

# International Trade Committee

## Oral evidence: UK trade negotiations: trade strategy and scrutiny, HC 233

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Members present: Angus Brendan MacNeil (Chair); Robert Courts; Mark Garnier; Paul Girvan; Sir Mark Hendrick; Taiwo Owatemi; Martin Vickers; Matt Western; Craig Williams; Mick Whitley.

Questions 49 - 79

### Witnesses

**I:** Dr Meredith Crowley, Reader in International Economics, University of Cambridge; Dr Peter Holmes, Reader in Economics, University of Sussex; and Dr Sheila Lawlor, Director, Politeia.

**II:** Rosa Crawford, Policy Officer, Trades Union Congress; John Dickerman, Head of US Office, Confederation of British Industry; and Nick von Westenholz, Director of EU Exit and International Trade, National Farmers Union.



## Examination of witnesses

Witnesses: Dr Meredith Crowley, Dr Peter Holmes and Dr Sheila Lawlor.

Q49 **Chair:** Welcome to this session of the International Trade Committee. We are taking evidence in our inquiry into UK trade negotiations, and this second session provides an opportunity for the Committee to take evidence on recent developments—and they are very recent developments—in UK-US negotiations. We have two panels today. Panel 1 will have a look at the overall approach, and panel 2 will consider the particular interests of stakeholders.

Without further ado, I will move to panel 1 and let them introduce themselves on their own terms: name, rank and serial number or whatever else they want to add.

**Dr Crowley:** Good afternoon. My name is Meredith Crowley. I am a reader in international economics at the University of Cambridge. I am also senior fellow at the UK in a Changing Europe think tank.

**Chair:** Thank you, and thank you for coming.

**Dr Holmes:** Hi. I am Peter Holmes, fellow of the UK Trade Policy Observatory at the University of Sussex, and it is a great honour to be with you.

**Chair:** The famous University of Sussex. Of anybody we have seen so much of since the start of Brexit, I have seen more of the University of Sussex than anybody else. Last, but by no means least, can I ask Dr Sheila Lawlor to introduce herself?

**Dr Lawlor:** Hello. I am the director of Politeia. It is a London think tank. We have done a great deal of work with lawyers and economists on trade since 2016.

Q50 **Chair:** Thank you, and thank you all. To kick us off, I will ask a fairly open question on an open canvas to leave you to colour in as you feel. This open, wide-ranging question is how does the UK-US free trade agreement fit within the UK's overall trade strategy?

**Dr Lawlor:** The UK's overall trade strategy is a country that is competitive in its economy. It supports market economics under the rule of law, with competition. The approach to trade reflects this. We are looking for free trade agreements in which both parties trade freely under their own laws, but subject to whatever agreement is reached.

On the whole, we should make a great deal of the approach to the US, because it is a company on whose door one can knock because it shares the same approach, generally, broadly, to the economy—open, free market, competitive—and there are two common law systems in operation.



The EU is another trading bloc, but it has a French model, historically. I am a historian by profession, and what is very interesting about the EU model is that it reflects the French approach to politics and economics since the 17th century of a centrally state-controlled economy, which is subject to law and is not the permissive, liberal law that we have here in the UK, where everything is permitted unless it is prohibited by law.

You are dealing with two separate trading blocs in these two big negotiations, and it is very important that the UK reflects its own interests and its own economic model and law. It will be more difficult to do that with the EU, and I think one has to recognise that. It is a different system. It works for them, or the French think it works for them, and the US has its own system, but it is much more aligned to our own.

Q51 **Chair:** Briefly, before I turn to Peter Holmes, which one do you think is more important for the UK?

**Dr Lawlor:** That is a very difficult question. Britain has traditionally been a halfway house between the European continent and the US. I do not think one picks winners in this. One does one's best to secure the sort of deal where the principles are the principles of the UK Government today, and indeed principles on which our own successful economy, or at least successful until Covid—we will have to see how it turns out after the pandemic—is the fifth-largest economy in the world. We have a model. I do not think one or other is more important. We should knock on both doors. The US is a door that is easier to knock on, though they are tough negotiators.

Q52 **Chair:** Peter Holmes, going back to the original question, how does the UK-US free trade agreement fit in with the UK's overall trade strategy?

**Dr Holmes:** It fits into it from a geopolitical point of view much more than an economic point of view. We do less trade with the US than with the EU, and probably about the same as with the largest EU member states. The extent to which a free trade agreement with the US could replace the lost exports to the EU is quite small. On the other hand, symbolically, as a gesture, the idea that we can explore new arrangements and new relationships is probably where it is most important.

I personally do not see it in quite the same way that Sheila Lawlor has. I think there are a lot of differences—as we have been in the EU over the last 50 years or so—that have stuck. The approach to regulation that we have, and which the public at large seems to want, is rather different from the US. The US has a much more, so to speak, laissez-faire approach to regulation and health and safety, with an emphasis on the fact that if anybody dies, their family can sue the producer. We are more along the lines of the precautionary principle. Rightly or wrongly, the British public has embraced the rather more cautious EU standards on food safety and so on.



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I would say that there are rather small economic benefits to be had, and this fits in with the geopolitical strategy, but of course this is going to be very hard to make work if the present President stays in power. I am sure Meredith can say a lot more than me about this, but President Trump does not in fact keep to promises he has made. The US negotiating deadlines talk about the US being able to cancel the arrangement as suits it, and that is what the US has done to the old NAFTA arrangement. I think we would be going with a somewhat unpredictable and unreliable trading partner.

**Chair:** Thank you. You are cued in there, Meredith Crowley, so I will move to you next.

**Dr Crowley:** I would like to give a bit of a quantitative answer to this question. The question is: how do these different pieces fit together? The UK is currently negotiating with the EU. Roughly one half of UK exports go to the European Union. About 10% of UK exports go to the United States. If we think about the relative importance of the different trading partners, quantitatively, the EU is a much more important trading partner. The US is, among all countries in the world, the UK's single most important destination for exports. The level of exports from the UK to the US exceeds any individual EU member state.

In terms of the potential gains from a free trade agreement with the United States, what we have from a February 2020 report from the Department for International Trade is that all estimates of the benefit to the UK economy at a 10-year horizon are positive. They range from seven hundredths of 1% increase in GDP to 16 hundredths of 1% increase in GDP, so they are all clearly positive.

However, one should note that the forecast of expected loss of UK GDP coming from replacement of the previous member state relationship, where the UK was still a member of the EU, with a typical FTA reduces UK GDP by about 4.9%. For a closer type of FTA, one of the estimates coming out of DIT is that it would reduce UK GDP by 1.4%. That is just to give you a sense of the magnitude of how much gain we should expect. The gain will clearly be positive. However, under all scenarios it is quite small.

Further, I would just say that, in terms of the broad strategy, the UK is pursuing a strategy of trying to negotiate bilateral arrangements with major trading partners, such as the United States, which is very important, and is planning to go ahead with negotiating arrangements with Japan and Australia.

One of the concerns in regard to future trade in goods is that other countries around the world, such as the United States, tend to negotiate trading bloc arrangements. For example, the US negotiates an agreement with Canada and Mexico. Generally, it is observed in economic analysis that participating in a regional bloc is more beneficial because the gains from trade are spread over more countries. For example, an alternative



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strategy the UK could have taken—but has chosen not to—would have been to approach the United States, Mexico and Canada as a group and ask to join that agreement. That is not the choice being pursued in these negotiations.

I agree. Sheila Lawlor nicely expressed that the general approaches to regulation and competition in the United States and the United Kingdom are quite similar, and perhaps more similar than they are between the European Union and the United Kingdom.

**Q53 Chair:** Thank you. Just going back to your percentages, it is clearly your view that Brexit and the Brexit process is a net GDP loss to the United Kingdom. Did I read you correctly?

**Dr Crowley:** It is not my view. It is the November 2018 analysis produced by a cross-Whitehall study led by the Department for International Trade but with contributions from other groups. All credible economic analysis shows that there is a reduction in GDP to the UK at a 10-year horizon. There are a variety of estimates you can get from different economists, but they all range roughly between 5% and -1%. This is because all departures involve some additional cost of doing business, and the sand in the wheels of doing business with the EU will unfortunately have a negative impact on British business. It will be offset by other policies, potentially.

**Q54 Chair:** Potentially, indeed. This is to Peter Holmes and Sheila Lawlor: to what extent should the UK prioritise an agreement with the United States over other trade policy objectives, including free trade agreements? Should the US be the No. 1 aim?

**Dr Lawlor:** The important thing is the sorts of agreements you are looking for with other parties, not which party but the sorts of agreements that Britain wants to champion and wants to strike.

I would say that, with the US, one thing that has not come up but should come up, and which I think the UK Government should propose, is that we have within the proposed trade deal a separate chapter covering financial services. There should be more on services, but we do need a chapter that covers financial services.

This is something the Government have been too relaxed about, if I may put it that way, in dealing with the US. It has assumed that there will be some sort of equivalence deal with the EU because the EU wants access to the markets and investment of the City of London, but the assumption is that services are going to be quite tricky with the US, that what they are proposing is greater regulatory compliance and greater ease in doing cross-border activities, so pepping up what we have now. I would think it is much more important to go for it even if it is very difficult, and I imagine Meredith will say that the US is not going to change its law, but there is no point in not proposing it. The UK should propose services deals as a very important part of any free trade agreement, whether with



the US or the EU, because services are a major part of the economy. Financial services trade with the US is already about 7%, and that is quite an important consideration.

The big thing is that unless we have a legally binding free trade agreement that covers, say, the financial services trade, our guys will not be able to export there with the same security of backup, of British law, and they will be subject to US regulators. It is not an impossible ask. If they want access to our markets for goods, they should jolly well consider—if not before the presidential election, in time to come—a proper chapter in a free trade agreement that is based on mutual recognition equivalence, that our laws are seen as guaranteeing the same outcomes as theirs so that in trade disputes, if it is a UK trader, he or she would be subject to UK law and the UK courts, and the same with the US.

**Q55 Chair:** You seem to be worried that the UK will be subsumed within the US system.

**Dr Lawlor:** No, I don't think so, but the Government should be more ambitious about it. I have spoken to state governors in the past—this was quite some time ago—who said, "I would much prefer to raise my capital in the City of London than I would to go to Brazil for it." People trust the UK law.

Ordinary businesspeople and states, people who are doing trade deals, understand UK law, and they might get a better deal under UK law doing business from our traders than with their own. I think it is important, and it will come with the EU. It is the UK goal for the EU, and I guess it will come because it is an open door there, but we must press for it with the US.

**Dr Holmes:** I would say that, as Meredith highlighted in her previous answer, the US is our largest single non-EU trading partner—the largest single country in the world and the largest country after the EU. Therefore, if we are going to have a free trade agreement strategy, the US will have to play a very large part in it.

Picking up on what Sheila was saying, there are a lot of problems in the kind of agreement. Mutual recognition is incredibly hard to get. If you look at the US negotiating objectives and its previous stance on the WTO, people I have talked to at the USTR are thinking that they do not need to give any more than is currently in the WTO texts. They believe that what is called "national treatment", non-discrimination provisions in the WTO, should be enough to get the US into other markets. If you look at how that is going to be enforced, the US objectives in its negotiating guidelines of February 2019 say it wants a tough dispute settlement system. It wants to be able to make the agreement binding, which Sheila stressed is very important.

Recent US policy is very much to reject any supranational dispute settlement system, and the US negotiating objectives say it wants a



tough dispute settlement system but one in which parties—in particular, the US—can basically ignore the dispute settlement system if they believe that the dispute settlement system has made a mistake. That is basically its argument against the WTO dispute settlement system. It thinks the dispute settlement system of the WTO is getting things wrong, and it just does not want to accept a binding dispute settlement if it goes against American interests. We have some tough asks there to get anything binding and to get mutual recognition.

On financial services, as I recall, the US was extremely reluctant to allow that to be included in the old TTIP negotiations with the EU. It is difficult to see why it would want to give in to the British Government on this when it would not to the EU.

Q56 **Chair:** It sounds like the old marriage vow, “What is yours is mine, and what is mine is my own.” Wasn’t that the line?

I move on to my last point before I go to Sir Mark Hendrick, and this is to Meredith Crowley and Sheila Lawlor. Just how feasible or desirable is it to reach a quick FTA with the United States of America? I am always particularly concerned at this stage when I think of the Neville Chamberlain view of coming back with “peace in our time” and it coming to dust quite quickly afterwards. Is there a danger of a UK politician returning with trade deals in our time that then turn to dust as they are not that desirable? Feel free to comment either way.

**Dr Crowley:** I will just add one clarification to my last set of remarks. When I discussed the benefits to the UK of an agreement with the United States, the first scenario involves a 50% reduction in the regulation of services barriers, so it does incorporate financial services. Financial services is the one sector from the Government analysis that is expected not to contribute to higher GDP under a US trade deal. The benefit of a financial services liberalisation is that services will become cheaper in the United Kingdom, partly because that sector will somewhat atrophy and shrink, relative to what it would otherwise do, because services would be available coming in from the United States. That is from the Government analysis.

Regarding the question of “Is a quick deal valuable?”, I am quite sceptical of the value of a deal that is concluded before November of this year. After November we will have a much better sense of whether President Trump’s Administration will continue. At that point, a deal concluded will essentially be implemented. However, if President Trump is not re-elected, I would expect the next Administration to take a big change in economic policy and trade agreement policy. This is unusual. Typically, when there is a change from a Democratic to a Republican Administration in the United States, whatever trade agreement was being negotiated by the previous Government would essentially be continued. There are small changes made but not big ones. This is quite different because President Trump’s view is that he wishes to pull the United States out of the World Trade Organisation. He would like to withdraw the United States from the



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WTO's Government Procurement Agreement. If that were to happen, the benefits of the UK negotiating an agreement with the United States are much bigger. If, however, we get a new Administration that is more committed to the WTO, there is no benefit to the UK of trying to negotiate Government procurement with the US.

Right now is not necessarily the most important time to be putting all of your effort into negotiating with the US. It would be, in some sense, wiser to wait until after we understand how the election turns out.

**Q57 Chair:** Can I ask Dr Sheila Lawlor, briefly if possible, to respond on this? The clock starts to speed up on us, and it is an awful unfairness. How desirable is it to have something quick, and is it feasible?

**Dr Lawlor:** The timetable should not put you off going in and doing what you can as quickly, as thoroughly and as aggressively—it is a trade discussion—as possible. Yes, you should go in to get a deal.

I do not assume that it will necessarily be ready by November, before November or just after November, but to do the work now in the manner I would suggest, of the UK demanding certain things in return for US access to our goods market, is a good thing to do. The more work you put in now, the sooner you get a trade deal.

**Chair:** Thank you. I am now going to move to Preston, where Sir Mark Hendrick is waiting patiently.

**Q58 Sir Mark Hendrick:** The UK is currently negotiating a free trade agreement with the US at the same time as negotiating with the EU and Japan. How will these negotiations impact each other and other future agreements that the UK may wish to negotiate?

**Dr Lawlor:** I just repeat what I mentioned earlier, that I think it is very important that we do simultaneous trade negotiations and we remember the basis on which we are approaching a free trade agreement. We are approaching it on the basis of being a competitive open-market economy under the rule of law. Whether that is with the US, the EU or Japan, each reinforces. I do not like the idea that we are waiting to see what happens with one party in order to deal with another party. It is much better to have a very clear set of principles on which we are basing our proposals and go for it.

As I say, I would like all trade deals to stress the importance of services trade, which is 80% of our economy, and not rely so much on goods and putting all the emphasis and the media attention on goods. We must change the narrative and emphasise that what we are looking for are services trade deals that are underwritten by a chapter in a trade agreement that can be subject to international law. Without that, there is too much uncertainty for our providers. That is the same no matter who we are going for, so I think they should reinforce each other.

**Q59 Sir Mark Hendrick:** You say that, but if you think about the issue of



regulation and standards, we could, for example, get an agreement with the US that precludes further negotiation on the question of standards and regulation, for example, with the EU. Do you not think they do affect each other, in fact, and sequencing may have an impact?

**Dr Lawlor:** The UK Government's position has been very clear that they will maintain their own standards under law. I am not a trade lawyer or a regulatory lawyer; I am a historian. Historically, it was the UK that led the way on many matters of standards. We had one of the first Workmen's Compensation Acts and the Factory Act, all of these things. The UK can be trusted to look after its laws. What you are looking for is mutual recognition that the laws of the other party to an agreement guarantee the same outcomes, not necessarily the same process going in. It is done differently, but the outcomes are the same. Yes, standards are equally high.

Q60 **Sir Mark Hendrick:** Some, I would say, regard standards as red tape. Language is everything in these matters. What some people might see as the same outcome achieved by different means could be more harmful by one route than another route. I will move on. Peter, what is your view on this?

**Dr Holmes:** There is an interaction between these deals that is not always mutually supportive. The Japanese have made it very clear that the value of access to the British market depends on our relationship with Europe. For Japanese car factories, if their access to the EU market is reduced, that makes Britain a much less attractive partner. If we do not have a good deal with the EU, the Japanese are going to be much less interested in us. Therefore, they are going to be much less willing to make concessions to us unless we give them things we may find unattractive.

Sheila has made a very strong argument about mutual recognition. This has been the argument in favour of Brexit all along: why do we need to harmonise if we can persuade other people to accept things made to our standards? Why don't we just do everything in our own way and then get other people to recognise, above all, our inspection regimes so that we can make stuff in the UK to EU standards and then send it to the EU with a stamp saying, "A British inspector says this is made to EU standards"? Ideally, you want the EU and the US to accept not only our testing and certification regimes, which say that our production conforms to their standards, but they want us to accept our standards that may diverge. This is extremely unrealistic. We get into some quite technical issues about how the quality of goods is certified. There is a very appealing argument that is very popular in the United States, which says, why not just have rules about the quality of goods as opposed to how they are made?

One of the arguments against the EU approach to regulation is that it has what are called process standards, not merely product standards. The argument about chlorinated chicken is not just about what is in the



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chicken when it gets on to the dinner table. It is how it was produced, what kinds of techniques were used when the birds are raised. To some extent, that is something that people do care about in their own right. Also, it is something that may be necessary for the purposes of checking the final quality. It may be very difficult to test what is in the parts and components of the product if you only look at the finished product.

When the single market came in, people were very worried about what is called the ISO 9000 approach, the quality assurance regime. The EU tries to make sure that processes are certified, so you do not need to have such extensive checks on finished goods, and that the quality controls can be more confirmed. There is a curious parallel between the old Soviet Union and the current American approach. In the old Soviet Union, there were no quality controls in the factories. The only thing that was done was, when something got into the shops or to the buyer, people looked at them to see if they looked all right, and they sent them back if they did not. Since they were so short of goods, they could not afford to send them back. Now, since the former Soviet bloc countries have gone into the EU, they use the EU's quality assurance schemes, which means their production processes are guaranteed as they go through.

Mutual recognition sounds like an easy option, but it is very difficult and is not capable of guaranteeing all the outcomes we want.

**Dr Lawlor:** Sorry, Peter. I was talking about mutual recognition for services. If you take the financial services regime in this country, it helped to lead financial service regulation globally, in the Basel agreement and so on. Britain has led the world in establishing safe regulation for financial services that guards against systemic risk. I do not accept the fact that the quality of our lawyers, professional services and legal services cannot be guaranteed. If you look at services, it seems an odd thing to suggest that other countries have service standards that are, in some way or another, superior to our own. I do not think that is proven historically, and I do not think it is proven in the way in which Britain has helped shape the law. Britain is, as you know, a centre for services. The City of London leads even New York on service provision in legal services, actuarial, accounting and all these services.

**Chair:** At the risk of butting into an interesting debate, Sir Mark Hendrick.

Q61 **Sir Mark Hendrick:** My question was not just about services. It was about the total scope of the agreement in terms of standards on goods and other matters. It was not specifically focused on services. Meredith, what is your take on this?

**Dr Crowley:** I will break up different products into different categories. For some products, this is quite easy. A number of products have international standards. We know from research by Julia Schmidt and Walter Steingress that when there is a harmonisation of product



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standards globally, it is about equivalent to a 2.1% tariff reduction. For products like that, this is not an issue at all.

Then we have products where, basically, firms sort this out among themselves. For example, different countries have different regulations about tyre safety standards. Tyre manufacturers either manufacture for a specific market or they raise the standard of the particular model to satisfy multiple standards simultaneously, and they include that information when they sell the product.

The third class, which is the problematic one, is the one where one country's regulations explicitly cause problems with respect to another's. For example, if the US has a rule that you have to put chlorine on chicken to be able to sell it, and then the EU has a rule that you cannot put chemicals on a bird after slaughter in order to sell it, then you get into a middling ground.

The solution here is that the UK needs to set its own product safety standards for consumers, and then these get tested at the border. In that case, if the standard is that we will allow chemical-washed chicken, then that is the one that is going to be implemented. The sellers of that good to the United Kingdom have to meet whatever standard the United Kingdom sets. Fair enough.

One of the things that Peter was alluding to, which I think is very important, is that there is a distinction between a product standard and what Peter described as a process standard. Consumers are concerned about both. For example, we certainly want to protect human health, and it turns out that in the United States, because of the process by which chickens are reared, there is a very high risk of bacterial contamination, so the only way to make it safe for consumers is to put this chemical wash on it. That is believed and has been documented by the United States to be safe for human health.

A different concern that a British consumer might have is that they might object to the process the United States uses to rear chickens. I do not know what fraction of British people are concerned about this. Certainly, there are some who think it is immoral and wrong, and there are others who think, "I don't care." The issue for the United Kingdom is to decide how it wants to manage its relationship with the United States. Generally, trade agreements do not specify process standards; they only specify product safety standards. This is a very touchy issue for this country to decide, if a large portion of consumers have moral concerns and they want to control the process, what are the options for the Government to regulate the sale of goods made by different processes? If it implements it broadly, that is fine. That is a way to go forward.

In terms of the broader question of the interaction of these agreements, a very important thing to keep in mind with the UK-Japan agreement is that the UK serves as a major exporter of transportation equipment to the Europeans, and it comes from Japanese plants. In some senses,



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those two agreements need to be negotiated in tandem because, for both of them to have the best value, you want to keep the United Kingdom in the European supply chain and you want to keep Japanese firms very successfully operational in the UK. That is an example where the two agreements could very helpfully be worked together.

There are issues that come up. The US and the EU have very different views on geographical identifiers. The EU likes these as valuable marketing opportunities and marketing labels for European products, including products from the UK; the US objects to that and does not like geographical indicators. There is a choice the UK has to make. I do not know precisely, quantitatively, which is the best decision for the UK. I suspect that because things like Scotch whisky and Scottish salmon are more valued for being Scottish, it might lead you to go down the geographical indicator route. That is just my suspicion. I do not know the hard evidence on that one.

**Q62 Sir Mark Hendrick:** Do you feel that a no deal with the EU could finish any Japan-UK agreement?

**Dr Crowley:** I think it becomes more complicated for the Japanese. There is still scope for other areas of the economy to gain from an agreement, potentially, but the biggest concern the Japanese have expressed since the time of the referendum has been: what is the future of the investment they have made in the United Kingdom? They are very concerned. Some 60% of autos are exported to the EU. If those autos face a 10% tariff increase, that is going to cut into the bottom line for these firms.

How this would play out is that, gradually, those Japanese firms that want to sell in the European Union would probably establish new plants in the European Union. They would very slowly wind down operations in the UK because they have made a valuable investment already, and they will wait until that investment declines in value and gets to the point that they want to move out. It is important to get a deal with the EU that eliminates auto tariffs so that you can keep that triangle between the EU, Japan and the UK going and being very vibrant and healthy.

There is going to be some scope for a deal with Japan if the UK does not conclude something with the EU, but it would be very, very small. I have already told you that the biggest benefits with the US are quantitatively quite small. Japan is a much, much less significant trading partner for the UK, both in services and in goods, than the United States.

**Q63 Sir Mark Hendrick:** Moving from Japan to China, it has been reported that the US is asking the UK to agree a clause that would prohibit a future trade agreement with China. Is this something that the UK can or should agree to?

**Dr Lawlor:** We have seen quite an amount of, shall we say, unease with the idea that we would automatically go ahead with a Chinese agreement



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on many matters. It is a good opportunity to have a proper policy debate about alternative supply routes. I know India is a country that has already been mentioned, and we do some trade with India in things like metals, fuels, machines and clothing, both crocheted clothing and ordinary clothes.

Rather than put it in an either/or, we have to think about it and have a policy debate. How much reliance do we want to place on China? How much reliance do we want to place on one market and one producer that, at the moment, commands a great deal of power in the world economy and is not a transparent economy and is slightly unpredictable and haphazard? These are very real choices.

Already there is something of a debate in some business communities about whether the idea of the bottom line as the be all and end all of the measure for choosing suppliers is necessarily going to hold, and whether they should be going for more reliability, people with whom they can do business and whom they understand, and seeking a diversity of suppliers. I do not think there is an easy answer to that.

Q64 **Chair:** Just to be clear, should the UK or the US decide the UK's relationship with China?

**Dr Lawlor:** That is a debate we have to have ourselves.

Q65 **Sir Mark Hendrick:** Peter, what do you think?

**Dr Holmes:** The US negotiating objectives make it very clear that the US reserves the right of action in this agreement if Britain were to sign a free trade agreement with China. Already, the Obama Administration said it was conditioning TTIP on EU policy towards China.

I think it is the case that the US would come down quite heavily or would use very strong diplomatic pressure. The draft US negotiating guidelines do say that there should be provision for the US to be able to pull out, or that there should be provisions for the agreement to be ended as concerns the parties. The direct economic benefits of a free trade agreement with China might be quite small, but we are placing ourselves in a situation where it would not be us who would be making this calculation; it would be the force majeure of the United States.

Q66 **Sir Mark Hendrick:** Meredith, would you agree with that?

**Dr Crowley:** China is very complicated. What we have been hearing from the United States is two distinct types of complaint. We have a lot of complaints about defence and national security coming out of the United States, and I think this is an issue that is slightly confused. President Trump made some assertions about trying to protect US national security with tariffs on steel and autos, and he was saying that this was a threat—even trade with Canada and the European Union—to US national security. That is largely regarded as quite an illegitimate justification by most economists.



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On the other hand, we have members of the US national security area, so members of the Department of Defence, who have been raising concerns about technology, technology transfer and technology stealing. I do not have any independent information about whether these are legitimate or not. However, I think this is a trustworthy institution, the US Department of Defence, and I would tend to believe it when it expresses true concern.

Regardless of what happens, the US has always had export controls on particular technologies. Those will continue. I think the US is becoming increasingly aggressive, and even if President Trump is not the next President of the United States, a different Administration is going to be raising these types of concerns. They are concerned about technology from a US manufacturer going to, say, a British firm in Britain, and that that technology will somehow make its way into China. I think they are worried that the tighter the British-Chinese relationship is, the more chance there is for that type of spilling over.

In the US, Mexico and Canada agreement, the US asked to be notified if the other parties went ahead with third-country negotiations. They did not say, "You cannot negotiate with China." They just said, "We want to know about it early on." I think that is to give them the ability to express concern. The US has tightened up its own inward investment regime with regard to Chinese inward-flowing investment into the US. I am sure they are concerned about inward-flowing Chinese investment into the UK and the potential for American technology that they think is related to security somehow getting into the hands of agents they do not like.

I think this is going to be an issue. Obviously, the United Kingdom needs to decide what it believes is in its own best interest. China is the third-largest source of imports of goods among any country providing imports to this country. It is not as significant an export market as the US, Germany, France and the Netherlands, but it is quite substantial and it has been growing rapidly. There is scope for UK exports to China to grow, and the question is, how do you balance this?

My own opinion is that the relationships with the United States and the European Union are probably more important. I would also think that, ideologically and politically, the United Kingdom is much more tightly aligned with the type of governance you have in western Europe and North America.

Q67 **Chair:** Just before we move on, I noticed when you mentioned global premium products that you mentioned Scotch whisky and Scottish salmon. Indeed, geographical indicators such as Stornoway black pudding and Harris tweed are usually mentioned in these sessions, usually by Mark Garnier.

**Dr Crowley:** My in-laws are from Scotland.

**Chair:** Very good. I could tell there was some glimmer of wisdom we were sharing there. Thank you. Going now to Matt Western for more than



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a glimmer of wisdom, hopefully.

**Matt Western:** Thank you, Chair. While we are talking about geographic indicators, maybe we can just mention Aston Martin, Jaguar Land Rover and other fine products from this part of the country, which obviously are well regarded in all corners and all countries and markets.

**Chair:** That is what you use to go and drive for your Stornoway black pudding, isn't it? An Aston Martin.

Q68 **Matt Western:** Indeed. I am sure you can get tweed-cloth seat trim and stuff like that.

Can I just focus briefly, Chair, and put a point to all three of the panel about the objectives that the UK has set in its negotiations with the US? Perhaps you could explain how familiar you are with those objectives, how well you think they reflect the risks and opportunities for the UK and, fundamentally, how realistic they are. On the face of it, the UK is one seventh of the US in terms of GDP mass, but that does not put us, I would have thought, in a particularly strong negotiating position, but perhaps you will advise differently. Certainly, the UK Trade Policy Observatory has said that the US is very aggressive and that the US negotiating stance is no different towards Japan and others as it is to the UK. It is not like we are getting any special preference.

**Dr Lawlor:** I would like to see greater ambition in the objectives. I think they are a bit woolly on the level. That is my central point. I would like to see greater emphasis on services and services trade, and I would like to see greater emphasis on securing a legally binding agreement on services, because services are a very significant part of our economy: 80%. That is the first thing.

Secondly, do I think we weigh up the risks and opportunities? These are looking into crystal balls. Every study we see has different assessments, makes different assessments and uses different measures, and we have seen all of this emerge in all kinds of different ways since 2016. It is very difficult to make a cast-iron assessment of risk or opportunity, but you should try to concentrate on what you want.

Yes, I take your point about being one seventh in terms of market, but on the other hand, we are a market of 66.6 million people, and it is not to be sneezed at, no matter who you are seeking a trade deal with. If you want to sell your goods to us, we should jolly well aim for cast-iron service agreements with other countries, other parties. That is what I would say, overall.

**Chair:** I am going to have to make a plea to witnesses to be briefer in future because of time, as ever. Sorry.

**Dr Holmes:** The objective of more market access in goods, and even in services, is something that can be very difficult to get a lot out of in the medium term.



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What is worth speculating on is whether there is an agenda in this free trade agreement proposal that is, in some senses, comparable to that of the countries of central and eastern Europe. They wanted to join the EU because they wanted to transform their economic and social systems to become like the EU, which they thought meant like Germany. We should be asking ourselves whether there is an agenda here to move towards a wholesale restructuring of the UK economy to make it more like the United States.

If that is the case, we need to ask whether this would push us in that direction. If so, is that something we really want? I think it needs to be explored.

**Dr Crowley:** A couple of things. First, whenever we look at assessments of economic growth associated with a trade agreement, we have positive numbers with the exception of financial services. One of the concerns here is that these long-term economic models assume full employment as a starting point, so they do not capture the job losses that we will need to undergo in order to get to that final point. That is one thing to be aware of.

Generally, I think the Government are on the right track in wanting to liberalise markets, which increases competition, lowers prices and makes people better off.

There are a couple of areas where it is worthwhile being cautious. This issue about financial services. The US is a much larger economy. The reason why we have the regulations we do in the United States is for prudential reasons, and I think the United States is going to be very reluctant to relax any of its macroprudential measures for a trade agreement with any country. Getting great, great, deep financial services market integration is going to be a big ask coming from the US.

The other thing is the Government have made it clear that the NHS is not an area of negotiation. However, one area in which the UK needs to be a bit cautious relates to this issue the US has raised about the lack of transparency for new drug approval processes for the NHS. The pharmaceutical industry is not a competitive industry. It is an industry where intellectual property creates extra-high profits in order to provide an incentive for pharmaceutical companies to do new research. One of the objections the US has made in the past to the NHS's drug approval process for new drugs is that it is not sufficiently transparent, so firms do not know why their drug was not approved at the price they were asking. In some sense, greater transparency might be beneficial.

However, because it is not a competitive industry, one has to be very careful in making concessions in this area because the NHS, as a monopsony purchaser of drugs, is able to create a lot of value for British citizens. Negotiations on the approval process for new pharmaceuticals should be entered into very carefully. Transparency sounds good, but it is not 100% obvious that it will always create benefits.



Q69 **Matt Western:** Thank you for that. Three very interesting, different answers.

Peter and Sheila, to what extent do you believe the Government are assessing or have some sort of assessment of the potential impacts? It is one of the things the Committee asked for previously on the modelling. There are various tables that show different scales of growth or reduction in GDP. What are your takes on that?

**Dr Holmes:** Just to say, as everybody has, that no one can predict these things very clearly. What is interesting is that the assessment the Government produced in, I think, March—I have it open in front of me but I cannot see the date—was pretty much a state-of-the-art, independent analysis. They did not fiddle the numbers, but they show that they are very small. That is more or less a universal conclusion. I was slightly involved in some of the calculations done for the European Commission on the TTIP, the Transatlantic Trade and Investment Partnership, that the EU was going to organise. The numbers were also very small there. Give or take a few billion here or there, as you might say, the numbers are more or less what you would expect from any kind of modelling. These are not numbers that are just a peculiarity of the assumptions they made. As Meredith said, there are all kinds of adjustment issues that may be in there, and it is very, very difficult for anybody to model those.

Again, one of the oddities is when the US International Trade Commission modelled the impact of the new NAFTA 2, the USMCA agreement, they included in it a benefit that came from increased certainty. The day after they published these estimates, Trump decided to reject some of the things he had agreed to. It is very, very difficult. You just do not know what the actual policies will be, very often.

**Dr Lawlor:** It is difficult to predict. I think it is going to be far more difficult to predict now, after the great global shock that western economies particularly have had. Given all the variables that have now crept in, I think we have to go back to the drawing board and think again. I do not know whether the predictions were particularly upbeat or less upbeat, but I know now that we will have to think again because of the Covid shock to the economy, and it will take a great deal of time to restore things.

Q70 **Mark Garnier:** Dr Holmes, can I talk to you a little bit about trade tariffs and just how significant they are? When you look at the average trade tariff we are going to have after we have our new global tariffs, it is only about 5.6%. I have not done the numbers, but you may have, on the trade-weighted tariffs that are being charged against UK goods going to the US. I suspect they are a lot lower by the time you take into account financial services and other services.

Can you give us a general indication of how our economy will benefit as a result of removing tariffs, and also if you have done any work identifying



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which of the various economic sectors are going to benefit more than others in terms of getting tariffs down?

**Dr Holmes:** We have done some work at UKTPO. My colleague, Julia Magntorn, has done a lot of work on this, and I was talking to her this morning. We did some calculations in 2018, which we are very happy to share with the Committee. The tariffs are generally pretty low. We were just looking at the new UK tariffs this morning with Julia's assistance. UK proposed new tariffs on the top imports from the United States. Of the top 10 products that we import from the United States, they are all proposed to have zero tariffs, apart from one, petroleum products, which has a tariff of about 1%, so the tariffs are very low.

The US is particularly interested in a small number of tariffs that we charge on cars, for example. The US does not sell many cars to us, but there is a 10% tariff on cars. That is where it wants it reduced. Chemicals have tariffs in the United States going up to about 6%.

The other area where tariffs are high is on agricultural products. The US would have quite a lot of interest in that. I suspect that Meredith has probably done more modelling on this, but my answer is simply that tariffs are generally fairly low. There are one or two peaks, of which cars into the UK and a few textile and clothing products are quite—

Q71 **Mark Garnier:** I was thinking more of the other way round, in terms of getting reduced tariffs on our exports to the US.

**Dr Holmes:** Again, the US tariffs are quite low. That was one of the arguments about the TTIP. There are very few gains to be had from greater access. Sorry, I do not have the list immediately in front of me, but we can certainly send it in. Tobacco products have very high tariffs. Cars, which are our major export to the United States: the US tariff on finished cars is 2.5%. It wants to put it up. The question of what the US will do to its tariffs is probably quite independent of what negotiation terms they might make to us. There are not a lot of obvious areas where we have a strong competitiveness and there are very high tariffs in the United States. We will certainly put together some tables for you.

Q72 **Mark Garnier:** That would be very helpful because it sounds like it is much of a muchness at the end of the day. There are marginal gains here and there. It is mainly Aston Martins and JLRs that we are shipping out to America. Certainly in the case of Aston Martin, it is a high-margin product because it is a very specialist product, so the reduction of a 2.5% tariff is neither here nor there when it comes to increasing sales.

Just across the balance, though, between imports and exports, to a certain extent there will be some exports that we are going to win on in terms of getting reduced tariffs. Of course, as we get market access, equally we have to allow market access and, therefore, greater competition. Meredith or Peter, are there any particular sectors in the UK that you think are particularly at risk? I will come on to the chlorinated chicken in a minute, if we could just avoid that one for the time being.



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**Dr Holmes:** I think the agricultural sector is probably the generally most vulnerable, but I will let Meredith pick it up further.

**Dr Crowley:** I will just follow up with what Peter said. The US import tariff on light trucks, which includes sport utility vehicles, is 25%, so that is an outlier. That is why you do not see sport utility vehicles being imported into the US. On cars it is only 2.5%, so that is why Aston Martins go there.

In terms of agriculture, the US market for many, many products is quite protected. Liberalisation of agricultural tariffs could potentially benefit the UK.

I will go back to the Government's own CGE analysis. The big manufacturing sectors to benefit are going to be autos and transportation equipment, also chemicals—as Peter said, that is another one with some moderate tariffs—and the energy sector. In other areas of manufacturing, there is some gain to be had, but it is pretty modest. On balance, the big areas to open up are going to be transportation equipment in automobiles and trucks. The UK and the US are already both signatories of the agreement on civil aircraft. We already trade aircraft parts freely, so there is no gain to be had there. The bottom line is reductions of tariffs are pretty marginal. The one area where it matters is automobiles.

I will just give an example. Speaking to Canadians at the time of the USMCA renegotiation, the Canadians were a bit concerned that the NAFTA agreement would be terminated and no replacement would come on, and they have a very deeply integrated auto supply chain. They said, "A 2.5% tariff is bothersome but it is not going to destroy the Canadian auto industry." The risk is that President Trump does something completely crazy and decides to hike the tariff on everything to 25%. If he wins the election, there is certainly a possibility that he changes the entire tariff structure of the United States and withdraws the US from the WTO, so there is some risk there, but I think—

Q73 **Chair:** A known unknown.

**Dr Crowley:** Yes, a known unknown. High uncertainty about what could happen.

**Mark Garnier:** Just getting back to this wretched chicken and the chlorine—

**Chair:** Be brief on the chicken, please. Barbeque quickly.

Q74 **Mark Garnier:** Very quickly. We have talked about standards, and we have talked about process standards versus outcome standards and all of that stuff. Just on this tariff point, is introducing high tariffs for products like chlorinated chicken, which does not meet our expectations of food standards, a way of getting around some of these rules? If we were to say it is 100% for chlorine-washed chickens, but it is only 10% for chickens that are produced in a nice, friendly, spacious environment?



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**Dr Crowley:** It is a new idea. Economically, it is kind of ingenious. In the practice of international trade law, we do not have tariffs set up according to process standards. An example is that, under WTO, all countries ban products made with slave labour. You can also ban products made with child labour, but no country has any authority under the WTO to say, "I am going to charge you 25% if you use child labour, but you can enter duty-free without it." That sense of the production process is not integrated with the tariff. It is quite a big change in international trade law, so I think the US might be resistant to it.

From my personal perspective, something that is already consistent with WTO law is, for example, if you want to sell canned tuna in the United States with a marketing label that says, "No dolphins were killed in the collection of this tuna," you have to get certification that is compliant with the US Government-regulated voluntary label. It is not a regulation. It is an opt-in. Then, if you want to opt in, you have to go through certain processes. All other tuna you cannot market in the US as dolphin-safe, but you can sell it. The reality is Americans really like dolphins, so no tuna sold in the United States sells without the dolphin-safe label.

One potential would be if UK consumers really value a label that says, "This met a particular animal welfare standard," and the Government say, "If you want to satisfy that standard in your own country and meet it, we can, for a fee, verify that you meet it," and then you get a marketing benefit, so you could perhaps charge a premium price. This would maybe be an easy way to get around this issue of different product processes that would be completely consistent with the existing methods that are used under the WTO. It is a voluntary standard, but the Government have authority to define that standard and only to allow those who meet its definition with that marketing label. It is the same for organic food. The Government get to decide what is organic. You have to meet the Government's standard.

**Mark Garnier:** You are essentially giving consumers an informed choice and, at the end of the day, you accept the stuff coming in but you say, "Look, this is not the standard." Meredith, thank you very much. I am conscious of time. Chair, over to you.

**Chair:** Thank you very much. Despite my getting angsty about time and having Mick Whitley, Martin Vickers and Taiwo Owatemi to come in, I will let Matt Western come in very briefly.

Q75 **Matt Western:** Thank you, Chair. Very briefly, a quick question to Peter Holmes to follow up on what he was saying about the automotive sector. Perhaps in just one minute you can come back to me.

Recognising, as everyone has said, that the current arrangements they have are within the EU arrangement with the US, there is marginal tariff on finished car products like Aston Martin and JLR into the US. Surely the risk, then, is that either we have higher tariffs going into the US on finished products from the UK, or it is a rule of origin issue and the US



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will demand car plants are shored in the US as opposed to produced in the UK.

**Dr Holmes:** Yes. At the moment, tariffs are quite low into the United States for finished cars, but, as Meredith says, not for other kinds of light vehicle.

There was a study that the United States Government produced on the content, the origin, of materials going into cars imported into the United States, and one of the things we have to bear in mind is, at the moment, a large part of the value added of cars we sell into the United States comes from the supply chain out of Europe. With the kind of rules of origin that the United States has insisted on in the USMCA, if those were in the new free trade agreement with the UK, and the US negotiating objectives do say rules of origin must be set to maximise production in the United States—they do not even pretend to be even handed—then there is a good chance that if the United States put up its tariffs on cars, and we have thought, “That is great, now we can take advantage of a preferential tariff because we will not have to pay those tariffs,” our cars would not qualify for preferences because they would not satisfy the origin criteria to get preferential treatment in the United States.

Q76 **Chair:** You would be back to WTO?

**Dr Holmes:** Yes.

Q77 **Mick Whitley:** Good afternoon, panel. My question is on services. To what extent will the UK service sector benefit from a free trade agreement with the US, and is an FTA the best means to achieve UK trade objectives in respect of services?

**Chair:** You each have 30 seconds on that.

**Dr Lawlor:** I think we do need an FTA. We need the regulatory certainty, and I would say you do this by a chapter in an FTA based on equivalence, mutual recognition that each other’s outcomes are equivalent, and, particularly for financial services, avoiding systemic risk, protecting against it. Yes, I think we need it and we should go for one.

**Dr Crowley:** I will draw a distinction between the question of whether a services agreement is good for the firms and whether it is good for the country. If you think about what has happened with services and the EU-UK relationship, many firms that operate within the United Kingdom have established commercial presences within the European Union precisely so they can continue to serve their clients in the European Union if we end up without a trade and services deal. In the same way, if there is a firm that wants to establish a commercial presence in the US, it can and it will be able to sell its service.

What we see quantitatively is the estimates right now from the Government are that trade in services through an FTA will increase UK GDP. However, it is not positive for financial services, so the industry will



not grow relative to what it would without an FTA, but consumers in the UK will benefit because, with greater competition in that industry, the prices of financial services will come down. On net, a free trade agreement in services benefits the UK. The benefit is small. However, we are not going to see financial services grow relative to non-participation in an FTA. That is the Government's own estimate. I think it is important to be clear about that.

**Dr Holmes:** It is very difficult to get any services into FTAs. Our colleague, Ingo Borchert, has written a lot on this.

It does come back to a point Sheila has made. I would disagree a little. Processes do matter there, because one of the reasons you cannot easily get agreements is because you do not necessarily trust other people's prudential regulations. If the US were worried that Britain was deregulating our financial services, imposing lower capital requirements, and that that created potential risks, or if we were worried that the United States was doing that, we would have reasons for not wanting to accept unquestioningly the risk assessment systems that other countries were requiring for their own services. There are very good reasons why it is very difficult to get services agreements into trade agreements. It is worth trying, but there are a lot of political obstacles and a lot of genuine things where we do not know how reliable the regulatory base is in the country that we are doing the deal with.

**Chair:** Last, but not least, the great Martin Vickers.

Q78 **Martin Vickers:** Thank you, Chair. To what extent do the panel consider the UK and US negotiating objectives in respect of investment and the rights of investors to be compatible, and where might be the main areas of contention? Is it possible that they could be resolved?

**Dr Crowley:** The investment agreement is the area that I have not scrutinised as much as I should. I will say the general US trend toward investment agreements is that, historically, US companies wanted very strong investment protections in US trade agreements. This infringes on the sovereignty of trading partners because they have to come under some sort of international jurisdiction, usually some kind of trial set-up between parties recommended by both Governments.

Interestingly, in the case of the US-Canada renegotiation, it was the Canadians who wanted these very strong investment protections for US corporations because they were worried that if those strong investment protections were removed, Americans would cease their high level of investment with Canada. There is always a tension here. On the one hand, if you give strong investment protections, you open the deep pockets of American investors who do not want to face foreign risk. On the other hand, you have to give up sovereignty. It is a difficult issue.

At the moment, the US-UK investment flows are some of the deepest in the world, so you are already starting from a very strong base.



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Deepening investment protections: it is not obvious to me that this is going to lead to much larger financial flows between the two countries. If you are starting from a very large volume, it is hard to see where the room is to increase that.

**Dr Lawlor:** Investment is always tricky. Free trade agreements are not very forthcoming on investment bilaterals. There are bilateral investment treaties, but they do not cover much. They have to be partner to partner. As Meredith said, many of the current agreements involve recognising the security of the other law. I do not know enough about investment treaties, I am sorry.

**Dr Holmes:** Very briefly, I agree with Sheila on this point, that you would think the domestic legal provisions would be enough between the US and the UK, but what we have to remember is that investor state dispute settlement was one of the things where public opinion more or less forced the EU to back down. Investor state dispute settlements, where firms can take Governments to court and get binding agreements, are a very sensitive political issue. If you think this treaty is a good thing, it would be rather problematic to hang strong investor state dispute settlement on to it and risk a very powerful backlash.

Q79 **Chair:** I thank the first panel very much. One little question I want to ask the first panel. We have mentioned Japan, and I think the average gain for an FTA with America is about 0.2%. Would any of you like to give me a percentage for a gain with Japan, if you have one off the top of your heads or at the end of your fingertips? No. You can email me afterwards.

**Dr Crowley:** Yes, I will look one up. It is probably similarly small, but smaller.

**Dr Holmes:** It would almost certainly be a fraction of whatever you get from the United States.

**Chair:** I would appreciate an email on that later, if that is possible. Panel 1, thank you very much and thank you for your time.