



International Agreements Committee

Corrected oral evidence: Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and UK-Australia Trade Negotiations

Wednesday 16 June 2021

4.05 pm

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Members present: Lord Goldsmith (The Chair); Lord Astor of Hever; Lord Foster of Bath; Lord Gold; Lord Kerr of Kinlochard; Lord Lansley; Baroness Liddell of Coatdyke; Lord Morris of Aberavon; Lord Oates; Lord Robathan; The Earl of Sandwich; Lord Watts.

Evidence Session No. 4

Virtual Proceeding

Questions 40 - 51

Witnesses

I: Alessandro Marongiu, International Trade Policy Manager at Society of Motor Manufacturers and Traders (SMMT); Ian Cranshaw, Head of International Trade at Chemical Industries Association; Paul Alger MBE, Director of International Business at UK Fashion and Textile Association.

Examination of witnesses

Alessandro Marongiu, Ian Cranshaw and Paul Alger MBE.

Q40 **The Chair:** Welcome to this session of the International Agreements Committee of the House of Lords. We are having a session today on CPTPP accession and the UK-Australia trade negotiations, particularly focusing on trade in manufactured goods.

We are very pleased to have with us three witnesses this afternoon: Mr Alessandro Marongiu, who is the senior trade policy manager of SMMT; Mr Ian Cranshaw, who is head of international trade at the Chemical Industries Association; and Mr Paul Alger MBE, the international business director of the UK Fashion and Textile Association. Welcome to you all; you are very welcome and we are very grateful for your input.

This session will last approximately one hour and 15 minutes because the committee has other business to conduct after it. I remind you again that the session will be broadcast. A transcript will be taken and you will have the opportunity to review it before it is finalised. Do not be surprised also if members declare relevant interests before they ask their questions, but that declaration will, no doubt, be short.

I will get started immediately by asking you this question, which is to help us set the scene of the session today. Could you each talk about the existing trade levels between the UK and key trans-Pacific countries in the sectors that you are interested in or represent? I will start with Mr Marongiu.

Alessandro Marongiu: Good afternoon, Lord Goldsmith, and thank you very much for inviting me and the SMMT to provide evidence on the UK's bid to accede to CPTPP.

While not the largest trading region for UK automotive, CPTPP is still relevant for the sector. Before the pandemic outbreak, there was a healthy trading relationship between the UK and CPTPP members, and UK automotive exports were exporting more finished vehicles than those received from CPTPP, while we are importing more parts from them than those that we are exporting to the region.

In terms of our major exports, so passenger cars, taken together CPTPP nations accounted for a significant 9.1% of total UK car exports in 2019 in value terms according to HMRC data. We enjoy a quite significant surplus in trade of passenger cars, with UK car exports to CPTPP countries worth just shy of £3.2 billion, while the imports of passenger vehicles amounted to just over £1.5 billion in 2019.

Looking at CPTPP members, three CPTPP parties have consistently ranked among the top 10 export destinations for UK car exports, namely Japan, Australia and Canada. Overall, there is a quite clear appetite for UK-made vehicles in these markets, although this does not mean that we are performing as well as we could in all of them. The situation is slightly different when it comes to parts and components, where we are experiencing a trade deficit, with the vast majority of imports coming

from Japan and Mexico. This is no surprise, given the role of both countries as major global manufacturing hubs for the sector. We will see what the situation will be in the aftermath of the pandemic and return to normality.

The Chair: Thank you very much. Can I turn to Mr Cranshaw? Perhaps you could tell us about trade levels in the chemical industry, please.

Ian Cranshaw: Thank you, Lord Goldsmith and the committee, for the opportunity to share some of our experience with you today.

The CIA, the Chemical Industries Association, represents chemical manufacturers and pharmaceutical companies. I will focus much of my address today on the chemical manufacturers. In 2020, we did £1.7 billion worth of business in the CPTPP countries, and that was pretty consistent with 2019. Our industry was very fortunate that it was able to operate throughout the pandemic of 2020 and consistently through 2021. That has been important because, of course, you will appreciate that certainly on the pharma side much of the products are absolutely critical to fighting the pandemic. On the chemical side, much of our product has gone into PPE equipment and many of the other critical industries that we support.

Specifically on exports, Japan is our largest CPTPP trading country, at £337 million; Australia is £328 million, Canada £243 million, Singapore £221 million, Malaysia £207 million, Mexico £134 million—so a nice spread. In the chemicals sector, the biggest customer of the chemical industry is the chemical industry. You will often see our products going on to other customers; they are further processed, before being turned into finished product. There is an awful lot of that, so that is why we are a natural exporting industry.

As an industry, we did £54 billion-worth of business last year in exports, which is quite significant and a very healthy trade balance for the UK as well, indeed in all those markets that I have mentioned.

The Chair: Thank you very much. We will come back to all that, I think. Let us have a look, before we do that, at the fashion and textile industries and ask Mr Alger to similarly give us some information about trading levels with the CPTPP countries.

Paul Alger: Thank you, Lord Goldsmith, and thank you to the committee also for inviting us to present to you this afternoon.

I have to start with an apology. We are in the process of looking at our statistics, which has taken a little bit longer than I had expected, so I do not have any concrete figures for you but I will follow up with those in the next few days.

The Chair: Yes, that will be fine. If you can say something qualitative perhaps but not quantitative about it, that would be useful.

Paul Alger: In general terms, we break the CPTPP countries down into two different groups according to whether they are importing into the UK or predominantly exporting. At the top of the list of those countries that the UK already exports to and are already generally in our top 10 of export countries is Japan. You will not be surprised to learn that Japan, depending on the way that the figures are looked at and calculated, usually ranks around third in fashion and textile exports. I would say that that is slightly unusual because effectively not all the goods come from the UK. They are often manufactured in the European Union for British firms and then exported, so the figures are a little unreliable.

In second place would be Canada, a growing market for the UK, and then thirdly we are looking at Australia, followed closely by New Zealand. Australia and New Zealand are not huge export markets for UK fashion and textiles. They tend to be reverse season markets. They tend to have a high disposable income for fashion and textile products but tend to buy a lot from China and Asia, for reasons that the committee will be very familiar with.

On the import side, of particular note is Vietnam. Vietnam is already doing a very healthy trade with the UK on dresses and accessories, particularly local skilled artisanal styles. We have the occasional suspicion that there may be some goods creeping in through Vietnam from China, but that is another conversation, I am sure. There is a small amount of artisanal merchandise coming in from Peru but that is pretty much it.

The Chair: That is all very helpful—thank you to all three of you. I think that that does nicely set the scene, and I will now turn first to Lord Kerr to start the rather more detailed questioning.

Q41 **Lord Kerr of Kinlochard:** Thank you to our three witnesses. Can I start with an equally general question? Looking at CPTPP, what do our witnesses think we are likely to gain in terms of market access from membership? Perhaps we could hear from our witnesses in the same order as before, starting with SMMT.

Alessandro Marongiu: The UK already has in place bilateral deals with seven out of the 11 CPTPP nations, and trade agreements with Australia and New Zealand should be concluded in the near future. Benefits to the sector in terms of additional market access are expected to be somewhat limited. However, this does not mean that CPTPP negotiations are irrelevant to UK automotive. Brunei and Malaysia, for example, are two markets where bilateral talks have not progressed, and liberalising trade with Malaysia would certainly be of interest for the sector. The problem is that the country has not ratified the deal yet and it is unclear whether it will do so any time soon.

In terms of additional market access with the countries with which we have bilateral deals in place, there might be some additional gains. For example, some of these deals—the one with Chile comes to mind—were negotiated quite a long time ago and do not necessarily reflect the reality of a sector that is undergoing major changes. CPTPP could offer some

additional market access opportunities compared to the bilateral deal in place. In some cases, such as Peru, a few tariffs have been maintained even under the bilateral deal in place, but again Peru is yet to ratify the deal so let us see what we can gain from that.

With regard to Vietnam, CPTPP and the UK-Vietnam continuity deal have very similar tariff liberalisation schedules. There is limited scope for an accelerated phase-out of tariffs, but obviously if this could be negotiated that would be an advantage in terms of additional market access ahead of the schedule of the continuity deal.

Lord Kerr of Kinlochard: I think that there is a potential rules of origin complication, which I know that Lord Sandwich wants to pursue a little later.

Ian Cranshaw: I think that it is only reasonable to explain that as an industry we are firm believers in free and fair trade. We would like to see the quicker liberalisation of tariffs. I think that I mentioned in my last response that, as an exporting nation and with products with lengthy supply chains, those products are moving across borders quite often. Our tariffs are not huge. They are not like the agriculture sector, where you might be faced with 20% or 25% tariffs, or the automotive sector, where you might be looking at 10%. Standard tariffs in chemicals can range from 4% to 6.5%. If your product is crossing multiple borders, then those tariffs are still not insignificant, especially on a business with narrow margins such as the chemicals sector.

Tariff liberalisation is something that we would be keen to see, and the DIT in some of the information that it has released suggests that the pace of that liberalisation might be quicker through CPTPP than it will be through the bilateral agreements. That is something that we would like to better understand and we are doing that through the trade advisory groups that we enjoy with the department, so that is really useful.

You have mentioned that the Earl of Sandwich has a particular interest in rules of origin. Of course, for our sector, rules of origin are important and I would be happy to share some more feedback from companies on how we are meeting rules of origin requirements in the EU-UK TCA. It is a challenge for many industries, but I can come back to that.

The Chair: You will, because Lord Sandwich will ask the question in a few minutes, but thanks very much for giving us a little bit of a foretaste. We want to hear from Mr Alger as well, please.

Paul Alger: From our point of view, we are fairly pleased with the bilateral agreements that the UK has concluded. Japan and Canada in particular, for example, appear to get our exporters as close as we would have expected to be able to get to an ideal situation, so most companies are finding that they can export very happily under the existing trade agreements.

Where I think that we will stand to benefit as an industry—and this is fashion and textiles—is on the symbolic side of focusing the Government’s attention on how, having secured agreements, we promote UK companies and physically take them out to these markets. That is perhaps one of the areas that we have been a little nervous about recently. There does not seem to be a huge amount of export development going on in a proactive way.

On the import side, the other markets that we feel will be very interesting for the knitwear industry, for example, are New Zealand and Australia, which potentially could be exporting to the UK valuable raw materials that we would find for our own rules of origin-driven export drive through the UK’s other trade agreements. Bringing in leather and wool, for example, under preferential terms from Australia and New Zealand would enable the UK manufacturing industry in our sector to become more competitive, we believe.

The Chair: Lord Kerr, do you have any further questions you want to ask of these witnesses at this point?

Lord Kerr of Kinlochard: I would like to come back when we get into rules of origin with the Earl of Sandwich.

The Chair: Yes, excellent, let us do that. Let us move first of all, though, to Lord Morris.

Q42 **Lord Morris of Aberavon:** We have the trans-Pacific agreement on the one hand and possible FTAs with individual countries on the other. My question to you all is: what opportunities does joining the CPTPP offer beyond what may be gained bilaterally through FTAs?

The Chair: I think that all witnesses should answer that, so shall we start with cars and motor manufacturers?

Alessandro Marongiu: For automotive, prioritising bilateral trade negotiations such as the UK-Australia FTA and discussion on renegotiations of deals with Canada and Mexico is probably a preferred option over a quick accession to CPTPP to avoid the risk of disincentivising bilateral negotiations. Nevertheless, there are several areas where CPTPP provisions could be beneficial to automotive.

In general, joining CPTPP offers a choice and usually businesses can benefit from having alternative options to reach an objective. In the case of automotive, usually the objective is to avoid tariffs and the options would be the alternative origin requirements offered by CPTPP and bilateral deals. Businesses can choose what option better suits them. For example, putting aside cars for a moment, CPTPP origin requirements for parts and components are generally more relaxed under CPTPP than under current existing UK FTAs. Similarly, rules for batteries and battery parts could be a little bit easier to attain compared to equivalent rules included in current UK FTAs.

Additional benefits are some facilitations for remanufacturers and the possibility for them to use faulty, defective products imported from CPTPP members as raw materials and then export finished remanufactured products tariff free, with clear benefits for the circular economy. I highlight these as the key areas where CPTPP can deliver more or on a par with bilateral deals.

The Chair: We will next move to Mr Cranshaw. The committee is very interested to know what the benefits of CPTPP are and in specific terms how this will help the United Kingdom.

Ian Cranshaw: I would not like to start by suggesting that it is symbolic, but I do think that, after our exit from the EU, the UK now signing up to an economic bloc that with UK membership is responsible for 16% of global GDP and many of those countries genuinely offering significant growth over the next 10 to 20 years is the right signal from the UK perspective. That is important.

The intrinsic benefits, the individual benefits from the actual membership, might need to be a little bit more discoverable. Tariffs and the accelerated tariff liberalisation is one area. Being able to sell into a bloc under rules of origin—so source raw materials from one country, process that product in the UK and then sell it on to another country—clearly offers opportunities that might be missed elsewhere. I will come back to explaining just where we are on rules of origin subsequently, but rules of origin tariffs are areas that offer potential.

Paul Alger: Starting off on the tariffs first, not too differently from my colleagues, I think that the rules of origin and certainly the change of tariff heading emphasis within CPTPP is potentially interesting for the UK, but there are a number of very important carve-outs, we notice, under fashion and textiles. We have struggled to get clarification on what some of those tariff carve-outs mean. We have not got there yet, but we are certainly watching that with a lot of interest.

Going back to Mr Cranshaw's point, we do see CPTPP, as distinct from our bilateral trade agreements, as being very much an important stepping stone towards creating global Britain and refocusing exporters' minds on the fact that the European Union is not the only place they can export to. I come from an industry where 70% of our exports, even in 2020, were going to the EU so we need a very fundamental mindset change.

The Chair: Lord Morris, do you want to ask a supplemental question before we move on?

Q43 **Lord Morris of Aberavon:** Yes, to Mr Marongiu of the SMMT. We are told that Australia has a 33% luxury tax on vehicles and is the main non-tariff barrier to vehicle exports. The SMMT, I presume, would seek to remove it. What are the chances? What is the volume involved? This is a specific example of a problem.

Alessandro Marongiu: In terms of the chances of removing the luxury tax on cars in Australia, we are in a wait and see mode, but a complete

removal seems rather ambitious. There might be scope for a remodulation or a reform of the tax, but I think that it would be useful at least to open a conversation on the point. A 33% luxury car tax can be very impactful, of course, and potentially far more impactful than the 5% tariff applied on all imports of finished vehicles, parts and components imported into Australia, especially because the threshold where the luxury car tax kicks in is relatively low. This can depress, obviously, the demand for premium and luxury vehicles that the UK exports to Australia. Again, we do not have specific insights on where the conversation stands at this point on behind the border measures. Usually, taxation is not the primary topic of negotiations in FTA negotiations.

The Chair: Can I ask you this before we move on? What proportion of UK car exports does this touch on?

Alessandro Marongiu: We do not have a figure to offer at the moment. We can give you a little bit more insight maybe, but generally speaking our exports are primarily premium and luxury vehicles.

The Chair: That is what I thought.

Alessandro Marongiu: Although there is quite a substantial amount of vehicles also produced by volume manufacturers that might not be subject to the luxury tax at the moment. We need to further check on that.

The Chair: If you can, that would be helpful because it would indicate whether this is a significant issue.

Lord Morris of Aberavon: Yes, and the volume.

The Chair: Exactly. That would be helpful. I suggest, Lord Morris, that we move on.

Lord Morris of Aberavon: Yes, thank you.

The Chair: Thank you very much. Lord Oates has the next question.

Q44 **Lord Oates:** As our witnesses will no doubt be aware, the CPTPP agreement was marked by a proliferation of side letters being exchanged among the various parties—I think over 120 at the initial point—which carved out various areas, whether investor dispute settlement, content, rules of origin, tariffs and so on. Could you tell us whether you think that the UK should be seeking similar carve-outs from the agreement and, if so, what areas should they cover? Would side letters be the best way of achieving that with individual members of the CPTPP? In the first instance I will direct that to Mr Marongiu.

Alessandro Marongiu: Automotive recognises that the CPTPP legal text already exists and accession to the trading bloc will not follow the path of usual bilateral trade negotiations starting from scratch. Nevertheless, any new trading terms or conditions must work for UK businesses and the automotive sector as a whole, which heavily relies on the ability to export. A rushed accession to CPTPP without negotiating potentially

necessary carve-outs in areas such as rules of origin or tariff phase-out schedules could potentially have a negative effect on UK automotive businesses or upset the balance of continuity deals.

In particular on rules of origin, standard CPTPP origin requirements for finished vehicles in many instances could be difficult to achieve if cumulation of EU content is not allowed, and it is likely that EU cumulation will not be allowed. Recognising that the sector cannot benefit from FTAs under uncompetitive origin rules, we hope that the Government will consider the approach taken by some parties in signing bilateral agreements through side letters, as happened between Canada and Australia. Those side letters can be sector specific. They could enable the applicability of different rules of origin for vehicles, in particular where bilateral deals fall short or where there is no bilateral deal in place on this specific point.

On tariff phase-outs, very quickly, a carve-out to ensure that the UK retains its UK-Japan tariff phase-out schedule as agreed under the bilateral FTA last year could also be very beneficial because an immediate tariff liberalisation would upset the balance of that successful negotiation and potentially deprive UK businesses of the necessary time to adjust to a more competitive environment and more competitive market conditions.

The Chair: That encourages me to come in and ask this. Based on your experience and what you have seen about other negotiations, what degree of confidence do you have that it will be possible to get the carve-outs that would be useful or important to British exporters? It is always difficult to get changes to the rules of a club if you are late to join it.

Alessandro Marongiu: It can be challenging, but it largely depends on the ability of UK negotiators to make the case for certain carve-outs. In the case of tariff phase-out periods or rules of origin, there is a reasonable business case to propose to CPTPP trading partners to highlight why some facilitations and flexibilities are needed. It will not be easy, though.

Lord Oates: Do you think that, because there has already been this proliferation of side letters between existing parties, that will make it easier to secure the sort of carve-outs that you would be looking for?

Alessandro Marongiu: On rules of origin, given the fact that there is an important precedent, it could be helpful, for sure, to point to that precedent and say, "Maybe we can take inspiration" where necessary. It might not be necessary to have side letters with all CPTPP members. I definitely encourage the Government to look strategically at the opportunity of negotiating a side letter when it is needed and to use flexibility in this evaluation. Simply limiting the use of side letters with CPTPP parties that do not have a bilateral deal in place might not necessarily be the best strategy in this situation. We can use the side letters to remedy shortcomings to existing bilateral deals if we feel comfortable and if we feel that there is a real value in doing so.

Lord Oates: Do Mr Cranshaw and Mr Alger have anything to add on this?

Ian Cranshaw: If we are keeping the same order, I will jump in, Lord Oates. From our industry's perspective, we are not looking for specific carve-outs. The real benefit of us having bilateral agreements with the seven nations is that we can choose which card to play. If it does not suit us to go through CPTPP because of restrictions, then the bilateral trade that we have through the FTA will usually meet our requirements. I have already mentioned the tariffs and the rules of origin and the way we have the flexibility there to choose from a deck of cards, if you like, as to what would be the most appropriate for that particular piece of business.

I have seen the explanation and the definitions on rules of origin that are contained within CPTPP. Much of it is consistent. Some of them are slightly different, with a greater focus on max local value, but in bilateral terms we have other flexibilities written into those negotiations. We will be satisfied as an industry if we can follow the model set by the EU TCA, which did afford the flexibility that we were looking for.

The Chair: We keep touching up against rules of origin and not dealing with it, but we will do very shortly. I will keep to the existing order, so I will ask Mr Alger if he has any further comments.

Paul Alger: Similarly to Ian Cranshaw's response, we are not looking for anything specific in a carve-out or side letters. We have always tended to spend more time and energy on the bilateral agreements between the UK and our key partners.

I would like to point out that, over the last year, one of the biggest trading relationships that we have not spoken about yet has developed at the most incredible pace with a country that we do not have any free trade agreements with, and that is China. It is possible for us to increase our exports, and I hope also our exports in those markets where we do not have free trade agreements.

One of the issues with the slightly symbolic nature of the CPTPP is that we as an industry will find it very difficult to outsource manufacturing to most of the CPTPP countries, with the probable exceptions of Mexico and Vietnam, for example. That does not mean that we do not have the opportunities to sell our goods into those markets. One of the big challenges that our industry faces is that so much of what we manufacture in the UK is sustainably near-shored into the EU, so not being able to use cumulation of EU products into those markets will limit our exporters.

The Chair: Unless Lord Oates has a further question, it would be appropriate at this stage to move to Baroness Liddell, given that the question that I know she wants to ask follows on from what you have just been saying, Mr Alger.

Q45 **Baroness Liddell of Coatdyke:** I would like to drill down a bit into the FTA with Australia, and maybe a little bit about New Zealand as well. The

Government have highlighted manufacturing in particular as an area where the UK is set to benefit from a bilateral FTA with Australia. What are the opportunities? Even more important, what are the risks to the sectors that you represent in a bilateral FTA with Australia? Are there similar risks with an FTA with New Zealand? I will start with Mr Marongiu.

Alessandro Marongiu: In terms of offensive interest in negotiations with Australia, our key interest in these negotiations is the possibility of avoiding the 5% tariff that is charged in Australia on finished vehicles, as well as on parts and components. Obviously, yesterday there was an announcement of an agreement in principle and, given that Australia is an important growth market, the industry welcomes this announcement of an agreement in principle of a trade deal between the two countries. In principle, if tariffs can be avoided, making UK manufacturers more competitive against international competitors, there is some potential to increase our vehicle exports. We look forward to seeing the finer details of the deal, which is yet to be disclosed.

However, the key point is not about having all automotive products eligible for zero-tariff treatment; that is something we expect from this deal. The key point is to understand the conditions to get tariff-free treatment for all UK automotive products exported to Australia. Being the first new agreement negotiated from scratch by the UK for more than 40 years, if we exclude the TCA, which is a particular negotiation, there is a real opportunity to set a significant precedent. A deal with Australia can deliver forward-looking, flexible origin rules not only for internal combustion engine vehicles and typical parts, but also for electrified vehicles and batteries, products that traditionally struggled to qualify for zero-tariff treatment under the most common and existing UK FTAs.

Of course, in the inverse, the risk is that the deal does not deliver on this point and that we set a precedent that, despite the announcement of a zero-tariff deal, the agreement will not actually provide benefits because manufacturers cannot meet the origin criteria set by the upcoming deal.

I guess these would be the areas beyond the luxury car tax that we have already addressed, and I will not come back on this point unless there is interest from the committee.

Ian Cranshaw: Our exports to CPTPP, as I mentioned, were about £1.7 billion. It is worth reflecting that our exports to the EU 27 are £18 billion, so a tenfold significant increase over CPTPP and obviously Australia within that. It is not that Australia is not an important market; we do £300 million-plus and in pharma we do over half a billion. If you think that a lot of people say that you trade with your near neighbours, that is absolutely true, but the suggestion that we do almost a billion in business with Australia in pharma and in chemicals shows that it is still an important market. We just have to find a way of making that work for us.

I do think that we have to wait and see what is in the agreement. Within the DIT's announcement yesterday it did say and specifically name checked that the chemical sector would be a beneficiary from the

manufacturing output from Wales. We would like to see what the tariff schedule and the tariff liberalisation is, but we are hopeful that it will be as quickly as possible.

The reason why it is important is that, obviously, any tax is dead money—sorry, no, tax is important in many areas, but an import tax is just an additional cost to that business. In our industry, which is heavily export intensive but also a massive player in R&D, we spend almost £5 billion annually in R&D. Every pound paid in tax is potentially money that you are not investing in new net zero-compliant products that the rest of industry wants. Given the fact that 96% of manufactured goods contain chemical products, you will see that the link is there. We have to be creative and innovative within the chemical companies to pass on those benefits, whether it be through composite, lightweight materials into the aerospace sector or the chemicals used in electric batteries, for example. Chemical companies need to have that R&D capacity to benefit the rest of downstream industry.

Paul Alger: From my point of view, there are five key risks that we in our industry are very mindful of. First, I start off saying that free trade agreements usually disproportionately benefit those countries that manufacture raw materials. We need to be very careful that we are benefiting as much as our new partners are. It was very interesting in the CPTPP that 98% of all tariffs have been abolished or are in the process of being abolished under the scheme. Of course, if we look to which companies would meet the rules of origin to export under preference, we see that from the UK's perspective in our industry there will be a far lower percentage of companies that would be able to qualify.

The second area of big concern is potential confusion. Much has been written about the "spaghetti" or the multiplicity of conflicting deals with different standards in different parts of the world. There is the risk, I believe, that customs officers in particular, but also fashion and textile businesses, will become increasingly confused about the rules of origin, what they need to know, how they need to prepare their products, and what standards they should be looking to in order to make sure that they can sell globally.

The next one potentially with regard to Australia and New Zealand is creep of products that have emanated from China. We know that in Australia and New Zealand their economies are hotwired very much into Asia, and in particular with China, so we would want to make sure that there is not merchandise coming in under the guise of coming from Australia and New Zealand that actually came from somewhere else.

Finally, the further away from home you manufacture things, the more likely it is that they will not be as sustainable or as green as we would like. I do have concerns that, if we are encouraging people to be shipping goods backwards and forwards around the four corners of the earth, we will start to undo some of the good work that we have started to do in sustainable and green practices.

Baroness Liddell of Coatdyke: An important point, thank you.

The Chair: I think that Lord Kerr would like to come in at this point.

Q46 **Lord Kerr of Kinlochard:** Yes, I have one specific particular question on cars and then I will ask a more general question to all three witnesses.

On cars, I am trying to understand the SMMT line following the discussion with Lord Morris. I think that I understood that you, Mr Marongiu, are not very optimistic that the 33% tax on cars costing over £35,000 will have been abolished for the UK industry in the agreement that we are reaching with Australia. I think that you are optimistic that the 5% tariff will have been abolished, but it was to be abolished anyway because of CPTPP. We will not actually have gained anything against our Japanese competition, which presumably will remain dominant in the small car market in Australia. Is that right?

Alessandro Marongiu: Well, partially, yes. The bilateral deal can offer rules of origin that might benefit all the UK manufacturing base, while CPTPP, unless we negotiate side letters, is likely to have an asymmetric impact, providing opportunities for some and not providing the same opportunities for others, assuming we do not have side letters with all CPTPP members ensuring that rules of origin are workable for all exports of UK automotive products to all CPTPP parties.

What I meant on the tariff removal is that the announcement of a tariff-free deal we interpret as the confirmation that all automotive goods will be eligible for zero-tariff treatment. That is a basic ask, if you like, and there is an expectation that tariffs will have been removed at the end of the negotiations with Australia. We could also obviously have a similar result by joining CPTPP, but the bilateral deal can probably offer better chances to ensure that all UK exporters of automotive products can actually get zero-tariff treatment compared to CPTPP.

The Chair: Before Lord Kerr continues, so that I understand, he put to you that you were not optimistic about the luxury car tax being removed. I had asked you about that and you said it was challenging. Was he right to say that you are not optimistic that that will go?

Alessandro Marongiu: I am not optimistic on the complete removal of the luxury car tax. It is not simply because it is a challenging issue; it is also because, traditionally, FTAs have a hard time dealing with taxation issues, behind the border issues. I hope that there can be something in that area, though, to open a conversation on the luxury car tax and the fact that—[*Connection lost.*—]—for example, and the fact that there is no domestic Australian industry manufacturing automotive products and passenger cars specifically.

That is, at the moment, where we are. Again, not having had sight of the details of the negotiations, which is unfortunate by the way, it is difficult to know where we stand at the moment.

The Chair: Lord Kerr, I apologise for interrupting your questioning.

Q47 **Lord Kerr of Kinlochard:** Not at all. I was just thinking that the Prime Minister said in the Downing Street garden that the deal was all about cakes and cars. We know his policy on cakes. It begins to look as if his policy on cars could be foolish, too.

My general question to all three witnesses is about the Government's presentation of the case for the advantage of the Australian deal because it is "the gateway" to CPTPP. Could our witnesses address a two-part question? Will it be any easier to secure membership of CPTPP because we have this deal with Australia? Will membership be any more beneficial because we have this deal with Australia? I should not monopolise SMMT so perhaps we could start with Mr Cranshaw.

Ian Cranshaw: By agreeing the bilateral deal with Australia, following on from late last year's agreement with Japan, it gives an awful lot of comfort to significant members of CPTPP that the UK is exactly the type of nation that they would want within their club. In that way, it does assist our entry because they know that we are rules based, we believe in free trade, we have the procedures and the bodies in place to ensure that that is done in the right way, and we are independent members now of the WTO so we play by the global trading rules. I think that it helps. Was it critical? Probably not, but reputationally it cannot do us any harm.

Paul Alger: It is very difficult from my side to see a definite link between the two issues. I believe that CPTPP will decide on the UK's own application merits whether it is happy for us to become part of that trading group. While members will be reassured by the fact that we have done bilateral agreements with seven out of the 11 countries, I am not sure that has a direct bearing.

I am also not sure that it gives us any additional benefits, but I think that this is a case of encouraging Britain to be global. The fashion and textile industry is all about appearances and the look and the touch and the feel of things, so the symbolic nature of CPTPP should not be underestimated. Certainly, from my point of view, I would like to see it accompanied by a commitment from government, once we have agreed these deals, to get out there and physically do something to take our exporters to these countries. I think that the soft power side of the deals could be beneficial to us in the longer term.

Lord Kerr of Kinlochard: Yes, I understand your point about trade promotion and I very much agree with it. Mr Marongiu, is the Australian deal the gateway to CPTPP?

Alessandro Marongiu: I tend to agree with Mr Alger. I think that every negotiation has its own merits, narrative and history. There are accession procedures that are maybe as painful as, or more painful than, bilateral negotiations, certainly at the WTO level. Accession to the WTO is among the toughest negotiations. I do not expect CPTPP accession to be as tough, but in a sense it could be helpful to have a deal with Australia, particularly if both parties are happy with the outcome of the bilateral deal. For example, that means that there is no need to negotiate a side

letter between the UK and Australia. That, in that sense, could be helpful to reduce the number of side deals that we need to negotiate with CPTPP members. If Australia is happy with what we have bilaterally, it might motivate it more to be a strong supporter of the UK's accession in its role as deputy to Japan in the accession process. So, I would say in between positive and neutral.

The Chair: Finally, Lord Sandwich—and I do apologise for keeping you waiting—please can I turn to you?

Q48 **The Earl of Sandwich:** Gentlemen, thank you for giving up a sunny afternoon to talk about the Pacific.

I have a formal question. To what extent are the rules of origin provisions in the CPTPP agreement useful to the business that you represent? This is a polite way of expressing the question, but to follow Lord Kerr, our Trade Minister also said that the agreement will increase the resilience of our supply chain, but will it now that we have shut ourselves out of the EU and have no diagonal cumulation? It is a hard question. I know that you have touched on rules of origin, but it is obviously of critical importance so we may have to go to Alessandro Marongiu first again and then the others. I will not ask the question about side letters because I think that it was very well covered earlier on.

Alessandro Marongiu: With regard to finished vehicles, CPTPP rules of origin for passenger cars, trucks, buses and commercial vehicles set two alternative rules, both setting regional value content thresholds. Without going into technicalities, we can largely say that one possibility is that 45% of the value of a finished vehicle originates in the CPTPP region or up to a maximum of 55% of the value of a finished vehicle can originate from outside of that region. These are more or less the rules applicable, if we join without side letters, to all CPTPP members.

The industry could benefit from various flexibilities that are included in the general rules of origin chapter of CPTPP. For example, there is a possibility of using various averaging methodologies provided by the deal that could facilitate meeting these origin requirements, and they are specific for automotive products.

This said, despite easements such as averaging, standard CPTPP regional value content requirements for finished vehicles are unlikely to be attainable potentially for the majority of UK automotive operators, particularly if they will need to rely on UK-only content. It is true that the deal provides the possibility to cumulate content from all other CPTPP members, which is a very significant facilitation, but we have to be realistic. This would benefit those UK-based manufacturers with international supply chains stretching to the CPTPP region and those members that are sourcing parts and components that originate from CPTPP members and then are re-exporting finished vehicles back to the CPTPP region. Not all businesses do it. We mentioned Australia, for example. Yes, in the case of Australia there might be UK-based businesses importing quite a lot of parts and components from CPTPP and

then re-exporting a substantial number of finished vehicles to Australia, but that is not the case for everybody. Most UK automotive businesses are sourcing the vast majority of parts and components from the EU. Those that do source a lot of parts and components from CPTPP also ship the vast majority of finished vehicles usually to the European region.

There is a risk of an asymmetric impact here from the application of CPTPP rules of origin between UK-based businesses with a CPTPP footprint and the rest of the UK manufacturers, as well as for manufacturers that have a larger footprint in CPTPP, where they are exporting from other CPTPP partners and can potentially access the UK market on better terms than those agreed under bilateral deals through CPTPP.

The Earl of Sandwich: Thank you. That is really positive.

Ian Cranshaw: If we just look at where we source our raw materials from, similar to what Mr Marongiu explained, I mentioned earlier that we export 60% of our production to the EU. Interestingly, we actually pull in 75% of our raw materials from the EU. When you start to look at how often we will be sourcing materials from CPTPP members, bringing them to the UK for processing and then shipping chemicals—which are a heavily regulated industry and a heavily regulated product in terms of transportation, certainly on those controlled goods—all the way back to Asia/Pac, that would take more investigation. I do not think that there will be huge examples.

With rules of origin, initially we were nervous. Like the SMMT, we called on the Government in their EU negotiations to go full bent on diagonal full cumulation. That was not achieved and initially we were apprehensive. We were nervous about that before we consulted members, before we have had these five or six months to work with our members to understand how they are managing the rules of origin. You have to drill right down to the product-specific rules for the chemicals sector within the rules of origin. Our companies have those three bites of the cherry. You have the change in the tariff subheading as one avenue. You have the local content value of 50% as your second opportunity. For the third opportunity it is a catch-all. It is that chemical reaction, whether you blend or mix or do other things to your materials and then that is sufficient to confer origin. Most of our companies—I will not say across the board; there are one or two examples that we are still working on—can comply with that flexibility.

The other word that we often use beyond flexibility is that they have to be simple rules. As soon as you get into complex rules of origin, and I admit all rules of origin are quite complex, because of the tariff level and because it is that 4% or 5% that I mentioned earlier, you want to avoid companies not seeking the preferential tariff rate of 0% because it just takes too much time and effort to produce the evidence of complying with the rule of origin.

The Chair: Forgive me, Mr Cranshaw, for rushing you on but we only

have about 15 minutes and there are several other important questions. I do not know if Mr Alger wants to add anything on this particular topic. You and Mr Marongiu have been very informative.

Paul Alger: I was just going to say that the rules of origin for us are complicated, as they often are for textile products, and we, too, were disappointed that we did not get diagonal cumulation in our other free trade agreements. We do have concerns over the CPTPP carve-outs, which could be problematic.

In general terms globally, the fashion and textile supply chain centres around Europe, China increasingly, and the Indian subcontinent. Unfortunately for us, there is not a huge amount of manufacturing activity relative to those three hubs in the CPTPP nations, so I think that the impact from a supply chain point of view would be limited for us.

The Chair: Thank you for that. Let us move on to Lord Watts, who will raise questions about technical barriers to trade, which we have not talked about yet.

Q49 **Lord Watts:** What is your assessment of the provision of the technical barriers in the trade deal? Do you think that they go far enough to be of practical benefit to your business and sector? Can we start with SMMT?

Alessandro Marongiu: Thank you, Lord Watts, for the question on technical barriers to trade, which is an area maybe not as discussed as rules of origin. We have seen in many FTAs negotiated recently specific annexes dealing with regulatory barriers affecting the automotive sector. CPTPP includes no specific annexe on automotive products addressing these regulatory barriers. There is no automotive annexe on regulatory issues applicable to all CPTPP members, leaving individual CPTPP parties potentially to agree bilateral side instruments in this area, but even Canada and Japan, which have a bilateral instrument, have agreed something that is very limited in scope.

This is one of the reasons why UK automotive would like to prioritise bilateral trade agreements in particular. For example, the upgraded EU-Mexico FTA includes an automotive annexe mandating the recognition of a number of international automotive regulations. This cannot be achieved by simply joining CPTPP.

The Chair: I suggest, given the lack of time, that if either of our other witnesses want to say something about TBT maybe they would be kind enough to drop us a note about that. I apologise for doing that, but I do want to touch on two other areas of importance, which are intellectual property and climate change. Starting with intellectual property, I will go to Lord Foster.

Q50 **Lord Foster of Bath:** Thank you to all three of you for joining us. Recognising that time is tight, could you tell us what your assessment is of chapter 18 of the CPTPP on intellectual property? In particular, could you focus on any areas of particular concern you might have; for example, the huge difference in the patent regime between what we have

been used to in the EU and what applies in the CPTPP? Can we start with chemicals and pharma, so Mr Cranshaw?

Ian Cranshaw: Intellectual property is critical for our industry. I mentioned earlier that we spend upwards of £5 billion a year on R&D, so it is critical that you protect that in some way. I do not want to sound obsessed with rules of origin, but certainly in the deal that we agreed with the Japanese late last year it was based on importer knowledge. It was the customs officials within Japan who had the authority to confer origin, but to do that they would almost need the recipe list, the list of ingredients in your chemical process or products, to confidently sign off on origin. That was not perfect for us.

I am conscious that within CPTPP you have a choice. You can either have the exporter knowledge or importer knowledge, so that gives us some comfort. I must admit that the wider specifics of chapter 18 I do not think I have sufficient knowledge of to offer a view.

Lord Foster of Bath: It would be very helpful if you could have a look at it and then perhaps write to us later.

Paul Alger: I, too, am not an IP specialist, but after a fairly long career working with fashion and textiles, I would say that the West and the East have very different views on plagiarism and copyright and infringements.

Lord Foster of Bath: Yes, exactly. That is an understatement.

Paul Alger: I think that we have to be very careful here. Again, there is not a huge amount of manufacturing in these 11 countries, but in Vietnam there certainly is. I know that a lot of our companies find it very difficult to protect their IP under the current arrangements, for example, so while I am not able to comment on article 18 specifically—and I will come back to you separately on that—the eastern countries' ability to adapt things that they believe are already in the public domain is something that we should be very cautious of.

Lord Foster of Bath: Thank you. We look forward to your further details when you have had a chance to study it, but I think that it is a very important issue. Let us hear from SMMT.

Alessandro Marongiu: We would refer to the priorities expressed by the IP Federation, which obviously is the federation with specific knowledge of intellectual property. Generally speaking, CPTPP might set provisions that might be incompatible with the UK's participation in the European Patent Convention. That goes beyond our past membership of the EU. That is not an EU convention; that includes us as well at the moment.

In automotive, obviously many of the new small and emerging businesses in our sector are developing and patenting products, designs and applications that are world leading and transformative as the sector shifts towards automation and connectivity. We do not want to jeopardise patent protection in particular in our neighbouring countries where our closest competitors are.

Lord Foster of Bath: Thank you very much. I will not detain you any further, other than to say to Mr Cranshaw when you respond to this in more detail I would be very grateful if you could consider your earlier remarks, where you said the benefit of having an FTA on the one hand and membership of CPTPP on the other enables you to pick and choose between the various deals on offer. Within the IP chapter, I think that that would prove very difficult, but I welcome your views on that.

The Chair: Thank you very much for offering that. Lord Lansley, I do not think that you can properly deal with the topic you have in two minutes, so please expend a little bit more time on it. It is far too important.

Q51 **Lord Lansley:** Thank you, Lord Chair, and I am grateful to our witnesses. Perhaps it could be an initial remark and if any of you have more to say on this subject we would appreciate it if you were to send us a note afterwards.

It is on the issue of the environment. Of course, the CPTPP embraces a number of countries that have—how shall we put it?—differing levels of ambition thus far on the environment. I think that we are all trying to wrestle in this trade context with how to maintain liberalised trade while trying to drive forward our environmental objectives, so how to deal with carbon leakage and how to maintain industrial competitiveness. Are we going to end up with carbon border adjustments being the largest non-tariff barrier we have yet seen? Do any of you have any assessment of how the CPTPP, or indeed the Australia deal, in your view should handle this, or does it present specific risks?

Ian Cranshaw: You are absolutely right: it is a massive issue. As a sector, we are energy intensive. The process of chemistry is energy intensive. The UK faces the most expensive energy costs in the whole world in many areas, so it is a real challenge for the competitiveness of our industry. It is one of the reasons why we are proud that, over the last 30 years, we have reduced energy consumption or emissions by 82%.

The leakage is a good point because we have possibly only achieved that because we have lost some critical building blocks from our industrial infrastructure. There are specific chemical products now no longer manufactured in the UK because it was uneconomical to do so. We have to look at that.

As Mr Alger mentioned, there are certain markets within CPTPP that will not be having the additional costs on meeting your climate change obligations, and we are in discussion with BEIS about the carbon border tax and all those other issues that have to be addressed. We have called on BEIS and on the Department for International Trade. We would like to see an investment strategy for how we will attract inward investment into the chemicals sector. We would like there to be an industrial strategy. That does not seem to be mentioned anymore. We would like BEIS to come back and have a strategy for industry as to how we will build back better with our key industries. We will give some more thought to that

and I will contribute to the committee. I am sorry, Lord Goldsmith, I hope that I did not go on.

The Chair: No, thank you for that. Do our other two witnesses want to say something brief about this now? Lord Lansley has rightly said that if you are able to give us something in more detail we would very much appreciate that.

Paul Alger: I will certainly come back to you with some additional thoughts, but one of the concerns, again as I said earlier on, is that we have spent the last 10 or 15 years reshoring and near-shoring as part of our commitment to bring down fossil fuel use, for example. The broader we go in our supply chain, the more difficult that becomes to maintain. From our side, maintaining UK standards, trying to bring other countries' up to the UK's level of ambition rather than dropping down to countries' standards where they have less of an ambition, is certainly something that we would be very enthusiastic about.

Alessandro Marongiu: To end on a positive note, I will not comment on carbon leakage but I have three points where there could be a positive impact for the environment. First, in particular, in the deal with Australia if we manage to allow tariff-free treatment for environmentally friendly vehicles that is a positive. Secondly, if we manage to secure a reliable supply of raw materials that are necessary for battery production, that will help strengthen supply chain resilience and increase our manufacturing of new technologies. Finally, rules that can help build a stronger circular economy through tariff-free treatment of remanufactured products are also very useful.

The Chair: Thank you all very much for your input. It is extraordinarily helpful. Thank you also for offering to give us some further information. You have made the point, I think, Mr Cranshaw, that some of this will depend upon what the final details are. That is one of the issues that we always face as a committee because, when we see that, that is right at the end of the process. Anything you can tell us about what we should be looking for as the negotiations continue would also be very helpful. I do not want to add too much to your homework; forgive me for that.

Thank you all very much. We will draw this public session to a close. I invite my colleagues to join on Teams in perhaps five minutes, where we will then have further business, including a meeting with the Minister. Thank you all very much and I wish you a safe evening.