



European Affairs Committee

Corrected oral evidence: Dynamic alignment

Tuesday 21 April 2026

11.55 am

[Watch the meeting](#)

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. 4

Heard in Public

Questions 33 - 41

Witnesses

I: Sam Lowe, partner and head of trade and market access practice, Flint Global; Shanker Singham, Chair, Growth Commission, CEO, Competere Group, Chairman and President, Competere Foundation for Trade and Competition Policy.

Examination of witnesses

Sam Lowe and Shanker Singham.

Q33 The Chair: Good morning, and welcome back to this public evidence session of the House of Lords Select Committee on European Affairs as part of our inquiry into the issue of dynamic alignment. For our second session this morning, I am delighted to be able to welcome as our witnesses people whom I think it is fair to describe as experts on the subject we are talking about. We have Mr Sam Lowe, who is a partner and the head of trade and market access practice at Flint Global; and Mr Shanker Singham, who chairs the Growth Commission and is also both the CEO of the Competere Group and the president of the Competere Foundation for Trade and Competition Policy. Thank you very much indeed for coming. We are most grateful to you both.

This is a public session broadcast. A transcript will be produced, and the draft of it will be provided to you both for any corrections that may be necessary before going final. We will aim to conclude in around 50 to 60 minutes, so I ask both our questioners and our responders to be as succinct as they can while providing all the necessary evidence.

On that basis, perhaps I could get us started with a general question. Can you help us by setting out what you see as the advantages and disadvantages for the UK of dynamic alignment with areas of EU law? Like most things in life, this is going to be a balance, so it is a question of looking at those two perspectives. This is in the context, of course, of the three agreements that are currently under negotiation—the SPS agreement, the ETS agreement and the internal electricity market agreement—but also more widely. How many of the current barriers to UK-EU trade would such an agreement and dynamic alignment remove?

Shanker Singham: This is the right question to be asking because, obviously, everything is a trade-off. I am going to focus most of my comments on the SPS agreement, in particular, although they can also apply to regulatory issues more generally.

If you look at the SPS dynamic alignment agreement, the advantages clearly include a reduction in process, particularly for trade between GB and the EU; an example is the agri-food trade flowing from GB to the EU and GB to Northern Ireland. Having said that, I would put a caveat in there: you would still have to do the customs process, so it is not true that you would not have any regulatory barriers there. You have the customs process, as well as VAT issues. So it is a bit of a benefit, but it is limited by the fact that it is also going through the customs process.

I do not include in that EU to GB flows, which are the bulk of flows in agri-food; we talked about this in our written testimony. Some 23% of the EU's global exports of agri-food go to the UK, so there is a lot of trade

flowing from the EU to GB and much less trade flowing from GB to the EU. This is where, in our modelling, we have said that the UK can have—it is in the UK's gift—unilateral recognition of European standards. In fact, we have done that for medicines not only from the EU but from the US and Japan. Those are the advantages.

The primary disadvantage is the economic cost of what you are aligning to with regard to SPS regulation. If you look at European regulation in the round, you see that it is a spectrum in terms of its anti-competitive effect or its burden. I am not talking about just business compliance costs. People tend to focus on business compliance costs but, actually, the impact of anti-competitive regulation is far bigger. That is where the problem is because SPS is on the outer edge of the spectrum. So there are other things you might want to align with that would be much less damaging, in terms of the overall effect on your economy, but SPS is not one of them.

We have estimated the long-run cost of lost opportunity to be around £15 billion. That includes the benefits of trade facilitation that these EU dynamic alignment agreements give you. This is the reason why this area is challenged so highly by our trading partners: it is because of those costs and that anti-competitive effect. It is a significant disadvantage and, because it is challenged by our trading partners, there is a risk of retaliation, particularly from the US. I must say, the Government have done a great job of negotiating a good agreement with the US in a very difficult tariff environment. In fact, it is probably a better agreement than anyone else has—particularly for our pharmaceutical industry, which is at risk; that includes £11 billion-worth of pharmaceutical exports.

The question there is: what is the US likely to do with this? Given the effect and the cost of this dynamic alignment on the US industry, it is likely to take action—indeed, it already has. In its most recent national trade estimate, which was released just a few days ago, it specifically references UK dynamic alignment to European regulation as a problem. So this is something that it is going to take into account. The US farm sector is very politically powerful—it will not lie down and wait for this to happen—so I think that we can expect some reaction from it. There is a risk of retaliation from either the US or our CPTPP partners. Australia, New Zealand and Canada are big agricultural exporters, and they have a track record of complaining about European regulation: they complained about 76 measures at the last WTO SPS Committee, which is a record.

You also have to look at the direction of travel of European SPS regulation or European regulation more generally. On your question about the economic cost of dynamically aligning to this regulation, it very much depends on the effect of the regulation with which you are aligning. The EU itself has said that its regulatory barriers have damaged its own productivity. The Draghi report said, I think, that European productivity was equivalent to 95% of US productivity in 1995—EU regulation looked very different in 1995—but it is now down to 80%. Other organisations

have estimated the loss at 3% to 4% of GDP per capita as a result of its regulation.

So the question would be very different if you were aligning to a pro-competitive regulatory system. That is why it is really important to look at the whole spectrum when you look at this issue. For example, I would put something like electro-technical regulation further towards the other end of the spectrum, so that you have fewer alignment costs, but SPS would be one of the most significant ones.

Sam Lowe: In terms of advantages, I will speak first to the specific agreements that exist, and then more generally.

The main advantage of an SPS agreement is that UK exporters sending products of animal origin to the EU would no longer have to enter via a border control post. The physical inspections would pretty much disappear and the paperwork would be aligned, which would have the effect of reducing costs.

On ETS linkage, the first advantage, in terms of pricing linkage, is more about liquidity in the market and price setting, so it is a bit more difficult to quantify. The advantage for exporters would arise if it led to UK exports to the EU being exempt from the EU CBAM documentation. There is this question around UK alignment on CBAM in so far as, if the UK completely integrated with the EU CBAM and you had the same system in place, that would obviously reduce duplication, but there would still be the possibility of the UK applying a different type of CBAM; this would mean that you would still have some duplication even if the ETS markets were linked. I should say that ETS linkage does not mean that you have to do a CBAM. Switzerland is linked to the EU's ETS without having a carbon border adjustment mechanism.

We should just be up front about the disadvantages, I think. The UK would be deferring to the EU on all of the regulation that applies to these areas. You are giving up control. So there is a cost-benefit analysis to be done for the businesses involved and for the UK itself, politically speaking. My observation here is that lots of the conversations around dynamic alignment focus on the areas where the revealed preference of the UK is that it does not want to diverge. We have had many opportunities to diverge on sanitary and phytosanitary issues. Immediately after Brexit and in the negotiations that were initiated with the Trump Administration the first time round, SPS was part of the conversation but the Government at the time did not want to do it. Other trade partners have raised this, including Australia and Canada in the context of the CPTPP. It has also been raised by South Africa around specific issues related to lemons, where we have accommodated slightly.

Generally, we do not want to diverge. We have seen this in other areas in relation to product standards, where we attempted to introduce a different approach in the UK and it failed. That was largely because we are talking about areas where there is a singular approach across Europe and where UK divergence only imposes cost, even if what the UK is doing

is better and more efficient, because the companies are already having to apply the EU rules. All you are asking them to do is duplicate.

This is where I come to the point about dynamic alignment that I think is missing from the UK debate; Mr Singham just raised it. We are not talking about just dynamic alignment in the context of this conversation because we are already de facto aligning dynamically in many areas. We are unilaterally aligning and recognising EU certification in the context of medical devices, third-party certification or product standards. We are continuing to recognise that—that is unilateral recognition—and we could continue to do that and even impose different rules domestically. Even if no one really used them, we could try.

What we are actually asking for is for the EU to recognise our dynamic alignment and, in doing so, to treat our exporters better. This is why the conversation about dynamic alignment is so tricky. On SPS, we have managed to have it because the UK decided that it was going to impose controls on EU exports to the EU, so there is an incentive for the EU to engage. I really doubt that the EU will engage on product standards at this moment in time because, at the moment, we are recognising EU standards and EU third-party certification, so EU exporters to the UK get the benefit of that. What we are actually doing is asking them to give us something back; that is a much more difficult conversation and is the conversation that we are actually having.

Q34 The Duke of Wellington: Can you give us some examples of how EU regulations on specific products have reduced productivity, which I think was one of the points you made, and which would be of concern to, for example, farmers in the United States? I understand the concept, but I am trying to understand specific examples of how that would become an important problem.

Shanker Singham: If you look at the WTO record on European SPS regulations, there have been many cases that other parties have brought and won against the EU, and most of them relate to production methods. For example, things like gene technology are a huge area of litigation. Obviously, we hear a lot about the hormone treatments, but particularly MRLs, so residue levels and, for example, pesticide residue levels. One thing that the WTO system is very much focused on with regard to SPS regulation—in fact, it is written into the agreement—is that you need to base your regulation on sound science. You may have a residue level at which the science tells you that it is a safe product. If you lower your residue levels below that—which you can do; you can make things with absolutely no contaminant at all—within the WTO system, that is not based on sound science, because it tells you that the residue at a particular level is safe for human or animal consumption, depending on the product.

The EU tends to have very restrictive MRLs, or minimum residue levels. That is getting much worse or much more restrictive. That is the problem we have, as we will have to follow. I can give you one example that is coming up. There are various explosive bursts of European SPS

regulations and, in 2016, there was the animal health law, which produced a lot of regulation. We are right in the middle of “farm to fork” and the whole animal food and feed omnibus package, which will produce another burst of regulation, one of which is that, by 1 July 2026, there is a listeria regulation with regard to salmon that will require levels well beyond what would be deemed to be safe under the science. Our Chilled Food Association has said that there is no need for a change in regulation, and that it is safe. Our salmon industry is saying that it cannot do this. It cannot satisfy this regulation at all. That affects our salmon industry, particularly in Scotland. One challenge in the UK is we are very unlike the European farm community. We have great differences in our farming processes, techniques and things that are effective in the north of Scotland versus the south of England.

As Sam said, we will be under a European single central regulatory approach. If anything, the Europeans are also moving away from the idea of giving member states a little bit of authority themselves. They did this in the past with neonics, a particular pesticide. That was changed in 2023, when there was a single European approach to those things. So, you are not going to be in a situation whereby you can go in and say, “We have a particular issue in Scotland that you need to take account of.” That will not happen. We will be under a single a single set of rules.

The Chair: We need to make some progress.

Q35 **Lord Moynihan of Chelsea:** Is the EU the only major trading bloc that requires, at least for some of its trade partners, dynamic alignment? If that is the case, what arrangements are made by other large trading blocs with other smaller trading entities, which is the relationship we have? How do they compare and contrast?

Shanker Singham: It is anomalous. There are about 380 notified trade agreements in the world now. Given what has been happening in the world, there are a lot more, probably 60 more, that are not notified. Some 2% of them have dynamic alignment and they are all EU agreements with particular countries. They tend to be agreements with smaller countries: Moldova, Ukraine and EEA countries. The UK would be unusual in being a large market, the sixth biggest economy in the world, to have a dynamic alignment agreement with the EU. It is usually either for countries that are on the way to EU accession, such as Moldova and Ukraine, or for countries that are quite small and have a regulatory dependence on the EU. The UK is not in that category.

What countries generally do—and this is the WTO standard—is equivalence. The WTO says that countries should recognise each other’s regulations where the overall level of protection is the same. It is an objective standard. Assuming that your regulations are delivering in terms of animal health, human health, et cetera, you “shall”—that is the word that the WTO uses—recognise each other’s regulations through equivalence arrangements. That is mutual recognition and is used in all those other countries. It is the CPTPP norm and it is the norm that the US

uses, including in US agreements with small trading partners. It does not really come up in those negotiations.

I think your question gets at a fundamental difference in the EU's approach from that of the rest of the world, and where the EU is a bit of an outlier. Most countries, when they negotiate trade agreements, understand that they are going to regulate differently. They understand that regulatory competition is a good thing, but we should recognise each other's regulations where we can. Mutual recognition is the norm here.

What we could do, and my suggestion to the Government would be, given that the trade flows are mostly EU to GB in the context of SPS matters, is to unilaterally recognise European standards for a time period. We did this at the beginning of Brexit. We did not do so deliberately as a unilateral recognition mechanism; we simply did not apply the rules. The EU did; it applied the rules fully from day one. They could be unilaterally recognised for a five-year period while you are negotiating a mutual recognition agreement to give them some incentive to do that.

We are again, as Sam said, very similar right now. Obviously, we have not changed a lot of things. We have changed some things, which would include some costs of regulation, particularly in the crop life area. We have changed a lot of things there. But we ought to be able to do a mutual recognition agreement ultimately. It would not be immediate but you could solve a lot of your trade problems in that way.

The final thing I should say on that is that one reason why it is anomalous, and why countries outside of those who have done it would not contemplate doing it with the EU, is due to the internal EU process. If you look at Norway—I think this committee has heard from its Government—in many cases it has said, "We want to do gene technology or something like that". That goes into a technical committee under the EEA system, but there is a point at which the non-member states of the EU are removed from that process and can play no further part in it. No non-European member state has ever successfully changed an SPS regulation in the EU. That is one reason why people think it is anomalous. The problem for us in the UK, if, again, you look at Norway, is that it cannot do the things it wants to do. That means its farm sector becomes less competitive. Productivity decreases and it has to pay for that with subsidy. In Norway, 47% of its farm receipts are subsidies. The OECD average is 19%. We would have to accommodate our farm sector by subsidy, if it became less competitive as a result of these rules. That is the only way in which we could do it.

The Chair: We are going to have to be a bit brisker if we are to get through the questions, but I just ask whether Mr Lowe has anything to add to that.

Sam Lowe: On whether the UK's approach is anomalous, it is, but some further context is required on the level of integration that is being asked for by the trade partner. If we are talking about what the UK is asking of the EU in this instance, we are asking, in the context of SPS, for the

removal of all controls so that UK products would be treated as if they were made in the European Union. This is how those products are treated in Switzerland and Norway. That level of integration does not exist in the CPTPP or in the US's free trade agreements with its partners. So, although it is true that dynamic alignment is unusual, in the context of what the UK is asking for, the levels of access are also heightened as a result.

Does this exist elsewhere? Yes, there are other examples. Think about New Zealand and Australia's relationship: New Zealand and Australia share a food safety agency, and New Zealand is treated like one of Australia's federal states in the context of product standards. So it does exist elsewhere, but in the context of significant integration. That is, at least as far as I am concerned, what we are discussing here. We are not discussing a relationship that we want to stay on the level it is now or that we want to stay on the level we see between, say, the UK, Australia and the CPTPP or the UK, Canada and the CPTPP, where the controls that we are discussing exist. Those barriers are there; we are trying to remove them. That is the important bit of context when we are discussing this.

Q36 Lord Moynihan of Chelsea: May I ask a follow-up? I will try to be very brief; I hope that you can both respond briefly. Mr Singham stated that that we might, in future, be prevented from doing what we want to do in SPS and, presumably, in more innovative areas that might grow the economy. You have also testified that the EU has repeatedly lost SPS disputes with the WTO. We had an earlier witness who said, "Okay, that is all theoretically problematic but, practically speaking, there would be no conflict between the trade deals that we have done already and this dynamic alignment". I am very interested in whether you both agree that there would be no WTO disputes or anything around the various trade deals, as things stand.

Then, even if you do agree with that earlier witness, do you believe that that will always remain the same when we enter—as you have both said—a time when we no longer set the rules? We might have to take an EU rule that would be in conflict with the trade deals we have done elsewhere, which will lead to us being sued at the WTO and not able to do anything to defend ourselves because we are now a rule-taker, not a rule-maker.

Sam Lowe: On this one, I slightly disagree with the earlier witness—I was sitting at the back—in so far as it is entirely plausible that the UK's entry into a deep SPS agreement with the European Union could lead to a trade partner being upset and complaining. In that context, for example—we do this already—the continued application of restrictions on hormone beef are in breach of our WTO obligations. Switzerland managed to negotiate a carveout from its SPS agreement with the EU on that basis. It said, "We cannot enter into an agreement that puts us in breach of its WTO obligations". There are now loads of complicated labelling requirements on US beef placed on the Swiss market; it does not really enter anyway, because of high tariffs, but that exists.

In the context of the changes that would happen after the UK entered into the SPS agreement with the EU, we probably would have to change our risk assessment process that is currently in place for products from the rest of the world, because we changed it slightly post Brexit. That could have a negative impact on products coming in from our CPTPP partners.

For me, the question here is one of tolerance, although it may be more of a political question: will they care enough to make a big fuss about it? For every country other than the US—and Canada, possibly, because Canada raises this a lot—the answer is probably no, because they also have trade agreements with the EU in the context of the CPTPP members minus Malaysia and Brunei, and they are just going to live with it. Is it possible that, at any moment—this is not really a WTO question—the US President could say, “I’m going to put tariffs on the UK tomorrow because of their food safety rules”? Of course he could, but would that lead to the UK changing its rules? I do not think so. Our revealed preference is that we do not want to but, of course, it could be a problem.

Shanker Singham: First, I think that the model is the Australia-New Zealand agreement, which is a mutual recognition agreement. It is the most advanced mutual recognition agreement, and I would strongly support the UK and the Europeans doing something along those lines.

On the question, I tend to agree with Sam in some ways. It is a violation right now, and we know that it is probably going to get worse, in terms of more restrictions that are more likely to be more violative of the CPTPP and any agreement that we do or have done with the US rules. Those rules tend to be WTO-plus—in other words, they are more concerned about the trade barrier caused by the SPS regulation. The WTO is very much a floor, of which the EU is already in violation. So, if it is in violation of the WTO, it is going to be in violation of these other agreements.

The danger here for the UK is that we are putting ourselves in a no-win position. Canada argued many times against UK accession to the CPTPP on the basis of its SPS rules. The Canadian beef industry is very aggressive on this issue—more aggressive than the US beef industry—and it will bring some sort of action. Australian beef and New Zealand agricultural exporters are not shrinking violets either, so, if they were to bring some sort of action, we would not be able to respond because the rules are not ours to set.

First, there are questions about whether even that is a violation. There is a provision in the CPTPP for good regulatory practice. You are making commitments on your own domestic regulatory system for good regulatory practice. Never mind the SPS and TBT rules in the CPTPP; you also cannot make commitments because they are not your rules. The UK would be forced, basically, either to accept any trade sanctions in the CPTPP that result from this, a dispute resolution or a requirement for compensation, or to pull out of the dynamic alignment arrangement with the EU, which would trigger EU sanctions of some description. So we are in a no-win situation: we are going to get sued by somebody.

Sam made a comment about what the US President is likely to do. Some 90% of US farmers voted for President Trump. They are a very powerful group and lobby, and they are putting pressure on him on this issue. We know from the national trade estimate that this is something of great concern to the US Government. We know that we have negotiated a deal on pharmaceuticals that allows £11 billion-worth of UK pharmaceuticals to go tariff-free into the US when the tariff that they would otherwise pay is 100%. So we are in a very odd arrangement; the globe is in a very odd arrangement with respect to the US right now.

The risk is that that deal, which has already been paused once because the US was concerned about the UK's regulatory approach, could be lost. It is interesting that, when the national trade estimate listed the countries with which the US has made agreements for reciprocal trade or framework agreements, the UK was not mentioned. That is a little concerning. I would be very concerned about the UK putting itself in a position from which there is no good outcome: you are going to get litigation from somebody on this. That is a significant challenge.

Q37 Lord Brennan of Canton: We have already put ourselves in a position from which there is no good outcome, in my view, but I was interested in the point you made earlier about mutual recognition agreements. I thought we heard from an earlier witness that it was almost inconceivable that the EU would agree to a mutual recognition agreement with the UK. If you were advising the EU, rather than being an independent witness in front of us now, why would you say that it would be in the EU's interests to do that rather than what is being proposed here?

Shanker Singham: The interesting thing here is that the UK Government have not really used their leverage. As I said, 23% of Europe's total agri-food exports go to the UK. From the perspective of a consumer country—a buyer, if you will—that is extraordinary leverage. Most buyers do not have that kind of leverage over their supplier. We should do something with that. That is why a unilateral acceptance, while you are negotiating mutual recognition, which is time-limited, will put pressure on European exporters to do something that is in their interests.

It is often said that the Europeans will not do mutual recognition agreements, particularly in this area. I am not sugar-coating this and saying that it is going to be easy to get this. They did do one with New Zealand, a long time ago. It took a long time, but it is a very good agreement. They have done similar agreements in the context of CETA and Japan. If you don't ask, you don't get. We need to recognise that the huge beneficiary of a mutual recognition agreement would be the EU exporter in this case. We should certainly ask for this.

Also, the majority of trade in agri-food is EU to GB. Therefore, we can fix a lot of the problems with unilateral acceptance. In my conversations with customs intermediaries and other advisers to business, most of the questions that they are getting are about trade from EU to GB, which it is in our gift to do something about. I would have some combination of

unilateral recognition and trying to use our leverage to convince them about mutual recognition.

We must also recognise that the world of trade is massively changing. Since the Trump tariff, since liberation day, everything has changed and things are being discussed between the US and the EU that have never been discussed before, such as deforestation regulation and CBAM.

The Chair: I am going to ask Mr Lowe for a brief comment, but I remind everybody that this is an inquiry into dynamic alignment, not the SPS agreement. We must consider it in the context of the SPS agreement, but I do not want to go too far down the rabbit hole of the agreement itself, as opposed to the context of dynamic alignment.

Sam Lowe: This is just to clarify a few of the points made. The examples of New Zealand and Canada were referenced and described as mutual recognition. Shanker knows this, so I am not correcting him, but it is an EU framework under an equivalence framework rather than a mutual recognition.

The New Zealand arrangement and the Canada arrangement do not do what the UK is asking for. They do not remove the need for physical inspections. They simplify the documentation. What we are talking about is something different. I know that we have previously asked the EU about a New Zealand-style arrangement in the context of the TCA negotiations, and they said no, which is a legitimate thing to ask for, but we need to be clear that the outcomes are different. You would not remove the need for physical inspections at the border. That is quite an important distinction to make.

Q38 Lord Elliott of Mickle Fell: I would like us to turn our attention to economic growth and the impact that EU dynamic alignment might have on, particularly, GDP per capita and people's standard of living. What is the best method of assessing the likely GDP impacts of the three prospective new agreements with the EU? What is your assessment of the Government's estimates of the GDP impacts—in this case and with respect to the free trade agreements in general?

Sam Lowe: My assumption is that the impact would be positive and nearly negligible—that it would be almost impossible after the fact to look at the data and say that the impact on GDP was "X%". I think that it would be positive because, in all three instances, you would remove trade restrictions and increase trade flows, but we are talking in the context of SPS about a very small part of the UK economy. Those companies would benefit. Will that filter through into a sort of economy-wide GDP figure? I am not sure.

The method used by the Government is fine. It is in line with how they analyse all their trade agreements. I do not want to speak out of turn but, if you are proposing a policy, the economic analysis usually shows that it is good. That tends to be how it goes. The 0.14% for SPS sounds a bit high to me but is directionally significant. The ETS linkage is

interesting because they did not model the benefits of CBAM derogations, which could potentially put it higher, but again, I think that it would be small.

I am going to give a comparison here to demonstrate why some of these numbers might be slightly too high. Thinking about planning reform in the UK, this is maybe one of the most significant supply-side interventions that the Government are planning on making. The OBR estimates that, by 2030, that would lead to a 0.2% increase in GDP and, by 2034-35, a 0.4% increase.

Mr Singham mentioned the figure of £15 billion earlier in terms of the cost of the SPS agreement. For very similar reasons, I also think that that sounds absurdly high—0.5% of UK GDP linked to rules in this context because it was specifically focused on SPS linked to rules that apply to 0.56% of the UK economy. It led me to look into the innovative model that Mr Singham and colleagues have come up with. Within it, there is a domestic competition pillar, which they assume is the dominant driver of GDP. They assume that a 1-point improvement will generate an 8.03 percentage point increase in GDP.

However, where does SPS apply? When you delve into it, there is a business freedom score which accounts for 25%. Within that, there is a regulatory quality score which ultimately accounts for 6.25% of the domestic competition score and, per his submission, a 1-point improvement of domestic competition generates 8.03 percentage points of GDP. He has assumed that there will be no regulatory improvement post an SPS agreement, which is 6.25% of 8.03 percentage points, which gets you to 0.5%. The method is interesting, but you cannot assume that an SPS agreement stops all regulatory improvements in the UK, which is what has been modelled here. I assume that, even under the estimate that Mr Singham made earlier, you could still end up with a negative, but it would be much smaller.

Shanker Singham: The model that we have developed over 20 years is in academic textbooks, is double-blind peer reviewed, et cetera. so we are quite confident about it. If you look at the overall impact of regulation, the model that the Government use is very much a business compliance cost-type model and an equilibrium model, which essentially does not take structural factors into account. I know it well, having worked with its authors many times. It is a good model for tariff trade analysis—the effect of tariffs—but not for regulatory issues.

Sam went into our model in some detail; it is a 120-country, 13-year panel data econometric model. It shows that those increases come from the correlations between movements in these different pillars—trade, competition, property rights—and how you move in those pillars correlating to GDP-per-capita changes. The Government model and this model are both long-run models. We are not talking about immediate-effect changes but about the long run, which typically is 10 years, but it depends on the regulation how long it takes you to improve your regulatory system or make the changes.

In terms of looking at the difference, we have looked at the effect of European regulation. Others have come up with similar numbers: Draghi and ECIPE have come up with 3% to 5% GDP losses as a result of European regulation. Look at the GDP per capita that is being left on the table. We are looking at the distance to frontier. What is your regulatory headroom? What could you do? This does not mean that the UK will do it, but what could you do if you were to improve? Typically, we see from the EU that the headroom is about 27% to 28% across the board—everything in terms of GDP per capita that is left on the table as a result of regulation. The US, by comparison, is about 18% to 19%, so there is about a 10-point difference. It is in that difference that your regulatory headroom realistically could be achieved and could be derived.

When you look at our numbers, they are high, but we discovered from the model that the impact of improving your domestic regulatory system is much bigger—I am not talking just about the EU here; I am talking about everything—than people have previously thought. In fact, what is interesting is that the benefit from improving your domestic regulatory system is roughly double the benefit from improving the openness of your trade regime, which is counterintuitive based on the history of trade theory.

Nevertheless, that is the reason, we think, why a lot of countries, particularly in the G7, have experienced static economic growth in the last 25 years. If you look at the regulatory burden and the barriers, they have been increasing across the board, and that is borne out by this model. Other models have been used—agency-based models—that come up with the same sort of number for the difference between the two things. We think, therefore, that it is clearly the case that that regulation can have that anti-competitive effect. Then you have to look at the European regulation and see what the effect of that is.

To give some context for this, we have looked at everything with that number, but if you look at one particular thing, the residue regulation for pesticides in the area of crops, the CropLife association has estimated that that cost alone, which is a specific subpart of a specific subsector, is £810 million. So, in that context, I do not think that our number is particularly large. Remember also that our number does not include the impact of what other countries may do as a result of this. Obviously that number is way bigger if we lose the pharmaceutical agreement with the US.

The Chair: Can I ask you to address something, just so it is clear in my own mind? We are hearing all sorts of arguments about what the GDP impact will be, but would it be true to characterise them as arguing around the margins of something that is quite small?

Sam Lowe: I would agree with that. I would also say, though, that my criticism is not necessarily of the model. It is just that my understanding is that you have modelled the impact of the UK being unable to innovate regulatorily at all, and we are just talking about SPS here—

The Chair: I do not want us to get into a debate about the model. If what we are talking about is differing views on something that, whichever view you take, is actually relatively small, that is an important conclusion.

Sam Lowe: On that point, if I may, the reason that I have homed in on it a little bit is because of that comparison that I made to, say, planning reform. Are we really saying that an SPS agreement would be negative in the context of the UK economy to the same degree as planning reform would be positive? I just do not think that that is plausible.

Lord Elliott of Mickle Fell: Can we have a quick response from Mr Singham?

Shanker Singham: First, we have used the model to analyse planning reform, and we find much higher benefits for planning reform than the Government's modelling. That is the fundamental problem with the modelling: it is an equilibrium-based model and therefore does not allow you to take into account the structural changes that you could. Does that mean that the UK will do it, to your point, Chair? If the UK does not do much then, clearly, the benefits that it would get out of this freedom to innovate and freedom to do things outside of European regulatory strictures will be much more limited. We are saying that what you are doing by dynamically aligning is preventing yourself doing any of those things. That is where we think there is a significant barrier.

The Chair: I get that entirely. My point about the smallness was assuming that you dynamically align. I absolutely take the point about the opportunity cost, which is I think what you are saying, right?

Shanker Singham: Yes.

Q39 **Lord Grantchester:** Look to the future for a moment. Both our Prime Minister and Chancellor have said on several occasions that the UK should seek to align with EU law in further sectors of the economy in return for greater integration with the single market, especially where it is in the UK's national interest to do so. I understand that the Cabinet Office is also looking at this at the moment. Could you perhaps suggest further areas or sectors that the UK and EU could consider to be of mutual benefit for potential single market participation? While you are thinking of that answer and reply, can I ask you to consider whether you are in agreement with the effectiveness of the strategic test as laid out by the UK Government?

Shanker Singham: My view is that one has to be very careful when giving away one's own regulatory authority in any area. The test that I would use is essentially a cost-benefit test. What is the economic effect of locking my regulatory system into that other party's regulatory system? As I said, with SPS, you are on one end of the spectrum; there may be other things such as electrotechnical regulation where you might be further along on the other side of the spectrum. I would analyse each regulatory system on that basis—what am I losing and what is the

opportunity cost of doing this?—and then looking at what the specific benefits are in terms of restrictions.

This is one reason why most countries in the world approach this on the basis of equivalence, adequacy and mutual recognition. That is a better way of preserving your regulatory authority while also ensuring that you limit trade burdens and barriers with other countries. I do not think that, as a general matter in any of the Government's economic modelling, structural issues are taken enough into consideration. The data is telling us that those structural issues are enormous in terms of their effect on a country's economy.

We cited in the written testimony to you the work of Singla from Goethe University. He looked at the US federal code and said that 37% of the market power of companies is attributable to the federal code, so regulatory issues are absolutely massive drivers of either growth or stagnation. When you are about to give that away to somebody else, you had better be very sure that that person has the same view as you of the importance of regulation to economic growth.

I am not sure that the evidence from the EU—its own evidence in the Draghi report—suggests that it does at the moment. That may change in the future. The European regulatory system in 1995, I would submit, was a much better regulatory system. If we were dynamically aligning to that, the calculations would be very different and what the Government were doing would be very different. I am not sure that all those are being factored in or thought about in this analysis.

Sam Lowe: On the first point, Mr Singham mentioned that mutual recognition is the model used by everyone else, but I am going to challenge that slightly. Mutual recognition does not actually exist in very many places and, where it does, it is quite specific. When we talk about mutual recognition in a trade context, we are largely talking about conformity assessment; we are not talking about broader recognition of regulations. You have equivalence-type decisions in SPS but, in financial services, you also have adequacy, which is similar on data. For the most part, it is not something where the rest of the world recognises each other's rules and we are in some sort of anomalous hole in Europe. Most countries do not recognise each other's rules; that is the baseline. We are talking about how to chip away at that at the edges.

In terms of where the UK could go in future on this, the point that Lord Grantchester raised around mutual benefit is the question here. Everything that the UK is now asking for on, say, pharmaceuticals or products, we already give to the EU and we already recognise its standards and its third-party certification. So what does the EU get out of it in return? What we are asking is for our exporters to be given the same treatment, and I think that this is where the challenge is. It is very easy to ask and, in return, the EU will also ask for something. It could be in the same sector, it could be money or it could be on youth mobility—that is the conversation that we are having now. When I think of this, I try to think of areas where there is genuine mutual benefit. One of them could

be around pharmaceuticals, where you start to say that it is not an economic conversation; we are talking about health and the ability of patients in the EU to access medicines on a timely basis if they were certified and given the requisite authorisations in the UK.

You could frame the conversation in that way, perhaps, but I think that it is going to be really difficult for the Government to expand this conversation beyond the current scope. They are going to struggle. In the first instance, an earlier panellist mentioned autos, which are a big focus at the moment because of the Industrial Accelerator Act. There is also a new consultation out on the UK side in relation to alignment with the Euro 7 rules. The UK is going to ask, but will the EU say yes? I am not so sure at this moment in time. I will not go into them because of time but there are issues that pose some problems for the UK in terms of the EU's relations with other countries, including Switzerland, where the EU has required freedom of movement for a similar sort of integration.

- Q40 **Lord Grantchester:** Would you agree with my interpretation, which is that it all comes down to the effectiveness of the decision-shaping process and the dialogue that happens? Often, our experience of having the big EU on our borders and imposing on us, as it were, can, especially in agriculture, limit product scope and the effectiveness of processes—for example, sprays and residues remaining in container wagons and things like that. It can work against trade unless the decision-shaping process is effective.

Sam Lowe: There does need to be some realism here on decision-shaping. I am much more pragmatic about this in so far as I think that, if there is an economic reason for the UK to align dynamically—there appears to be one for SPS—it should do so. There is no real political desire on the UK side to diverge, either because we do not want to do so or we cannot do so. In some of these instances—take product standards, for example, where we wanted to diverge but we could not; it just did not work because the companies did not go along with it—we need to go for it, I think, but you have to be realistic. You are giving up control over the decision-making process, which is now an EU process; that is the trade-off.

Shanker Singham: The history of countries that have gone into these kinds of arrangement is that they do not affect the decision-shaping process at all, so we should not walk into this thinking that this will be something of a relationship of equals where we can make our views known across the table and get the EU to agree. It will not do so. Once you are in a dynamic alignment arrangement, the EU's view will be what happens.

- Q41 **Lord Barrow:** I want to go back to something on which we have already touched: the relationship with the WTO. Just to be clear, what is the relationship between the WTO SPS agreement and a UK SPS agreement with the EU? How do they relate to each other?

Shanker Singham: As a WTO member, the UK has obligations that are governed by the SPS agreement in the WTO. That includes Articles 4 and 5 in particular, which are the core of it. Article 4 relates to equivalence and says that countries shall recognise each other's equivalence or grant each other equivalence where, ultimately, the regulatory system is delivering the same thing. Article 5 of the SPS agreement relates to sound science. Its provisions require the UK, as well as any WTO member, to regulate on the basis of sound science—that is, not to discriminate and so on.

What will happen to the UK in a dynamic alignment context is that, in effect, we will do whatever the EU says. If the EU is in violation of the WTO rules—again, I refer to the 76 complaints at the last WTO SPS Committee, which took place in March—all of that will be applied to the UK as well. The US has already made that very clear in its national trade estimate, which is its inventory of foreign country trade barriers, by referring specifically to dynamic alignment as a problem for the US as a WTO member. Other countries will, I think, take similar views.

One thing that other countries will be concerned about, with regard to this arrangement, is that they have long challenged and had problems with the European regulatory approach—particularly, but not only, with the SPS; they have had problems with some other areas as well. They will be very concerned about the UK being part of the European SPS zone because, in effect, dynamic alignment increases where your regulatory boundary is vis-à-vis your customs boundary. They will be concerned about the UK becoming an accelerator of European regulatory regulation and the European desire for regulatory harmonisation around the world—the so-called Brussels effect. That will be of great concern. The UK is not a small country. If Moldova agrees dynamic alignment, no one is really that concerned about it leading to the spread of European regulation around the world. If the UK does it, though, that is a whole other ball game.

Other countries will be very concerned about that. It is about not just what the rules are but the precedent that this sets. That will be in their minds when they are deciding what to do—and they do talk to each other. In the SPS Committee, the Australians, the Canadians, New Zealand, the US and India all talk to each other about this. That is a big problem. It is why the European entry in the national trade estimate is the second longest, at 45 pages—China's is 51 pages long—most of which is regulation. We are in a world where the US, in particular, has focused much more on regulatory barriers than on conventional border barriers; it is a world in which the EU is very much a subject of global concern. We would be bringing ourselves into that world.

Sam Lowe: I agree in principle on the interaction between the WTO SPS agreement and the UK-EU relationship. One of my questions—this is a question for the negotiators—is: will there be a provision in the agreement between the UK and the EU that allows the UK to diverge in the event of, for example, the EU losing a WTO dispute? I ask this

because we have the Swiss precedent of there being carveouts on that basis. I would assume that the EU will push against this; I am not saying that I expect it, but it being in there is a possibility.

In terms of the wider context, I largely view this as a US problem in so far as every other country to bring a dispute on any of these issues would have to pick a fight with the EU, and most of the countries that would do so have just been doing trade agreements with the EU. Australia, New Zealand and India have just made agreements. Canada ums and ahs but, currently, Mark Carney is presenting himself as the global opposition to Donald Trump, so it feels unlikely that that will happen.

It is entirely possible that the US will escalate these issues again, although there was a very funny interview with Donald Trump, following the announcement of the EPD, in which a journalist asked him about the UK's food standards. He said, "We did not get what we wanted there. Actually, we seem to be going the same way as them, with the current Health Secretary". That is slightly more dynamic, obviously, but the institutional US view is that it does not like the UK's and the EU's food standards.

The Chair: That is an interesting note on which to finish. Mr Singham, Mr Lowe—thank you very much indeed for your time this morning and for helping us try to pick our way through some pretty thorny issues. We are very grateful for your contributions. With that, I bring the public session of this meeting to an end.