commons, described it just as a "framework". If it is just that and is designed now to trigger the formal negotiations, which may or may not end up in a proper deal that has a legal framework, could you tell us how you expect the negotiations to go, and how far you think they will match up to what the framework sets out? Are there other issues that may come up that would be of specific interest to the UK, such as

pharmaceuticals or services for example, which are not mentioned in the announcement but which may be an important aspect of any legally binding deal?

Professor Michael Gasiorek: That is a very good question and a difficult one to answer, partly because it is speculative. You are absolutely right in your description. It is not a deal. It is a framework agreement or heads of terms agreement—whatever you want to call it. That is a commitment to continue negotiating. Having said that, it is not simply saying, “We would like to negotiate further reductions in trade barriers”. It has some certain specific elements to it, some of which are perhaps a little concerning. What the UK has achieved is having a conversation with the US, which is engaged in trying to negotiate something. That should not be diminished. What the UK has also achieved so far in what we can see from this framework agreement is that it does not undermine the UK’s negotiations with the EU and the EU reset negotiations. That was important.

There was plenty of talk before the “deal” was announced about how the UK may have to move on the digital services tax or reduce its tariffs on automobiles. None of that has happened. In some sense, one can view this as a qualified success, if you like. However, there are two concerning features in the deal. There are elements that are clearly WTO incompatible, such as the announced changes in tariffs, although not much has been announced with regard to that, and the announced changes in TRQs. Countries have committed those sorts of offences, as it were, in the past and in relationships with the US, so it is not the most egregious problem in the deal.

But there is the potential in what has been outlined that any further deal could be highly WTO incompatible. Essentially, if you are going to offer preferential tariffs with a partner country, to make it WTO compatible it has to cover substantially all trade. It is far from obvious, from what we see in that document, that what is being negotiated would cover substantially all trade. If what was finally negotiated involved preferential tariff reductions and preferential market access—namely, not according to the most favoured nation principle, where you give all countries the same degree of market access, and not for substantially all trade—then that would be a serious error on the part of the UK Government. I am not saying that is currently the situation, but the risk is there. That is one of my concerns.

My second concern is that there are various clauses in the framework agreement, if we can call it that, regarding the UK requirement to be consistent with US desires with regard to supply chain security and so on. Clearly, that is designed vis-à-vis China. It is not stated in the document, but that is what one reads in the press and UK officials have also said this. This is a major problem. In a bilateral agreement between a pair of countries, a typical approach is that you can agree to liberalise trade between yourselves on a preferential basis but you should do so by making sure it is WTO compatible and not beggar thy neighbour. In other

words, you are not harming other people. The aim is not to negatively impact on other people.

This has an explicit clause that appears to say, "Any agreement between us, the US and the UK, will depend on whether we, the US, believe that you are adhering to our supply chain security requirements and, if not, we may suspend the deal". That is a major shift in the way in which trade agreements are negotiated, which is highly problematic.

Dmitry Grozoubski: I can add to that, and I will be a touch combative here, for the sake of theatre, I suppose. Let me begin by saying that the debate about whether this is a deal or not is not something I personally am hugely invested in. I can appreciate why terms are important but "deal" is not a term of art. I personally would have called this an agreement in principle, which is how we in the negotiation community would typically refer to something like this, where leaders have taken some of the most politically charged issues and determined where they want the final agreement to go. That is ordinarily something that would happen at the end of a detailed process rather than at the beginning of it. I personally see it that way. "Deal" is not a term of art. If people want to understand it as a deal, that is probably fine in that there is a sort of clear quid pro quo here between leaders. There is an exchange. We can see what the high-level outcomes are, even if the details are not yet finalised. Perhaps a little bit too much oxygen has been spent on the precise definition of "deal".

On your question of what could still trip this up, first we have to say that the US Administration are fundamentally changeable. We are taking our news developments in increments of how long it takes to type out a Truth Social post with two thumbs. So nothing is ever certain even after you have an agreement. I will get to that in a moment. But in terms of the ambiguities left, the text makes it clear that the UK will offer more tariff concessions than we know about but does not specify what those are. It does not specify what products they are on or how large they will be. That is a very big ball to kick into the long grass. There is plenty of potential there for negotiators to come to wildly different views on what their principles meant when they agreed to this idea. We do not know what level of specificity was agreed in the room before this document came out but the fact that it does not even list individual products makes me think that perhaps they fudged that question in order to get this announcement out as quickly as possible and are hoping that no landmines emerge once they get into the detail.

Secondly, as Professor Gasiorrek was saying, there is the nebulous question of collaboration, effectively against China, and what that would mean for the steel part of the deal and more broadly. I should say that, regardless of what the text is in the deal, this Administration have made it clear that their perception of national security threats trumps everything. So, even if this agreement did not have a single word about collaboration against external supply chain threats and so on, were the US in the future to make that determination, that absence of legal

language would not hold them back. It is how they are already behaving with their Mexican and Canadian trading partners. The language in the USMCA is significantly milder than what would allow them to behave how they are behaving. So this is new but it is the new normal.

The third question is on future and ongoing so-called 232 investigations, where the US is undertaking all manner of processes to move towards using protectionist measures like tariffs in areas like pharmaceuticals, where the deal says that it will provide, or negotiate with the UK to provide, substantial preferences, but does not spell out what those would be or what the conditions are. There is plenty of room for new tariffs to emerge, and for the UK not to achieve significant carve-outs, if it is unwilling to pay for them at whatever price the US invents.

With that said—I promise I will wrap up here—my overall view on this deal is as positive as it could be. To be very clear, I view this deal very much as a hostage negotiation, and the price paid by the UK to get its hostages back was, as Professor Gasiorok was saying, surprisingly low, but that does not mean that it was not a hostage price. I always emphasise this: please keep in mind that there were no easy choices here.

Q70 Lord Darroch of Kew: I want to ask a bit more about the China point. The phrase that caught my eye was that there has been agreement in this deal, or not-deal, to co-operate on non-market policies with third countries. As you say, that clearly may be primarily or exclusively about China. Then the Government have been not very informative—or were even evasive—about what exactly that means, but they have said something like it is a requirement to consult. Some of the commentary around it suggests that it is basically giving the Americans a semi-veto on what we might do in our future trade relations with China. Do you have any more insights on the detail of this? Just how much leverage does it give the Americans?

As part of that, how dangerous do you think this is? It feels a bit like we, as part of the negotiation on getting US tariffs down on British products like cars and steel, have in effect given them a say over our future trade policy with other countries. If that were true, it would be extraordinary. Maybe it is impossible to say until we get the detail or until they have actually negotiated the fine text, but how is it looking to you?

Professor Michael Gasiorok: It is kind of impossible to say. Even when we get the detail, it may be impossible to say, because who knows what conversations are taking place behind that? It is clear—and I agree with everything that Dmitry said earlier—that the US is very minded to influence third countries in their relations with China, and will exert all sorts of pressure on those countries to do so. I do not think that the framework as it stands gives the US a veto over UK policy, but it clearly opens the door to the US trying to influence UK policy in this regard. It is then up to the UK to decide whether or not it acquiesces or agrees to that, and there may be consequences if it chooses not to, but it is not as if there are any legally enshrined rights given to the US here.

Dmitry Grozoubski: I would add that there is a benign version of this and a truly frightening version of this. The benign version of this is the US limiting itself to significant Chinese foreign investments in, for example, steel. So, it would basically try to prevent the UK being used as a way around the fortress it is building around North America, when it comes to Chinese supply chains. That is probably the most benign version by far, but still, if a large Chinese conglomerate wanted to buy US steel, for example, the US would say, "Hold on, we gave you steel access on the assumption that it would be for a British and not a Chinese company".

The most extreme version of this is that the US may be considering a Venezuela-like option. The US began applying third-party tariffs on those who purchase Venezuelan oil, as a way of applying massive pressure on countries not to do that. It is already heading in that direction with its 301 investigation into shipbuilding, where it will begin charging freight operators a fee for owning Chinese ships that dock in US ports. That is by far the most extreme version of where they might be headed with this but, as Professor Gasiorrek says, we do not have the detail. As I said earlier, at the end of the day, even if we did have the detail, the US can always go back and make additional demands, either by holding this deal up as leverage or by creating additional vectors of power. That is just the reality of 2025 and beyond.

Professor Michael Gasiorrek: I want to add one thing, which is different now compared to before, in the way that this has been phrased. The US has previously introduced restrictions, sanctions or penalties—for example, on firms that sell US technology to China in highly sensitive semiconductor-related sectors—but that has been always focused on companies and addresses the penalties to the companies themselves. Here we have the potential that, as a result of some infraction supposed or perceived by the US, it may impose blanket tariffs on a country or sector. That is substantially different to what we had before.

Q71 **Baroness Fraser of Cragmaddie:** I think we all agree that this agreement in principle, as you called it, is a stepping stone and that we do not have enough details. My question is about what we need to look for in potential future hostages, if you want to call them that.

Professor Gasiorrek, you have already highlighted the importance of financial investment services, which were identified as an area of shared interests. Three days before this deal was announced, the Americans—Trump—announced an 100% tariff on foreign films. I declare an interest here because I am on the board of Creative Scotland, which includes Screen Scotland, and we are often a co-investor in film production with Netflix, Amazon or whatever.

What potential future hostages should we be looking out for? How can something like services—and I am thinking about the film industry as well—be defined? What is a foreign film when there are often so many co-investors? What should we be looking out for and what will become our red lines that we should not negotiate away?

Professor Michael Gasiorek: That was a nice easy question. It is interesting that, to date, much of the debate around US and Trump policy has been around trade in goods and tariffs and not really about services. However, services are by far the most significant part of the UK's economy. We are one of the largest services exporters, as is the US, and services are extremely important, yet they have not really been part of the current debates. If you are looking for future hostages, you are right that services could well be a future hostage.

The announcement on film, which was backtracked on fairly quickly in some form or other, was puzzling, but it was the first flag that maybe services will somehow cross Donald Trump's radar. There is a risk that services will start to get embroiled in the sort of economic coercion in which the US Administration are, in effect, engaged. I have no prediction of where that may fall. It could easily fall on financial services, for example, and restrictions on the ability to operate in the US and so on—or on the ability of professional services workers to move.

There are all sorts of areas of services where tariffs could be introduced, but it does not make sense. You are absolutely right. It is not as if there is a physical something that crosses the border; services are delivered in different ways. However, you could introduce various other restrictions on elements of services.

Of the other possible hostages, I wonder how long it will take before the US Administration or Donald Trump notices CBAM—the carbon border adjustment mechanism—either the EU's or the UK's, and says, "Hey, this is an unfair tariff. We need to reciprocate on this". In terms of any future negotiations that the UK will be engaged in with the US, I still think that agriculture will be problematic.

Dmitry Grozoubski: I would echo all those points. What surprised a lot of us about the movie tariffs idea was that, although it is not a mutually assured destruction thing, the US does not want to start a global conversation about tariffs on services or using the tax code to punish foreign services. It does not want to do that for the same reason that Saudi Arabia does not want to start a conversation on global oil tariffs.

The US is an absolute services juggernaut and has in fact been fighting very hard in places like the World Trade Organization to keep in place things like the moratorium on tariffs on digitally transmitted goods and services. What is surprising about that is that I suspect they will not be eager to move in that direction, precisely because they have a lot to lose if 192 jurisdictions worldwide start saying, "Hold on. We're giving a huge amount of money to foreign productions". As much as they are worried about production in Ireland or Scotland crushing Hollywood, Hollywood has been an absolute dominant force in the global movie industry for ages, so they do not want to launch that starting gun.

With that said, Michael is absolutely correct on two points. Tariffs on this kind of stuff make no sense but, regarding the issues you floated about

what constitutes a foreign film, if you tasked the US revenue service or Treasury with coming up with a definition and finding a way to use some combination of regulations and the US tax code to punish films partially or entirely produced overseas or made with foreign investment, they could find a way. There are ways that you can do this in the same way that we charge VAT on services just fine. They could figure out ways to use their system to punish foreign movies and services if they desired, but no matter how many conversations Donald Trump has with Jon Voight or how many times he watches "The Rock", they will be reluctant to fire the starting gun because they will be very much firing it at their own foot.

Q72 Baroness Blackstone: You have both alluded, at least indirectly, to the WTO, but could you address it more directly? Does this deal violate WTO rules? In that way, could it be argued that the UK is undermining the global trading system? Perhaps we could start with you, Mr Grozoubinski.

Dmitry Grozoubinski: Sure. I have been taking advantage of Michael going first and doing all the heavy lifting, so it is my turn. We do not have the details yet, but certainly, from what we know, it looks as though it does, at least a bit. The 13,000-tonne beef quota, for example, that the UK is going to create will be a new preferential quota for the US. I think the US will redistribute some of its open quota to the UK, but the UK is creating new advantageous preferential access just for the US, in a deal that is likely to be significantly under the threshold that the WTO requires to do that kind of thing.

So, yes, it looks like it will be a violation. Of course, it is a violation to deal with a far larger violation. Nothing about US policy on "liberation day" was remotely in keeping with the letter, spirit or procedures of World Trade Organization rules, nor was a lot of the retaliation from the other side. We are, if not necessarily triaging, certainly seeing a comparatively mild violation in the face of a complete ignoring of the rules. It is important to have that context.

Professor Michael Gasiorek: I agree with everything that Dmitry said. I would add that, at the moment, it appears to be a mild violation. Once—or if—we ever get to see a full text agreement, it will be important to assess the extent to which the full agreement is in fact a violation, so that there is, let us say, widespread preferential tariff access being given on what is not substantially all trade.

As I said earlier, it would be an error by the UK Government to agree to that. It goes without saying that most of the US's current actions with regard to trade and tariffs are WTO non-compliant. In all these bilateral deals that the US is seeking to sign with a number of countries, there is a risk that countries are induced or coerced—whatever the correct term is—to sign agreements with the US that are WTO incompatible and may have third-country effects.

Again, it would be a mistake for countries to do that. In the face of the current US Administration, it is important that, although the US may be

operating outside the current rules of the world trading system, the rest of us should try to maintain those rules as much as possible.

Dmitry Grozoubski: If I may, I will add one more thing, not to push back on that but to nuance it a touch. Given the size of the US market and the dollar terms, the number of countries whose Governments can honestly say, if a deal were offered that required a mild derogation from WTO rules and it meant keeping access in a sector as critical to them as cars and steel are to the UK, that they would not at least consider it is vanishingly small. I am thinking of the Japanese, who, in my experience at the WTO, were immensely dedicated to the rules and the law; they were incredibly legalistic and great champions of the system. In Trump 1.0, when they were offered a deal outside the WTO framework, they took it.

So, unfortunately, I have some reservations about how much countries are willing to hold the line here. I agree with Michael in principle, but I wanted to throw that in as context.

Baroness Morris of Bolton: Given that the EU and the CPTPP look as though they are going to be working together on protecting the rules-based order, could this agreement in any way affect our membership of the CPTPP?

Professor Michael Gasiorek: The short answer is: no, I do not think so.

Dmitry Grozoubski: I would concur.

Q73 **Baroness Coussins:** Even if the final deal appears to breach WTO rules, is it not the case that the WTO is not in a position to apply any of its sanctions because the US has effectively incapacitated it for a few years now by not making nominations to the dispute settlement mechanism? What are the implications of that?

Professor Michael Gasiorek: There are two ways of approaching that question. One is: in the event that the deal was WTO incompatible, is there a recourse to action by other countries that could be enforced through the WTO? You are right that the WTO dispute settlement system is problematic—to put it mildly—at the moment, in that we do not have an appellate body. However, it is worth pointing out that most disputes that go to the WTO are still being resolved. It is only the ones that are then contended and appealed, as it were, into the void that are not being resolved because there is no appellate body.

I was going to say something else but now cannot remember what it was, so while I reflect on that, perhaps Dmitry would like to add something.

Dmitry Grozoubski: I start by saying that the WTO does not ever apply sanctions itself. What could happen is that a member with a credible case to make that what the UK had done through this final deal had materially disadvantaged its exporters could bring a dispute to the WTO. That could still happen, and if it did it would still go to a panel stage, where I imagine a panel would rule that the UK is in breach of its

WTO obligations. At that point, because there is no WTO appellate body, the UK would have the option of appealing that into the void—appealing it to a court that does not exist—at which point, according to the letter of the law, there would be no final determination that the UK was in the wrong.

However, the European Union, for example, has already said that in the event that it has a dispute with someone at the WTO who, in that circumstance, appeals into the void and does not use the alternative arbitration that EU and other members have set up—the UK is not part of that—the EU will simply treat that panel as binding and retaliate anyway.¹ It would work out on its own what it thinks a fair punishment would be according to WTO rules and apply it.

It would be optically bad for the UK if someone took that route, and it would eventually have commercial consequences for the UK. With that said, deciding to pursue that route is a political decision as much as an economic one, and a lot of other factors are going on in Europe, for example, that would potentially dissuade someone from pursuing that all the way through to its conclusion.

Q74 Baroness Crawley: Given that the WTO has no appellate body—I understand that that goes back to President Obama’s time, when he did not replace the US representative on that body—and given how completely different the trading architecture of the world now is under Trump, are WTO rules still fit for purpose?

Professor Michael Gasiorek: We could discuss this for a very long time. Let me just step back a bit. For many years, trade was seen as a good thing, a facilitator, and we had this rules-based system. Over the last five or 10 years we have seen the emergence of some important trends that are not Trump-specific—they are much broader than that—where trade is potentially seen as part of the problem or has generated some problems. That might be due to the greater specialisation and localisation of production, which leads to supply-chain resilience concerns, economic security concerns and then, possibly, national security concerns. It might also be to do with climate change, human rights or growing digitalisation, which is another complication that needs to be borne in mind.

There are a number of challenges facing international trade. How well does the WTO do in addressing them all? It does so imperfectly, certainly. There is a need to improve the rules-based world trading system, but there is a big step between saying that the WTO is imperfect and saying, “Let’s therefore throw away the existing rulebook and decide bilaterally or unilaterally on whatever protectionist measures, subsidies and so on that we want”—which is more or less the approach the US is taking.

¹ Refers to the Multi-Party Interim Appeal Arbitration Arrangement (MPIA) set up in 2020.

The WTO is far from perfect and almost certainly needs reforming. If there is anything good to come out of the events of the last few months, it is that countries might have greater impetus and incentive to try to work out how to improve the multilateral, or even the plurilateral, trading system. I am being a bit optimistic here.

Q75 Lord Bruce of Bennachie: We have had four months of this Administration. At first, we had massive disruption, “liberation day”, lots of attacks on Canada, Greenland and so forth. Yet in the last few weeks, there seems to have been a rollback on pretty much everything. Suddenly, the Ukraine situation is a bit more balanced, and President Trump is in the Middle East at the moment, not visiting Israel and saying things about Iran that Israel does not like. He has had a meeting with the Canadian Prime Minister that appears to have been relatively civilised—they were kind of nice to each other—and he has talked positively about the need to work with allies, having insulted almost all of them to begin with.

On the back of what you said, the question is: we have an agreement, which clearly justifies the Government’s engagement to try to secure it, even though it is not as good as it was before Trump was elected, but how valid is it, given all the provisos and qualifications? How much can the UK afford to invest in this agreement and its continuing negotiation, compared with a negotiation with the EU, Canada, Australia and other trading partners?

I am not saying we should not do it, but we have had phase 1 of disruption and rollback, and the danger is that phase 2 might be another round of different disruption and rollback, which is pretty hard for both business and the Government to deal with. To what extent are there opportunities in this for the UK, and to what extent do we have to just take the best we can, be polite, recognise that anything can change at any moment and try to build more secure partnerships with people who are less impulsive, erratic and unpredictable?

Professor Michael Gasiorek: I will give you a short answer. The way you summarised it at the end is the way I would go. For now, the US should be seen as an unreliable and unpredictable negotiating partner. That does not mean you do not continue to negotiate or try to maintain that relationship, which is an important economic relationship for the UK, but you do so with eyes wide open, knowing that there is that strong element of unpredictability that is likely to continue. US reservations towards the international trading system pre-date Trump and will probably post-date Trump. We need to think about building our trading relations with the rest of the world.

Dmitry Grozoubski: I will say a couple of things. One of the most difficult things to do when you are a superpower is to accurately gauge the limits of your strength. Something that we have seen—the US is not the first major power to fall into this—is that the initial phases of the Trump Administration reflected an overestimation of US power to shape outcomes. A lot of what you described earlier in terms of the rollback is

the beginning of a sober reappraisal of just how many fights—and how intense they are—that the US can pick at once with everybody in the world without any preparation whatever. That is probably the gentlest way that one can describe it. As I said, the US and the Trump Administration are not the first to fall into that—

The Chair: Oh, as we have lost the connection to Mr Grozoubinski, shall we move on to the next question?

Professor Michael Gasiorek: May I quickly add to what Dmitry was saying? He is right about assessing the extent to which a superpower has power, but those initial announcements or pronouncements that Trump makes are part of the playbook: you threaten something big, then you roll back, and everybody thinks you have a good deal. It is intentional.

Q76 **Baroness Crawley:** Our exports to the EU are substantial, at 47% of our total—or slightly higher or lower, depending on whose figures you take—compared with 16% or 20% as far as America is concerned and less than 2% for India. Given that, do you agree that the most important part of the UK-US deal, agreement or framework—which is substantial, especially if you are working in the steel or car industries—is that it gives us the space to make a broader UK-EU agreement upholding food standards and aligning on health and safety, veterinary requirements and so on? How should the UK Government continue to approach the balancing act of maintaining a good economic relationship with both the EU and the US?

Professor Michael Gasiorek: One could add China to that, but I do not want to make my answer even more difficult. I agree with the premise behind the question, which is that the UK's economic relationship with the EU is significantly more important than its economic relationship with the US, notwithstanding the fact that the economic relationship with the US is important.

I should also caveat this answer a bit by saying that we are very much talking about what we know about the economic relationship. I do not know whether Dmitry has any more insights on this as a negotiator, but behind all this is the fact that our relationships with the EU, the US and other countries are also military, defence and security relationships, and there are important issues there that we do not know about. I am insufficiently versed to discuss those—I am versed to discuss the economic side of things—but we should bear in mind that other very important issues are also behind all this.

How do you manage the balance of that relationship? Although there has been a reasonable amount of criticism in the press of the UK Government, they have done a reasonably good job. They have kept calm and cool and have not had knee-jerk reactions to tariffs and so on. They have tried to maintain the conversation and relationships and not agree to egregious demands by the US, in this case. That is the right approach to take, and this framework does not undermine those negotiations with the EU. That was very important.

Baroness Crawley: Dmitry, did you hear my question?

Dmitry Grozoubski: I did—thank you. I apologise for getting cut off immediately after criticising US foreign policy. The delegation has left town; I promise that they were not physically unplugging my router.

Baroness Crawley: I hope you have learned your lesson.

Dmitry Grozoubski: Certainly; I am checking the sky for drones as we speak.

It is important to understand the nature of the two negotiations. In a tariff-free environment, because of the BCA, the UK is primarily asking the European Union to ease friction at the border by lowering the regulatory burdens of proof on UK businesses. That is a decision that the EU can make at any time, and it is based on the following: first, how much the EU wants to do the UK a favour; secondly, how much it is willing to take on more risk, because it would be outsourcing part of its health and safety regime to UK authorities, over which it has no control; and, thirdly, to what extent its domestic industries are quietly telling it that they like having a bit of extra friction and costs for their UK competitors.

Where this deal could have threatened that dynamic is on that second point, but, as Michael said, the UK did a fantastic job. It went to the US, heard its requests, and, on certain things such as bringing the UK's regulatory environment into closer alignment with the US and thus further from the EU—which would have increased EU risk perception—it said, "That's not something we can give, despite the value of the hostages you have taken". It appears to have held the line on that.

Q77 Lord Houghton of Richmond: Michael, you fairly declared that you are not an expert on the defence dimension of the relationship, and, Dmitry, you are probably in the same boat, but can you both offer a comment on the disparity in the economics of the defence relationship? One of the things on which Trump has come out more forcefully than his predecessors, although his predecessors did say it, is that the European pillar of NATO was taking America for a ride. It expected America to give 3.6% of the biggest GDP on earth to effectively be the external security guarantor for not just Europe but the Middle East and south-east Asia.

There has been some early noise about the fact that Trump will come to the NATO summit on 24 to 25 June with a big demand. For its part, the UK has gone quiet in the media. The promise of 2.5% by 2026 and 3% by the end of the next Parliament has bought off some of the pressure, but, to me, that still looks like a significant disparity in relation to what the American ask might be.

I feel I may be spectating a slow-moving car crash, and that when June comes along, this is going to be ugly again. Will you offer any comment, from an economics perspective, about how this might be resolved, or do you side with me in standing by for a car crash, as it were? Michael, may I come to you first, and then Dmitry?

Professor Michael Gasiorek: I am really speculating here, and, to be frank, this is not something that I have given an awful lot of attention. I do not think we are necessarily facing a car crash—we could be, but we just do not know. Frankly, we do not know where Donald Trump's attention and concerns will focus next; it is just so unpredictable and unreliable.

It seems to be the case that the US Administration feel that other countries do not contribute sufficiently to a range of international organisations, including NATO, and defence spending. Countries will almost certainly need to respond and boost that. How big an issue this will become I am afraid I really do not know.

Dmitry Grozoubski: Like Michael, I am so far over my skis at this point that I am basically lying down. There are a couple of challenges. The fundamental difference between Europe and the United States on defence is that the US has been preparing to fight a potential war and it has a very clear idea of who the enemy in that war might be. Its defence posture reflects that, and that has been consistent for about 70 years. For the last 20 to 30 years, it has been very difficult to identify who Europe might conceivably fight. Certainly, in many capitals around Europe, they did not believe they would ever be in a position to fight Russia, even in an asymmetrical, proxy-war sense. As a Ukrainian, let me just say, "We told you so".

But beyond that, even to this day, if you sit many European planners down and ask them, "Why do you think you need a massive military? Who would you fight?", they would struggle to necessarily come up with the answer. I think the bogeyman of Russian tanks rolling towards Paris is not something that European leaders believe, in their heart of hearts, could or will happen.

That will be a difficult thing to square, and it comes back down to something that will be absolutely pivotal for the next century: perceptions of China in DC versus Brussels and European capitals, including London. The US views China as an existential threat to US hegemony and, potentially, to the US. I do not believe that that is where European heads are at, and while there is that massive gulf in perception, I do not think the US will ever be satisfied with the commitment that Europeans make to defence or to national security issues more broadly.

Q78 Lord Alderdice: One of the very clear messages coming out of the United States under this Administration, and perhaps not only this Administration, has been a focus on reshoring and domestic capacity-building. There have been other domestic policy trends, too, but those are two important ones. How do you think this affects the UK's ability to attract US foreign direct investment? How should the UK position itself on that front, and are there untapped opportunities? We have been talking about there having been a lot of threats, but are there untapped opportunities for the UK to leverage strengths, such as financial services, legal frameworks or university R&D capacity, and to attract more long-term value-adding investment from the United States? Indeed, there may

be other benefits as well. If the United States is putting pressure on its universities, maybe that opens the opportunity for some of their best people to move out of the US and into places like Canada, or indeed the United Kingdom, if we were prepared to welcome them.

Dmitry Grozoubski: I apologise—I will have to drop off in a few minutes; I have another appointment.

The UK has some options here. It is less about leveraging financial strength as a weapon and more about taking advantage of the opportunities created by the US effectively undermining its own appeal in a number of ways. Academics and top researchers, for example, are desperately looking for a place to go, as are those tech firms not in the crypto space. There are a number of other opportunities. Supply chain managers are looking at the US and China and saying that they no longer have any predictability of long-term supply, even if there has been this armistice. They may be looking for third-party, mutually friendly vectors, and the UK is reasonably well positioned to make that offer.

There may also be larger shifts. For example, Europe has now woken up to the fact that its dependence on Visa and Mastercard as its sole payment platforms for the entire population separates it and exposes it to a vector of pressure that China, which has moved on to its own payment platforms, does not have when it comes to the United States. The UK may have opportunities to start effectively duplicating or offering alternatives to some of these US core infrastructure offerings that may suddenly be viable and attractive to parties who do not want to spend the rest of the century at the whims of successive US leaders.

Professor Michael Gasiorek: I will add a couple of things to that. What do investors want? They want stability, predictability, a good business environment and market access. The US offers a large market, but at the moment it also offers a lot of unpredictability and uncertainty. How this will play out across different sectors and industries is really hard to predict. We will probably see some firms and sectors investing more in the United States than they would have done otherwise, presumably to jump behind the wall of that unpredictability and to be focused in the US. Others will choose to go in the reverse direction, saying, "That market is not sufficiently important for us and therefore we want to invest elsewhere".

What can the UK do? Essentially, it can offer a stable and predictable environment and good-quality infrastructure. It can also think about the areas where there may be growth sectors for future investment and possible collaboration with US investors, such as the digital tech sphere, where that is quite likely. It might also happen in green transition industries or in aerospace, but it is very hard to predict.

The Chair: We have a couple more questions. Mr Grozoubski, you said you have to leave.

Dmitry Grozoubski: Yes, I am so sorry.

The Chair: Thank you very much indeed; it has been extremely interesting.

- Q79 **Lord Soames of Fletching:** I am afraid that I have what may be a very stupid question. I want to follow up Lady Blackstone's question about the WTO. Will the WTO survive this change? Does it still matter? Will it still be relevant under what looks to become a free-for-all trading arrangement? Has it the guts—and the middle and the bottom—to hold on in there and see things right?

Professor Michael Gasiorek: I would like to think that the answer is: yes, it will survive. I do not think we are in a free-for-all world. We are in a world where the US is acting very transactionally and outside the rules, but most other countries are still acting within those rules and making clear statements that they believe in upholding the principles of the World Trade Organization. I do not think we are seeing the end or the demise of the WTO; we are probably seeing the beginnings of the change of the WTO. Where that will lead is very hard to predict, but most countries recognise the value of having a clear, rules-based and co-operative international trading system. As I said earlier, although that system could do with reform in various ways, that does not mean we are seeing the end of that system.

- Q80 **Baroness Morris of Bolton:** One of the three core objectives in the economic prosperity deal refers to the special relationship. Would you still characterise the UK-US economic relationship as special? If not, how would you describe it?

Professor Michael Gasiorek: It depends on what one means by "special". It suggests that you have a deeper, stronger and more meaningful relationship, probably with more trust and so on. You can see why I am struggling here. We have very long-standing historical, cultural and economic ties with the US, which I think will still be there in four years' time. In that sense, yes, we have a special relationship. We have a relationship with the US that is probably different. In a sense, every bilateral relationship is different, but we have a particular type of historically grounded relationship with the US, where the US is important to the UK beyond the numbers and statistics, and the UK is important to the US beyond the numbers and statistics. In that sense, it is special.

I suspect that the fact that we have managed to negotiate this framework agreement is probably a function of that relationship, whether you call it "special" or not. That does not necessarily mean that we will be given special treatment.

Lord Bruce of Bennachie: I have a quick supplementary to that. Obviously, the way we have behaved justifies the outcome we got with this agreement. Canada took a very different, more robust approach, but seems to have got to a similar place; it is difficult to tell. Whether or not we have a special relationship—Canada surely thought that it had a special relationship with the United States—is it the reality that you can still be quite robust as long as you are polite, and that there is a choice to

be made as to where you submit or subordinate yourself, if those are the right words, as opposed to treat yourself as equal? It is interesting to notice that the Canadian and the British ways of doing things seem to have had a somewhat similar outcome. Is that fair?

Professor Michael Gasiorek: It is a very good question. I wish one could give easier answers to many of the questions that have been addressed to us today. Having given evidence before, sometimes it is much easier to give answers. Many of these issues are incredibly complex and very hard to answer.

Let us wait and see what happens with the US-Canada relationship. Canada had little choice but to react the way it did. Around 70% of Canada's exports go to the US. Canada is much more dependent on the US than the UK is, so if the UK were to take a more robust approach, we would have to ask ourselves: what is the aim of this? What will it achieve? Is it likely to change US policy? My assessment of that is that any UK retaliation is very unlikely to change US policy. You can see why Canadian retaliation might have done so, particularly, for example, because of the importance of Canada's energy exports to the US. It has levers. You can see why China's retaliation has led to a response from the US: because China has leverage and power. We do not—not really.

One area in which we probably have leverage, although it is the nuclear option, is services. We could introduce restrictions on services, but that would open up an entirely new agenda for trade intervention responsiveness, and the Government are right not to go down that route. Frankly, I think we have played it correctly.

The Chair: Thank you so much. That was absolutely fascinating. We will make sure that you get a transcript, to which you may make minor changes, if you wish.

Professor Michael Gasiorek: Thank you, and thank you for the opportunity to have this very stimulating discussion.