HOUSE OF COMMONS

International Trade Committee

Oral evidence: UK-EU trading relationship, HC 493

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Watch the meeting

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

Questions 230 to 273

Witnesses

I: David Henig, Director, UK Trade Policy Project; Emily Rees, Managing Director, Trade Strategies; and Shanker Singham, CEO, Competere.

Examination of witnesses

Witnesses: David Henig, Emily Rees and Shanker Singham.

Q230 **Chair:** Welcome to the International Trade Committee. This is the sixth evidence session, I think, on the UK-EU Trade and Co-operation Agreement, which is the UK's new FTA. We have three witnesses this morning. I will allow David Henig, Emily Rees and Shankar Singham to give their name, rank and serial number. Starting with David, how do you want to introduce yourself?

David Henig: David Henig, director of the UK Trade Policy Project, European Centre for International Political Economy.

Chair: Thank you very much. Emily Rees?

Emily Rees: Emily Rees, I am the director of Trade Strategies.

Chair: Thank you very much. Last, but by no means least, Shanker.

Shanker Singham: I am Shanker Singham. I am the CEO of Competere, which is a trade law and economic policy consultancy.

Q231 **Chair:** Thank you. I will kick off with you, Shanker Singham. Is there any evidence to suggest that the UK's obligations in the TCA are restricting what it can offer in its negotiations on new FTAs with other trading partners?

Shanker Singham: Thank you, Chair. When you look at this analysis of what the UK can do with other trading partners and the constraints that might or might not be opposed by the EU agreement, I think you need to think about this in terms of the opportunities that the UK has in that pocket, which is basically your independent trade policy, your external trade policy, and your domestic regulatory reform: the ability to—*[Interruption.]*

Chair: I apologise. Could you speak a little bit louder? That last bit was a bit muffled and a couple of Committee members are saying that they are struggling to hear.

Shanker Singham: I apologise; I will move a little bit closer. Essentially, what I am saying is that the way to analyse this is to look at the opportunities for the UK, which are very much in your external trade policy and the domestic regulatory reform. You want to maximise those opportunities and you want to minimise the disruptions. The EU trade agreement is an attempt by both parties to minimise the disruptions caused by the UK leaving the customs union and the single market.

The constraints would come if the EU-UK trade agreement essentially took away in some sense the UK's regulatory autonomy. If the UK's regulatory autonomy were compromised, then clearly that would have an impact on its external trade agreements. That is not the case with the EU-UK TCA.

I think you would also have to look at specific areas, like rules of origin, in order to determine whether those rules were so restrictive in the EU-UK TCA that they did potentially compromise origin negotiations of other agreements. While they are somewhat restrictive, and certainly the UK would like to have more liberal—*[Inaudible]*, I suspect that that is an ongoing process.

I think it is also very important to look at the EU-UK TCA as a starting point. It is not the end of the story. There are specialist joint committees across all the chapters, and there will be ongoing negotiations, clarifications and refinements and so on, as you have with all trade agreements going forward. So I do not see anything in the TCA that would prevent the UK—obviously, the deal with Australia and New Zealand are in principle done with the CPTPP.

Q232 **Chair:** You mentioned regulatory autonomy, but in practice how much regulatory autonomy does the UK have? On paper, of course, it does, but if it goes and diverges massively from the European Union, that is going to be very disruptive. You mentioned the disruption of leaving the single market and the customs union, but would it not be even more disruptive to exercise that regulatory autonomy?

Shanker Singham: I do not think so because now that it is in a trade agreement context, essentially what you have is customs and regulatory checks and controls between the UK and the EU anyway. So even if the UK does not diverge, there are still regulatory checks and controls for trade between the UK and the EU. Clearly, the intensity of those checks will vary. That is part of the calculation that the UK Government has to do, which is what is being asked for in the context of other trade agreements and how that affects the divergence that you alluded to.

Q233 **Chair:** Thank you. Emily Rees, if I can take you in at this point. Do you think the EU is likely to raise any objections to any of the UK's new trade agreements? If so, what sort of reaction might be contained in those objections from the EU?

Emily Rees: The UK has autonomy now to negotiate its own preferential trade agreements, and in a way it is not the position of any trading partner to raise strong views on that, I would say, as long as it respects the rules of the World Trade Organisation to cover all substantial trade. That really is the crux of how we deal with trade agreements across trading partners.

However, I think that one of the key points here is going to be more to do with the kinds of checks that will be put into place as that divergence might occur; that is more to do with the regulatory autonomy aspect than the free trade agreements that the UK would be signing. Ideally, you do not change your internal regulatory regime to sign a trade agreement with a trading partner. You are signing these trade agreements to enhance trade flows, but without necessarily changing anything in terms of your national regulatory structure.

What happens, though, is that if you have an influx from other parts of the world of products that might not be allowed in the EU, then obviously that would have an impact in terms of the import controls that would be put in place. What we are talking about is a frequency of controls. Instead of having perhaps 20% of controls on a particular good, it could go up to 100%, and that has quite a big cost for business. It is much more in the operational part that we should consider this question rather than what one trading partner or another might hold as a view.

Chair: Thank you. Mick Whitley, you want to come in briefly at this point?

Q234 **Mick Whitley:** Yes. Emily or the other witnesses, do you think the Trade and Co-operation Agreement is fit for purpose considering that at the moment we have problems in Northern Ireland and with fishing quotas? Do you think this agreement agreed in December was a hurried agreement? It was not ratified by the European Parliament. Do you think that this agreement is fit for purpose?

Chair: Emily, do you want to come in on that one?

Emily Rees: On the issues that I focus more on, which are the questions relating to food safety and elements relating to the flow of goods, we are looking at a rather skinny agreement. The TCA could have gone a lot further in a number of areas to facilitate trade flows; that is certain.

But perhaps you will allow me to come back to the earlier point on the potential restrictions that the TCA would be placing on the UK in terms of negotiating further deals. I would say that there are certain restrictions that relate more to the regulatory regime of the UK than anything else. That has more to do with what is called the non-regression clauses that we find in the agreement.

What those non-regression clauses say is that you cannot lower your labour or social standards, or environment and climate policy, in order to attract more trade and investment. Those are the clauses in the TCA that, I would say, create a minimal benchmark in terms of how far you can diverge on policy. Again, these are very specific areas that also cover questions such as industrial emissions, air quality and waste management. They are very specific sectorial issues. Those are areas where the TCA does lock in some minimum standards that should not be changed going forward.

Q235 **Chair:** Thank you. David Henig, would you like to add anything on this specific point?

David Henig: Thank you, Chair, yes—on whether the TCA is fit for purpose and the question of free trade agreements generally. I will give you a simple answer: no. Traditional free trade agreements are bilateral agreements to improve market access preferences compared to WTO terms—about tariffs and services schedules. We know from the implementation of the TCA that tariffs are not the main barrier to trade in 2021: it is all about the different regulations.

This then comes on to the calculation that Shanker Singham has already mentioned. To what extent do you wish to think about your regulatory independence, in which case you may be faced with more barriers at the border? Or to what extent do you wish to put more regulatory alignment into your trade agreements, in which case you will have fewer barriers at the border? And with which trade partners do you want to do this? Core World Trade Organisation text and the TCA, which is only a small step in advance of this, does not provide much of a help in reducing the regulatory barriers.

We all have our differing regulations. Different countries are supposed to recognise each other's regulations as equivalent, but ultimately, our exporters, and particularly small and medium enterprises, have to go through a large number of checks. So what we see increasingly in free trade agreements—particularly from the US and the EU, who want to use their market power to make sure that their goods can have access—is that they insist on certain regulatory provisions.

For example, the US might insist on their approach to technical regulations of food and drink, and the EU will insist on geographical indications, which are not in the TCA, but are in the withdrawal agreement. Clearly, the UK has signed up to geographical indications; we cannot therefore sign up to the US approach to geographical indications, which is not to have them. Australia is another country that wishes to have restrictions.

It really is a matter then of our choices here. Do we want to make it easier for our exporters to export into Europe by aligning food and drink regulations, which will make it more difficult to have a trade agreement with the US and which will commit, in treaty, to a certain form of regulation? But it will help our exporters. Or do we wish to not help our exporters so much, keep our regulatory autonomy and independence and sign our trade deals in that way? I think that is the key area of the questions here. Yes, there are things in the TCA that slightly restrict our ability to do trade deals with other countries, but not too many, because, as has been noted, it is a pretty thin agreement.

Chair: Thank you, David Henig. Your words have prompted an interest from Tony Lloyd. Before I bring in Anthony Mangnall, Tony will be quite brief.

Q236 **Tony Lloyd:** Just very briefly, David. You made the point that we have a choice as to which direction we ought to go with this, if there is a choice. I am not asking this in a critical sense. Is it obvious yet that the approach of the Government is set against a strategic view of those choices, or are we operating in a piecemeal fashion as we race for new trade deals?

David Henig: My own view is that we are operating in a piecemeal fashion. In part that is slightly understandable; we are fairly new outside of the EU. I think I would be more worried about the fact that we are almost still not really asking the question. The Government is still almost denying the fact that there is a choice between regulatory autonomy and exports. It is almost denying the existence of regulatory barriers, whereas I think we do need to move on. We need to understand these choices and start thinking about them. I think it is a little early to have a definitive answer to that.

The UK economy is going to change as a result of Brexit; it is already changing. It probably is early to be making our decisions to come out of the EU and then immediately bind ourselves to a whole lot of new regulation. That is not necessarily the best way forward, but certainly we should be talking about these issues.

Chair: Thank you. Anthony Mangnall.

Q237 **Anthony Mangnall:** Thanks, Chair. To Shanker—and by the way, congratulations on your appointment to the TAC; I think that is good news. Can I just start by asking how is the UK likely to reconcile the different approaches to food and animal welfare standards of its new trading partners, compared to the approach it has carried forward from its EU membership?

Shanker Singham: What I would say, and I will just pick up something that Emily said about the non-regression clauses, which are related to this. The kinds of trading partners the UK is talking about doing trade deals with, such as Australia, New Zealand, CPTPP accession and whatever they can get from the US, are the kinds of countries where there is not going to be significant pressure for the UK to lower any of those standards.

In fact, the US trade negotiating objectives, when they were in the market for a trade deal, very specifically had similar non-regression clauses, in that the US would not sign trade deals with countries that lowered their labour environmental standards for trade advantage.

I do not see the UK lowering its current animal welfare standards in order to do trade deals, nor do I see that as being necessary in order to do trade deals. Where I do think that divergence may arise is where the EU is not in compliance with the WTO SPS rules, which is the case in a number of areas. There will be pressure on the UK to comply with WTO rules. In the last Trade and Agriculture Commission report, which you can find on gov.uk, I think the commission essentially recommended that the UK comply with WTO SPS rules, so not every divergence is a lowering of standards. I think I would make that threshold point.

This does also implicate the issue of regulatory barriers. Many countries will regard the current EU framework as imposing regulatory barriers on them. Many of the WTO partners have raised challenges to the EU SPS rules in both developed and developing countries. As Emily will know, Brazil and many other developing countries have raised these issues, and the UK will be expected by its WTO partners and its trading partners to fully comply in this area. That will mean that there has to be a change. But that change does not mean that standards are being lowered.

Q238 **Anthony Mangnall:** We have had a number of evidence sessions where people come here and talk about UK welfare standards being some of the highest in the world, but the problem being that we are trying to sign trade agreements with people who have lower standards. The Government's approach is that we will influence these countries to up their standards because they are signing trade agreements with us.

Do we need to change the way in which we have our own standards set at the moment, because we are pandering or trying to sign trade agreements with those who have lower standards?

Shanker Singham: I would say, first of all, that I hear quite frequently that the UK has the highest animal welfare standards in the world, and I am not sure that is entirely true. I think that there are many countries in many different areas—it is very case specific—that have higher standards than the UK in certain areas, or at least many countries have different standards. Sometimes that different standard is not automatically a lower standard.

What I would say is that in our trade agreements we will be putting provisions in on animal welfare and other areas like that. The trade partners we are negotiating with—Australia, New Zealand, the CPTPP countries, and even the US now—have no objection to this. The danger and what you have to be careful of is that some of these standards and rules become and operate like regulatory barriers, or become a vehicle for protectionist interests. That is what you have to guard against.

The last iteration of the Trade and Agriculture Commission made pretty significant recommendations on this that I really would commend to this Committee because they were unanimous. It was unanimously agreed by all the NFU members on the Trade and Agriculture Commission as well as the environmental NGOs in respect of an import policy where if a country is diverging from an agreement in an FTA and it is doing so for trade advantage, there would be a mechanism to allow you to apply a tariff in those cases—provided you could prove causation and damage. It would operate a little bit like a trade remedy. This is the kind of thing that is being discussed globally with respect to China and other places like the US. We are all struggling with this issue of how you deal with market distortions. I think these kinds of approaches are the ones we need to be taking.

Q239 **Anthony Mangnall:** I read the report and I agreed with the recommendations, and I hope the next iteration of the TAC will be listened to and the recommendations enacted.

Can I just ask one last question? This week's evidence pack and the submissions that we had from a range of different organisations spent a great deal of time talking about the precedent that one trade agreement might set on another. I wonder whether you believe that to be realistic—that an agreement signed with Australia is likely to have significant implications on a deal signed with America or Brazil, or whether we have to be a little bit more realistic and see that every trade deal is unique in its own way.

Shanker Singham: There is truth in both those statements. They are unique and very specific to the countries concerned. There are certain areas where there is interaction between agreements and where you have countries that are essentially exporting very similar products to the UK. You see this, particularly in agriculture with the TRQs.

The UK has done quite a significant thing in its Australia and New Zealand deals, which is commit to tariff-free trade in agriculture over a period of time, which has been well received by global trading partners, based on my conversations with them. But there are TRQs in the intervening time and precisely how you measure those will cause implications between the Australia and New Zealand deal, for example, because there are certain areas and products where they are trading the same products into the UK. That is probably also true of the US and, to some extent, Japan with respect to beef and other things, so it is wrapped into the TRQ conversation.

But the broad principles of the agreements, and where I do agree with the other panellists here, is that the EU-UK TCS is quite a thin agreement. It could have been more significant; we would have wanted it to be more significant. But there are areas where it does go further than some agreements. There is a reasonably good regulatory practice chapter that deals with regulatory barriers and particularly the rebalancing measures do go quite a lot further than other agreements.

Provided those rebalancing measures are read as disciplines on distorting activity, they are not bad to have, and I would suggest that it may not be just the EU that uses those on the UK. I think the UK will probably use those significantly on the EU, and I do not think that that is necessarily a bad thing. I think that is the way international trade is moving.

Q240 **Anthony Mangnall:** I am conscious of time and there is a great deal more, but I just want to refer to the point that you made at the very beginning, which is that trade deals are not static but an evolving process so the ability to do more with them is ever present. But I do not want to waste time, so I will go back to our kind and generous Chair.

Chair: Thank you—and indulgent Chair. At this point, it gives me great pleasure to ask Mark Garnier to take the floor.

Mark Garnier: Thank you, Chair. Shanker, it is very good to see you again. Can I turn to the proverbial chicken, ham and mushroom pie problem?

Chair: That old problem!

Q241 **Mark Garnier:** If we are trying to export chicken, ham and mushroom pies to the European Union, we are going to be putting an awful lot of stuff into it. Obviously, within that there are going to be certain different technologies involved in how you manufacture the pastry, how you make the ham or whatever it happens to be. How is the UK likely to reconcile the various different approaches that we have, in terms of the manufacturing of this, with the European Union?

Also, when we are importing pre-made pastry, for example, from Bolivia or somewhere where there may be different standards, how do we get around all these rules which are potentially going to stop this type of product being exported to the European Union?

Shanker Singham: Manufacturers will make their own decisions based on the economics of the trade. Many manufacturers will choose to satisfy European regulations. There will still be checks and controls. There will always be checks and controls because it is a trade agreement situation.

Where I think we need to look in the next iterations of the trade agreement, and what we should be trying to achieve, is to push on the areas that are very thin in the agreement, such as mutual recognition. I think it was quite surprising to many people that there was no mutual recognition, even of conformity assessment, which is testing, which certainly helps a little bit on the intensity of controls and checks.

But mutual recognition of conformity assessment, of market surveillance and even, as the EU has done with New Zealand in the veterinary agreement, underlying product market regulation recognition in certain areas—this is a whole area of work that I think the parties need to engage in now. Unfortunately, we are probably not going to be able to engage in that until we get through the Northern Ireland issues that were referred to earlier on. But I think as soon as we are clear of those issues, we—

Q242 **Mark Garnier:** Sorry, just to stick it back to the thing. Essentially, what you are saying is that if you are a manufacturer of this chicken, ham and mushroom pie and you want to export it to the European Union, you have to make sure that whatever ingredients you put into it, and wherever they are sourced from, are compliant with the European Union. And then you have got to prove it—that is the other point. So you have to have customs declarations of the source of where that pastry comes from.

Shanker Singham: You would have to have them anyway, but yes. You would make the choice that "I am going to satisfy European regulation if I want to service the European market". Other countries do this as well. If you look at Australia, for example—obviously, as we know, there is a beef hormone ban in the EU: the Australian beef producers essentially have two lines of production. They have a closed-loop production for the European market based on high quality beef and then they have a separate line for the rest of the world, where hormones can be used.

Manufacturers do this. They recognise it as a question that they will have: is it worth doing? How much of my trade is with the EU? If the significant lion's share of my trade is with the EU, I may simply choose to comply with European regulations. But where the trade agreement and where the parties can make life a bit easier for this sort of trade, and allow it to flow, is in the area of maximising what is very limited right now in the trade agreement, which is that sort of mutual recognition.

Because it is a trade agreement, there will always be customs declarations. There will always be checks and controls. What the parties can do is to work together on mutual recognition on risking and on various other things. For example, there is a customs and trade facilitation chapter in the agreement as well. There needs to be work in that, as there is in all customs and trade facilitation chapters in all trade agreements, to look at simplifications and at the ways that you can make trade move more easily at the border. There is a whole set of work associated with making the processes at the frontier easier for people.

Q243 **Mark Garnier:** Can I turn to Emily? Emily, if I can develop this point, sticking with this pie: the chlorinated chicken problem. There are various countries around the world that have different animal welfare standards in terms of how they produce animal welfare standards. Interestingly with chlorinated chicken, whilst we do not particularly like the way the Americans produce their chickens—they are obviously much closer together and therefore have to be washed in chlorine to get rid of campylobacter—you are actually less likely get campylobacter from an American chicken than you are from the European chicken because of the animal welfare standards.

But is it possible that when we are trying to expand on the TAC, we are going to get to a position where they will recognise that the SPS requirement is actually right, and therefore you can use American chickens in this chicken, ham and mushroom pie? Or are we going to do as Shanker has said—have two sets of manufacturing processes, one of which is going to be compliant with the EU, and the other one being compliant with what we are happy with?

Emily Rees: Thank you. Excellent questions there. If you will allow me, maybe we should differentiate and clarify the international rules of sanitary and phytosanitary requirements—the famous SPS.

When we are talking about SPS, we are talking about plants, animals and food—food safety essentially, but also making sure that we do not have pests or other diseases coming into the country. That is essentially what we are talking about when we are talking about SPS. Animal welfare, on the other hand, is not considered to be an SPS issue. It is considered to be a process and production method, so it falls under another part of international law: generally what we call the technical barriers to trade agreement.

If you will allow me to answer your question very quickly, the issue here is an SPS one; it is currently a food safety issue. If you will allow me to jump back in with the pie example, because I think it is a very illustrative one, what we are talking about here is the question of composite products. The EU has set out new rules for composite products. That is what is concerning many companies right now that export to the EU because of the new EU regulation. The transition period is coming to an end on 15 March 2022, and that is going to require new certificate requirements for all imports into the EU, including those from the UK and the rest of the world.

Essentially, what that means is that all processed products that contain any animal product and ingredient of animal origin—before it was that 50% of the product had to be of animal origin; now it is any ingredients of animal origin such as meat, milk, eggs, or your puff pastry—must come from the EU approved establishments. Those are the establishments located in third countries around the world that have an approval from the European Commission for exports. It means that they have the right residue monitoring programmes, but they also respect a number of the food safety requirements of the EU.

What is happening right now is that with the new regulatory autonomy of the UK, the UK can add establishments to its own lists. I believe that that was the case for some agricultural products from Turkey that were added this year. I will take that as an example. If you are making a fish pie and the fish comes from Turkey from one of these establishments that has been authorised for export to the UK, but is currently not on the EU list, then that fish pie can be consumed within Great Britain. But it will not be able to be sent into Northern Ireland nor will it be able to be exported into the EU because you will not have the origin certificate necessary in order to export it.

That does not necessarily mean that it is a split system, one that Shanker mentioned, for instance, in the case of Australian beef, and I can get back to that in a moment if you wish. Therefore, what we are going to see now is a heightened requirement in terms of the health certificates for exports to the EU. This is independent of Brexit or the TCA; it is simply a regulation that is coming into force in the EU and that is going to be applied to all of the EU's trading partners.

What does that mean in effect? It means that, for instance, let us say you can get lamb from New Zealand—we know that the EU and New Zealand have a veterinary equivalency agreement—so the establishments of New Zealand are approved for the EU. The UK might be able to import that lamb at a better competitive price than a European company, transform it into, let's say, a lamb curry, and export that to the EU because that establishment is authorised. But also the UK is getting the lamb at a more competitive price than perhaps an EU competitor. Essentially, that is how these composite products function.

Look at the case of your chlorinated chicken—to be quite exact, again, that is a food safety issue, not an animal welfare one: it is a pathogen reduction treatment. I know that there are obviously animal welfare implications—I understand that and appreciate the questions around that. But in terms of the international law, we would be looking at this from a food safety perspective, one which is disputed in the WTO from the scientific angle.

Let us say that the UK maintains its regulations as they are with regards to pathogen reduction treatments and does not allow the entrance of that particular poultry—well, that is sorted. If you do want to change the regulatory regime in order to import that poultry, then that particular pie will not be able to be exported to the EU or to any other country where those establishments have not been listed. It is much more a question of establishment listings about food safety regimes rather than conformity assessment.

Again, I am very happy to pick up on the question of animal welfare as a particular point. These questions relating to animal welfare come in more as a question of conditionality within free trade agreements. It is much harder to put borders or specific barriers on the entry of products on the basis of an animal welfare process and production method. The way that the animal has been reared is, unfortunately, not something that is easily placed as a barrier in terms of the importation of the product.

But when we are negotiating these trade agreements, what we can do with the tariff-free quota—the quota on the meat, eggs or other animal product—is associate a conditionality of respect for a particular animal welfare rule as part of the preferential access we are providing. We really do need to distinguish food safety and animal welfare in this context.

Mark Garnier: That is incredibly helpful.

Chair: That is a very full answer indeed. All this talk of chicken, ham and mushroom pie certainly whets the appetite. News has reached me that it is Mick Whitley's birthday today; hopefully he will be enjoying something like a chicken, ham and mushroom pie, fish pie or something even better with his glass of something nice. We are six months away from Mark Menzies birthday, but we will go to him as a consolation prize.

Q244 **Mark Menzies:** Indeed—thank you, Chair.

I want to go from chicken, ham and mushroom pies to the world of data. This is directed to David Henig. How might the UK maintain its EU data adequacy decisions while securing digital trade agreements with countries that the EU has not granted adequacy towards?

David Henig: In terms of data adequacy, you do not have the same international rule-based framework that Emily has just described. For food and drink, you have this very detailed SPS regime, but for data adequacy and for data worldwide, you are talking about bilateral arrangements. It is very much at the EU's discretion that we have data adequacy, with the ability to have data transferred between the EU and the UK.

Again, it comes back to our choices. UK companies have said extensively that they want to be able to see data flows because that makes it better for business, but the EU has a firm legal framework. Other countries also have strong legal frameworks, such as India and China, and we are going to have to proceed with care. The only way one can put this is that if we want to maintain data adequacy with the EU, we are going to have to consider that when we are looking at data arrangements with other countries. Where EU arrangements exist and we can make it triangular, that is fine. Where they do not exist, we are just going to have to do the best we can.

It is generally my view that data is going to be an issue that causes a lot of problems globally in years to come. There are no global rules on data. There may well be an e-commerce plurilateral coming up soon, but we are going to see a lot more restrictions on the use of data. Populations will start to ask for those restrictions. I think it will be difficult even to definitively maintain data adequacy with the EU.

In terms of our trade agreements, we should be broadly seeking to say, "We do believe in data openness". But we go into this with our eyes open. There are many issues to be thinking about here, but we do not fully have the regime yet, globally. It just is about thinking it through carefully, but our agreements so far are fine in terms of data, and the UK Government is conscious of trying to maintain data adequacy, aware of the importance of doing that with the EU, while trying to stretch it to other countries.

Apologies Chair, can I just have a couple of mentions on the previous subject? You did not bring me in on food and drink. First of all, we did not mention UK producers who are subject to rules. There is very much an issue about whether the UK producers are subject to certain rules, and if there are imports, should they be subject to the same rules? That is a big question.

Shanker Singham mentioned WTO rules that the UK may have to change. To be clear, the UK Government has said it will not change food rules in areas like chlorine-washed chicken, so there is some ambiguity there. With both data and food, these are difficult issues. Emily gave you a preview with a very detailed answer. I am afraid I cannot be quite as detailed in relation to data, but I hope you will start to get the impression that these are complex issues. We need to be making choices about what is in our economic interest and we also need to be aware that in areas such as data, the international law framework is still evolving. We really cannot be certain, even if we include these provisions in free trade agreements, that that will definitely be for the long-term and that the situation will allow us that free-flowing data.

Q245 **Mark Menzies:** In the absence of these global agreements and plurilateral arrangements that you alluded to, do the potential gains of deeper digital trade with new partners outweigh the risks of losing EU data adequacy?

David Henig: I do not think that we would get greater gains for having data transfer available with Australia, for example, as compared to not having it with the EU, but I do not think that is actually the decision we are going to be faced with. There was a very good paper issued by the Centre for European Reform earlier this week in which it suggested that we may struggle to hold on to data adequacy anyway.

There are activists within the EU who have been attacking their data adequacy framework and those agreements. The UK may not be able to hold on to data adequacy; we may have to look at different ways to do that, and so we cannot put all of our eggs into the basket marked EU on data. We have to do what we think is the best balance between what we are doing with regard to the EU and what we are doing with regard to the rest of the world.

We have to find the balance that we think is the right one, that gives us the best chance with all countries concerned, and proceed on that basis. That will be trying to stay within the EU framework but equally trying to develop a global framework as well. That is generally true across the whole regulatory piece; the EU's tremendously important for our trade, but it is always the case that we need to trade with other countries as well. We need both the EU and other countries, and we need a regulatory framework that allows us to balance those the best we can.

Mark Menzies: Thank you very much, David. Thank you, Chair.

Chair: I will bring in at this stage Martin Vickers.

Q246 **Martin Vickers:** Thank you. May I focus this question to Emily, please? The UK agreement in principle with New Zealand highlights precedent-setting commitments in terms of the environment and sustainable trade. Would that put the UK at a disadvantage compared to the EU?

Emily Rees: Thank you so much for that question, and congratulations for having sealed that agreement. In many ways, the UK-New Zealand agreement is a very ambitious free trade agreement in a number of realms. It is ground-breaking in the inclusion of chapters that we have. For instance, it is the first trade agreement, to my knowledge, that includes a full chapter on consumer protection and on gender equality in trade. That really is a novelty and it is quite trend-setting in terms of what these trade agreements can do in the future—21st century trade agreements.

On environment and climate, as you mentioned, there are a number of very specific provisions relating to sustainable agriculture. It was mentioned that it is going to liberalise agricultural trade over 15 years. It also includes a number of provisions on circular economy, biodiversity and air quality. There is further explicit text to tackle illegal logging, promote sustainable trade, and also in commodities that are generally associated with deforestation. In that regard, it really is one of those 21st century agreements with high standards for environment and climate.

On climate, we are just coming out of COP26, so allow me to mention that both the UK and New Zealand agreed to fight the urgent threat of climate change and provide some very specific provisions in that regard. Obviously, we still have not seen the text, so I am basing this on the agreement in principle; we will want to see the legal text to provide a full analysis.

The chapter affirms commitments from both sides in terms of the UNFCCC process, the Paris Agreement and the Montreal Protocol, but it does not go as far as requiring that each partner actually implements its nationally determined contributions. There are other trade agreements that have gone that far, so I would say that is the only part where I would have liked to see it go a bit further.

To your question as to whether this puts the UK at a disadvantage: not at all. I would imagine that, if anything, the EU will be seeking very similar language in its negotiations with New Zealand. We are looking at very progressive countries in terms of a number of these elements when it comes to labour, environment, climate, consumer protection and gender equality and, in that regard, there is no particular hindrance of this agreement for any trade with the EU.

On the contrary, as mentioned earlier, at least in terms of food and agricultural trade, because this liberalises the trade with New Zealand, and the EU and New Zealand already have a veterinary equivalency agreement, essentially it improves the competitiveness of food processes within the UK that would be using inputs from New Zealand.

Q247 **Martin Vickers:** From what you have said, you are probably of the mind that in other agreements in the future, we will set higher standards than in the EU?

Emily Rees: Every trade agreement, as I think has been said, is very unique. It is unique to the trading partners' specific endowments—what we would call the offensives and defensives of each side. Depending on that, you might seek full liberalisation, as has been the case with Australia and New Zealand. You might seek to put in particular provisions within the environmental or the labour chapter.

For instance, if we look at the EU-Vietnam trade agreement that was recently concluded, a lot of the focus was on the labour area because that was where the EU had concerns in terms of creating the level playing field of trade by providing preferential access to Vietnamese goods. There were also questions of trying to avoid certain goods transiting via Vietnam via a circumvention process.

Depending on who you are trading or negotiating with, you will have different focuses in terms of the chapters that you are seeking to negotiate. But indeed I think that altogether this is not specific to the UK; it is just that the UK is embarked on a liberalisation process. Countries seeking to negotiate trade agreements are placing in a number of more regulatory elements—more ambitious language in terms of environment and climate—than we would have seen in a 20th century agreement.

Q248 **Martin Vickers:** Would it be fair to say that we have allowed the misconception to evolve that, because there are different standards in the UK and New Zealand on certain issues, for example, we are dealing with countries that do not have high standards?

Emily Rees: I would be very interested to see who would be disqualifying New Zealand's standards, because it seems to me that they are rather high.

Martin Vickers: Exactly.

Emily Rees: But I appreciate your point. I think that there is a bit of misunderstanding here. For one, most of these products already enter the UK; what we are talking about is preferential access. Again, preferential access can be conditioned if you would like to place those animal welfare conditions, for instance, within a trade agreement. All that is very negotiable.

But I do think that there is a misunderstanding: all these products do currently enter the UK and they must respect, once again, the regulatory regime of the UK in order to be imported. That is why there are import controls. That is also why when products arrive at a border control post, documentation, health certificates and others are checked to ensure that they do not pose any risk to British consumers or the environment. We need to make a good differentiation between what is part of the regulatory regime and where we can, using these free trade agreements, push our partners to go further.

Chair: Now it is a great pleasure to bring in Tony Lloyd.

Q249 **Tony Lloyd:** Thank you, Chair. Can I put a question to David Henig? Obviously, we do not yet know what the future looks like, but there at least the possibility—maybe the probability—that we will see significant divergence between the free trade agreements with third countries and in comparison with the European Union. As a result of that, would you expect to see trade diversion or other impacts on trade flows? Can you talk us through what you think that would mean in practice for both UK importers and exporters?

David Henig: That is relatively straightforward. We have chosen higher barriers to trade with the EU, leaving the single market and the customs union, replacing that with a free trade agreement. That is a significant increase in trade barriers. We are marginally lowering trade barriers through free trade agreements.

This comes back to my first point: free trade agreements do not hugely impact the cost of trade. They reduce tariffs—particularly on food, where there are still tariffs. In general, tariffs are not a big issue in global trade. Regulations are more the issue. As we are discussing, whilst free trade agreements are touching upon regulations it is still a pretty immature field. Therefore, if you are putting up barriers significantly to the EU and you are marginally lowering them to the rest of the world, you will get a change in trading patterns.

When you look at the UK, it is not a major exporter of agriculture, and I think this is quite important to recognise. We are talking a lot about New Zealand, Australia, the US, these are agricultural exporting superpowers. It matters to them to get lower or zero tariffs into the UK, and that is why, in theory, we should have the ability to say, "We would like you to meet standards in terms of animal welfare or environment," because they so much want our market and because some of them can meet that easier than others.

For example, New Zealand has higher standards than Australia, therefore the UK could have made the choice to say, "We will go for New Zealand rather than Australia." It looks like we have not made that choice. But those choices will affect our trade.

The UK is not an agricultural exporting superpower; we are a services superpower—the second largest in the world. Free trade agreements are not doing a lot for services, but we do have extra barriers to the EU. Again, what we are likely to see and what we are already seeing is that UK trade is reducing with the EU. It is increasing, but by less, with the rest of the world. That is the pattern you can expect to see continuing. And as we make different choices, we will see those impacts change.

It is interesting that we spend so long talking about agriculture when we do not export that much agriculture, and the major agricultural products that we do export are processed anyway; Scotch whisky or our large scale farming, salmon. It is important that we see this in terms of UK interests. UK interests are around services and we are hardly talking about those. I am sure you talk about them in other sessions, Chair.

Q250 **Tony Lloyd:** Thanks David; I think we were well reprimanded there. Nevertheless, you made a point earlier on, and you have repeated it, that free trade agreements concentrating on tariffs do not have a big impact, but you also made the point that the barriers to trade these days are regulatory.

In that context, can we talk about the rules of origin and how it will impact on our traders if we end up with different rules of origin through overlapping trade agreements? What does that do to trade? Not necessarily in agricultural products per se, but certainly processed food is not trivial as an export market. Really, the question is: what does the difference in rules of origin do to our traders? Do they stop trading because it is too complicated or do they have different trading patterns?

David Henig: I will do my best with that. I also note that Shanker Singham has his hand up—I am not surprised, because I do not think you have asked him anything for a while. Please bear that in mind.

In terms of rules of origin, this is something that larger exporters are very much used to, and much of UK trade is carried out by large multinationals within supply chains. A lot of it is regionalised such that there is a European supply chain. To the extent that we put up higher barriers to Europe, we may lose some our place in those supply chains, but multinationals will make those decisions.

For example, in the CPTPP you have a accumulation of origin between members that is more likely to benefit the countries geographically closer to each other. The UK is less likely to benefit from that, but this is just something that businesses have to absorb. Smaller businesses systematically suffer from the way we do global trade. They do have to face higher costs, and it is a problem for the UK.

It is very rare to get a wholly obtained product that is entirely made and sourced in the UK these days; much more common is that we are taking the parts of products and services from all around the world. So the rules of origin are important but, again, what are we going to be exporting? It will only be some products that this is important to.

We know it will be very important for cars, electric vehicles—we really need to make sure that we get the rules of origin right on that—and on some of our processed foods. But we need to look carefully at what we are trying to export and what the rules of origin are, but yes, it will be complex, and exporters do get used to the fact that they have to deal with different rules of origin. I did that as quickly as I could.

Q251 **Chair:** Well done. I can see you are bursting to say some something about services regarding the TCA and the FTA. We will give you the opportunity for that, David, before the end. You have done your fellow panellist a great service in letting us know that Shanker Singham has had his hand up, as has Anthony Mangnall.

I am in the horns of a dilemma as to who to let in first, but Anthony has now kindly indicated to me, as the gentleman he is, that we should go to Shanker Singham first. Shanker, do you want to come in?

Shanker Singham: Thanks very much, Chair, and thanks David for pointing that out. I wanted to come in on two things really quickly.

One is to build on some of the things that David was saying on data and data adequacy, because I think generally around the world every country has a choice. Where you are on the spectrum between flow on the one hand and privacy on the other is the choice that countries are making.

Obviously, flow is important. If we want to use applications that require the use of data and to benefit from all of these things, then flow should be very much prioritised. David is absolutely right that the EU will make its own decisions on whether it wants to whitelist countries or to provide adequacy arrangements to countries. We did see a little preview with the Swiss, who have a different set of data rules—very similar to the European rules, but not identical—and the EU pushed back on the Swiss in terms of adequacy.

We have to make our own decisions here and to determine when we do data agreements with other countries. Obviously, data agreements are a significant part of UK external trade policy. If you look at the Japan or Australia and New Zealand agreements, there are significant data provisions. But building networks where UK firms can share data in those ways and really build data supply chains: that is the decision the UK Government has to make. But they have make that decision recognising that whatever they do, the EU may make its own decision with respect to moving in towards a more harmonised approach, rather than an adequacy approach. It is fair to say that most countries that we are doing trade deals with are approaching this in terms of adequacy.

Just a final point on rules of origin. Generally, the more complex, the more restrictive the rules of origin, the less traders tend to use them. So even in agreements where you have quite liberal rules of origin, like the old NAFTA agreement, 40% of traders did not use the preferential rate and obviously the lower the tariff is and the more complex the rules of origin are, the less the traders are likely to use them. You always want to seek as liberal rules of origin with as much accumulation as you can get, and that is the UK's general approach.

What we have seen from covid is that global supply chains are very, very long; you have supply chains from countries in the CPTPP that go literally all over the world. What you want to do is make sure that you have your place in those global supply chains, and you do that in a number of ways. It is not just rules of origin; it is also your own domestic regulatory environment.

People want to put factories, plants and so on—they are looking at lots of other things beyond trade. They are looking at the regulatory climate in the country, which is why improving your regulatory climate is good. Your trading partners may seek to lower your regulatory barriers, but it is good for your own economy as well and you might seek to do that in any event. Those are the two points I wanted to just quickly introduce there.

Chair: I am aware that you have to go at 11.15, Shanker Singham, and I will rejig to take Lloyd Russell-Moyle in, who has a question to address to you. But before that, Anthony Mangnall, I assume this will all have been sorted in the previous answer so you have done us a huge favour with that. Lloyd Russell-Moyle, we go to you and then we will move on to Sir Mark Hendrick.

Q252 **Lloyd Russell-Moyle:** Thank you very much. Shanker, what are your views on the responsibilities of EU and the rest of the world trade being shared across Government and, more precisely, being split into different Departments? Does that make things easier or harder?

Shanker Singham: This is an extremely good question. Generally, certainly in the medium or perhaps long term, you would want to have a single mind over all your negotiations. The interconnection between what you are doing with the EU—as I said, the EU negotiations are not over now. Just because we have a TCA does not mean that we down tools and do nothing. We want to be continually working within the joint and specialist committees in all of those chapters to build on the TCA. How you build on the TCA does have cross-cutting effects on the rest of your trade policy. I would say that what you do want is a single mind over all of your trade negotiations.

Having said that, there are some very specific issues arising out of the EU agreement, where you probably do not want to move the expertise that you have currently assembled, just on the EU side of things. Obviously, Northern Ireland is a massive issue here. You probably do not want to move that right now. But as a long-term goal, you certainly would want to bring this all under a single negotiating mind. In my view, it is absolutely critical in the interim that the EU and the rest of world negotiating teams are really operating hand in glove.

Q253 **Lloyd Russell-Moyle:** David, do you have a view about whether it would be appropriate for it to be in one responsibility—that is the responsibility of International Trade?

David Henig: Yes, preferably quicker than I think Shanker would say, but for the same reasons. A couple of extra thoughts on that.

We have had this situation since 2016 where negotiations with the EU have been held from the Cabinet Office at the centre of Government and, from my time working in Government, I never felt that was the right approach.

The Cabinet Office should be co-ordinating all Departments of Government, including trade, but not leading a negotiation itself. To lead and co-ordinate at the same time is incredibly difficult and I think we have seen that. I would want to see the Cabinet Office return to its normal role of co-ordinating across the piece because trade deals—as we've seen with the EU, but this applies to other trade deals—cover so many different Departments that you need a co-ordinator that has to be separate from the lead Department.

Just two other thoughts to offer on that. Some people suggest that a trade function should be held within the Foreign Office. I have never been a fan of that approach because I think that the job of diplomats is different to that of trade negotiators.

The other one is to suggest that maybe we should merge the Department of Business and the trade function; we could almost call it the Department for Trade and Industry, for those who have been around a while. I think there is a lot of attraction in that because after all, at the end of the day, a lot of what we are trying to do in trade is to support UK business. We tend to forget that. There is some attraction, if you were going to move it into another Department. But I personally would have all the negotiations held within the Department for International Trade, and I would aim to move to that as quickly as I could.

Q254 **Lloyd Russell-Moyle:** There is an argument that Northern Ireland would be better served by the Department specialists in Northern Ireland co-operating with the Department for Trade, rather than hiving it off to a third party, so I get that. Emily, did you want to come in on anything on that point?

Emily Rees: Just looking and observing how trade negotiations usually occur, you would have the core team at DIT or trade negotiators, negotiating the legal text. This is all the commas and the full stops that help us finalise the key points in the offensive interests of the country. But then you need to rely on the expertise of all parts of Government when you are looking at negotiating ambitious trade agreements. DIT negotiating the food safety chapter without the support of DEFRA, for instance, does not make a lot of sense. You really need very good co-ordination and co-operation amongst different parts of Government in order to secure ambitious trade deals.

Chair: Mark Garnier, I think you want to come in on the back of all that. I did note "Trade expert Henig slams Cabinet Office meddling" as a possible headline we might be reading tomorrow.

Q255 **Mark Garnier:** David Henig and I of course used to work together at DIT, when I was a Minister there and you were working there, David. Picking up on Emily's point, it is absolutely right that when it comes to things like SPS inputs into trade deals, for example, you really need the expertise of people from DEFRA. You may remember that there was not a particularly good relationship between officials in DEFRA and those in DIT.

You are absolutely right: the ideal situation is you do have DIT doing all the text work and all the rest of it. But then you start bouncing into problems with trade promotion and going out and promoting things. Quite often, a lot of these Departments like to do their own trade promotion, particularly DEFRA.

David, in a practical sense, from your experience in Government, do you think that it actually works well or do you think that, although there is a fantastic sort of nirvana where everybody is working together, we are a long way from that? Or do you think we have reached that?

David Henig: I am not sure Government ever reaches the nirvana of everyone working well together. The Chair unkindly said I was slamming the Cabinet Office. Actually I think the Cabinet Office is the essential glue to making this work because there will always be a tension between DEFRA and the Department for International Trade, because DEFRA is looking after the interests of UK farmers, their core group. The Department for International Trade is looking to see whether, if we accept more tariff-free goods from Australia, New Zealand, Brazil or wherever, then we could maybe sell more cars. But there is always going to be the tension. The Cabinet Office has to mediate and, ultimately, the Prime Minister has to decide.

Q256 **Mark Garnier:** Sorry David; I just want to pick you up. Are you suggesting DEFRA is protectionist?

David Henig: Yes, definitely. And I suspect institutionally it always will be protectionist to a degree. We should accept that we have these different interests within Government. For example, on UK farmers, my own personal view is that we should set a high standard and then once we have a high standard, we should be very open to imports. But that is not necessarily quite the same view as we hear from our farmers who say we should set high standards and then we should still have quotas as well on top of that, and that view will have some support within DEFRA.

So there will be these tensions. In terms of whether it all works together now, I still think that trade promotion and trade policy have never quite come together in the way that I think they should be able to. I have always felt that we should be promoting UK companies, and where those companies are running into problems, as they inevitably will in other countries, that should be feeding very strongly into our trade policy.

Somehow, I have never had the sense that works as well as I felt it should, even within the same Department, and further work is needed there. For example, there is an export strategy that has come out today—I have just been having a glance at it—and it is almost entirely based around the old trade promotion functions that were UKTI. There is very little about the integration between taking cases that our exporters face and then getting a trade policy that supports them, such that we open up markets. I think we could do more there.

Chair: Thank you. So now we have "Trade expert Henig has views on DEFRA" as a possible headline. I am going to take in an indulgent Anthony Mangnall, very briefly, before we go to the poised and coiled and ready to spring, Sir Mark Hendrick.

Q257 **Anthony Mangnall:** You are, if anything, indulgent.

We are going in a direction where we are talking about what Departments are doing. Will each of the panellists briefly say something about scrutiny of trade deals and how Parliament should be doing perhaps a better job, more of a job, less of a job, in scrutinising the trade deals that we are signing?

Chair: Answers in 30 seconds, please.

Anthony Mangnall: Shanker, let us go to you first, please.

Shanker Singham: I apologise to the Chair; I will have to leave in about five minutes.

Chair: We understand that; you are free to go after this.

Shanker Singham: Thanks very much, Chair.

In terms of scrutiny, what you have to ensure is that your trading partners do not think that they are having to negotiate with all members of Parliament in order to do a trade deal, otherwise they will never do a trade deal with you.

Other countries have all kinds of mechanisms that they use. The US has its trade negotiating authority, formerly called Fast Track. Congress has the right to vote up or down on the deal, but they do not have the right to go into the very specific provisions of the deal and say "No, you cannot have that; you can have this". That does not mean that Congress in the US is not involved in the process. In fact, it very much is involved, and committees of jurisdiction in the UK, I think, should absolutely be briefed by trade negotiators along the way and should have an opportunity to inject their views and thoughts into that process.

In the UK, we also have a series of committees, technical working groups, and so forth, thematic working groups—I am involved in some of them—and the Trade and Agriculture Commission, which you mentioned previously. There are plenty of ways of doing this.

Chair, can I just pick up on something that David mentioned? It is a crucial point that he raises—a very good point that is not raised often enough. It is the disconnection between trade promotion and trade policy. It is really important that we integrate these two.

No country does this well, but I think we have an opportunity here—you do not want a situation where you are supporting an exporter to get into a market where your trade negotiators know that there is a significant barrier that will absolutely prevent that exporter from being successful in that market. Quite often, because the two functions are very separate, we end up with exactly that situation. I do think that is also a really important part of bringing our trade and market access negotiations and our export promotion work together.

Q258 **Chair:** Thank you, Shanker. I am just going to get the next two 30-

second answers from the witnesses, and Sir Mark Hendrick will be rattling his thumbs and fingers any second now. But I hear you, Tony. Sarah, you want to come in?

Anthony Mangnall: Emily.

Chair: Emily, sorry. Emily, do you want to come in?

Emily Rees: Yes.

Chair: I transposed your name there accidentally. Apologies.

Emily Rees: I will make it very brief. I am going to have to concur here. I do not actually know any country in the world that does not provide its Parliament with scrutiny over trade deals. But again, the key point here is that the ideal is that Parliament does not have the means to change a trade deal after it is negotiated because that would make the negotiating process extremely complex.

The idea is that you have enough scrutiny throughout the process that makes the ratification or the scrutiny—the up and down vote, as was mentioned—a seamless one whereby there is enough debriefing from the chief negotiator of the deal back to Parliament throughout the process that allows the input of Parliament throughout the negotiating process in order to make that final vote a seamless one.

Q259 **Anthony Mangnall:** Sorry, just very briefly. Do you think we have enough scrutiny though? I know what we need. Do you think we have enough scrutiny at the moment?

Chair: Emily Rees, do you want to go out on a limb and say anything risky there, if you like?

Emily Rees: I would certainly suggest that there be more input from Parliament into the negotiating process of these trade agreements. We were speaking earlier of the misinformation around some of these trade agreements. It would allow a proximity back to citizens in terms of explaining what is happening, explaining what the trade deal does and what it does not do, and in that regard I think it is a healthy process.

Q260 **Chair:** Thanks. David, I'm no risk to Emily Maitlis with my elastic 30 seconds, but do you want to give it a go in 30 seconds?

David Henig: I have nothing to add really, Chair, so I will do it even quicker.

Chair: Excellent—thank you! Tony Lloyd.

Q261 **Tony Lloyd:** I want to follow on David and Shanker's points about the gap between trade policy, trade strategy and trade promotion. Can you give us some illustrations of where you think that has cost us in the negotiations that are taking place now? Are there any obvious areas that we should be aware of?

Chair: Who are you wanting to start with?

Tony Lloyd: It is Shanker and David really.

Chair: Shanker and David, do you want to come in there briefly? Shanker, you are still with us. Do you want to give it a stab?

Shanker Singham: Yes. I will briefly come in and then I will have to depart. Thank you, Chair.

I think there is anecdotal evidence of companies. I will give you one example, to give you a sense of how it might work. You might go to a country. You might take a group of UK exporters with you and push the UK exporters to trade with that particular country.

There are many countries around the world, particularly in Latin America and the Middle East, that have very, very onerous dealer distributor protection laws. This is a trade barrier; it has been raised by a number of countries in negotiations because they apply typically only to foreign exporters, not to domestic producers in that country. And you may find that you have succeeded in selling the idea of the UK exporter doing business in that country, only to find that they are held to ransom by their local distributor in five years' time. Actually, entering that market will have proved, in that case, to have been a mistake, or at least not walk in without the knowledge that those laws and regulatory environment exist.

On the one hand you may have a negotiator in DIT who is working specifically on that issue, trying to lower that particular barrier. And on the other hand, you might have an export promoter who is just looking at the macroeconomics of the market and saying, "Well, we need more exporters to do business there".

Connecting the two so that at least you advise those exporters about the barriers is not that difficult to do. Lots of countries have inventories of foreign country trade barriers and you can simply make that available to your export interests, particularly small and medium-sized enterprises who may not have the wherewithal to hire lawyers, consultants and trade experts to tell them about these things. That is one example, but there are many examples like that.

Q262 **Chair:** Okay. David?

David Henig: I will give two illustrations. The first is in the choice of trade agreement countries. We are going to give full-tariff and quota-free access to products from Australia and New Zealand. It is not obvious that our exporters have any issues exporting to Australia and New Zealand. Whereas, to give another example of a major agricultural exporter, Brazil, our exporters have lots of market access barriers to Brazil.

Given all the barriers we know there are to trading in Brazil, would you get more for your free trade agreement if you said, "Well, I am going to look at where I have got the most barriers. I have got more barriers with Brazil than I have New Zealand, so I am going to prioritise that negotiation." So it starts with your priorities.

Then at a more ground level, you actually have the ability to raise market access issues. I am not sure where we are in terms of these market access issues that exporters can report, but I would have thought those that are reported should basically be collected together and put into a report to Parliament.

Where there are obvious themes in countries, then you should be getting your country teams within trade policy to also report, "Well, okay, what have we done to remove these barriers?" Both the EU and the US do something similar to that. Maybe we do not need to do it in quite as exhaustive a manner as the US, for example, do it. They have several hundred-page reports.

But we can definitely do something like that where, "Here are the barriers that have been reported by our exporters and here is what the trade policy teams have been doing when they met with those countries." That then builds back into your scrutiny point. "Parliament, here is your report on what we have done." I think that could really be a step change. I think openness actually really gives an impetus to trying to tackle some of these issues.

Chair: Excellent. Thank you. The moment we have all been waiting for: Sir Mark Hendrick.

Q263 **Sir Mark Hendrick:** Thanks, Chair. Can I direct my question at David to talk a little bit about how trade has progressed since the end of the transition period? To what extent have the shares of UK trade with the EU versus the rest of the world shifted since the end of that transition period? Could he perhaps comment on how we can disentangle the so-called Rotterdam effect from trade with Europe?

David Henig: I thought I might get an easy one; that is a really difficult question. There was a report out yesterday from the UK Trade Policy Observatory. I apologise, I have not had time to digest it in full.

We have definitely seen a fall in exports to the EU of both goods and services. It is not entirely clear how much of that was an initial effect in January, how much of it has been a lasting effect, how much of it has been down to covid, and how much of it, frankly, has been down to the fact that exports to the EU have been relatively flat since 2017. There is some suggestion that companies have already been moving their operations.

There is also some effect of covid and the fact that we have been exporting more in terms of ingredients for covid vaccines or indeed covid vaccines themselves. It is really hard to fully disaggregate all figures at this point. That is why we tend to be boring and look at these matters over several years. But there is no doubt there has generally been a fall in exports to the EU while trade in the global terms has been rising.

Trade, interestingly enough, to the rest of the world has also not been doing so well. I think that that is flat or slightly down—down by less than the EU. Again, it could be a Brexit issue, but it could just be that the main carmaker we had that was exporting cars outside of the EU was Honda, and Honda closed during the year. We have lost Honda's exports of cars, for example, to the US.

There will be a link between our EU goods exports and our rest of the world goods exports for complex products like cars because if we lose our place in European supply chains, we will also potentially lose global sales as well. That applies less to products that are wholly made in the UK such as Scotch whisky, sales of which I believe are doing exceptionally well. The Chair is probably very well informed on how that is doing. Trade is generally down, but we do not exactly know why. There will be a Brexit impact in there, but there will be other impacts as well.

Another one that I have not gone into is Rolls-Royce engines: not too many people have been buying new aircraft in the last year or two due to the downturn in travel. There is a lot more that goes on than just Brexit, but there will be a Brexit effect and we have to try to make up for that Brexit effect. I prefer to say that, yes, there will be a Brexit effect but it does not mean you cannot seek to make up your exports, to find new products or attract new investors. But certainly the EU trade has been hit—as you would expect—by new trade barriers.

Q264 **Sir Mark Hendrick:** Just in addition to that then, I did ask if you could comment on what sort of an impact you think the Rotterdam effect has on it, but also to what extent has any shift been down to the provisions in the TCA?

David Henig: The Rotterdam effect— that we are having more exports to the Netherlands because things are being shipped actually ultimately from the Netherlands, or we are having more imports from them because things are coming into the Netherlands for shipping.

It is really hard to tell what will happen there because so many products have been traded in that way. Now they are changing, but we know there are global supply chain strains. I cannot, at this stage, isolate a Rotterdam effect into the trade figures as compared to a Brexit effect or a covid effect. There are too many things going on here to give a really detailed explanation of that—or at least that I can give.

On specific TCA provisions, again, I do not think you can track specific TCA provisions to specific trade. The absence of tariffs helped to allow exports of items that would otherwise have been subject to tariffs. Cars is an obvious example; Nissan is still exporting. On the other hand, with food and drink there would have been high tariffs if there was not a TCA. There is a TCA, but we still struggle to export primary food products because there are many checks—as we heard earlier in the session. So in summary I am afraid, not entirely satisfactorily, it is complicated.

Q265 **Sir Mark Hendrick:** Emily, do you want to come in on this?

Emily Rees: Yes, if you will allow me. Thank you very much. I have to concur with David. Disaggregating all the data to see what is Brexit related and what is part of a much wider supply shock, what is covid related—these are a lot of factors and many variables. Obviously, we will need to have a bit more hindsight to be able to properly analyse.

Rotterdam effect, very interesting. Again, I think we have to look at it in two ways. How much deviation of trade is also happening via a non-Rotterdam effect now? For instance, are we able to map the new routes or maybe the new frequency of direct travel into the UK to avoid having to move goods via Rotterdam? My understanding is that there is an increase.

Again, we are going to have to see what the bigger supply shock due to covid, due to the issues relating to availability of containers, is having on our ability to actually look at those figures. As the current supply shock starts to ease out, I think we are going to have much clearer mapping as to how much deviation of trade is now benefiting the UK in the sense of having perhaps smaller boats, maritime services bringing in goods directly to the UK to avoid having a double customs procedure.

That, I think, is something that certainly we will have to look into. It also requires better efficiency at ports and better port logistics. I think we are still in the beginning of that, but as the full border controls are implemented we are going to see the shock effect of that on the clearinghouse aspect within the imports coming into the UK. A lot of unknowns—many variables. It is too early to make very detailed responses on those points.

Q266 **Chair:** Thank you. Just before I move on, David Henig, you were suggesting that there is a Brexit hit to UK trading, but it is a complicated picture and it is hard to disentangle. Are there any countries you can compare with the UK to see what the patterns are like—given that we have had a covid pandemic globally and all would be affected by that—to try and tease out some of the issues to clear the picture?

David Henig: As I say, there is work that the UK Trade Policy Observatory and CER have done that tries to do this by looking at other countries. That is why I am suggesting that UK exports to the EU falling at the same time as other countries are seeing their exports rising suggests that there is quite a big impact. At this stage, that still needs to be fully judged.

What I do not have are the figures in front of me that can prove that but, as I say, work has been done on this. But generally, at the moment, trade is growing globally so if UK trade is falling, we are out of line with the global trend.

Chair: We will have a look for that evidence that you suggest. I will turn now to the birthday boy, Mr Mick Whitley.

Q267 **Mick Whitley:** Thanks, Chair. My question is to David. Do you anticipate that the ratio of UK trade with the rest of the world versus with the EU will change once the FTAs the UK is negotiating enter into force?

David Henig: Absolutely—for certain in some products. We already mentioned that they are not really covering services so the FTAs might not have such an effect. But certainly, if we sign an agreement with Australia to allow full-tariff and quota-free entrance of their agriculture, we will have more imports from Australia and we will probably have fewer imports from Ireland or France.

There are some versions of the impact assessment that suggest that Australian agriculture exports to the UK might increase by 80%. These things will have an effect in certain products. But again, agriculture is probably the main one. You will not quite see such an impact, for example, on cars because they are complex products that are the result of long-term investment decisions. Or similarly JCB or Rolls-Royce or McLaren cars—you would have less impact.

But generally, the other part of the impact, which has been happening already and will continue to, is that UK companies will slightly disaggregate from European supply chains and will look to do business elsewhere. There will be an effect of looking to global markets. What we have seen so far, and this is not necessarily a prediction for the future, is that companies that have stopped trading with the EU and have done more trade with the rest of the world have not been able to make up the same numbers with the rest of the world that they lost with the EU. But it is early days yet so let’s not say that that is definitely not going to happen.

A lot will come down to UK companies now working out what to do, but there will be a loss in general. We will struggle, for example, to maintain our position as a supplier to the European car industry. That we will struggle to maintain. There will be some general loss in other ways. We have to wait to see what UK business manages to come up with.

Q268 **Mick Whitley:** Just a supplementary, Chair, if I may? How significant a role will the FTAs themselves play in any shift as compared to other factors such as demography or economic growth?

David Henig: I think the FTAs will not play that big a role. Some of the figures here are that the Australia trade deal will lead to growth of 0.01% of GDP. It is pretty trivial stuff. Whereas the change from petrol vehicles to electric vehicles is one of the biggest industrial transformations we will have seen for many years in Europe. We have huge numbers of similar transitions going to go on around the transition to low carbon.

What is going to happen with aircraft engines? If we can be on the right side of those kind of areas—I am not sure we are, but if we can be—that will have a much bigger impact on our trade figures. Similarly, in terms of our trade, for example, with countries like India and China, we are educating huge numbers of people from India and China. It is in factors like that that are not really dependent on trade deals. Is our education system still going to attract lots of students from India and China? That is not really about trade deals. The picture of UK trade is a complex one and about an awful lot more than biscuits and food as we keep talking about.

Q269 **Chair:** Thanks. Emily, do you want to make any comments?

Emily Rees: Thank you. I think David has made a very good point, although I will say that I do enjoy talking about cakes and food.

Q270 **Chair:** Very good. As we approach the close of our proceedings, David, you mentioned services there and you were critical of the line of questioning that there was not much on services. I felt there was a big iceberg there that you basically want to set free. You mentioned the TCA with FTAs and an interplay with that. You mentioned education just briefly in your last answer as well, with India and China and that trade effect. Is there anything you particularly want to say? It is a big area; I am giving you a very open question on that, but fire on.

David Henig: Thank you, Chair. You could talk for a while, but here are just a couple of thoughts. One, when we are talking about, for example, allowing in unlimited agriculture, that may be exactly the right thing to do if it gives us lots of new access in return in terms of services because that is our strength. These are the kind of choices that we have to look at. Now, if we are not getting much in return for the agriculture, say into services, then that is a different decision.

Then in terms of our free trade agreements at all, what are the kind of provisions within them? For example, do they have strong provisions on mobility of people? Do they allow for people working for companies to go between the countries? Do they recognise people's professional qualifications? We have clearly lost the free movement from the EU. Let us not dwell on that, but clearly that was good for businesses who wanted to be able to employ from wherever. You have now got a visa regime.

What else is it about UK services? We are not including audio-visual in our trade agreements, just like the EU. Again, is there an opportunity? Why are we not doing that? Is there an opportunity for our broadcasting and cultural and media to sell more? I think there are lots of issues.

If up to possibly more than 50% of our exports are services, we really need to make sure that our free trade agreements are delivering well for those, particularly if they are mainly with agricultural exporters who want to get their products into the UK. What are we doing to get our services in response into their countries? I think I will leave it at that, Chair.

Q271 **Chair:** Okay. Emily, do you have anything you would like to add in there, or are you quite happy?

Emily Rees: I believe David has made some very salient points there. Essentially, this point of what is the UK's offensive? It is services. When you are going to be negotiating with countries who want to import those services, but obviously they know that that is going to be competition for their own domestic players, then that is where the full the force of this tit for tat in terms of the concessions comes into play. That is the careful calibration that needs to occur in terms of the big agreements that do count. The big ones, I would say, are really the ones that can make a big difference, and that is where the UK will certainly have to look at its service strategy and what it is ready to give up in exchange for that.

Q272 **Chair:** Thank you. I am going to put a final point to David Henig. You have mentioned the services versus agriculture and the bigger interest there in services rather than agriculture. But the Welsh farmers would maybe see the downside of that. There will be, of course, resistance in the UK when areas that have benefited from the potential increased service trade come to compensatory fiscal transfers. They will not be wanting to give to those who have sacrificed for their gain; that is just nature. That leaves vested interests obviously in the likes of Welsh farming resistant to that change. Is that fair?

David Henig: That is entirely fair. Not just Welsh—I would say Scottish and Northern Irish as well. We hear the same point. I think this comes down to your overall trade strategy and what you are trying to do with free trade agreements is to make those choices.

Do we need those trade agreements? Do we need to bring in this agriculture tariff-free? Will we get something in return? How much will we get in return? How much will our choices be reduced? Or should we, in fact, not be doing so many trade agreements, not bringing so much agriculture and concentrate on other ways of increasing our trade? I actually have some sympathy with that idea as well.

We talk an awful lot about free trade agreements, but as you may have been gathering, I think there is an awful lot that we can be doing and that business does that is not about free trade agreements. It is about trying to facilitate their path and help them in terms of regulation and trade diplomacy. There is a lot more that we can be doing around there, and certainly those are big pressing questions on farming communities that need to be considered when we consider the FTAs.

Q273 **Chair:** You have just reminded me that the Australian FTA was meant to be damaging to Northern Ireland's GDP, I think, at one stage in the figures. Sorry, Emily, you want to come in?

Emily Rees: I think David's made some great points, but if you will allow me I would like to bring a certain subtlety into this because I think that we have to be quite careful not to lump agriculture into one big pot.

For instance, we saw it in the deal with Japan, or even if you were looking to have an agreement, for instance, with Latin America. The UK is particularly competitive in dairy and dairy products, and those countries would seek to put in quotas on the amount of cheese that the UK can export over to them if the UK wants to protect its beef industry.

The question here is really about finding the right point of equilibrium in terms of understanding that in every trade agreement there are losers and winners. What you want to do is make sure that in the agreements that you are negotiating across the board, that creates the right kind of balance where there are opportunities for some under some deals that compensate where they lose under other deals. But I think it is very important that we sub-segregate a bit when we are looking at agriculture. Not all products are on the same level when we are looking at trade. And there are opportunities abroad, depending on geographical scope.

Chair: Thank you. Wise words and a good point at which to bring this morning's proceedings to an end. Can I thank you both very much, Emily Rees and David Henig, for your time this morning and the sharing of your expertise which I think we all found illuminating?