HOUSE OF COMMONS

International Trade Committee

Oral evidence: UK trade negotiations: Agreement with Australia, HC 1002

Wednesday 9 February 2022

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Watch the meeting

Members present: Angus Brendan MacNeil (Chair); Mark Garnier; Paul Girvan; Tony Lloyd; Anthony Mangnall; Lloyd Russell-Moyle; Martin Vickers; Mick Whitley; Mike Wood.

Questions 1-28

Witnesses

I: Alessandro Marongiu, Senior Trade Policy Manager at Society of Motor Manufacturers and Traders; Mr Shanker Singham, Chief Executive Officer at Competere Ltd; Richard Rumbelow, Director, International Trade and Member Relations at Make UK; and Sam Lowe, Director, Trade at Flint Global.

Examination of witnesses

Witnesses: Alessandro Marongiu, Mr Shanker Singham, Richard Rumbelow and Sam Lowe.

Q1 **Chair:** Good morning and welcome to the International Trade Committee's UK trade negotiations: agreements with Australia inquiry session. We have two panels this morning, with four witnesses in each.

The first panel's witnesses are Alessandro Marongiu, Shanker Singham, Sam Lowe and Richard Rumbelow.

I formally note that Richard Rumbelow is a former special adviser to the Committee and a personal friend of mine—at least, I would say he is a personal friend. Richard might not agree—it might be a career ender—so who knows?

May I ask all four panel members to introduce themselves, by name, rank and serial number, starting with Alessandro?

Alessandro Marongiu: Good morning, everyone. I am Alessandro Marongiu, senior trade policy manager for the Society of Motor Manufacturers and Traders, in charge of the society's trade portfolio, including trade with Europe and with the rest of the world, including Australia.

Chair: Thank you very much. Sam Lowe?

Sam Lowe: I am Sam Lowe, director of trade policy at Flint Global, which is a business adviser.

Chair: Thank you. Shankar Singham?

Mr Shanker Singham: I am Shanker Singham. I am the chief executive officer at Competere, which is a trade law and economic policy consultancy. I have worked in the international trade space for 30 years now.

Chair: Thank you. Finally, Richard Rumbelow—name, rank and serial number, and any other comments you wish to add.

Richard Rumbelow: Good morning, Chair, and good morning, Committee. I am Richard Rumbelow from Make UK, where I am director of international trade and member relations. From the trade point of view, I look at our international trade responsibilities, both within the EU and on an international footing.

Q2 **Chair:** Thank you very much, and thanks to the panel for being here this morning.

I will kick off by asking Sam Lowe: how far do you feel the agreement goes towards representing a good deal for the UK in relation to the trade in manufactured goods?

Sam Lowe: I think it is a good deal. It is duty and quota-free, largely, upon entry into force. There are a few things that I would pull out, just because I don't think other people have noticed them, in so far as not all the tariffs would be removed on day one. If we look at Australia, some of the steel tariffs of 5% would be phased out over a period of five years rather than on day one, and that phase-out is suspended until the UK removes its global steel safeguard tariffs on Australian steel. These safeguards arose as a result of the US trade war with the rest of the world under Trump; we are still working all of it through. On the UK side, we are removing—again, this is on industrial goods—nearly all the tariffs upon entry into force, but in some areas that is going to be phased in over a number of years. In the chemical space, there is a chemical called mannitol. I don't actually know what it is, but the tariff reduction of 8% is going to be phased in over eight years.

I suppose the point I would make here—I'm sure we are going to get on to it in more detail—is that because we are looking at an agreement that is largely duty and quota-free in respect of industrial goods, when discussing market access the focus moves to the rules of origin provisions, which determine whether exporters can actually qualify for this tariff-free trade, and the regulatory environment.

Q3 **Chair:** Thank you. I have a wider question. You mentioned the American trade war. They have declared a peace of sorts with the European Union, but are still at trade war with the UK. Is there a risk that UK steel ends up so damaged that there is not much to gain in five years' time from an Australian trade deal, or is that just one of the things of the moment that really aren't that significant?

Sam Lowe: This is something on which you would need to talk to the UK steel sector in particular, but yes, it is true that the EU and the US have reached an agreement to remove the steel and aluminium trade war tariffs. It is also true that the US is about to do that with Japan as well. The UK negotiations began a couple of weeks ago, but we have yet to see what the conclusion of that will be. It is of course true that we are in an environment where both EU exporters and Japanese exporters to the US of steel and aluminium will be treated preferentially to those exporting from the UK until this is resolved, and that could have knock-on effects elsewhere.

Chair: Thank you. We move now to Tony Lloyd.

Q4 **Tony Lloyd:** Alessandro and Richard, both your organisations—the Society of Motor Manufacturers and Traders, and Make UK—were very forthcoming in welcoming the new trade deal. Can you talk us through why it is good for your members?

Alessandro Marongiu: To give a bit of context, Australia is a relatively small market for the UK automotive sector, but it is not an insignificant one. It ranks consistently among the top 10 export destinations for UK-made vehicles, for example. It is a growth market, and this deal could help capture that growth in the future as well. In particular, there are the

provisions that should allow most if not all UK or British automotive manufacturers to avoid paying a 5% tariff on importing their products into Australia. This is of course also an advantage compared with the situation of competitors that still have to negotiate a deal with Australia. That is the reason why the SMMT welcomes the deal. It delivers opportunities—in particular, for tariff benefits.

When it comes to regulatory aspects, though, there are some shortcomings. They are not major ones, but the deal does not include, for example, a dedicated automotive annexe, which could have addressed some regulatory barriers specific to our sector.

So yes, the deal is positive overall. It delivers on our key priority, which is tariff removal. It is a little less positive on regulatory issues.

Richard Rumbelow: I agree with Alessandro. In general terms, Australia is a relatively small market for UK manufacturing—in fact, if you look at the data in terms of exports from the UK, it is only about 1% in terms of manufactured goods—but currently it is manufactured goods that make up the bulk of exports to Australia. Certainly in our sector, it is the finished good that goes to Australia, which is similar to the situation for motor vehicles.

The reason for supporting the deal was, first of all, that clearly there has been movement on tariffs, which is helpful. Any reduction in tariffs applicable to goods entering the market is good to have, but obviously we were talking about a relatively small change, because in terms of tariffs, Australia at the moment is relatively small compared with other sectors; but the movement on tariffs is encouraging. There are also some commitments behind the scenes in terms of customs clearance and faster access to market for goods when reaching the port. Things like that will be helpful in the future as well. Speed in getting product to the customer is also helpful. In terms of trade in services, which is also an integral part of manufacturing these days, commitments to ensure mutual recognition of professional qualifications and in areas of data are also helpful for the wider manufacturing base that looks at services and, critically, for some of the export of goods as well.

I share the concerns about some of the technical annexes relating to technical standards and regulations. The important thing is that both sides will look at, discuss and develop a framework as to how that will happen in the future, but we are talking about two countries that, at the moment, have very different regimes and approaches when it comes to technical standards and regulations, and that have different views as to how they can be applied. But the positive thing is that there is a framework to take those negotiations forward. Hopefully, any move that can allow for trade friction to be removed in relation to both of those issues will be welcome, but at this stage it is an open door, rather than a solution that has been found.

Q5 **Tony Lloyd:** To follow up on that, can you talk us through how you see this? You have both made the point that, in terms of gross value, this is a

relatively small advance. Do you see this as essentially a prototype for future trade deals, or as a one-off? The point I really want to get from this is about the concerns you have both raised about technical standards. Do these have to be ironed out before we begin to look at further and equivalent trade deals?

Richard Rumbelow: If you look at the trade deal as a whole, some of the chapters that have been committed to far extend what has been committed to currently, either by the UK or by Australia. I think that needs to be welcomed, particularly in the area of services, which I know is not quite the subject of today's hearing. But if we are looking at the deal overall, there are some encouraging commitments there in terms of services.

When it comes to using the trade deal as a template, I think that is useful to do for future negotiations. A lot of the work on goods has already been done through negotiations and other ways. Tariffs is the obvious lecture point for many to say, "We've got an agreement on tariffs. That must be good." Yes, it is helpful to reduce tariffs on trade—of course it is for manufactured goods—but there are other things that help goods get to market, which are not just about the tariffs you face at the border. It is about the customs facilitation. It is about other technical barriers to getting your product accepted and being placed on the market. It is about having the ability to co-operate when it comes to technical regulations and standards. Those make a significant difference for a UK exporter going into a foreign market. Even if you have reduction in tariffs, if you are then faced with technical standards and technical barriers to entry, the importance of the tariff issue somewhat fades away if you still have to face barriers to trade, so it is important that we have a framework to address those issues. It is a discussion point; it is not a solution.

The final point I will make is that every trade negotiation is an individual negotiation. You must look at it based on the strengths and opportunities you want, and on being able to have a structured offensive and defensive position for those negotiations. There is not a one-size-fits-all model for all trade negotiations. You must approach them knowing what you want from it and what you think the opposite side will either offer or concede. It must be done on a bilateral basis and on an individual basis. It is not about having a one-size-fits-all approach.

Alessandro Marongiu: I will add a couple of points. Of course, this is an important precedent, being the first deal of this kind negotiated from scratch by the UK in a very long time. I believe that it will also be used, at least in part, to shape the UK's negotiating position in future negotiations. However, I fully agree that there is no template that you can follow in all negotiations. You need to look at individual circumstances and interests in each negotiation and shape your negotiating position accordingly. If we had an ideal template, I would definitely want to see an automotive annex included as an objective of future negotiations for the UK, because that would deliver benefits for the automotive sector beyond tariff elimination.

Another point is about rules of origin. Yes, on paper that might deliver, for example, the benefits that we expect from the deal, but that has yet to be tested. The deal has yet to be ratified, so we will need to see whether businesses actually make use of tariff preferences and whether they take all the necessary steps to comply with the formalities needed to get zero-tariff treatment. Whether they can or not, we will see in the future.

Q6 **Anthony Mangnall:** May I bring Shanker in on this, please? On manufactured goods specifically, how does this agreement compare with other free trade agreements, whether ones between other countries or with what the UK has struck previously?

Mr Shanker Singham: I agree with my co-panellists that this is a good step and broadly speaking a good agreement, certainly with the tariff benefits they talked about. With respect to rules of origin, when looking at them in trade agreements, there is a spectrum: on one side are very liberal rules of origin that have relatively low local content requirements and that are more focused on change and tariff classification; and, on the other side of the spectrum, are more illiberal rules of origin, which are very restrictive and can become trade barriers in and of themselves.

Where this agreement comes down, it has cumulation, which is a positive step, and it has in the auto sector, for example, 25% content, which is positive in terms of plurality. It lacks diagonal cumulation, which no trade agreement really has, so there are opportunities for improvement. It is based on importers' knowledge, or at least you can use importers' knowledge, which is easier for companies to satisfy.

I also agree with my co-panellists on how I think there was a missed opportunity here, in a way, with the "Technical Barriers to Trade" chapter. The TBT chapter of the agreement essentially repeats the WTO chapter. I would point out that at least it does repeat the WTO chapter, whereas the SPS chapter of the agreement is WTO-minus in some respects.

We also need to think of this agreement in the context of the CPTPP accession of the UK. Obviously, Australia, New Zealand and Japan are members of that. That will be an accession, so if we are CPTPP-minus, we will have to lift our game for that accession.

There is one oddity of the agreement that, in terms of precedent-setting, I would be concerned about, which is that it is unbalanced in the sense that there is full dispute resolution for labour and environment. Only the USMCA has that. Most trade agreements have hortatory provisions—labour and environment—but not full dispute settlement. Oddly, however, this does not have dispute settlement for the SPS and TBT chapters. Normally, that would be the other way around, so that is significant, and it has implications for our CPTPP accession.

Q7 **Anthony Mangnall:** I have two things that I would like clarification on. Just before you went on to the technical barriers to trade and the SPS chapters being WTO-minus, you said that the agreement was lacking something. I did not understand your reference point there.

Mr Shanker Singham: What I was probably referring to I think was raised by the auto sector. There are certain things that you would want to do in a modern trade agreement. The tariff piece is good—the tariffs on industrial goods are relatively low—but what you really want to tackle are the regulatory barriers that companies face in other markets. Merely repeating what the TBT requirements are does not really get you there. Certainly the "Good Regulatory Practice" chapter, the pathway for mutual recognition and all these things are good things, but I would have liked to have seen a bit more specificity on dealing with market distortions in both markets, because that is the single biggest barrier to international trade, in particular for manufactured goods, for which tariffs are relatively low.

Q8 **Anthony Mangnall:** You also made the point that the SPS chapter is WTO-minus. I know we are talking about manufactured goods, but it does seem important, especially given that in a previous public session a week or so ago we were told that there were absolutely no trade-offs. We talk a great deal about SPS and our adherence to it in this place, and the value that politicians place on it. Can you say a little more about why we may have traded below WTO standards?

Mr Shanker Singham: The issue there is that agriculture in trade matters to everybody, not just the agricultural sector, because agriculture is very often a gate through which the trade agreement goes. Particularly with countries like Australia and New Zealand and big agricultural exporters, what you are prepared to do in terms of liberalisation will determine your market access in other areas, especially in things like services, so they are connected. You cannot think about them in complete silos.

There is a sentence—we do not need to go into the detail—in the SPS chapter that sort of subjectifies some of the objective standards in the SPS agreement. I am not sure where that came from. As a signal to countries around the world, it does suggest where the UK is prepared to go instead of going above WTO standards on SPS, which is what you want to do if you are contributing to liberalisation. This agreement is a little bit below that. I would not want to see that as a precedent for other UK agreements. Of course, we are in the CPTPP accession. That is not present, so we will not be able to do that in the CPTPP accession.

Q9 **Anthony Mangnall:** I will bring in Sam Lowe and then come back to you, Shanker.

Sam Lowe: As trade nerds, we sometimes use language that is slightly confusing to others. When we talk about things being WTO-minus, we mean that the obligations contained within the SPS chapter—say, in UK-Australia—do not deliver in terms of liberalisation and do not, for example, oblige the UK to act in a scientific way to the extent that we would like to facilitate trade. The reason I make this point is because if you talk to someone else and they say, "We don't like the SPS chapter", they might mean it is because they fear that it is going to let in a load of goods, whereas from a trade perspective that would be a good thing. I just want to differentiate there because I think the use of WTO-minus is an accurate

but also slightly confusing term without providing the context. I think the point made about CPTPP—we are already seeing it—is that UK-Australia does not require the UK to let in any food that has been pumped up with hormones, or whatever, or any of the other controversial things. It does not require the UK to change its SPS rules at all.

However, in the CPTPP accession negotiations, we already have Canada saying, "Your SPS requirements are not compatible with the CPTPP obligations, and we will need to revisit that." In my view they are probably just using this as leverage to get concessions elsewhere, but that is what we are talking about when we say SPS-minus or WTO-minus in this context. If you talk to farmers, the words minus, negative or positive will be used completely differently.

Q10 **Anthony Mangnall:** Thank you very much for that. Going back to you, Shanker, to continue on manufactured goods, it is clearly a bold step to lift all tariffs on manufactured goods. Can you perhaps explain the significance of that and the impact on GDP and job creation, and, if you can, the impact that it is likely to have on the level of trade between the United Kingdom and Australia?

Mr Shanker Singham: Obviously, there have been economic analyses of the impact of the agreement. I have a couple of cautions on that. It is very difficult to project forward the impact of a trade agreement on an economy. I refer the Committee to probably the best piece of work on this, which was the ITC report on the CPTPP when the US was a member of it. It looked at the economic benefits of CPTPP to the US economy and essentially concluded that while we have good mechanisms to determine the impact of tariffs, we do not really have good economic models to measure the impact of some of the behind-the-border barrier reductions and regulatory reductions.

Treasury Departments typically underestimate the benefits of trade agreements. If you look at the New Zealand-China agreement, for example, it underestimates the benefits of that agreement by about 500%. You also need to think about how the agreement fits into your wider strategy. Obviously, the Australia agreement is not an "in isolation" agreement: it is an essential puzzle piece, if you like, that goes alongside your deal with New Zealand, your deal with Japan, your CPTPP accession, and so on. All of those are in the round.

Then, to the extent that the agreement increases import competition into the UK, there are benefits of that increased import competition. It is not just about producers in the UK having to compete with producers in the other market—the Australian market, in this case—it is also about the benefits from a consumer welfare standpoint of competition itself. In that context, your regulatory reform agenda should not be neglected either, because there are certain things that the agreement will do that will improve, or at least open the door to improving, regulatory settings in the UK. That will also generate economic benefits, so all of these things are very closely connected and tend to feed off each other.

It is quite difficult to project: a static projection will be quite low, for reasons that have been stated here. The Australian market is not an especially large market for the UK, but I would be cautious about saying, "This is the economic benefit of the Australia deal on tariffs, and therefore we are going to do the following agreements with the following countries." It is part of a strategy, and the strategy is what needs to be graded.

Chair: Yes, as long as it doesn't generate any lorry queues; that is quite a static projection that we have at the moment.

Q11 **Mick Whitley:** Good morning to the panel. My question is to Richard and Alessandro. How much, and in what ways, will your members' businesses be affected by the liberalisation of tariffs under the agreement?

Richard Rumbelow: The liberalisation of tariffs is always helpful. It is an additional cost burden if you want to export to a particular market and, subject to you meeting the rules of origin requirements and other requirements, tariff-free access is preferable. As we have discussed here already, there are other barriers to entry in addition to tariffs that can sometimes be off-putting to a new exporter or an SME exporter who has limited experience or resources to access an international market. Tariffs are important, yes, and tariff liberalisation is a critical part of exporting, but it is not the sole reason why companies will export to a particular market. There are other issues that need to be addressed as well, and free trade agreements are a good opportunity to help to liberalise some of those other concerns and other issues.

Alessandro Marongiu: Just to add to Shanker and Richard's points, tariff liberalisation usually has two short-term impacts on manufacturers. One is that it helps competitive businesses that are already exporting to a market to become a little bit more profitable, for example, and potentially to export more. At the same time, domestic manufacturers are put under increased competition from increasing imports into the domestic market. That is why the automotive sector usually advocates for a slow phase-out of tariffs over a longer period. However, in this case, things are different because we are not importing any cars, for example, from Australia. There is no domestic manufacturer, at least for passenger cars, and the entire Australian market is essentially serviced by imported products. In this case, we called for immediate tariff liberalisation, because it helps both parties, essentially, and does not create any side effects for domestic manufacturers here or in Australia.

In terms of quantifying the impacts of tariff liberalisation and the positive effects, it is very difficult to say. We come from two very challenging years. Last year, exports to Australia went down 31%, for a number of reasons—not only trade barriers, but lockdowns, covid restrictions and shortages of semiconductors and the like. Those businesses that performed well are essentially premium and luxury vehicle exporters. The potential growth in that market segment is also limited by other factors, including the Australian luxury car tax, which can be very impactful and is still the biggest barrier to trade with the country. That could not be

addressed through an FTA, because usually taxation is not addressed through FTA negotiations.

Q12 **Chair:** As a supplementary to that, it costs to pay tariffs, obviously, but not paying tariffs has a cost as well in compliance. A previous guise of the Committee was at the Canadian-American border and we were told that some people would rather pay the tariff than comply with the paperwork. Perhaps your members are large enough to cope with that, but can you see a point when some people might say that they will just pay the tariff as it will be a lot easier?

Alessandro Marongiu: First of all, we should look at tariff liberalisation, of course, as a key objective in negotiations, but there is no tariff-free deal. You always have to comply with certain conditions to benefit from zero-tariff treatment. When it comes to automotive products, those conditions are usually rules of origin. We might come back to this point, but rules of origin are complex, even when liberal ones are agreed by the parties.

You need to put in place the systems to comply with rules of origin, even for big manufacturers who are able, for example, to comply with the 25% value-added requirement that Shanker mentioned. That might seem easy to attain, but at the same time it is a totally different rule compared with previous FTAs, including continuity deals that have fairly different requirements. Even for those businesses that are sufficiently sophisticated to comply with the rules, it may take time and resources to put in place all the necessary systems to ensure that they can comply with all the conditions they need to meet to get zero-tariff treatment when exporting to Australia. I would not be surprised if, for example, some would initially start by still paying tariffs and then eventually benefit from tariff liberalisation at a later point.

A whole different issue is whether new businesses that are currently not exporting will be sufficiently convinced by tariff liberalisation and rules of origin to start exporting to Australia, because they simply might not have the business case to do so, for a broad variety of reasons. It is unlikely that an FTA or tariff liberalisation or rules of origin will be the only or determinant factor in starting to export to a new market. It usually helps, when you take the decision to do so, to be able to avoid tariffs, but it is not the main driver to start exporting to that new market.

Chair: Thank you. Richard?

Richard Rumbelow: In the interests of time, I have nothing to add.

Chair: Thank you. This is just an observation that now, since Brexit, the UK cannot, or does not, export to anybody without a tariff or some paperwork. There is nobody getting stuff as freely as they once did.

Mr Shanker Singham: I just want to add, in answer to your question, that it depends on the size of the tariff, what the rules of origin specifically say, in terms of substance, and also how complex it is. We tend to see that where you have low tariffs and complex or illiberal rules of origin, the

percentage of traders who do not bother to use the preference goes up, obviously. Even in agreements that are relatively liberal, such as NAFTA when it was initially agreed in '94—the rules of origin weren't particularly restrictive, but they are now, under USMCA—the number of traders who actually used the preference was probably 70% to 80%, so you had a decent rate of traders who were not actually using the preference, and obviously that goes up with complexity.

Q13 **Chair:** What you are essentially saying is that it is cost versus cost—the cost of compliance versus the cost of the tariff—and that that is basically the trade-off to trade.

Mr Shanker Singham: Exactly. For certain products, like agriculture, textiles and shoes, where the tariffs are very high, then people will make an effort to try to take advantage of them. However, when they are very low, you need to have a pretty liberal and easy-to-understand rule of origin. Even using importers' knowledge, you still need to do statements of origin, you still need evidence, and you still need to show these things. Some people will simply say, "I'd rather just pay the tariff."

Q14 **Chair:** Shanker, your words have stimulated more debate.

Sam Lowe: I would just add, from an optimistic perspective, that due to the fact that UK exporters, who have previously only really focused on the European market, are now having to comply with origin requirements, that probably means that there is a higher base level of knowledge among UK industry when it comes to rules of origin compliance—you would hope, although I can see a shaking head. It is being phased in, over time, a little bit, with the EU perspective, and I think there is also a lot of accidental non-compliance, but, over time, people get used to it. It means that they can apply those same structures and techniques to make use of other trade agreements.

However, I would caveat that by saying that the issue you then come up against is of different free trade agreements having different rules of origin provision. Just because you qualify for one free trade agreement, such as UK-EU's, does not necessarily mean you would qualify for UK-Australia's—although you probably would, because Australia is more liberal. The supply chain that you've set up to qualify for tariff-free trade for one market does not necessarily allow you to service another market on the same basis. Companies have been working through that for decades, but it is probably being felt more acutely in the UK now, with some positives, but also additional complexities.

Q15 **Chair:** What you are saying, Sam, is that those exporters who are still standing and are used to the paperwork might be more likely to go and do the paperwork for another market.

Richard Rumbelow: I can add to that. I think the experience we are seeing so far, with our trade with the European Union, is that we are starting from a low point in exporters understanding some of the technicalities of exporting into a third country. Rules of origin is a clear demonstration, where firms have had to learn very quickly about what

they are required to do, what the administrative paper trail requires, and the submission of relevant documents. Building up the skills will take time for them. I don't think that skills level is optimum at the moment, but it is increasing.

If you then add that to an international market, such as Australia, or the other markets the UK will negotiate with, you will have to apply the same skills to those markets. However, of course, you will have different requirements for rules of origin for those different markets, according to the negotiations concluded, and differing amounts of in-house experience to be able to do that. For some firms, they will decide, "If the tariff is low, I'm not going to bother with that. I might as well just pay the tariff because the additional cost of employing someone to do it, and of undertaking the administration required for the submission of documents, is not worth it if the tariff is less than 5%," for example. That is where the cost versus cost issue comes into play.

The administrative issues of getting up to speed with rules of origin are also quite difficult for firms that are experiencing it for the first time—going into your supply chain and asking them to come back with certificates of origin for the products they are supplying to you. We have examples of firms who have tried that, and their suppliers have said, "We're not going to provide it to you because we can't, because we don't know the supply chain either." You have a whole chain of administrative issues being built up, where firms will try to comply with the rules of origin requirement with that certification of origin, but if the supply chain isn't respondent to those requests, or the firms don't think they can get that information, they won't do it. That is the cost versus cost issue.

Q16 **Mark Garnier:** So, in summary, 48% of our total trade was simple; now, 100% of our total trade is complicated.

Richard Rumbelow: It is more complicated because we are now entering into an environment where, whether it is the EU or other third countries, the same requirements of trade are now in play. There are different conditions for those markets; there are different entry requirements and there will be different technical regulation requirements for those markets, but everything is now in parity. What has happened is that the skills level, and the understanding of that, for many firms, has had to be accelerated exceptionally quickly over the last 15 to 18 months. They are still in a learning curve as to what they need to do.

For the experienced exporter, they are familiar with the rules and can adapt to them. They have the resources and capability in house, or externally, to help them do it. However, for the new exporter, or for those who have predominately exported to the EU, this is an acceleration of learning.

Q17 **Mark Garnier:** The problem that we had before we left the European Union was that we were the second worst-performing export nation in the 28 nations. Now we have made it more complicated; in order to try to be a better performing export nation, we have actually made it more

complicated than it otherwise was. Sorry, I am slightly banging on about Brexit.

Richard Rumbelow: We have added to the administrative understanding for exporters about what they need to do for the markets they are interested in exporting to.

Q18 **Mark Garnier:** Will this get in the way of us improving as an exporting nation?

Richard Rumbelow: A number of factors, which are not just dependent on the competence and the knowledge of the individual exporter, will affect that. However, that will play a part in our export success in the future—yes.

Q19 **Chair:** I have a number of bids to intervene. Shanker Singham.

Mr Shanker Singham: Coming back on that last point and building on Sam's optimism, it is actually a good thing that people are learning those processes because they apply to the rest of the world. We are seeing that UK companies are learning those processes; it is a very sharp learning curve. There is a competitive advantage to securing preferences if you can, and to positioning yourself so that you are able to export to, and take advantage of, the markets that make sense to you. It is not all doom and gloom here; there is a learning curve. There are plenty of bodies out there willing to help traders understand those processes, for example the Institute of Exports and the UK Customs Academy—there are many groups that are helping traders. If a trader is well versed in these processes, they will do well in international trade, which supports many more high-paying jobs than purely domestic trade.

Chair: Thank you.

Q20 **Mick Whitley:** I have a couple of points on the sources of origin. In the automotive industry, most OEMs have preferred component suppliers. They wouldn't set up different suppliers supplying the same product, because the Government is trying to the maximise volumes. For example, if seats came from eastern Europe and then went down the supply chain to the UK to be fitted in a high-end car, which was then exported to Australia, that could become a problem—couldn't it? The other thing is that, when we were discussing the first free trade agreement, between Japan and the UK, the EU had a side letter saying that any preferential treatment towards the UK, Japan would also receive. You were saying before that one size doesn't fit all.

Alessandro Marongiu: On the point about automotive suppliers, could you please clarify?

Q21 **Mick Whitley:** I am talking about sources of origin. A lot of car makers have preferred suppliers—they don't set them up. For the example of the seat manufacturer: they wouldn't set up a seat manufacturer in the UK if they were getting the volumes coming in from Spain or eastern Europe. That puts up the content on the vehicle. How do we get around that with the automotive supplier?

Alessandro Marongiu: First, our industry is very well integrated with the European automotive sector. We import large numbers of parts and components from the European Union, and this is not likely to change anytime soon. It is difficult to say what the impact of this deal would be on that supply chain business model. The 25% rules of origin requirement for finished vehicles is unlikely to force, for example, suppliers to relocate to the UK—honestly. The domestic value added in the UK through assembly of parts and components that are also shipped from the EU might be enough to satisfy the 25% rules of origin requirement for finished vehicles. I don't see major threats there.

Of course, there are some businesses that might not be able to satisfy the 25% value-added threshold for finished vehicles because they are importing a large number of parts and components from the EU. Even though the rule is fairly liberal, they might not be able to meet it without the ability to add the value of EU content into their calculations, and this deal does not allow that. In an ideal world, we might have had this possibility agreed by the parties. We might discuss it in the future, I guess, or the panellists will come to this point. But for the moment, those businesses that are importing very large numbers of parts and components from the European Union might struggle, even with the low 25% origin requirement, to meet that threshold.

Chair: Thank you.

Q22 **Anthony Mangnall:** Coming back to what Shanker said earlier, you said that these deals, by removing the tariffs around these areas, also push us towards improving the domestic regulatory market. Is that the point? The PAC report that came out this morning said that there has been no discernible benefit to businesses from Brexit and that they have more bureaucracy and paperwork. The point is that they are now able to do more trade deals with other countries, because there is a better understanding of the system, but there is also a requirement for us to improve that regulatory market to ensure that people can take advantage of these new trade opportunities.

Mr Shanker Singham: Yes. If you think of the UK as a balance sheet, with a profit element and a loss element, clearly in your profit element there are two things: your external trade policy and your domestic regulatory reform. There have to be sufficient gains across both of those—they are integrated; they do relate to each other—to offset the inevitable disruptions that come from leaving the EU, which are what are causing the EU-GB challenges. On the loss side of the balance sheet, you have to minimise those disruptions.

The way you minimise those disruptions—and, frankly, the UK Government are taking steps to do this—is by doing some internal things: getting your own customs system to work better, embracing things like single trade window for customs, for example, which the UK is going to be doing, and in general trying to make the customs process less burdensome for your traders. There are many ways of doing that. All trade agreements have customs and trade facilitations chapters to make both

parties work together to minimise the process disruptions. You have to maximise your opportunities and minimise your disruptions, then you are more likely to have a successful result. If you don't do that, as a rule, things can go wrong.

Richard Rumbelow: There are certain considerations there. Looking to help trade facilitation to a certain market is critical, and anything that can liberalise that is good. Where I would caution danger is the assumption that all regulation needs to be reviewed and changed. Manufacturing works by producing a single product for multiple markets, not multiple products for multiple markets. If you start to change the regulatory model too much here in Great Britain, so that it does not stick to existing market regulation elsewhere, UK manufacturing will be at a disadvantage; manufacturers will have to make multiple products for multiple markets based on the regulatory requirements of the market that they are selling into. That is an additional cost burden on firms here in the UK.

You want to try to ensure that you have minimum regulatory change for goods being exported from the UK into those markets, rather than forcing change on the UK manufacturing sector that will require it to undertake multiple changes of product for the multiple markets it is selling into. Trade liberalisation is good if you can ensure that UK product gets into there smoothly; it is a disadvantage if manufacturers are having to multiply and multitask across regulatory compliance regimes to get into certain markets.

Chair: Thank you. Waiting very patiently—a model of patience—is Martin Vickers.

Q23 **Martin Vickers:** Thank you, Chair. Could I direct this question to Sam? Looking at rules of origin for manufactured goods overall, could you briefly explain the provisions and summarise what it would mean for UK imports and exports?

Sam Lowe: Yes, of course. Starting from the beginning, in order to qualify for tariff-free trade under a free trade agreement, you need to be able to demonstrate that the product that you are exporting is actually from the UK. Every product has different terms and conditions applied to it as to how you go about that. It might be, as in the case of cars for UK-Australia, that you have to demonstrate that 25% of the value of that car was produced either in the UK or in Australia.

For other products, you might have to demonstrate something called the change of tariff heading or the change of chapter heading. To try to articulate this clearly, every product has its own code. For example, if you had some products, say barley and water, and you turned them into whisky, it would change the product code. If you have done that in the UK, you have demonstrated that you have done a lot of work on the products in the UK, so it is a UK product and it is therefore of UK origin.

It is interesting when approaching free trade agreements, particularly when you are looking at duty and quota-free free trade agreements, that

the entire market access discussion, in terms of tariffs, becomes a rules of origin discussion, because it is zero tariff—great. Does my export qualify for it? Does my product qualify for it? That is when you get into discussions around different the types of models you could use when entering those negotiations on rules of origin.

Previously, for example in UK-Japan, we retained, for the most part—not entirely—the EU approach to rules of origin, in terms of value-added thresholds, but we have negotiated an additional provision, which we refer to as extended cumulation, that allows the UK exporters to continue to account for EU originating products as being British for the purpose of qualifying for the UK-Japan free trade agreement. This is pretty good.

We don't have that in the agreement with Australia. What we do have is more liberal rules of origin, so the local content threshold for cars is lower—it is 25% rather than the 55% for UK-Japan. So it performs the same function, but you also see it in other areas. For example, in footwear, if you want your shoe to qualify for tariff-free trade, in UK-Australia, you just need a change in tariff heading. However, in the UK-EU agreement you need a change in tariff heading, but it is "production from non-originating materials of any heading, except from non-originating assemblies of uppers affixed to inner soles or to other sole components of heading 64.06." So that is much more complicated.

The point I would make here is that there is a further consideration, because more liberal rules of origin are great if you are trying to increase the use of your free trade agreement, but there is a risk. This is a risk, which I am sure that the UK Government considered and decided was worth taking, that if you liberalise the rules of origin provisions extensively, you increase the possibility of circumvention.

For example, in the case of a shoe, Chinese products could be shipped to Australia, then a sole and an upper could be stuck together in Australia and exported to the UK tariff-free. That is now possible under this agreement. I am not saying it will happen, because the economics of that might not work, but that is the risk you take by approaching this agreement with Australia and deciding on liberal rules of origin, rather than prioritising extended cumulation. I am not saying that is a bad thing, but it is something we need to consider when analysing decisions taken by the Government.

Q24 **Martin Vickers:** Thanks. Alessandro, can I turn specifically to the rules of origin for cars? Overall, do you feel that the proposals in the agreement are going to be advantageous to the industry?

Alessandro Marongiu: In principle, the origin requirements agreed under this new FTA should be a positive precedent. Again, in the absence of the possibility of using EU content to meet origin requirement as well, these lower or more liberal rules better reflect the UK suppliers' base, following the country's withdrawal from the European Union.

In the past, we could achieve very high local content requirement, for example, because we could easily use the content originating from the other 27 countries. We cannot do that anymore, so these liberal rules should help us qualify for zero-tariff treatment, even in the absence of this cumulation provision.

However, as mentioned previously, although the rules are liberal, it is not a given that all businesses will be able to make use of them or will want to use them. Sam mentioned the fact that these rules are different from those that applied in the past. That essentially means that businesses that need to put in place the necessary internal mechanisms to check compliance with the requirements will need to spend time and resources to do so, and ensure they have, for example, the necessary proof supporting their claim for zero-tariff treatment. They cannot use the systems that they had already in place for other agreements, for example.

The strength of this deal is that it sets unprecedented rules. That is also its weakness, in a sense, because it creates additional burdens for businesses to check that they can comply with those rules. I would say that it is a good precedent, but it needs to be tested. Hopefully we will have data in the future about tariff preferential use by businesses.

Chair: Mark Garnier, we have about three minutes left for this panel.

Q25 **Mark Garnier:** Shanker, I am going to come straight to you. You and I have been talking about trade for a long time, and I value your thoughts on these things. How satisfied are you with these cumulation of origin provisions in the agreement? Do you think we have missed out on something by not having triangulation in this deal?

Mr Shanker Singham: I think you would always want to have a deal where, in the case of the UK, you would include your European content with other countries, along the lines of what Sam described with the UK-Japan agreement. I think we do want to continue to push for that. There is one issue with cumulation that you need to think about. Other trading partners that the UK has who are outside that cumulative area may complain if you try to extend too much. They may say that you are giving certain trading partners an advantage in that way.

I think as long as it is limited, in terms of EU content—we have an advantage in the UK that we need to take advantage of, which is the fact that we are one of the relatively few advanced, developed countries that have a trade deal with the EU, Japan being the other. The trade deal with the EU does have the rules of origin committee and the customs and trade facilitation committee. These committees are continuing to work and hopefully continuing to develop and deepen the liberalisation of the UK-EU TCA. We want to use that to ensure that we do achieve more extended cumulation.

The other factor we need to think about is that in order to get true, full diagonal cumulation that is very extensive, where you can use multiple parties' content—from a trade liberalisation perspective, that is a good thing—the downside is that you do need to have equivalent rules of origin

in all those agreements, which we probably are not going to have, given the fact that we have got more liberal rules of origin for the Australian agreement in certain sectors.

Mark Garnier: That is brilliant, Shanker; thanks very much indeed.

Q26 **Chair:** In the last minute or two—this shouldn't be just an add-on—I want to ask Sam Lowe to summarise briefly how the provisions of the agreement interact with Ireland/Northern Ireland and the Northern Ireland protocol under the EU withdrawal agreement. Don't feel pressured by the two minutes.

Sam Lowe: Right, so I have got two minutes for this. Northern Ireland is completely covered by the UK-Australia trade agreement in respect of exports. Producers in Northern Ireland will be able to make use of the trade agreement. Northern Ireland-originating content is UK-originating content. There are no issues there.

The slight question mark arises when we start to discuss imports from Australia. Northern Ireland is—you have to be careful how you phrase this—de facto within the EU's customs territory as standard. That means that Northern Ireland importers can only make use of UK tariffs under certain conditions. One of those conditions is that the differential between the applied EU tariff and the UK applied tariff must be no more than three percentage points. So for imports into Northern Ireland from Australia, where the tariff that the EU would apply is, say, 10% and the UK tariff under the agreement would be 0%, you would not be able to import those things into Northern Ireland tariff-free. There are certain constituencies that might think they benefit from this—for example, food producers in Northern Ireland who are concerned about competition from, say, Australian beef producers, because Australian beef, under this agreement, is not getting into Northern Ireland tariff-free, but Northern Ireland exports to Australia will do.

So there are lots of angles to this, but, yes, it is something that needs to be confronted and discussed.

Q27 **Chair:** Excellent. Thank you very much. Shanker, do you want to come in? If you do, can you do it in 20 seconds?

Mr Shanker Singham: Twenty seconds? Chair, can I just say that you could do an entire hearing on the Northern Ireland protocol and its effects—

Chair: Very good advice.

Mr Shanker Singham: One piece of clarification: Northern Ireland—I think it is important to put this on the record—is not in the EU customs territory or the single market, but in certain cases it does apply EU customs rules and European regulation. There is a difference between goods that are flowing within the UK customs territory and goods that are at risk of going to Ireland. The 3% number that Sam referred to is if you are going rest of world into Northern Ireland and you want to prove that you are in that UK customs territory under the UK trader scheme, which is

the not-at-risk scheme. Then, you cannot have a more than 3% differential tariff under the protocol.

Q28 **Chair:** Sam, do you want to add anything?

Sam Lowe: I think I would need further clarification on that. My understanding is that in order to claim tariff-free treatment under a UK free trade agreement, you have to be able to demonstrate that that product is staying in Northern Ireland, and the 3% differential kicks in in that instance. So it would prevent anyone from importing tariff-free from Australia in the event that the differential was above 3%. Also, I did say "de facto" customs territory. I was very careful how I phrased that.

Chair: On that beautiful and amicable disagreement, I think we will have to bring panel 1 to an end. I am very sorry, but we have eaten into the time for panel 2. I thank all four of you—Alessandro Marongiu, Shanker Singham, Richard Rumbelow and Sam Lowe—for being here this morning. It was a very stimulating conversation. Good to see you all.