



European Affairs Committee

Corrected oral evidence: Dynamic alignment

Tuesday 21 April 2026

11 am

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Members present: Lord Stirrup (The Chair); Baroness Ashton of Upholland; Lord Barrow; Lord Brennan of Canton; Baroness Brown of Silvertown; Lord Elliott of Mickle Fell; Lord Grantchester; Lord Jackson of Peterborough; Lord Moynihan of Chelsea; Baroness Smith of Newnham; Lord Tugendhat; The Duke of Wellington.

Evidence Session No. 3

Heard in Public

Questions 24 - 32

Witnesses

I: William Bain, Head of Trade Policy, British Chambers of Commerce (BCC); John Foster, Chief Policy and Campaigns Officer, Confederation of British Industry (CBI); Ignacio García Bercero, Senior Fellow, Bruegel, former Director in DG Trade, European Commission.

Examination of witnesses

William Bain, John Foster and Ignacio García Bercero.

Q24 **The Chair:** Good morning, everybody. Welcome to this session of the House of Lords Select Committee on European Affairs. We are taking evidence in our inquiry on dynamic alignment. We are very pleased and privileged to welcome as our witnesses for this session Mr William Bain, who is the head of trade policy for the British Chambers of Commerce; Mr John Foster, who is the chief policy and campaigns officer for the Confederation of British Industry; and Mr Ignacio García Bercero, who is a senior fellow at Bruegel and a former director in DG trade at the European Commission, and who is joining us remotely. Welcome to you all. It is a great pleasure to see you.

This is a live session. It is public and being broadcast. I remind everybody that the microphones are live throughout the session; any little asides that you may think you are making will not be so aside. Please bear that in mind. A transcript of the session will be produced, and witnesses will be provided with a draft to make any corrections before we go final with it.

On that basis, we will proceed with the evidence session. We have a number of questions for you. We are aiming to finish in about 50 to 60 minutes so, as far as is possible, can the questions and responses be as succinct and clear as you can make them? That will help us to get through.

I will kick us off with a question for Mr García Bercero. As a former European Commission official, can you help us understand what the Commission means by dynamic alignment? We have heard various other people give their definitions of it, but what do you think the Commission means by it? In your view, how likely is it that the EU might shift to a different approach with partners who are trying to participate in areas of the single market based on, for example, equivalence or mutual recognition rather than dynamic alignment—or will dynamic alignment be it?

Ignacio García Bercero: Thank you very much for that question. Let me start by saying that dynamic regulatory alignment really applies only to agreements with countries in Europe that want to be part of the single market. It is not relevant to other contexts; it applies, in essence, to the European Economic Area and the set of agreements with Switzerland. Those countries participate fully, or to a large extent, in the single market. However, they are committed to ensuring that, as new European Union regulations develop, they align their regulations with the new European Union regulation—after having been consulted because, whenever you have dynamic regulatory alignment, you also have a decision-shaping role.

The EEA and the Swiss agreement have many different features; I can go into more detail on that. However, I see zero possibility of the European Union—not the European Commission—deciding to shift from dynamic regulatory alignment to something like equivalency or mutual recognition if the objective is to be part of the single market in a particular area. There are different types of trade agreement, such as the TCA, but, if the objective is to be part of the single market in a single area, I do not think that there is an alternative to the concept of dynamic regulatory alignment.

The Chair: So there is zero prospect of an alternative system. On dynamic alignment, clearly, we understand that there are areas of EU law within which countries that sign up to such an agreement adjust their internal law as the EU does automatically, through whatever legislative instruments they normally use. To what extent does the EU consider the boundaries of EU law within a specific agreement also dynamically flexible? In other words, is the dynamism likely to apply to the boundaries, as well as to the things within the boundaries that were originally agreed?

Ignacio García Bercero: That is an excellent question. It depends on what agreement we are talking about. The European Economic Area has a very broad concept of dynamic regulatory alignment. There has always been the question of how far the regulatory alignment is supposed to go. If you look at the specific agreements that have been negotiated by Switzerland in a number of areas, the scope of what is covered by dynamic regulatory alignment is defined much more precisely. I do not see the EEA as very relevant to what the UK is trying to do; I understand that the agreements that the UK is negotiating are somewhat similar to the agreements that are being concluded by Switzerland, although they still have to be ratified.

The contours of what follows under dynamic regulatory alignment tend to be defined relatively precisely in the agreements. Objectively, there is always a possibility of bringing this to arbitration. There can always be a possibility, if both sides do not agree, that, where certain legislation falls under the concept of regulatory alignment, it would be brought to an arbitration panel. If there is an issue that requires consultation with the European Court of Justice, the court may be asked to give its opinion. If there is disagreement on that issue, it could be settled through arbitration.

Q25 **Lord Brennan of Canton:** I am quite interested in the practical implications of the three new agreements that the UK Government are negotiating with the EU around sanitary and phytosanitary regulation, emissions trading schemes and electricity. Mr Bain, will these three agreements make any practical difference to the problems that Brexit has caused your members?

William Bain: Indeed they will. We have had a stream of companies, in five years' worth of surveys, outline the difficulties that they face, particularly on agri-food. Certain products have been cut out of the

market; for example, langoustines from Scotland have not had access at all. We hope that this deal will secure access for bivalve molluscs.

We have also had enormous extra costs injected into the system. An export health certificate costs £200. If you are loading a truck with multiple consignments, it can cost around £1,400. There have been delays at the border for five years, with goods moving from Great Britain into the European Union and additional costs that flow from that. An SPS agreement removes those costs. It still involves customs declarations, safety and security declarations and import VAT origin requirements, but it removes the additional burden that food exporters find difficult.

Lord Brennan of Canton: Would it create any new problems for members?

William Bain: It would depend on the precise nature of the acquis which the UK will align to. We have had an indication from the preliminary list issued by Defra of around 70 instruments. In our analysis of this, we think that there are potentially issues for some food products but, for the vast majority of food products, this deal cannot come quickly enough. The same is true on energy and the ETS linkage deal.

Lord Brennan of Canton: Can I ask John Foster pretty much the same question in relation to his members? Is this going to help them or cause new problems for them, on balance?

John Foster: On balance, CBI members are very supportive of these three proposed agreements. They see them as the most meaningful opportunity to reduce the frictions between the UK and the EU since the TCA. The value of them will depend on the depth, scope and the implementation. The acid test will not be whether there is an agreement on paper but whether it reduces duplication in practice for firms across all three proposed agreements.

On the SPS agreement, our members tell us that it is the most impactful intervention that the Government can deliver for firms working in food, agri-food, logistics and, to a lesser extent, the chemicals sector because of the sheer volume of frictions that have been introduced since Brexit.

In terms of the impact, we are looking at a significant reduction in the share of physical routine checks in terms of certification burden, documentation burden and registration. If you remove all those frictions, it brings with it a significant cost saving. One of our dairy members said that securing an SPS agreement would be transformative in terms of its ability to compete in the European market, so it is quite important that we get an agreement.

Lord Brennan of Canton: Who is against it among your members? Are there any strong voices against these proposals?

John Foster: It is important that the details are got right. The caution would be if a deal is too shallow—for example, if it trims back paperwork on the SPS side but does not deal with the duplication of certification, or

getting the implementation guidance, the transition, because it could bring with it burdens if it is delivered without a period of adjustment. For firms having to potentially make changes around product reformulation, labelling, certification and systems change, there are practical concerns about how you get this right but, fundamentally, the membership is very supportive of the SPS agreement.

Lord Brennan of Canton: Very briefly, will the public feel the difference in a significant way?

William Bain: We hope that one of the issues about the interplay between the SPS agreement and the Windsor Framework is the removal of the “not for EU” labelling, which has been a significant problem for wholesalers and retailers. That will be one tangible difference that you see from an SPS agreement and, frankly, smoother movement of food and plant products between the GB and the EU.

John Foster: William is absolutely right. One of the consequences of red lane usage, for example, was one of our wholesale suppliers saying that 80% of suppliers end up in the red lane. Given the connectivity of the all-island supply chain, everything at arrival is at risk of delay, rejection of lorries and groupage difficulties. We have seen a reduction in product lines available from GB. If you can sort out the Northern Ireland aspect in particular, it can have a significant impact on reducing frictions but also product availability.

Q26 **Baroness Smith of Newnham:** The original idea behind the internal market project of 1992 was precisely to reduce frictions. When the UK came out of the single market, we had renewed frictions and non-tariff barriers reintroduced. The Government have suggested that the SPS and ETS schemes would allow us to increase GDP by £9 billion by 2040—equivalent to around 0.3% of expected GDP by 2040. What do you make of those assessments and what do you think the impact of these proposals is likely to be on GDP?

John Foster: Our assessment is that the Government’s analysis of the GDP implications is broadly credible. Our members tell us that they will have a net positive impact on UK GDP. I would describe them as modest gains, but they are meaningful at a time when economic growth and investment is weak, certainly by historical standards. What is important is that the size of the gain depends on what is agreed, but also how effectively it is implemented. If you have a very shallow SPS agreement, it will have limited economic impact. If you can get broad product coverage, if you can reduce the mutual recognition of certification inspection and if you get a deal that works fundamentally for Northern Ireland, your economic benefit will be far greater. Similarly, on the ETS side, if you get full fungibility of allowances and that protection from exposure to the EU CBAM, you will have an even more significant impact.

The other point, briefly, is that even the best agreements can be blunted if you do not get the right implementation guidance but also the transition right. Our members tell us that it is really important that

implementation guidance for the SPS agreement is available by Q4 of this year, but also that there is an adjustment period for firms that may have to reformulate products and change labelling—all that piece—of around 18 to 24 months. If you do not get those two things right, the risk is that businesses delay investment and your short-term economic gain is blunted. It is important that there is ambitious scope, that we get the right guidance and that a suitable transition period is sorted.

Lord Jackson of Peterborough: I am quite interested to understand your rationale, because this is quite a leap in the dark. The only modelling that has been done was based on mutual recognition and not dynamic alignment. I quote very briefly and with respect to your members: “No independent estimate has been published of the likely combined effect on UK GDP of the three UK-EU agreements that are under negotiation. Such estimates have tended to focus either on only one prospective agreement or area for potential closer UK alignment, or on more such agreements or areas than are currently included in the reset negotiations”.

I can see where you are coming from in wanting to get rid of these impediments to trade, but no empirical evidence has been produced that says that your members would be better off with these agreements.

John Foster: With respect, we know that there are cost frictions that exist in the system. The Government’s analysis has put the cost of the SPS rules in place at £470 million a year. There has been a reduction in the volume of agri-food exports of 21% since 2018. We also know that, practically, business trade is most intensive where supply chains are at their deepest and the compliance burden is at its most immediate. It is absolutely fair to raise a question about the lack of alternative economic analysis but, working on the basis that the deals will reduce friction and encourage exports, we described the gains as modest, but we think that the Government’s assessment is broadly credible.

Lord Tugendhat: I have a question about the scale of the benefits. One must be extremely cautious about figures of this sort and about forecasts of what the benefits will be, but it is important to see this matter in context. If one takes this figure of 0.3% or £9 billion for 2040, it is about the same as the UK-Australia, the UK-New Zealand, the CPTPP and the UK-India deal all added together. We are talking about some very modest changes in our relationship with the EU but, because the scale of our trade with the EU is so great, even this very modest increase is as much as those much-heralded and much-boasted-about trade agreements. It is important to see them in that context.

William Bain: In terms of external empirical analysis, I direct the committee to the OBR’s analysis from last November, which came up with 0.24% based on agreement and dynamic alignment.

Let us look at the three agreements that are likely to feature at the Leaders’ Summit this year: the SPS agreement, the ETS linkage agreement and the youth experience agreement. Analysis by experts

such as John Springford at the Centre for European Reform puts the estimated benefit, depending on what estimate you have for the youth experience agreement, at between 0.4% and 0.59% of GDP. That takes you to an economic benefit to the British economy of between £12 billion and £18 billion annually; it is around two and a half times more at the low end of that scale. Compare that to the significant improvements that we want coming into the economy from the India trade deal; that is the scale of these three deals. We want a more ambitious set of reset commitments that grow our exports substantially, but that is what these three deals can deliver for the UK economy.

Q27 Lord Jackson of Peterborough: I am not sure about Mr Bain's figures because the figures that we have show an increase in UK GDP of between 0.3% and 0.7% over 10 years, which is different; they were from his research, which was published on 10 December 2024. We may want to come back to this at some future juncture.

Mr Bercero, as a former European Commission official, can you set out why the EU seeks a financial contribution to its cohesion policy from those non-EU states that participate in areas of the single market? In answering, can you refer to people's concerns around fraud and the misappropriation of funding? In July 2024, the European Court of Auditors found that €15 billion, out of a budget of €317 billion, had been misappropriated between 2014 and 2020. In essence, what does the UK get, in terms of cumulative economic benefit, from contributing when it is a non-member state vis-à-vis the single market?

Ignacio García Bercero: Thanks a lot for that question. Let me start by getting into the overall context of the single market and the cohesion policy in the European Union. In the European Union, there has always been a concern around some countries potentially benefiting more from the single market than others—in particular, those countries that are less advanced in the European Union. That was the justification for the development of a cohesion policy. Of course, the UK knows this very well because it was a member of the European Union for quite some time.

That is the reason why, when countries that are not part of the European Union have asked to participate in the single market, it has always been part of the arrangement that they make contributions towards the cohesion policy—not contributions towards the European Union's budget; that is a very important distinction. Norway, Iceland and Switzerland do not contribute to the European Union's budget. They identify, in consultation with the countries that benefit from the cohesion policy—mostly countries in central and eastern Europe—support programmes, which are agreed by the two sides. That is the reason why this is part of the discussion that would inevitably take place with the United Kingdom.

As I said, in the case of Switzerland, one very important element of the new set of agreements established with Switzerland was establishing a methodology to identify the type of contribution that Switzerland would provide to the cohesion policy. That is why I would suspect it not to be part of the discussion with the United Kingdom, but let me emphasise

that it is not a contribution to the European Union's budget; it is a contribution to the objectives of the cohesion policy and to the countries that benefit from the cohesion policy.

Lord Jackson of Peterborough: Fair enough, but may I follow up on that? I know that the cohesion fund arises from Article 177 of the Treaty on the Functioning of the European Union, which is of very long standing, but just look at some of the projects that took place when we were members of the European Union, bearing in mind that this is about the regularisation and consistency of the single market: flood protection in upper Tisza in Hungary; the south sewage treatment infrastructure project in Malta; the Madrid-Barcelona-French border high-speed line; the Vasco da Gama Bridge in Lisbon, Portugal; and metros in Budapest, Bucharest, Sofia and Prague.

Where I am going with this is that, as I understand it, Switzerland and Norway can insist on what is, in effect, hypothecation of the funds that they pay into the social cohesion funds. My understanding is that, because of the size of the UK's economy, the European Union is likely to say, "No, all of the cohesion funds that you pay to us for participation in the single market will go into a pot and we'll decide how they're spent". As you can see, from the point of view of British taxpayers, that is quite a big ask in terms of their pounds being spent on a "pay to play" system in a single market.

Ignacio García Bercero: You may want to pursue this further with the European Commission, but my clear understanding is that that is not the case and that Switzerland decides which particular projects it will fund. Of course, it has to be in relation to the countries that are beneficiaries of the cohesion policy, but this money does not go into a common pot where the Commission decides which particular projects the funding will go to. That is my understanding of how it works with Switzerland; it was negotiated in quite a lot of detail as part of the new relationship reset with Switzerland.

I would expect a similar type of approach to be followed in relation to the United Kingdom. I do not know how far along this discussion is. We have a regular balance between the Commission and the UK Government, but it is certainly not a question of the European Commission deciding which particular projects need to be funded by the UK; you simply have to be part of projects that have been agreed with countries that are beneficiaries of the cohesion policy. It is not part of the European Union's budget, and it is not the Commission that determines which projects are going to be funded.

Q28 The Duke of Wellington: I wonder whether we could explore a bit the effect of dynamic alignment being adopted in any agreement that we have with the EU on the trading arrangements between the UK and other third countries. Will things be affected by us agreeing to dynamic alignment in certain sectors?

William Bain: If we look at the economic prosperity deal with the United States, for example, nothing in the commitments in that agreement is contingent on the UK not dynamically aligning with any other trading partner on the SPS rules. So the commitments in the EPD on tariffs and in other areas should be met in full by both sides. There is no issue there.

If you look at the CPTPP, again, there is no inconsistency in the UK having a very strong regulatory relationship with the EU on SPS but still being a strong member of the CPTPP too. If you look at the relationship that New Zealand has with the European Union, in terms of equivalence on SPS matters, you can see the consistency between being a full member of the CPTPP and having a stronger, less burdensome set of rules on food regulation and movement with the European Union.

So there is no difference. This is not about entering a customs union. This is not about the UK ceasing to have an independent trade policy. Our members want the UK to have strong and improving trade relations with the US—we want a robust and ambitious reset deal that delivers growth, including growth in exports—but we also want better trade with the Indo-Pacific region, looking to the opportunities of the India FTA and agreements with other partners in that region. This format of deal means that we can continue to have the benefits of enhanced trade in all three vital global trading regions.

John Foster: I agree with William's assessment. No decision that the Government make on trade policy is risk-free. There is potential for disruption with any decision that the Government take. Our assessment would be that, regarding the three proposed agreements, as William has identified, the disruption feels incredibly manageable. Going forward, if the Government continue to pursue dynamic alignment more broadly, it is important that they do so in a targeted and evidence-led way. That is the best mitigation.

I make one further, broader point. The UK is actively engaging more intensively with the European Union. That does not automatically mean, as William has identified, that it is retreating from its trade partners across the rest of the world. Many of the rules that govern global trade are set by international standard-setting bodies. The EU is engaging and looking to follow some of the rules of the CPTPP, of which the UK is a member. There is also a great deal of overlap in the formal trade partners between the EU and the UK—New Zealand, Australia and India, for example. As the fourth largest exporter of goods and services, the UK already signs up to many international standards. When it comes to these three prospective agreements, we believe that the disruption potential is very small, mitigated and does not hold back from potential areas of further exploration with, for example, the United States, as William has identified.

The Duke of Wellington: Thank you, that is very reassuring.

The Chair: Can I probe a little further on that? It is quite clear that the current US Administration have, and maybe future US Administrations

will have, a certain degree of antipathy towards the European Union and the EU's rules. This has the potential to feed through into overall trade policy tariffs. The UK aligning more closely with the EU, particularly on carbon border adjustment mechanisms under the ETS and so on, could put us in that same boat. These are political judgments. I am not asking you to comment on those, but do you or your members see any potential risks in all that? Your answers seem very sanguine on this but do people not raise these as concerns with you?

William Bain: Our concerns regarding our trade with the US are where the potential scope of the Section 301 investigations is heading. We know that a forced-labour investigation has commenced, which the UK and about 80 other countries are party to. There could be a Section 301 coming on digital services taxes as well. Our sense is that it is not likely that there will be a Section 301 on SPS issues or wider regulatory standards issues, but the uncertainty that we face in terms of trade with the US absolutely percolates into what is happening on the ground. When you attend international trade forums, as we do across the country—in Corby last week—there is a real sense of frustration with the constant fluctuations in US trade policy. I do not think that these agreements that we are examining in the Committee today, necessarily, are the heart of the issue that the US has in certain other policy areas, which are more likely to be relevant to where it goes in tariff policy from July this year.

The Chair: To what extent does that judgment and the judgment of your members more widely on the benefits of these agreements depend upon the nature and scale of any carveouts that are negotiated between the UK and the EU?

William Bain: I am delighted to give the committee a first cut of some survey data that we have been doing over the past three weeks, as this issue has gained in prominence. Of over 600 members that we surveyed within the British Chambers of Commerce, 44% of firms say that EU alignment by default would help their business to trade and grow more; 14% disagree; 24% say that there would be no impact; and 16% say that they are unsure.

There is a distinction between exporters and non-exporters. Among exporters, 56% of members say that EU alignment by default would help their business to trade more; 19% disagree; 18% say that it would make no impact; and 7% are unsure. Among non-exporters, 33% of firms say that EU alignment by default would help their firms to trade more; 16% disagree; 32% say that there would be no impact; and 18% say that they are unsure.

Therefore, 51% of companies in our survey say that there are no regulatory areas where closer EU alignment would negatively impact them. Only one-fifth of exporters have said that any specific regulations would cause them difficulty. We are pleased to be able to share this evidence in detail with the committee along with the qualitative evidence that underpins it.

The Chair: Mr García Bercero, do you have any comments on this UK-US-EU triangle? Do you see any impact there?

Ignacio García Bercero: I agree with what the previous speakers have said. The United States has a realistic assessment of the scope of the European Union changing any of its SPS regulations in the context of an SPS agreement. I was chief negotiator for the Transatlantic Trade and Investment Partnership at the time of the Obama Administration. They were very clear that those things were simply not going to happen. I understand that in the discussions relating to the recent agreement between the European Union and the United States, SPS issues have not been at the forefront.

My sense is that, yes, the United States is realistic enough to understand that this is an area in which neither the European Union nor the United Kingdom are likely to be ready to accept changing their regulations because of US pressure. It would be very politically counterproductive. Certainly, this is the case in Europe and probably would also be in the United Kingdom.

Q29 **Lord Barrow:** Thank you all for being here today. The clue is in the name: dynamic alignment. As you have both said, implementation is very important. In this instance, we are talking about implementation of a potentially changing landscape. What would you like to see in terms of a system within government and here in Parliament that would manage that process as it goes forward?

John Foster: Our members are clear that businesses can benefit from alignment, but a system that is unpredictable, subjective and does not allow for meaningful UK input can significantly blunt the benefit of that alignment. When we spoke to our members about this, they gave us four features for a key system.

First, you want alignment to be pursued in a way that is strategic and prioritised. If government were to pick alignment in a way that is ad hoc, reactive and piecemeal, that really undermines the evidence base. The second reflection is about the importance of proportionate parliamentary scrutiny. A system in which every technical adjustment is dependent upon parliamentary approval probably will create delay and uncertainty.

That being said, there must be a role for Parliament in being able to analyse EU proposals and scrutinise the UK's decision. Probably a good mechanism for doing so would be systematic scrutiny upstream—for example, making the most of committees with access to independent economic analysis, a look ahead to the proposals that can take a view before decisions are locked in.

There are two final elements. One is, as you would expect us to say, meaningful input from business and civil society. Our members will be the ones that have to fundamentally implement decisions. They need to be able to input into that. By way of an example, DBT has established a useful forum, the EU files forum, which is used to garner industry input

from downstream EU regulation. It is an earlier stage method of engagement. It is quite good and something like that, which is a bit more formalised and turbocharged, would be sensible.

The final and probably the most important element is that we need to strengthen UK influence upstream into the European Union, including for regulator-to-regulator channels. The earlier the influence comes, the more impactful it can be. That means, practically, things such as UKMis, having high-quality analysis of EU legislation, building up its sector specialist capacity and being able to maximise the committees that exist in the TCA. At the moment, it is focused on dispute resolution. Could that be flipped so that it is a bit more forward-looking?

Finally, it is about maximising the European business networks. The CBI is a member of BusinessEurope. Those are the kinds of mechanism that can really help ensure that dynamic alignment is economically beneficial and, crucially, politically durable in the long term.

William Bain: We need a stronger, "Team UK" approach. Businesses and other stakeholders must work much more closely together with the Government and Parliament as we navigate this new landscape. Two weeks ago, our director-general, Shevaun Haviland, and I were in Brussels to meet senior EU officials and discuss the Industrial Accelerator Act and the "Made in Europe" agenda. We need to make sure that that kind of contact is happening regularly so that we can understand where the EU is going with things that are going to affect us, such as industrial policy, and so that we have the ability to shape them.

As we move into decision-shaping in more sectors of the economy, that type of relationship becomes critical. The response that we have had from the EU institutions has been transformed from the way it was four years ago. The door is open in a way that it just was not at that point.

As John said, it is also critical that the files forum, whose creation the BCC and other organisations called for, deals with the upstream agenda. Look at what is coming down the track: the European Innovation Act, the European Product Act and cyber security updates. Businesses and Parliament need to engage strongly with those things.

We would make two specific proposals on how parliamentary scrutiny could be improved. First, it may not be reasonable to go beyond the mechanisms that used to exist when the UK was a member state and voting on every single measure that came forward through any of these deals, but, if the European Scrutiny Committee in the House of Commons were revived, that would certainly be a very important and useful mechanism.

Secondly, when it comes to some dossiers, it would be useful to consider a Joint Committee between the Commons and the Lords to provide intensive scrutiny from both Chambers of upstream EU legislative proposals that will have an impact on British business.

Lord Tugendhat: Can I ask—

Q30 **Lord Barrow:** I thought that my colleagues might want to come in. The point about decision-shaping is a useful one.

I do not want to ignore you, Ignacio. First, let me say good morning to you. You have seen things from the other side. Do you have any views on what makes for an effective process, in terms of how the UK could organise itself if we had dynamic alignment going forward?

Ignacio García Bercero: Fundamentally, it is a decision to be taken by the UK. What matters from the European Union's perspective is that decisions on alignment can be taken in the proper timeframe for the system to work, but how the United Kingdom wants to consult internally is for the United Kingdom to decide.

However, I subscribe very much to the idea that the more regulatory alignment goes beyond what is currently covered by these agreements, the more it is going to be important to have extremely good communication between UK and European Union regulators, because that is the moment when greater influence can be achieved. I am very pleased to hear that UK business is finding much more of an open-door policy coming from the European institutions. In particular, the idea would be to go beyond what is already included in the current agreements.

Lord Tugendhat: I put my hand up just before Mr Bain mentioned the European Parliament. I was going to say that, of course, it is much harder for the UK mission in Brussels not to operate with the Commission, as it did when we were members, but that would be even more true of the Parliament. I very much hope that, given what you were saying about the Commission, effort is also being put into relations with the relevant committees in the European Parliament. Is it your view that UKMis, or whatever it is called, now has a sufficiently intense relationship with the European Parliament or the committees of the European Parliament?

William Bain: That is a very interesting question; I can see that Lord Barrow is itching to make a contribution.

On trade, we had good contact with Bernd Lange MEP, who chairs the trade committee in Brussels. If you look at the common issues that we face around trade—including economic security, supply chains and geopolitical issues—there is natural joint working between UK businesses and the EU institutions, even as a third country. Also, the Parliamentary Partnership Assembly has a really important role to play in where the EU's relationship with the UK develops from this point; I know that Members of this House are strongly involved in that.

All of these mechanisms need to be leveraged together as part of a proper strategy from the Government on how we can deal with what will be a substantially transformed set of relationships, as compared to what we had in the TCA in 2021. That is the thinking that this committee,

Parliament, businesses and other stakeholders need to influence in terms of government strategy.

Q31 Lord Jackson of Peterborough: As a former Member of the House of Commons, I am not at all surprised that you are advocating for more scrutiny and oversight in both the Commons and the Lords. On this occasion, I totally agree with you, as it happens; I think that that is a good suggestion.

I want to drill down into the mechanisms of managing dynamic alignment a little. You said in your evidence in June last year that what we need is “a balanced agreement that allows for carveouts, in the sense that Switzerland was able to achieve some carveouts in its negotiation with the EU as well”. My question is: what system should be put in place in order not to allow favoured industries to lobby favoured Ministers and get a carveout while other people whose sector might not be as important or influential—and might not be a position to lobby—do not? Will there be a conduit for assessing the viability and efficacy of carveouts? Your whole point, with which I agree, is that you cannot have a monolithic system, because we have a distinct advantage on things such as GM crops, and that there should be a system where business and government can work together to advocate for carveouts. How do you see that working? That question is for both of you.

William Bain: Some of the architecture in the TCA is useful in this respect. We have the Domestic Advisory Group, of which we and the CBI are members. It has worked very well on the UK side in terms of not only prioritising things around the relationship but doing things such as keeping a proper regulatory tracker for any dossiers that are coming up, monitoring the impacts that they will have on British business and looking at priorities for lobbying. It has been an exemplar of the way in which we must act if we are moving into a dynamic alignment climate in more sectors of the economy.

If you look at the recent activity in which much of business has been involved, in terms of the Industrial Accelerator Act, again, I come back to the “Team UK” concept. That is working very well with DBT and with supportive politicians from other parties in both this House and the other place. In terms of the Industrial Accelerator Act, we were able to get outcomes that perhaps exceeded initial thoughts. There is a huge job of work to be done on automotive, however, which will be a priority. UK business organisations like us that represent the whole of the economy have to look at where the real pinch points are. What do we need to focus on? What relationships do we need to build in Brussels and Strasbourg to make sure that we are delivering on a whole-economy basis for key sectors, such as automotive, which need that assistance this year?

John Foster: I have three thoughts to add. First, the Government need to set out the strategic test for alignment so that there is clarity on what they are trying to achieve. Secondly, you need the right processes in place to gather information; you need broad consultation and sector-by-

sector analysis so that we can Hoover up the detail. Finally, you need the right forums to be able to reach conclusions on whether to align. We have all agreed that some kind of parliamentary committee, bringing in both Peers and Members of the House of Commons, would be a sensible forum, alongside the relevant business input, to reach those decisions from, as William said, a “Team UK” mindset.

Q32 Lord Tugendhat: This is a very simple question. Do your members in Scotland and Wales have any particular perspectives or concerns with respect to the issues that we have discussed? Basically, is there a United Kingdom view, more or less?

John Foster: The devolved nations’ perspectives are not peripheral to the discussion. They are absolutely vital because of the exposure of the sectors that would be relevant to these particular deals.

Take Scotland as an example. The key perspective is the concentration of exposure for key industries around agri-food, seafood and energy. William has mentioned Scottish seafood. The EU is its largest export market. It has had a tough time with the post-Brexit SPS frictions, so there is a high degree of support for them in that space. Also, as we know, Scotland has a disproportionate share of UK renewable capacity, so the two other deals are of high relevance to it.

For Wales, the two key themes are agriculture and steel. The SPS agreement is a particularly high priority for members in Wales, for the very simple reason that the majority of day-to-day burdens for Welsh exporters are SPS in nature. Welsh steel is particularly exposed to carbon costs and, potentially, the EU’s carbon border adjustment mechanism.

If I may, I want to make a brief point about Northern Ireland—it would be remiss of me not to mention it—where the concerns of our members will be particularly acute if, for example, Northern Ireland is not explicitly accounted for in how deals are devised. Let me give one practical example. There is a concern that, if you do not get correct alignment and implementation clarity, frictions will simply shift. The example being given is around the EU’s deforestation rules, which could end up shifting the veterinary friction that currently exists towards deforestation due diligence friction. All of that points to the need to make sure that the perspectives of the devolved nations are factored in right at the start, rather than being an afterthought at the end.

William Bain: There are huge opportunities from the electricity market reintegration deal, for example, in providing security for investment in all parts of the retail and wholesale electricity markets, as well as in terms of renewable energy. A great deal of that is provided by Scotland. I agree with John that steel is a massive priority right now in terms of not just the CBAM implications but the steel quotas and tariffs issues, which need to be resolved with the European Union before the end of June.

The potential alignment Bill, which may be tabled by the Government in the next parliamentary Session, will be very significant for Scotland and

Wales. We have picked up that there could be capacity issues, in terms of the devolved Administrations and devolved legislatures being able to deal with and transpose the sheer quantity of measures that will come through—even with the three measures that we have discussed in this committee this morning. There need to be very clear positions between the devolved Administrations and the UK Government on who will deal with which matters, because a lot of the transposing work will fall to Holyrood and Cardiff Bay. We need to be very clear about who will deal with what in order to make sure that the devolved Administrations do not end up facing a real transposing burden, but that can be done. We also need to see some changes to the common frameworks agreement to take account of that, but I am sure that all of that been observed by the Cabinet Office; it needs to be done when these deals are made.

Lord Tugendhat: That is a very good answer; thank you very much. I have only one follow-up. We heard some discussion earlier of joint meetings between the Lords and the Commons. To what extent do you feel that it would be appropriate or helpful for the devolved legislatures to be involved in any parliamentary activity?

William Bain: Obviously, that cuts into the devolution legislation and the common frameworks. From our perspective, the CBI and the FSB, along with the BCC, made submissions to the common frameworks inquiries last year. Currently, we have got to using statutory common frameworks more, which we see as important; that will be almost inevitable under the alignment legislation that will have to come forward to implement the deal. More contact between the Administrations will be critical, as will closer working on this. The precise formulations of that, including whether it is done through the Cabinet Office and the common frameworks agenda or whether there is a slightly modified architecture, is probably an issue for the future.

The Chair: That is a very interesting note on which to end. I am not sure that we should make any presumption about anyone having a grip on any particular aspect of this at the moment, but that is one of the purposes of holding this inquiry—to make sure that, in due course, they do. Meanwhile, Mr Bain, Mr Foster and Mr García Bercero, thank you very much for being with us this morning. We are most grateful for your informative and admirably concise evidence. With that, we will recommence in a few minutes with another evidence session; for now, I pause our session.