

International Trade Committee

Oral evidence: The G7 and international trade, HC 125

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

Questions 1 - 17

Witnesses

[I](#): Ruth Bergan, Senior Advisor, Trade Justice Movement (representing Civil Society 7); Professor Ngairé Woods CBE, Dean of the Blavatnik School of Government and Professor of Global Economic Governance, University of Oxford; and Professor Linda Yueh, Chair of the Economic Diplomacy Commission hosted by the London School of Economics, and advisor to the UK Government's Board of Trade.



Examination of Witnesses

Witnesses: Ruth Bergan, Professor Ngaire Woods CBE and Professor Linda Yueh.

Q1 Chair: Welcome to this afternoon's session of the International Trade Committee on the G7 and international trade. We have two panels today. The first panel has Ruth Bergan, Professor Ngaire Woods and Professor Linda Yueh. I will let all three of you introduce yourselves in a second—name, rank and serial number. In the second panel we have the Secretary of State, Rt Hon Liz Truss MP. Starting with Ruth Bergan, please introduce yourself as you would like.

Ruth Bergan: I am Ruth Bergan, senior advisor at the Trade Justice Movement.

Professor Woods: Sorry, I am now unmuted. Good afternoon. I am Professor Ngaire Woods. I am dean of the Blavatnik School of Government at Oxford University.

Chair: Thank you very much. The mute button is appreciated. It gives me the opportunity to make my favourite joke for Anthony Mangnall's benefit, that mutations are the problem of this pandemic. You have heard it again today, Anthony.

Anthony Mangnall: We need a new variant of that joke.

Chair: Very good. Finally, last but by no means least, it is good to see Professor Linda Yueh—I think it has been a while.

Professor Yueh: Good to see you, Angus, and lovely to see everyone on this Committee. I am Linda Yueh, chair of the LSE Economic Diplomacy Commission, which looks at the UK's economic diplomacy framework for the 21st-century world. I am an advisor to the UK Board of Trade.

Q2 Chair: Thank you very much, and thank you all for being with us today. I note that, to discuss the G7 and international trade, both panels are all female. I am not sure what that says, if it says anything at all, and I will remark no further as there are always dangers when you do, but it is interesting to see that.

I will go to Professor Woods for the first question. Can you explain the overall purpose of the G7, which I think at some point was 58% of global GDP? What role do you think it can play specifically as a distinct group in international trade?

Professor Woods: I should have mentioned at the outset that I sit on the Trade and Economy Panel of the Department for International Trade.

The G7 was formed in the late 1970s when the United States had come up with the dollar standard and it was important for countries, particularly for the G7, to think about how to co-ordinate among themselves. The G7 today is at its strongest when it is the G7 Finance Ministers because they operate as the kitchen cabinet, really, for the IMF, for the OECD to some degree and for international organisations. The G7



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still come together. The finance ministries are very used to co-operating with each other in a crisis. They will come together on a telephone call every week, every day if necessary, every couple of weeks, in a well coordinated way so that even when the G20 for Finance Ministers was created in the 1990s, the G7 was still by far the most closely coordinated group and would drive the G20 process. I think it is less of the case once you are outside of finance and it is less of the case today than it used to be. The G20 is now the forum for the world's largest, most powerful economies, and some would say it is the most important, but the G7 has the historical advantage of being a place to pre-cook the agenda for the G20, pre-agree and get some consensus across the G7.

Britain's position in the G7 has changed quite dramatically over the last couple of years. Britain used to sit very much between the United States and Europe. You would almost physically feel that it was part of that very powerful trio. The G7 now feels much more like the United States and Europe, because Europe sits with its members, Italy, France and Germany, and the two European presidencies. The United States has always been the dominant country in the G7. Canada, Japan and the United Kingdom are now in a slightly different place, which calls for a much more nuanced, much more nimble diplomacy on Britain's part, which I am sure we will get to today.

Q3 Chair: I think I may have given a wrong statistic on GDP. I think the G7 is about 30% of global GDP, now dropping to about 28%, and the G20 is on 45% of global GDP by 2025. Pressing on, Professor Yueh, how successful do you feel the G7 has been in addressing global challenges over the period, especially in international trade?

Professor Yueh: It is a good question. I think the more informal relationships can help to build a position during crises, and you saw that in, for instance, the financial crisis 10 years ago where the G20 played a co-ordinating role. The G7 continues to be countries with similar economies and institutions, which helps build a consensus.

There are a couple of things to notice. This is the first time that the G7 has had a trade track. Its contributions to global trade in the past were much more around consensus building, but you might recall that in 2018, under the previous US President, the G7 struggled to put wording in the communique to support a global rules-based system. It has had periods where the consensus was built and maybe four years where there was less consensus from the United States. One thing to note is that the G20 includes China as well as the United States, and a large number of emerging markets as well as the G7 countries. We are in an era where there is much greater competition between the US and China and there is much greater difficulty in coming to a consensus.

I think with the G7, moving forward, you have countries that are, with the change in the US Administration, perhaps more aligned on some of these issues to try to promote a global rules-based system, and that might help. We are in a period in which it is difficult in the global system,



with the tensions between the US and China, to make substantial headway on some issues. Looking ahead, the trade track in the G7 means there will be more of an ability to highlight the areas in which global trade needs to be reformed and the support for global public goods, and to use that to build a consensus to bring in other countries, and indeed China and other emerging economies as well.

Q4 Chair: The G7 will be meeting soon in the ancient nation country of Cornwall, but it has decided to have guest countries as well. How do they enter play, how many of them are there and how do they influence decision-making in the G7? How do they arrive there as guests? Is this part of the informal stuff you were talking about earlier? Are the guests specifically invited by the chairing country?

Professor Yueh: The answer is the last thing you said, but there may be a few choices there. They are invited by the country that holds the presidency, and the four countries that have been invited, just looking at their GDP weight, added to the G7 represent over half of the world's GDP and 2.2 billion people. It begins to expand the coverage of economic weight in the global economy.

The inclusion is informal and, as we have been saying, the important work in some respects is done informally. Having them in the room tries to build consensus around issues where there isn't uniform agreement. For instance, to what extent should the World Trade Organisation rely on plurilateral—meaning fewer than everyone, not multilateral but plurilateral—initiatives to further globalisation on things like services rules or digital rules? There are differences of opinion between emerging economies and developed economies on that issue. There are also differences, for instance, on the importance of industrial subsidies versus agricultural subsidies or fishing subsidies and, again, differences between the emerging economies and advanced economies. It is not one generalisation, but there are differences there.

Including a broader group of countries can also begin to build consensus, even if they are guests, on some of these issues to try to further the global rules-based system.

Chair: That is very interesting. A variant on the same theme perhaps, Mr Anthony Mangnall.

Q5 Anthony Mangnall: Thank you to our witnesses for being with us this afternoon. It is massively appreciated. Ruth, we have just heard that the G20 is perhaps more important, given that it has some of the bigger countries and some of the more emerging countries on board. How successful are G7s traditionally in coming out with meaningful communiques that deliver results, or are these flash-in-the-pan opportunities for countries to suggest they are taking action when they are actually not? What level of expectation do you have of the G7 producing any meaningful results, if any at all?



Ruth Bergan: I should also have mentioned that I am here representing the C7, which is the civil society organisation around the G7. I am attempting to speak on behalf of quite a large number of groups from across the world. Our sense of the G7 is that it is at its best where it is setting a positive context for action at a multilateral level. We think there are questions around what the purpose of the G7 is now and how best it can achieve what it sets out to do. There are some serious questions around the legitimacy of this group of countries setting agendas and work plans on different streams of that. We would like to see, particularly given the pandemic and the climate change challenges, much more of an effort to set a context that supports a multilateral approach, through UN bodies and also through a reformed WTO.

We have seen in the pandemic that the trade system needs some serious attention if it is going to be able to play a positive role. We saw, for example, the hoarding of PPE and issues around vaccine distribution. At the moment the trade system is not working to address those huge global issues as we go forward. We are also concerned that it is not well set up to help with the economic recovery.

What we want to see from the G7 is a clear recognition that there needs to be change and a clear recognition that that change needs to work for all countries. Some of the language coming out of the trade track at the moment focuses a bit too much on G7 priorities, and I think this is where the plurilateral debate comes in. There is a risk that the G7 comes up with a bit of a shopping list of plurilaterals that meet the requirements of G7 countries and their priorities. The plurilaterals around e-commerce clearly stand to benefit particular approaches, and they certainly risk benefiting richer countries more than developing countries at the moment.

Q6 **Anthony Mangnall:** You tweeted a few weeks back about one of Professor Winters' articles on CPTPP and slightly questioned the UK's direction in wanting to join it. Isn't that a perfect example of how the UK is taking a step forward in wanting to join new bodies, to be able to create new organisations to enhance and address, perhaps, a green foreign policy to tackle some of the broader issues today? That is an example of the UK stepping forward and addressing the issues you have just raised.

Ruth Bergan: From our point of view, taking a slight step back from the CPTPP, what is lacking at the moment from the UK is an overarching trade strategy that sets out what it is aiming to achieve in joining deals like the CPTPP, pursuing all the different deals that it is, beyond just ticking off trade deals. In particular, what is needed from a strategy like that is something that sets out how trade fits with its other ambitions on things like climate change and the sustainable development goals, which is something that we think the G7 needs to be focusing on. It is not obvious what the UK is trying to achieve in joining the CPTPP. The economic benefits to the UK are also not obvious, yet we could be signing



up to a set of agreements that restrict what we are able to do on things like climate change. You will be aware that we are particularly concerned about the ISDS provisions contained in CPTPP. There is lots of evidence that they are slowing down, if not preventing, action on things like climate change.

Given the space we are in, newly taking back our trade and investment policy, hosting COP 26, hosting the G7, our energies would be much better placed in looking at what the changes are within the trade system and how they can be implemented in a way that is equitable globally so that we can build back better post-pandemic and address climate issues.

Q7 Anthony Mangnall: They are helpful answers. Thank you. It is all very well our coming together in the G7 and trying to come out with communiques that have to be balanced on the diplomatic and self-interests of member states, but surely the UK—as was reported earlier this year, I believe it is leading the G7 on environmental policy—through our own domestic policy is able to prove the example for the rest of the world and provide reassurance on the ability to create a green economy and build back better, and all the things you have just said, by example rather than just through paper communiques at a conference in Cornwall.

Ruth Bergan: I agree there is a risk that what the G7 says and does is not lived on, and there are issues about how well the communiques are followed up, what accountability there is for what is said and how well G7 countries deliver. I think you are right that domestic action is important. However, in the lead-in to COP 26, I think there has to be recognition that at the moment we are in a situation where we have trade and investment policy that is both binding and enforceable on all countries, with all of the mechanisms necessary to do so. If you are in breach of your trade agreements, you are likely to face some sort of retaliation in the form of raised tariffs from states, potentially reduced access in certain areas or an ISDS claim that is directly brought by an investor. There is very little actual accountability if you are in breach of your COP 26 commitments currently.

I think that is why getting the trade system right is so important, because it has the power to enforce and incentivise good practice, and also to undermine it if we don't get it right.

Anthony Mangnall: There was a particularly good article put through the Centre for Policy Studies the other day, talking about how foreign policy and trade deals need to be more aligned with climate issues. Thank you very much for your comments.

Q8 Sir Mark Hendrick: I will start by asking a question of Professor Linda Yueh, who I know from my time as chair of the All-Party China Group. It concerns the trade track, which we have already touched on. It is here at the G7 for the first time. What do you think the Government are seeking to achieve by doing so? I know the Secretary of State for International Trade has said that she wants to deal with unfair subsidies and things like



carbon leakage. Could you comment on some of these things?

Professor Yueh: Thank you, and it is lovely to see you. There are maybe two main areas. I am going to be very broad strokes here on what this inaugural trade track indicates it will cover, and we can discuss a bit about how much of it is coverable in a meeting in Cornwall plus a couple of Trade Minister meetings. The first thing I would stress—and I agree with what Ruth said a moment ago—is that even with a couple of meetings and a track and a summit, it is the intention to support the principle of what we would like to see as the global trading system. The focus on free and fair trade and supporting a multilateral rules-based system, I think these are—as I mentioned a moment ago, the latter was contentious just a few years ago and the fragmented multilateral system needs to be bolstered. When we refer to things like plurilateral approaches, that is not the first best outcome. It is just a pragmatic way of thinking about how you make progress when the tensions are such that it is very difficult to do multilaterally.

On the trade track, the Trade Ministers, including the new WTO director-general, met in March. I think that is where the support for a multilateral rules-based system came, making sure that trade is free and fair, as in a level playing field, as well as the impact on the people in your country. These are all principles that are important to stress. There is value in repeating and promoting that. The second area is support for global public goods. We have discussed climate change, pandemic preparedness and global health. These are also areas where having consensus that there needs to be agreed, actionable goals and follow-up is very important. I am being very broad strokes here.

Within the trade track, there is a focus not just on trade rules but also on health, digital and environment, but within the overall framework it is just agreeing the principles, the consensus that these things need to be focused on, promoted and then acted upon. That is why I said at the beginning that “acted upon” is always a challenge for all these issues. One of the recommendations from the LSE commission that I chair, which has looked at economic diplomacy for the last couple of years, is for a secretariat for global public goods to provide that continuity. It is not necessarily a big fancy office somewhere but a more nimble secretariat that can essentially take the actions on global public goods as they are agreed at places like the G7, the G20, the UN and other meetings and try to follow through and provide continuity so that these principles will hopefully be followed through fairly quickly in the global arena.

Q9 **Sir Mark Hendrick:** Professor Woods, how do you see the work of the trade track aligning with the work of other multilateral organisations on trade issues, particularly the WTO?

Professor Woods: The G7 has had a comfortable consensus on trade, which is pretty much broken now. I think I would start there and say that free trade and investment, fighting protectionism, supporting the international rules-based system has been a mantra of G7 trade policy for



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the last couple of decades. All four of those components have faced a revolution in each member of the G7.

On free trade, most countries, most Governments, most politicians are under great pressure to act on climate, global supply chains, modern slavery, different standards, a notion of fair trade, as Linda already put it, which means a real shift from what we might have called free trade to a much more nuanced notion of fair trade.

The idea of free investment has been rethought as countries, over a decade ago, watched Russia beginning to buy into the vertical energy networks of the European Union and said, "Hold on, free market competition should not be there to prepare mercantilist states to take control of our strategic assets." Of course, in the eurozone financial crisis, we saw the same happen with Chinese investors buying up strategic ports, electricity and gas grids, and so on, across Europe. There is rethinking of investment which says, "To whom should we apply these rules and how?"

On fighting protectionism, you are seeing most politicians facing a demand to keep jobs, PPE and vaccines at home. The political climate has changed. When it comes to supporting an international rules-based system, that system has been paralysed for at least the last four years because the dispute settlement mechanism has been paralysed by the US, so it needs a huge reinvigoration.

Finally, Covid has shown us how vital digital trade is. It has taken off and become far more important, including for the British economy. I think the British Government are absolutely right to say, "We need a G7 trade track" because trade is shifting and the consensus on trade needs reforging. If Britain wants to play a leading role in reforging it, I think that is needed and important. One of the most important things that Britain needs to do—and this goes directly to your question, Sir Mark—is to help the World Trade Organisation move in that new domain.

Let me give one quick example that highlights the problem. If Britain, in its urge to get to net zero, wants to apply carbon border adjustments or other green policies to what is happening in Britain—which I think most people in Britain believe it should do, and certainly the Government have said they want to do it—how does that work if the G7 create among themselves an agreement to recognise each other's arrangements? A fortress G7 that is perfect and impeccably green is not going to solve climate change if every country outside of the G7 is doing something completely different. It is a tricky one to crack.

What you need to crack it is a forum for genuinely international negotiation so that you could then say that is what the World Trade Organisation is. It has the members and it should be able to lead that. The reason it can't and it hasn't is because the World Trade Organisation secretariat has no power to propose. In other words, it relies on member states bringing proposals. These issues are too tricky for member states



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to try to negotiate among each other and to direct the World Trade Organisation to pick up and take forward.

That is why I think a great British policy is, as the Secretary of State hints at in her chairman's statement, to unleash the WTO secretariat to go full force in negotiating across all countries so that it can propose to members a way to deal with this issue. It sounds a small measure that what we do is enable the WTO secretariat to make proposals, but it actually has huge implications for how quickly we can move to a set of trade arrangements that commits the world to get to net zero.

Q10 Taiwo Owatemi: Thank you to the panellists. I am glad to see female-led panels today, so thank you. Ruth, the G7 Trade Ministers have outlined an extensive list of priority areas for co-operation under the trade track. How achievable is this list of actions, and what outcomes should be aimed for during the UK's presidency?

Ruth Bergan: Thanks for the question. I think it is a good one. Our take is a little different. From what we have seen so far, the tone of what is being proposed feels slightly wrong and the ambition is not what we were hoping for. What I mean on tone is that it feels like the aims that are being pursued are very much in line with G7 priorities, around environmental goods and services for example. On the climate track within trade there is a big emphasis on liberalisation of environmental goods and services, and we feel that is relatively more likely to benefit G7 countries, which are countries that have the industries that are producing solar panels or other kinds of technology that they want to export, or services, investment or architecture that is engaged in that.

The challenge is that, while they are pursuing a set of issues that are likely to be beneficial to themselves, it creates increased tension at the WTO where issues of concern to developing countries are not being addressed. What we would prefer to see there is sending a clear message that what they want is a discussion in the round about how trade can be properly aligned with climate change and setting the ambition higher to ensure that, across the board, trade is supporting climate change. Things that we have looked at in that respect include how you get the intellectual property provisions right so that you can allow technology to be transferred, so that it can be adapted to local conditions and best used by different countries. I think you see that across the board.

What they have tended to do—and perhaps Ministers would say, “It is the first time we have done this, so we wanted to go for some achievable low-hanging fruit”—for example, under the gender workstream they are very focused on the shoe trade tool and trying to get pick-up of that rather than looking at the systemic problems within the trade system that add to inequalities in gender outcomes. We have produced reports on that. There is lots of evidence that, if you have a system that leans towards liberalisation and privatisation of services and locking that in, women tend to be relatively more disadvantaged because they will pick up the care responsibilities where services are not available.



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We would like to see Ministers acknowledging that trade is currently one of the drivers of some of these issues and, therefore, that it needs to be reviewed from that perspective, but also that it needs to be across the board. It is not enough just to have a set of piecemeal interventions without tackling the whole picture. To come back to the question of effectiveness, if what we see is a set of commitments and there is not much on accountability, if there is not much to set out what happens between now and the next G7 meeting, it is not clear how effective it will be or even if we will have a good sense of what it has achieved.

Q11 Taiwo Owatemi: That is very helpful. Professor Yueh, following on from what Ruth has just said, are there any other major actions that you think have been omitted from the list of priority areas on the trade track?

Professor Yueh: That is a great question. I think each of the areas is quite broad, but it is more what gets picked up within the areas. Looking at the focus on modernising trade rules, there is quite a lot that could fall within that. Ruth has already covered off environment. Similarly, with health and digital. I think the overall focus—Ngaire put it very well—is rebuilding the consensus, which is a term I used in my last book. We don't have an economic consensus anymore around not just trade but the economic system generally. I think an overall approach that says the trade track is seeking to promote a global rules-based system that is free and fair, and then focusing within these four different areas, is probably roughly about right.

I think what will matter specifically are the actions that are agreed by the G7-plus—the four other countries that have been included, the EU and other observers in different tracks have different inputs from different organisations. It is about how you act on a consensus that is found within a group of countries and then try to get buy-in from the rest of the global community to deliver on these. These issues have been contentious and there is a breakdown in consensus, so it is difficult. It is not the same as it was previously. In that sense it is finding progress, and then the UK could play a leading role in connecting progress in different bits of these issues.

This is where the secretariat idea that we have proposed comes into play because what you don't want, where there is a bit of consensus found on an important issue, is for that to be not followed up on. If there is progress on a particular issue, a secretariat could carry that forward and take it to the UN to discuss climate, could take it to the WTO ministerial conference, which is happening later this year in Geneva. Plurilateral can sometimes lead to fragmentation, but co-ordinating that, always with an eye to finding more countries to join, can help us build a multilateral system, which is first best.

Q12 Mick Whitley: Good afternoon to all our witnesses today. Professor Woods, is the G7 an effective forum to address the issues outlined in the G7 trade track? How can the G7 trade track include the voices of countries that are not G7 members?



Professor Woods: That is a great question. I think there is enough disagreement among the G7 on almost all the issues we have raised today for the job of trying to bring the G7 to the same position to be a useful and important one. They can be one of the little mini-engines of a larger process that would end with a WTO process. I think that is important.

I will add three issues that my colleagues have said less about, which I think are vital for both Britain and the G7, and vital for Britain to push in the G7. The first is trade in services, which is notably absent from both the British and G7 positions. It is so important for Britain because 80% of British GDP is in services. Services are tricky stuff, but I think it is worth Britain thinking about where that fits in the trade agenda and where it fits in the G7 agenda.

Along with that—going back to the question Sir Mark asked—Britain has a great history of joining up its efforts across the international system. I spend a lot of time talking to other countries who say, “The thing about Britain is that if they come at us with a position in the IMF, we know there will be a follow-up in the UN, in the OECD, at the G7, and it is that coherence that makes us stop and listen to what the British position might be.” On all of these issues I think it is pretty important. The reason you want Britain to have a clear strategy is so that the different parts of the British Government can start joining up on that strategy, and likewise across the other G7 members.

The other issue that has been less raised is digital trade standards. It is not enough just to say we want free digital trade. Here at the School of Government we have teams in six different developing regions of the world doing digital toolkits, which are about how those economies can use digital for inclusive growth. What we keep seeing over and over again among different kinds of Government is a fear that, if they try to move to digitise, somehow the G7 will keep shifting the goalposts. They will shift them and then shift them again, and all the effort will be for naught. It points to something that is hinted at in the British position but could be strengthened in the G7, which is to lay out where in the world we are going to negotiate digital trade standards. As the Secretary of State’s document says, it needs to be open, transparent, inclusive, clear and so on.

We have been thinking about the model of the Financial Stability Board. It is a standard-setting organisation that brings countries together, and it does not bring one Minister. It brings, for example, the Finance Minister, the Digital Minister, the Regulatory Minister, so it starts getting countries to think across the piece about what their digital trade standards should be. I would put a little more emphasis on that.

Finally, as I read the G7 trade track approach, what struck me that I would want to be focusing on if I were a British politician is how quickly and effectively we need to start normalising trade relations with each of



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our European partners. We can't just leave that off in a field somewhere because everybody is a little bit uncomfortable, for whatever reason, about Brexit or the way Brexit is happening or whatever. Britain has to lean forwards, particularly coming out of Covid. I sense across Government that this is an issue that is being parked because people want to sort it out first. I don't think we have time to park it. I think every single Department in the British Government, and every single Secretary of State, needs to be engaged actively in forging a new and different relationship with each major European power. Apologies if that is uncomfortable listening, but we don't have time just to leave that to one side.

Chair: Those are important words.

- Q13 **Craig Williams:** That wasn't uncomfortable listening at all, and I think we will take a lot from that. Professor Woods, you spoke to Sir Mark about WTO reform and, on this Committee, we all note how important that is. But how important do you think the G7 is as a forum to advance WTO reform discussions? What do you imagine the G7 leaders could aim to achieve during this summit?

Professor Woods: I think the G7 does have a role to play in this—and I am not a G7 groupie; I have been known to say it is just a photo op, because at certain times it is—precisely because, as I have said, the trade consensus is changing so fast and so many countries are floundering around and wondering what to do. They are facing protectionist measures, free trade measures. Most politicians feel under a lot of stress about what to do on trade, and I think in that environment what the G7 does is important.

It begins with the G7's relationship with Ngozi Okonjo-Iweala, the new WTO head. She is terrific, a former Finance Minister and is used to the G7. She has been at G7 meetings as a Finance Minister in a previous life. She has been at the G7 meetings as a World Bank senior vice-president, so she knows the G7 system. Therefore, there is a close relationship there to work and to help unlock and push forward the agenda.

I still think that if the G7 can come to agreement among themselves, which has been very difficult over the last four years with America's approach sometimes being too at odds with the other G7 members, it can set a tone in the G20. I don't mean a tone of the G7 saying, "We now set the rules," I don't mean that at all. I mean each of the G7 members preparing their closest allies across the G20 and setting a stage for a new constructive set of moves forward on trade.

- Q14 **Paul Girvan:** Thank you to the panel for their answers so far. Professor Yueh, what are the key market-distorting practices that may need to be tackled internationally? What part can the G7 summit play in addressing those practices?

Professor Yueh: That is another great question. As a broad principle, it is about the level playing field. Specifically, subsidies are currently being



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discussed quite a lot. As a generalisation, advanced economies—and this has come out of the G7 Trade Ministers' meeting—are very concerned about industrial subsidies, so subsidies that are being provided to companies. China is not mentioned, but China is a country that has a state-controlled financial system. This issue has been ongoing for quite a long time, not just within the G7 but it has been an issue that the Europeans and Americans have discussed for some time. Generally speaking, on the advanced economies side, it is an issue that they would very much like to see addressed and it is very difficult.

The developing countries, the emerging economies, as the WTO DG has pointed out, are more concerned about agricultural subsidies. They would like to see agricultural subsidies, such as those in America and Europe, be addressed because the bulk of agricultural exports comes from developing countries. I think subsidies, as a market-distorting issue, are quite significant. Where the G7 stands by including countries like India and South Africa is that they will agree that subsidies are an issue, but can they begin to build a consensus that could help move this issue forward at the WTO? I think that is one of the challenges.

A second issue is special differential treatment. The self-designation of countries as developing within the WTO has raised a lot of trade tensions. Again, China has caused this issue to be quite contentious over the last few years, but it is not the only country. There are also other countries that have self-designated. This, again, comes down to a level playing field. Where the G7 can play a role is in elevating the principle of a level playing field and then identifying specific ways in which the WTO needs to look at the trading system to address these issues.

Broadly speaking, the third category, which is generally under modernising trade rules, is around developing and upgrading global rules on digital trade and services trade. GATS, which is the main WTO provision for trade in services, was back in 1995. On digital, a working group was set up in 1998 to try to develop e-commerce. But the internet has changed a lot. The reason it has taken so long is that it is extremely challenging to find consensus in the broad, covering data, digital trade, e-commerce, privacy, national security, and of course, importantly, services exports.

I think the G7 can play a role, and the UK in particular could take a role. The UK is the second biggest exporter of services in the world and the fifth biggest exporter of digital in the world. The UK has a huge amount of private sector expertise to bring in to begin to formulate, quite technically, some of these areas of standards, rules and norms to piece together enough of a consensus and a movement towards opening up more fairly, more equitably and more mindfully of keeping the impact on people at the forefront of everyone's minds. There is an opportunity there to begin to shape global rules so that they govern the fastest growing areas of the world economy. So a small task for the G7, and the UK has an opportunity to do that.



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I will finish by saying that the number of stakeholders that need to be involved is very challenging, and I am not confident necessarily that consensus can be found on a number of these issues. However, stepping back into what the G7 could do in general in this area is to promote fairness and a level playing field, both domestically and internationally, as a principle. That could at least help rebuild the consensus around trade.

Ruth Bergan: I think the subsidies issue is an area where it would be useful to take a step back and to think about what the approach to subsidies needs to be. I am sure the Committee is aware that there have been a number of challenges on subsidies and Government support for moves towards renewable energy. The way it looks is certainly that a number of countries are trying to use policies to support their renewable energy sectors and they keep getting hit. It gets a bit farcical because you have Canada being challenged, India versus the US, and then the US retaliates.

Some new thinking is needed about the usefulness of subsidies in achieving, for example, climate change. The world of your industrial strategy, your approach to renewables will be so different in the coming years and I think there needs to be a new approach on subsidies and a recognition that state intervention will become much more normal. It is not necessarily the most useful thing for the trade system to intervene.

On e-commerce, there is quite a lot of concern among civil society organisations about the rules that are being developed in the context of trade agreements when, actually, there is a debate about human rights, digital rights, about who gets the benefit of data. If you are a country that is generating loads of data and suddenly the trade system says, "You may not require that the data stays within your borders," and it gets exported to countries with existing infrastructure to process that, you are effectively losing a raw material, a domestic resource, and you are not able to reap the benefits of it. We think that a much bigger debate about when you capture, about rights, about ownership, needs to advance a lot more before we set in stone a lot of these rules on digital. Developing countries are struggling with the ban on digital taxes, which has been in place for a while, and would like a discussion about that. There are very different priorities across the WTO.

Q15 **Paul Girvan:** Going back to our days in Europe, one member state seemed to interpret state aid rules in a slightly more imaginative way than the United Kingdom on many occasions. I am talking of our nearest neighbour, the Republic of Ireland, which basically drove a coach and horses through it and made it a very unfair playing field in many sectors. Are we coming out of the frying pan and jumping into the fire by putting in too many controls on these matters? I believe we wanted to take back control in many ways by leaving Europe. Are we effectively, by some of these trade agreements that we want to involve ourselves in, jumping in with an even more dictatorial group such as the G7? It is just a point, and I want a comment on it. It doesn't mean it is right.



Professor Woods: It is a very good point, because to make the absolute most of Britain's exit from the European Union requires a very clear and nimble strategy. It is your job to come up with that, isn't it? We talk about market-distorting practices, but what we need to be thinking about is market-shaping practices. Your constituents want you to show that trade can help the world get to net zero, that trade can help global development, that trade is not this ghastly thing that you should all protest about on the streets. Rather, trade is a way that we can grow and hold on to our values at the same time.

It is interesting on tariffs and subsidies, to pick up from Linda's point, that aluminium and steel are two massive carbon emitters. It is true that the United States has had these tariffs on aluminium and steel, and we all have to be negotiating those at the moment, but there is an opportunity here to think about how we incentivise green aluminium and green steel. There is an opportunity here on agriculture to modernise our approach. Agriculture is a huge carbon emitter, particularly European agriculture. I have written about what Britain might do if it could free itself from the common agricultural policy. Now it actually has to do it. We can't just fall into trade agreements that don't take forward a positive, but make the absolute most of this opportunity. I think voters on all sides in Britain would like to see a positive, powerful agricultural policy in Britain that is a green one and that protects values that are held dear right across Britain.

The third point on market shaping towards global development is that Britain did a terrific thing in the European Union before leaving by pushing and supporting something called the Everything But Arms initiative, which gave the least developed countries in the world totally quota and tariff-free access to the European Union. This is so much better than aid for most countries. Give them the opportunity to trade, to grow, to build their own capability and to export it to us is a powerful mechanism that goes way beyond trade. It goes to stability, it is how we can ensure other parts of the world get a shot at being green, safe and secure, at controlling terrorism and transshipment and all of those things.

The trade policy initiative is important, and I think Britain should continue to co-operate with the European Union on policies like the Everything But Arms initiative. We should look at the policies that we had the biggest hand in shaping and that work, and we should forge new partnerships with European partners to say, "This works for all of us, so let's stay on this track." In other words, lean forward and move forward a bit faster.

Q16 **Taiwo Owatemi:** Ruth, on digital trade, how significant for international trade are the proposals in the joint ministerial declaration by the G7 Digital and Technology Ministers?

Ruth Bergan: Before I answer, I want to speak in defence of protests. The G8 hosted in Gleneagles saw some of the biggest protests under Make Poverty History that helped to get the shifts on aid and debt but



unfortunately not so much on trade. I wanted to make sure the Committee recognises the place of demonstrations.

I have to be honest that I have not followed closely the digital trade track, and I think I would be repeating myself. Effectively, we are concerned that the rules of the game internationally are locked up through trade discussions when they need to be broadened out into other areas. We think the human rights value capture issues are of greater importance. I had a brief read of the statement that came out of the Digital Ministers track and I think it recognised the importance of that. It depends entirely on what it means for delivery, but I won't speak for too long because we are not following that track very closely.

Q17 Taiwo Owatemi: Are you able to comment on whether you think those proposals align with the joint statement and initiative on e-commerce that is currently under negotiation at the WTO? Do you know any more about that?

Ruth Bergan: I think it does align, but I am not sure that is a positive thing. The difficulty here is that this is an example of a plurilateral where the better resourced countries are able to take forward their issues at the WTO. There is a big risk that developing countries are not able to participate in or shape that negotiation and, therefore, see limited benefits. Also pursuing this group of plurilaterals means that developing country issues, which are still outstanding from 2001 in many cases, are not being addressed. It was disappointing to see in, I think, 2015 that the Doha declaration did not receive backing, mainly led by richer countries. I think it is a real problem at the WTO that we still have not addressed developing country priorities, and that some of the plurilateral initiatives are led by those with the most resources rather than a desire to ensure that we have a multilateral rules-based system that benefits everyone.

Professor Woods: The G7 Trade Ministers have announced their "opposition to digital protectionism" and I wanted to give a little colour to that. Lots of developing country Governments that I speak to say, "We have Google and Facebook coming at us, and you guys don't seem to be able to regulate them, so why should we be giving them a free pass in our borders?" There is a lot to unpack in that statement, but the thing I want to underline is that there is a genuine concern. It is not some gut protectionist instinct. There is a genuine concern, and I think they have evidence to back this concern, that the G7 countries themselves have not sorted out their own digital governance yet, that the G7 countries are striving among themselves.

Let's be frank, there are three digital regimes in the world now. There is the Chinese regime, where data pretty much belongs to the Government. There is the US regime, where data pretty much belongs to Google or whichever private company, and there is the European regime, which is trying valiantly to ensure that data belongs to the individual but for all of us trying to run an institution, it is impossible. The GDPR gets us totally tied up. We have three regimes. I think most of us have problems with all



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three, and it is not obvious to me which one Britain is going to drop into or whether Britain is going to try to keep balance between all three.

It is not to be negative, it is just to say that before we take this position on digital protectionism as some kind of blanket thing, we need to work out what the appropriate regulation is for thriving economies, where people have enough trust in digital governance that they will throw themselves in and build digital companies and interact with digital companies. We have a little further to go on that, I think, before we start asking other countries to accept a particular position.

Taiwo Owatemi: Thank you. That is a great point to end on.

Chair: Thank you very much for your time today, Ngaire Woods, Ruth Bergan and Linda Yueh. Did I pronounce your surname correctly, Linda? Okay, I did. I noticed there was a nuance with Sir Mark Hendrick, he maybe had a more correct pronunciation, but I will perhaps take lessons from Sir Mark for the next time.

I thank all three of you for your time today and for coming along to the Committee. It is much appreciated. The wonders of technology mean that these things can be done so well, so efficiently and so effectively without wasting tonnes of carbon for us all to get together, so it is fantastic. Thank you all, and we will see you again at some point, I am sure.