

International Trade Committee

Oral evidence: UK trade negotiations: UK Accession to CPTPP, HC 233

Wednesday 3 February 2021

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

Questions 78-91

Witnesses

[II](#): Miles Celic, Chief Executive Officer, TheCityUK; Sabina Ciofu, Head of EU and Trade Policy, techUK; and Suren Thiru, Head of Economics and Trade, British Chambers of Commerce.



Examination of witnesses

Witnesses: Miles Celic, Sabina Ciofu and Suren Thiru.

Q78 **Chair:** We are moving on to our second panel, who will be lighting up our screens shortly. Great, I see them there. In this panel we have Sabina Ciofu, Miles Celic—I have heard from Miles—and Suren Thiru. I have seen Sabina Ciofu before as well. I will let you introduce yourselves—name rank and serial number, starting with Sabina, then Miles and on to Suren.

Sabina Ciofu: Thank you, Chair. Sabina Ciofu here. I am the head of EU and trade policy at techUK—great to be back to talk about CPTPP.

Chair: Thank you and thanks for coming back. We could not have been too bad the last time we talked. Miles Celic?

Miles Celic: Thank you, Chair. Miles Celic, chief executive of TheCityUK, the representative body for UK-based financial and related professional services companies.

Chair: I think I remember telling you last time that you are just one consonant away from being a great football club.

Miles Celic: As a Rangers fan, I find that difficult, but I will take it.

Chair: Moving on—Suren?

Suren Thiru: Thanks, Chair, and good afternoon everyone. My name is Suren Thiru, head of economics and trade policy at the British Chambers of Commerce. We are a network of 53 chambers of commerce across the UK and a growing global business network.

Q79 **Chair:** Thank you all. Thank you very much, Miles, Sabina and Suren. To Suren Thiru first, what do your members see as the key potential benefits of the UK joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership—the CPTPP?

Suren Thiru: Our members warmly welcomed the news over the weekend that the UK planned to apply to join the CPTPP. From our point of view, there are benefits on the tariff side, although they are limited given that we are likely to have agreements with most members of the CPTPP.

The main benefits are on the non-tariff and technical side. One of the key areas that will benefit our members will be around rules of origin. That is a really important point. One of the key areas within that is diagonal cumulation, which allows businesses to cumulate origin with all members of the bloc. That is really important. It was one of the disappointing omissions from the UK-EU trade deal. It will help businesses manage costs, both administratively and financially. What it will also do is to help businesses manage their supply chains going forward, particularly those with quite complex supply chains.



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Another area that is really important and that has been pointed out by our members is some of the quite interesting elements of the bloc, in particular around digital trade. There are some interesting areas of liberalisation around data transfers, around banning data localisation—that is another key area of benefit to our members.

Other areas include the opening up of Government procurement markets. That is another area that we are very supportive of. Also, the flexibility around business travel is another key area.

Overall, we see this as a really positive first step. Clearly, there are going to be some challenges going forward.

Q80 Chair: Are there any potential drawbacks and pitfalls? Or is it just generally that getting into a trade deal is good news, when you lower tariffs, as opposed to what we have been seeing recently?

Suren Thiru: One has to be realistic about the benefits of accession, at least in the short term, given the constraints around distance and the fact that the UK will almost certainly have trade deals with almost all of the members. It is important to make clear to businesses at the outset what the opportunities are, but what the limitations are as well.

The other queries we get are more around what the potential impact of the deal itself is. We are certainly keen to see the impact assessments. We think that should be done very much at a granular level, sector by sector, to understand some of the potential defensive and offensive interests for the UK, but also the impacts—we will be trading with countries with very different import and export profiles, so that is something we need to take into account as well.

Another area that is of interest to us as well is how the deal would interact with other agreements, particularly the UK-EU trade agreement. One area of particular interest is around data. We get questions on this. Clearly, one potential benefit of the CPTPP is that there is a liberalisation of data flows, which is good in one respect, but I think our members would be quite interested in how that impacts the UK-EU trade agreement, particularly around data adequacy requirements.

From our point of view, there are a lot of positives there, but there are a number of key questions that need to be answered. Lastly, I would point out that there are going to be key challenges around business engagement and how to get businesses involved in the process. I think that is something that we may touch on a bit later.

Chair: Thank you for that. There is quite a lot in there. Mr Martin Vickers.

Q81 Martin Vickers: Thank you, Angus. My question is also to Suren. Could you outline which provisions of the CPTPP will be particularly beneficial for SMEs, and what the Government could do to maximise the advantages for SMEs?



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Suren Thiru: In my first answer, I mentioned a couple of those. Rules of origin are going to be really important, albeit in trade between member countries. Another area is the presence of the SME chapter. One key challenge with trade agreements of this sort of scale is how you get businesses engaged in it, so I think that is going to be really important, particularly at the smaller end—how you deal with that. Often there is a challenge, and the real challenge with these sorts of agreements is trying to fill the gap between the political—the high-level agreement—and the practical everyday impact on the ground for businesses.

There are a number of things you can do in this space. First, there needs to be lots of engagement around the impacts at ground level for businesses—sector-by-sector analysis, for example. There also needs to be a level of engagement in terms of guidance. That has to be really clear. If we get to a stage where accession is achieved, it is about whether the level of guidance is sufficient to help businesses understand what they need to do: what the rules are around customs, documentation, movement of people, data and those things. Again, it is about trying to distil the high-level agreement into the everyday advice so that businesses on the ground can understand. Another critical element is advice. We see it again at the moment: there is lots of guidance out there for the UK-EU trade detail, but translating it into everyday advice on how businesses should act in certain circumstances needs to be looked at quite closely.

How do you fill that gap? There are a number of areas that we should look at. One thing that comes up in our research quite a lot is that businesses highlight the need to find connections with those overseas in terms of both distributors and suppliers. One in three businesses in our recent survey showed that. So, looking at ways of connecting businesses to businesses is really important. Trade missions are one example of that—virtual at the moment or eventually person to person—and they will be critical. In-market services that help businesses connect again on the ground will be really important. Some chambers of commerce provide that sort of information as well. We should look at some of that practical level export support as well, such as subsidised entry to trade shows and trade missions, alongside market research. Again, the challenge is how you provide a framework for business to exploit some of these opportunities.

Martin Vickers: Excellent. You have answered my supplementary already, so well done. Back to you, Angus. You're muted.

Chair: Mutations, mutations. Thanks Martin. We go to Mark Hendrick, who is waiting by very patiently.

Q82 **Sir Mark Hendrick:** Sabina, how do the digital and data provisions in CPTPP compare and contrast to those in other trade agreements?

Sabina Ciofu: If you had asked me that question in January or February last year, I would have probably said that CPTPP is the gold standard in digital trade agreements. At that stage, it was really the best we had. It has provisions that Suren touched upon around data flows and a ban on data localisation. It has a ban on the imposition of customs duties on the



internet. There is a provision around prevention of mandatory transfer of source code as a condition for market access. There are also some provisions around regulatory co-operation when it comes to emerging technology and cyber-security. So, at that stage, it was the best-in-class trade agreement.

In the last 12 months or so, a number of countries that are members of CPTPP have built upon CPTPP in their bilateral—trilateral in one case—agreements. Last year was the first time we had digital-only trade agreements between Australia and Singapore and between Singapore, New Zealand and Chile. These go further than CPTPP in regulatory co-operation—regulatory divergence is the biggest barrier to digital trade—and areas where they are looking to co-operate. For instance, digital ID has made it into a trade agreement, and digital inclusion as well.

It is worth mentioning specifically here that the agreement between Australia and Singapore is accompanied by a number of memoranda of understanding on the digital economy topics. While there is a trade agreement, it comes with MOUs attached to it that include topics like data innovation, AI, trade facilitation and digital ID, which I just mentioned. Given the fast-moving nature of technology and the regulatory challenges that arise from that fast pace, those additional MOUs provide a flexible and adaptive framework to advance the interests of countries doing digital trade. Overall, I would say that CPTPP may not be now the most advanced digital trade agreement we have, but the digital trade front-runner countries are CPTPP members. That is why it is probably our wish to see this happening, because it puts us in the club of countries that are innovating and iterating with the digital trade provisions to advance this area of policy.

Q83 Sir Mark Hendrick: May I also ask, Sabina—Suren, you can follow up—to what extent you feel that UK SMEs in particular would benefit from these provisions?

Sabina Ciofu: A baseline point to make here is that, generally, SMEs benefit quite a lot from digital trade provisions, because they facilitate data flows, for instance, which otherwise are a rather costly endeavour for a small company to try to figure out. A ban on data localisation, for instance, is a massive win for SMEs, because that means you can try your products and services in another market and deploy them readily without ever having to set up shop in that country. There are a number of digital trade provisions that are particularly beneficial for SMEs. Of course, there are costs for large companies as well, but they are much more likely to be able to set up various subsidiary companies all over the world to deal with those provisions, as opposed to SMEs. The digital trade provisions are definitely a win for UK SMEs, and especially UK SMEs in innovative areas such as AI or FinTech; I am sure Miles will have things to add there. It is a huge benefit to have those provisions with as many markets as possible.

I would also echo what Suren said on everything to do with helping SMEs to take advantage of those agreements. We have seen the UK-Japan agreement—a very good one on digital trade—and we have seen the UK-



EU agreement, again a very good one on digital trade. While we have to negotiate these trade agreements and have as good provisions as possible, in parallel we need to develop a capacity to assist smaller companies to understand the implications and take advantage of these trade deals, because they do provide opportunities.

Q84 **Sir Mark Hendrick:** Suren, would you like to add anything to that?

Suren Thiru: First, I agree with what Sabina said; it is a big win for small businesses in particular, especially those first-time exporters that may be looking at some of the barriers to export. That is a really important move. More generally, looking at some of these agreements, the question is what they can stimulate going forward. International trade stimulates innovation and greater productivity, and the fact that there is this liberalisation around data flows can stimulate a lot of that, particularly in the services sector.

Q85 **Sir Mark Hendrick:** May I ask Miles how important he feels those provisions are for the financial services sector?

Miles Celic: Is that on digital and data, or more generally?

Q86 **Sir Mark Hendrick:** On digital and data.

Miles Celic: Very much as Sabina said, this is a really good-quality agreement in terms of digital and data provision. It was best in class until relatively recently. Overall, in the conversations we have had with member states, they see it as pretty good. I would say there is a slight difference on data localisation, because there is a result of the prudential carve-out on data localisation for financial services, so the ban on data localisation, while it is extremely welcome and sends a powerful signal about the importance of free flow of data, does not cover financial services. But, as Sabina has pointed out, we have deals in place with a number of CPTPP members where we do see a free flow of data and bans on data localisation for financial services, and Japan is one of the best-in-class examples of that. From our perspective, if you think about services more generally, the UK is obviously one of the global leaders in trade and services. Even pre-covid-19, the global services trade digitally was absolutely enormous. About half of global trade had some form of a digital element to it. Equally, over the last 10 years, we have seen a doubling of digital trade restrictions at the same time, so UK accession to the CPTPP sends a really strong signal in terms of the importance of those sorts of dataflow.

The other thing that has been touched on—Sabina and Suren have done a fantastic job in setting out where we are—is that there is a huge amount that the UK can learn here. There is a lot that we can contribute in financial services. This isn't going to be one-way traffic. Chile, Singapore and Japan are among the global leaders in data and digital, and we can add our expertise and the expertise that our regulators have in things like the FinTech sandbox and so on. This is a terrific opportunity to take expertise that exists in the UK and CPTPP countries and send a really powerful statement.



Sir Mark Hendrick: Excellent. Thanks very much.

Q87 **Mick Whitley:** Welcome to the witnesses. I would like to ask Sabina what provisions CPTPP contains regarding data privacy and consumer protection. How adequate are those provisions?

Sabina Ciofu: CPTPP does have provisions on both data privacy and consumer protection, so there is a commitment to maintain a regulatory framework for data protection. CPTPP Governments have also agreed to adopt and maintain consumer protection laws relating to fraudulent or deceptive commercial activities online. There are provisions in CPTPP that cover both of those.

Of course, when it comes to data flows, the UK is in a place where there are loads of moving pieces at the moment. Suren touched upon data adequacy. Obviously, we are still waiting to hear from the European Commission on whether the UK is adequate when it comes to data protection, and if personal data flows between the EU and the UK can continue. We are still waiting to see what the UK's own international data transfers regime will be after this six-month extension for adequacy.

There are a lot of moving pieces at the moment. Luckily, I think a lot of this will be sorted this year—at least everything to do with adequacy and the UK's own international data transfers regime. One way or another, we will have some idea of where those are going in the next few months. CPTPP accession is a longer-term project.

I think what we can see is that it is possible. We have members of the CPTPP that are deemed adequate by the EU, so they have data flows with both blocs—Japan, New Zealand, and partially also, Canada. We know that it is possible. It remains to be seen how the moving pieces fall into place over the next six to eight months. We will be able to judge it from there, depending on what is in the adequacy decision from the EU, what are the strings attached, what are the conditions, and what are the onward transfer mechanisms and conditions there. We will be able to understand our ability to put data flows in all these other trade agreements.

I would also say that, from a technical point of view, GDPR is covered by the CPTPP exemptions covering legitimate public policy objectives. Whatever mechanism the UK chooses for data transfers, it should be able to do both. There are still a number of questions that remain to be answered over the next few months.

Q88 **Mick Whitley:** I have a quick supplementary. To what extent could adopting CPTPP data privacy and consumer protection provisions impact the EU's decision to grant the UK a data adequacy decision?

Sabina Ciofu: It won't, because we are very close to the Commission passing on the adequacy decision to the European Data Protection Board. That assessment is already done. The assessment of whether the UK is adequate from a data protection point of view is already done now. It is a matter of procedure within the EU, the Data Protection Board, the data protection authorities and the European Parliament to get to the point of



revealing and approving that decision. That process is already done. That does not mean that after you have the adequacy decision, if the UK suddenly decides to do data flows with countries that are not adequate, the EU cannot withdraw that adequacy decision. It is not given forever; it is given for a period of time, and it is given with review periods.

The main important thing to note here is that it will not affect the decision, which is almost done; however, there will be an ongoing conversation on how the UK manages trade flows with the world in this new era. There is definitely a space to watch, and it will be a very interesting space to watch for that matter, to see also with the US. I think it is one of the more exciting areas of policy for the next few years.

Q89 Taiwo Owatemi: Miles, TheCityUK has described the CPTPP as an advanced trade agreement. Can you explain why you consider that to be the case?

Miles Celic: For many of the reasons that have already been set out, both by this panel and by the previous panel. From a broader point of view, it has excellent provisions in terms of data and in terms of standards that are put in place. From a financial services perspective, it has a reasonably conventional, good-standard financial services chapter. It looks at promoting market access. There is the vision of cross-border financial services. There is protection for investors. There are a variety of annexes that set out individual country issues.

The appetite from our members for this deal is significant. There is a lot of interest in it. I would go so far as to say that there is quite a bit of excitement about it. It is also seen as a very important way of building a closer economic relationship with a high-growth part of the world. It must not be forgotten that Japan is the third-largest economy in the world, and CPTPP, depending on how you measure it, would be the third-largest free trade area globally. The nature of financial services, and services more generally, is that a free trade agreement, or an agreement of the nature of CPTPP, opens up conversations with regulators. Services tends to be pretty underserved and underdeveloped. We have been campaigning and the UK has been campaigning for some years for liberalisation of trade in services, but what CPTPP offers is the opportunity to have further discussions with regulators, looking at the regulatory barriers, and to develop those further.

I do not want to push this analogy too far, but you might recall—I make no comment on Brexit one way or the other—that one of the criticisms of the UK's approach to Europe historically was that because it was not in at the start of the Common Market, as it was, when the UK did join many of the big decisions had already been made. This is an opportunity to get in with what is a very exciting, high-potential free trade area, and to help those involved with it to design what it might look like over time, particularly in areas of the economy that offer a comparative advantage for the UK and for many of those members already.

Q90 Anthony Mangnall: Miles, from what you are saying it sounds like this is



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a huge benefit to the whole United Kingdom—to each and every part of it. I think you guys have said that there are broader advantages for UK trade, as well as for investment policy to CPTPP itself. Can you summarise those advantages and expand on them as well?

Miles Celic: Our industry is one where two thirds of the jobs are outside the M25, and about half the exports come from outside the M25 as well. We are an internationally-minded industry, and this is an industry also that is classed globally in terms of exports. We are the largest net exporter of financial services anywhere in the world. Any deal of this nature is one that our industry and our companies will naturally be very interested in, because the UK is so good. This is not flag waving; the stats bear it out. We are very good at exporting financial services.

When you look at some of the CPTPP countries, such as Vietnam, you have huge high-growth areas in the middle class there. The UK is seen as a high-quality producer of financial services that help to deal with a lot of socioeconomic opportunities and challenges that come with a growing middle class.

In terms of benefits from financial services of joining CPTPP, there are four in particular. I've talked about the economic elements; it creates further open trade in services. One key thing for the UK outside the European Union will be making the case for liberalisation of trade in services and what we term regulatory diplomacy: taking the role the UK has in forums such as the WTO, making the case for open markets and for liberalisation of trade in services.

That will all be stronger if you can demonstrate delivery of that both in the sorts of deal that the CPTPP offers, but also agreements such as CEPA with Japan. You raise the bar consistently on a deal-by-deal basis. That's where the scale that comes with CPTPP has an impact economically. On a regulatory basis, I've talked about the importance of developing regulatory relationships over time.

This is an opportunity for the UK to work incredibly closely with really exciting markets that are making significant progress on things such as digital and data. We are one of the three big centres globally in terms of FinTech, alongside the US and China. There are terrific hubs in London, Edinburgh, Manchester and Birmingham when it comes to FinTech. But this is a market of 65 million people. What happens with British FinTechs is that they become very good or very incentivised to look at export markets really quickly.

The approach to data and tech on CPTPP offers opportunities for companies, regulators and authorities. There is unquestionably a geopolitical element to this. That is entirely open. The economic centre of gravity globally is shifting to the east. There will be somewhere between 2.5 billion and 3 billion people in the Asian middle class by the end of this decade, who will be looking for ways to save for their retirement and provide for their kids. Again, that is something that our industry can



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provide and CPTPP offers a role for the UK in that, and an opportunity to be at the table, helping to shape it as well.

On scale, I know this has come up in discussion here already. CPTPP already with the UK would have the third and fifth largest economies in the world as part of that. It is already the third largest free trade agreement of its nature globally. It could very well grow.

On the nature of what this means in terms of our industry, we look with a lot of interest to the economic impact assessment that the Department for International Trade will release in the coming weeks. It is hard to judge how that hangs together, given the individual trade deals they have done.

It is instructive that, when you look at the analysis of the US deal back in 2016, which is an economy that is very similar to the British economy in terms of services and so on, they reckon it would be somewhere between 0.15 and 0.5% of GDP. And that's at that stage. The economy of the CPTPP countries has grown substantially in that time. For our industry, the opportunity to serve customers in that part of the world continues to grow.

Q91 Anthony Mangnall: Thank you for that. With the Chair's permission, I would like to make this broader. What do our three witnesses believe the impact of having other countries, such as the US, join CPTPP will be, in terms of our position and the regulation that we are extremely advanced in? I will start with Sabina and then go to Suren and Miles.

Sabina Ciofu: Thanks. I think that would be great, if the US joins the CPTPP, considering that we are also negotiating with the US, Australia and New Zealand, and will start negotiating a digital-trade-specific agreement with Singapore, to build on the broad trade agreement that we already have with them.

It would be great to bring all our partners together in one big trading bloc. Do I think that will happen? I'm a bit more sceptical about that. As speakers on the previous panel said, there are still a number of question marks over the direction of US foreign policy that will need to be answered over the next months. We do not know whether trade policy will have to fit into foreign policy in the US—probably—rather than the other way round. We will have to see how they play that. I don't see a massive a trade agenda coming out of the Biden Administration, at least immediately, so I am not terribly optimistic that that will happen. But if it does, that would be very good news for us. It would be even better news if we were part of the CPTPP by then.

Suren Thiru: Certainly, if the US were to join, that would be a game changer for the bloc and something that members would welcome. Again, for all these things, it is about trying to understand what the on-the-ground impact of the US joining will be on some of the elements around rules of origin and other elements in the agreement. We would certainly welcome that. I think the other point was made by the earlier panel: for the UK, close to the start is a good place to be, as further countries attempt to join going forward.



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Miles Celic: I would echo that the US joining the CPTPP would be terrific. It would be particularly advantageous from a UK perspective if we were already in there. The comment was made by the previous panel that CPTPP is a coalition of the like-minded as much as it is a geographical expression. CPTPP is almost unique, in that it was designed from the outset for other countries to join, so I think that would be extremely welcome. On services and financial services, geography is of course important, but it is less important than it is for goods. Services is 80% of the UK economy. Although the geographical element is not irrelevant, it is less important. There is a degree to which a like-minded approach is in some ways more important than geography. This may be an extreme example: the geographical distance between North Korea and South Korea is zero, but there is a very different approach in terms of trade and regulation.

Chair: That is a very good point to bring things to a close—the distance, virtual and real, between North Korea and South Korea. US involvement might help Brunei, Chile, Malaysia and Peru to get on with their ratification of CPTPP. It would be a very big game changer.

Panel, can I thank you all very much for your time today? That is Miles Celic, Suren Thiru and Sabina Ciofu. It is good to see some of you again, and some for the first time. I am sure we will be knocking on your doors at some point in the future. Have a good rest of the week, and we are very grateful for your time and expertise. We will be continuing, no doubt, our search and quest for understanding of what all this might mean, but you have certainly helped this afternoon. Thank you.