

International Trade Committee

Oral evidence: UK trade options beyond 2019 HC 817-vii

Wednesday 1 February 2017

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Members present: Angus Brendan MacNeil (Chair); Liam Byrne; James Cleverly; Mr Nigel Evans; Marcus Fysh; Mr Ranil Jayawardena; Sir Edward Leigh; Chris Leslie; Shabana Mahmood; Toby Perkins; Sir Desmond Swayne.

Questions 445 - 525

Witnesses

Rt hon. Dr Liam Fox MP, Secretary of State for International Trade and President of the Board of Trade, and Sir Martin Donnelly KCB CMG, Permanent Secretary, Department for International Trade.



Examination of Witnesses

Witnesses: Rt hon. Dr Liam Fox and Sir Martin Donnelly

Q445 **Chair:** Good morning, Secretary of State, the Rt Hon Dr Liam Fox, and can I also welcome the Permanent Secretary of the Department for International Trade, Sir Martin Donnelly? Gentlemen, may I open first with a discordant note from the former Cabinet Secretary, Lord O'Donnell? He said he is "slightly puzzled" that the DIT exists, along with DExEU. Sir Andrew Cahn, a former head of UKTI, says he cannot see the argument for creating DIT and there is not enough work for it to do before Brexit. They are basically asking what is the point of your Department. How do you respond, Secretary of State?

Dr Fox: They are very welcome to come in and share in the workload. I think they should begin by apologising to all my hardworking staff, not only in Whitehall but around the world, for the great work that they do on behalf of this country. Perhaps they are unaware of that work. They are all very much invited to come in and see it for themselves and to pay tribute to the people who are doing that work.

It might help therefore, Chairman, given those comments: the Department was set up as an amalgamation of a number of different parts of Government in the machinery of government changes in the summer of last year. The new Department for International Trade takes the trade policy elements, which were largely FCO, takes UKTI, takes DSO and UK export finance, which was largely in the Treasury, and the GREAT campaign, and puts them all together in one Department.

Effectively there is a policy part, there is a financing part and there is a marketing part, which was not there before. The three functions of the Department are first of all promoting UK exports in goods and services; a great deal of ministerial effort and travel and time is involved in that. Secondly, it is about investment, so that is foreign direct investment into the UK, but also—and I think increasingly—focusing on overseas direct investment from the UK, not least as part of rebalancing of our current account. Thirdly, of course, trade policy, which is something we have not exercised for 40 years independently as a country.

I understand that people will want to focus on that last part, but in terms of the current work of the Department, that is only a portion of it. Of course, we have to maintain our UK trade promotion, because we have to earn our way in the world, and our export figures in recent years have been quite good. Our exports were up 16.5% on 2010; our trade deficit has been down; our services have performed very strongly. However, only 27% of our GDP is accounted for by exports and only 11% of our companies export either goods or services beyond our border. That needs to improve and one of the functions of the Department is to ensure that we can provide the mechanics that can help more companies get into exporting.



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Q446 **Chair:** Thank you very much. You will have seen, I am sure—I am very sure—the Prime Minister’s words; she said no agreement was better than a bad agreement, which would mean trading to WTO rules. How would you feel about that, Secretary of State?

Dr Fox: A great deal of our focus, Chairman, has been on WTO because our exit from the European Union brings with it some specific WTO challenges. We have decided to go for the process called technical rectification at WTO. All members of the WTO trade under schedules, which are effectively the commitments we make in terms of maximum bound tariffs, and we have decided to go for a technical rectification, rather than a modification. That is for two reasons. First is it will be easier for us to achieve and will therefore have less chance of creating any turbulence whatsoever in global trading as we leave the EU; secondly, because going for EU bound tariffs means that if we change our trade policy, we can only move in the direction of liberalisation, so we do not have the option of increasing our tariffs once we are outside the EU.

We thought that that was a particularly important signal to send at a time when growth of trade in the global economy is slowing and we need to be committed to greater trade liberalisation. We first of all have to make that technical change and that means that we will adopt the EU trading schedules in the initial instance, but we will have to disaggregate quotas and Government aid for agricultural subsidy as part of that agreement.

Q447 **Chair:** You are taking the UK out of a regional trade agreement. Are you quite comfortable about doing that? The UK has been in a regional trade agreement since about 1960, when it first joined EFTA and then later joined the EEC, which then became the EU.

Dr Fox: Of course at that time we were still in the process of GATT, we had not come to the Uruguay round of GATT, we had not got to the establishment of the WTO in 1995 and GATs after that. The global trading framework is very different from how it was then and also the average tariff rates are very much less, so there has been a substantial round of trade liberalisation. We are bound by a range of other agreements in terms of global trade, which I am happy to go through. Of course we have the question of the EU FTAs that exist at the present time and how we disaggregate ourselves from those, which again is a rather big and separate subject.

However, in terms of WTO, we decided early on in the process of technical rectification that we wouldn’t set out our schedules specifically until we had dealt with our trading partners there. There are a number of countries who will have questions over quotas in relation to that and we wanted to deal with them and talk to them privately before we acted in a public way. We did that and I am happy to say that our discussions have been extremely useful and I think productive. As the Director General said, we are on course now for no turbulence and no vacuum.

Q448 **Chair:** You mentioned that trade has changed over the decades. Indeed,



it has. How many countries worldwide, members of the United Nations, do you think are not in a regional trade agreement at the moment? The UK of course is leaving a regional trade agreement. Whose company are we joining by doing this?

Dr Fox: There are 165 members of WTO; we shall remain a member of WTO. We have around 40 FTAs that the EU has, but that number changes depending on how you regard ones that are suspended or ones that are provisionally implemented. We will want to continue with those and we are in the process of talking to countries about those, so we will have a complex and extensive trading relationship outside the European Union. Of course most countries in the world are outside the European Union and most of them seem to be doing all right.

Q449 **Chair:** According to the House of Commons Library, the UN member states who are not part of a regional trade agreement number six, and those six members of the UN are Mauritania, Palau, Sao Tome and Principe, Somalia, South Sudan and East Timor. The UK will become number seven of that list. How do you feel about that?

Dr Fox: The Government has made it very clear that we intend to have a full and comprehensive free trade agreement with the European Union, so we will have an agreement with that trading bloc. By the time we get through our transitional adoption, that will bring us another 40 or so FTAs that the EU currently has, and that is with about 58 individual countries. It is hardly a picture of splendid isolation.

Chair: Of the almost 200 countries in the UN, only six are not in a regional trade agreement. Nigel Evans.

Q450 **Mr Nigel Evans:** I am trying to get some clarification on a simple question, but there seems to be a lot of fog about it, and it is this: I keep reading that we are being told that we cannot do any trade deals whatsoever until we have left the European Union in two years' time, post the triggering of Article 50. What is your view on that? Do you believe that we can do trade deals or do we have to hide behind this scoping thing that people talk about?

Dr Fox: The legal position is that any country that is in the European Union and is bound by common commercial policy has to abide by certain duties. We, however, made it clear that we are leaving the European Union and within a short time will have triggered Article 50, which begins the process that will set the date when we leave. There is of course no precedent for this.

What we have said is that we will abide by our duty of sincere co-operation where we can. We also, while we are members of the European Union, will push for trade liberalisation and seek the completion of agreements that are currently there, for example, with CETA. We want to see that completed before we go and we will also be giving support to the EU in the areas where the EU is in negotiation on things like the environmental goods agreement and the trade facilitation agreement,



which is about to be ratified, the trade and services agreement, so we will play our full part in that.

However, it would be, I think, against Britain's national interests for us not to be discussing with future trade partners what those arrangements might be that the UK would want to have in the future. We have a number of ways that we can do that. We have a number of different arrangements with different countries, depending on what we see as the potential for an agreement and what we see as the chance of getting an agreement in an early timeframe. So we will be discussing and scoping out future agreements with those countries. We will not be signing any negotiation, but we will want to be taking legal advice as we go on about what we think the parameters are for our freedom of movement. Ultimately, the Government is there to do what is good for the United Kingdom's national interest.

Q451 Liam Byrne: Secretary of State, I think we share an ambition to restore our power as a mighty trading nation once again, but your officials are operating under the illusion that the trade target, the export target for 2020, is still £1 trillion. Now, we are currently set, according to the OBR, to miss that by about 40%. Can we just clear that question up? Is that still your target, to hit an export number of £1 trillion by 2020, or can we safely retire that now?

Dr Fox: I think it is a suitable ambition for us to have. I think that when the target was created, if you look back at that period, there were very few trade experts who thought it was achievable to get £1 trillion in that time.

Liam Byrne: Do you think it is achievable?

Dr Fox: I think it is unlikely to be achievable by 2020. I think it is an achievable target in the years thereafter, but nonetheless it depends on—

Liam Byrne: We are going to miss the target. I just want to make sure it is—

Dr Fox: I think it is good for us to have the ambition to do it, but in terms of the level of growth in global trade at the present time, which is below the growth rate of global GDP for the first time in a good number of years, that would make that difficult to achieve.

Liam Byrne: Yes, I do not want you to be firing all your officials because we missed this target, which we both agree is not achievable.

Dr Fox: I think that is highly unlikely.

Q452 Liam Byrne: How many FTAs can your Department negotiate at once?

Dr Fox: The Department's priorities are first of all to get our position clear at WTO in Geneva. That is the first place where we increased our staffing to make sure that that was going to be done on time and in a way that was consistent with our aims of being more liberal in terms of



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trading outlook and causing minimal disruption—in fact, zero disruption—to global trade.

Second was the ability to adopt the EU FTAs that currently exist.

Q453 **Liam Byrne:** The 40?

Dr Fox: The 40 or so agreements.

Liam Byrne: All of them?

Dr Fox: We would like to do them. I think it is probably useful for the Committee to understand exactly how we view those, because those trade agreements are not all of equal value in terms of the value of the trade itself.

For example, only two of them, EU-Korea and EU-Switzerland, account for about 80% or so of the trade by value—others are much smaller countries in terms of trade value—and they are clearly the ones that we would prioritise. But we would like to get them done. The reason that it is relatively easy to do so is again, rather in line with our process of technical rectification at WTO, we see them as simply being transitions from the current agreement.

Q454 **Liam Byrne:** But by 2018, given that folk are working on WTO 40 EU FTAs, are we able to land a deal with the US and say China by 2018 as well? Because that feels like a stretch to me.

Dr Fox: If I may, I will come to the new FTAs. On the transitional adoption, we have made it very clear to countries that we would like to see a transition of their agreements to a UK agreement at the point that we leave the EU. So far, we have not yet had a country that did not want to do that. That is a lot easier as a process than negotiating a new FTA because it simply means changes to the current treaty framework, in other words, removing references to EU institutions, for example, but also disaggregating any quotas that exist within that. We think that from our initial contacts with countries that they are likely to do so.

There is a secondary complication in that, which is for the EU 27. If I can give you an example, when talking to South Africa, for example, they have made it clear that they may come to an agreement with the UK about taking on the current treaty with quota arrangements, but that doesn't mean, in their view, that they should get less EU quota.

Q455 **Liam Byrne:** I understand that. Just a last question from me then, which is given that we are not going to hit our £1 trillion export target by 2020, why are we throwing export support into chaos by reviewing all the export support contracts that were put in place out to 2020? I have been talking to Chambers of Commerce up and down the country that were given export support contracts in 2015. They thought they would last to 2020. They have now been told that all the contracts are under review and there will be a new model that comes into play in 2018. It is chaos



on the ground. Why are you doing that?

Dr Fox: We are trying to ensure that the budget that we have is used effectively and that we are looking at a genuinely market-based distribution of where our funding goes. For example, when we looked at the laydown of the new Department in terms of where our staff were overseas, designed to give help to UK businesses exporting, I would characterise it broadly as saying that the laydown of our staff was a more FCO picture than a trade picture. In other words, we were largely focused in capital cities, rather than in markets. I can give you an example of the fact that the greater metropolitan Los Angeles area has a GDP about the size of Saudi Arabia, so concentrating our trade staff in Washington wouldn't make sense in a US market. So we have been moving staff around to try to get a better match of resource to market.

ITI have been looking to see whether the current support framework is likely to achieve what we want, which is that increase in exports, but also getting new companies into the exporting market. We have been trying to identify where it is in our export performance that we lag behind some of our competitors. It looks as though it is in the Ms of our SMEs. Our Ms are not exporting as much as say German companies of the same size and there are perceived access to market questions, particularly around cost, which is why we have been trialling export vouchers recently to give cash sums to small companies in particular who might want to try to get into exporting. We have also been concentrating departmental resources on the GREAT.gov.uk digital portal to see if we can make it easier for companies that don't do so at the moment to get involved in the exporting.

Q456 **Chris Leslie:** Ambitions, I think, Secretary of State, are a good thing to have, but they have to be grounded in some level of reality, given we are extricating ourselves potentially from our closest trading neighbourhood, hopefully not in a bad way. You wrote in *The Telegraph* on 18 January, "Embrace the brave new world of free trade". I think *The Telegraph* headline was, "Liam Fox launches Brexit trade crusade, confirming informal talks already underway with 12 countries across the world". Could you just list those 12 countries?

Dr Fox: No, I wouldn't list them all, because some of them we are still in confidential discussions with, but I can say that in terms of Australia, we have an Australia/UK trade working group; in terms of China, we have a trade working group and I am chairing the Joint Economic and Trade Committee in Beijing in April; we are working with the collection of Gulf states to determine what our relationship would be, given that they are keen on a potential future FTA; with India we have a joint working group, and I chaired the last JETCO in Delhi; and we have embarked on a process of trade audit.

It will probably help, Chairman, if I just took 10 seconds to say what that was. That was in order to assess where our priorities should go in terms of manpower, effort and ministerial engagement, we have to have an



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empirical basis on which to make some of those decisions, a trade audit in which we set out a timeframe; in the case of India, it is November next year. We said, "At that time, we would like you to set out on paper your perceived impediments to doing trade and investment in the UK and we will do a parallel exercise. We will come together at the next JETCO and see where we think those main impediments lie and where we might be able to start to remove them", whether, for example, we need to go to a full free trade agreement, whether we can use mutual co-operation agreements and so on; those are the tools that are available to us to do that. We have embarked on that with India.

With New Zealand we have a trade policy dialogue, again with a view to looking at potential free trade agreements. With South Korea, I chaired the JETCO in London at the end of last year. Again, this is a very big value FTA for us and we spent a lot of time discussing with the Korean Government what they wanted. It is an area where because it is a very deep FTA, there is not a great deal of difference between us and it should be a much closer thing within our grasp.

In Turkey, we have a trade working group there. We have a number of other countries, including some ASEAN countries that I am visiting in a couple of weeks, where we will be taking forward some of those potential arrangements.

Q457 Chris Leslie: You mentioned earlier in your answer about relativity, where you were talking about the existing EU trade deals. Some are big, really important; some are small. If you were to add up all of those potential countries, the level of exports that you have been talking about, all the list that you had there, it doesn't come anywhere near the level of exports that we have to the EU.

As I have it, our level of exports to the EU is currently 43.6% of total UK exports. That is the share we have to the EU, but you talked about first of all Australia 1.6%; China 3.2%; Gulf states that you are talking to, 2.9%; Saudi Arabia 1.3%; India 1.3%; New Zealand 0.2%; I think the other Middle East countries, 0.4%. If you added all those up, it comes to 13% of total UK exports, compared with that 43.6% of our exports to the EU. So all of those other countries relative to our primary bloc, that most important economic set of relationships, comes nowhere close, does it?

Dr Fox: I am sure the former Chief Secretary is well aware that adding up lots of small numbers gets much bigger numbers in the end. It is not an either/or. We are not looking here at we trade either with the EU or we trade with everybody else.

Q458 Chris Leslie: It is not a substitute, is it? It can't substitute for our trade with the EU.

Dr Fox: No one has said it is a substitute. It is about how we go about increasing our global trade, but it is also about how we increase the mechanics of getting that trade to grow. The other thing is direction of travel. If you look, for example, at what our trade with the EU was a



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decade ago, some 61%, and for it to be dropping to around 42%, 43% now is quite precipitous. We wouldn't want to see that pattern continue.

The EU economy has been growing more slowly than others, for example, while, as I said, our total exports were up 16.6% on 2010 and up 4.1% in the last year, our exports to the EU in that time grew by only 6.4%, so as a proportion of our total trade, it has been diminishing. It is therefore important we look at other things. The United States, for example, which I know is another area that the Committee will want to look at, that is a further 20% of our exports. That is a very big export market. That is an area where we also have a trade surplus.

Q459 **Chris Leslie:** I think the point I am trying to make is that ambition is good, but overspinning, not being realistic, is not so good. Your Department issued a press release at the beginning of the year, "DIT secures over £16 billion of foreign investment". *The Financial Times* went through the list that you had here. In fact, most of those had been already secured long before the referendum. Fake news?

Dr Fox: It is the continuity of what UKTI—now ITI inside the Department—is doing. It was an antidote to the idea that people are not going to be investing in the United Kingdom. I have just been in Qatar and will be chairing the UK/Qatar UK investment conference in March, where I expect a large amount of foreign investment—

Q460 **Chris Leslie:** But you regret the title to your press release, because it wasn't your Department that secured that £16 billion?

Dr Fox: I don't regret it at all. I think the more good news we give to the public, the better. It counters some of the black propaganda that comes—

Chris Leslie: Alternative facts.

Dr Fox: —from those who still want to undermine the referendum.

Q461 **Mr Ranil Jayawardena:** Secretary of State, I want to follow up on the point you made about Qatar before I turn to the European Union; of course this is no substitution, but about having more as a whole.

You might be aware that Serco, a global company, is based in my constituency and they work across the world, including in healthcare. In the Middle East, they are working on a huge pipeline of work, hundreds of millions of pounds, which of course is in effect an export because it is generating jobs; it is generating opportunities for British companies, which perhaps isn't captured in some of the figures that are immediately available.

I have a quote from one chap at Serco, who says that they are in regular contact with Department for Trade representatives in the region and are impressed by their efforts. I wonder if you could tell me a bit more about the way that you operate in the Middle East to secure further opportunities for British companies.



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Dr Fox: As I said, we have the trade and investment conference coming, which has one day in Birmingham and one day in London. That is very purposely designed by us, because I am very keen to see foreign direct investment outside the M25, where we have been seeing most of our FDI going in recent times. We already have in our pockets, as it were, some good investment announcements that will be made then. I am not going to make them prematurely, but say that they are well into the billions range, although we are not going to announce them until we get there.

In terms of doing business in the Gulf, since that is mentioned specifically, of course former Trade and Industry Secretary Patricia Hewitt had said to me recently that she had spent all her time as Trade and Industry Secretary trying to get the Treasury to increase the UK export finance limits; the fact that that was doubled in the last autumn statement has, of course, given us increased freedom. There is a lot of potential in the Gulf for that.

The Defence Secretary, Michael Fallon, and I have been working with the Government of Oman, for example, on Duqm, the new port there, which a lot of UK investment is going to go into as a berthing port for the Royal Navy, for example, where we have had Babcock run the logistics contract and we hope to get more. The ability to use UK export finance in Gulf in particular is helpful and I am looking at the moment to base someone permanently for UKEF in the Gulf to be a resource for businesses there.

It is a debate—and I am sure Mr Byrne will have a view on this—about the value of ODI and when ODI becomes an export. For UK service sector companies, I could literally be selling them non-stop overseas: a big demand for UKEd tech, UK financial services expertise, accountancy, banking, legal services. Of course establishing a presence in market provides an income stream, which is a contribution to helping with our current account deficit, but it also can help to mature markets more quickly and provide a secondary opportunity for exporting. It is why we are trying to develop a more strategic view to a balanced investment over time so that we can deliver on a lot of those things. So the potential is huge, and in places like the Gulf, the potential for service sector exports is huge.

Q462 Mr Ranil Jayawardena: As well as saying that you want to help economies mature, you also referred in passing to the United States. It is rather appropriate that we are sat here in the Thatcher Room and we remember the legacy that she has left us: a strong relationship with the United States. Could you tell us about the work that the Department for International Trade is doing with the US to support the proposals for a free trade deal, not just with the EU, again, as we are being consistent, it is more trade with Europe, but more trade with the rest of the world?

Dr Fox: One of the areas where I felt that we had our biggest mismatch of resource to market in our laydown was in the US, so we are in the process of opening three new trading hubs, which are not necessarily political hubs, but they correspond to market opportunity; they are



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Minneapolis, Raleigh-Durham and San Diego. On the export side, we also need to take more advantage of the US market if we are trying to get our current account deficit down and we are trying to get export value up as a proportion of that. Clearly we have to be looking at the highest-value markets and the US is the highest-value market there.

In terms of our discussions with the EU, President Trump made it clear to the Prime Minister that the US would like to see a free trade agreement with the UK on our exit from the European Union. We will be having officials in Washington this week to have discussions with US counterparts about what the scoping of that looks like, what the degree of ambition is in that. Once we have our opposite numbers in place and once they have been confirmed, then we will be able to have ministerial level dialogue and I hope that within the next few weeks I will be able to begin that dialogue with my American counterparts. But we are extremely sensitive to the fact that until the confirmation hearings have been completed, it might be inappropriate for us to have those contacts.

Q463 Mr Ranil Jayawardena: It is very encouraging to hear that officials will be over in the US.

Turning to the European Union then, clearly we want to have as free trade as possible with our European friends. It is right to see British judges and British courts making judgments on British law and that is exactly why we voted to take that control, but in that light, what dispute resolution mechanism should be there to oversee a UK/EU free trade agreement and how would that meet the red line of the UK not being subject to the decisions of foreign judges, particularly the ECJ? Would a soft power resolution, some sort of looser oversight perhaps be more palatable to both sides and support the EU in their endeavours politically as well as economically for both parties?

Dr Fox: All the EU FTAs have dispute resolution mechanisms that lie outside the ECJ. All the current EU FTAs tend to have bespoke agreements, depending on the agreement themselves. We would want to honour those and I think that that would be a good model going forward for a potential EU FTA, but that, I have to say, is at such an early stage of discussion that it is not something that certainly I have been involved in a discussion about. However, in terms of the current EU FTAs, the ECJ doesn't have a role in resolving trade disputes.

Q464 Mr Ranil Jayawardena: So we have free trade with the EU, in theory, and no control from the ECJ?

Dr Fox: Oh, a great deal is possible in theory.

Q465 Sir Edward Leigh: Sir Martin, can I ask you about the staffing of your Department just for a moment? I will be asking questions about these negotiations that obviously are very interesting, but I want to ask about your present work. I remember when I was working with DTI, my boss called himself the President of the Board of Trade and there was a fully-fledged Minister of State for Trade and vast numbers of civil servants



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were working on trade, even though we weren't responsible for trade policy. Give me an idea of how your Department is balanced, because I suspect that a huge amount of work and your officials is just promoting trade, as you have always done. In other words, following on what the Chairman said at the beginning, you do have some work to do at the moment.

Sir Martin Donnelly: We certainly have a lot of work to do at the moment; you are absolutely right. In total, we have about 2,800 people. About 1,300 of those are in the network, around 108 or so markets, as the Secretary of State has pointed out. The big change has been twofold: first, folding in 250 extremely high-quality UK export finance staff, who with their new, more open budget are now much more able to support smaller companies with export finance in markets and link in more effectively with our trade promotion machine, formerly UKTI, now ITI, as we call it, International Trade and Investment.

Then we have built up, as you would imagine, our trade policy team, which was relatively limited. It was about 40-odd people in fact in my old Department, in Business Innovation and Skills, which had been DTI. We have built that up now to 180 people. Next year we will be 240 and then by 2018, over 350. We have agreed funding with the Treasury to ensure that we can provide the core skills and expertise on trade policy.

Q466 **Sir Edward Leigh:** Can I just interrupt? On that point, you are getting the highly skilled people? We have been told in session after session that it is a lifetime career, negotiating these trade deals, and you are a serious expert. You are finding the expertise, are you—you are getting the top people you need?

Sir Martin Donnelly: We have been talking around the world to friendly countries that do trade negotiation—Australia and New Zealand, Singapore, Canada, Mexico and others. We have been learning from them what a 21st century trade negotiation team looks like. We have a lot of home-grown skills from people who have negotiated both in Brussels, but bilaterally; we have people who have worked in Washington; we have people who have worked in the private sector. We are building our own skills through the Trade Policy Negotiation Faculty, which we have built with the Foreign Office, which is bringing people from around the world in to train our staff.

We are confident that we are building the expertise we need to run really effective trade negotiations. We are also working with Departments across Government, who of course have to build their expertise in specific sectors. They will be part of the teams that we field, whether it is for a full free trade negotiation or for more specific sectoral or other negotiations. Yes, we are making good progress.

Q467 **Sir Edward Leigh:** So often I have seen in the PAC and other Committees that when we are negotiating with the private sector, we are often at a disadvantage because of pay rates. You can pay enough, can



you? You are competitive with the private sector, you are getting people from the private sector?

Sir Martin Donnelly: It is an issue that we are very aware of. So far we have had 20 inwards secondees from public and private sector organisations, large companies, but also wider parts of the private sector. We make sure that when we are looking for people, as currently with the chief trade negotiation adviser, that we are prepared to pay a competitive salary. I would have to say to you that we have had a huge amount of interest for all the jobs that we have advertised and a very high calibre of people wanting to work with us.

Q468 **Sir Edward Leigh:** Can I ask you, Secretary of State—I have asked the Permanent Secretary about staffing—just to not talk about policy for a moment, just talk about the work of your Ministers now, the ordinary work in trade promotion: what they are doing and whether they are fully employed and what they are achieving.

Dr Fox: Yes, Ministers are fully employed and more than earning their salaries. I know Sir Martin wouldn't want me to necessarily mention this, but for our Perm Sec replacement, we had 111 candidates from all around the world.

Q469 **Sir Edward Leigh:** Did you get the best man?

Dr Fox: The best man was the best woman, the best candidate. I did ask the question as to why would people of this calibre be applying for 160K a year and the answer I got, I won't say which official looked at me askance and said, "Secretary of State, how often do people of this calibre get to help shape the policy of a G7 country?" So it is more than just money for a lot of people who are applying for these jobs.

In terms of Ministers, turning to the specific question—

Chair: Sorry, carry on, but briefly, because time is going.

Dr Fox: —as of 26 January, since the Department was created, our Ministers have been on 64 ministerial visits to 41 markets undertaken on 46 separate trips. I will happily set out all the trips, but to say that we think it is very important that we get a good footprint and that we establish relations. Members of the Committee who have been Government Ministers will know that there is an accusation levelled at the United Kingdom at times that we are a very transactional country, that we tend to visit when there is something that we want specifically. It is very important that we build up relationships. As I said, we want to have a properly strategic relationship. It is important to build those relationships up over time.

Q470 **James Cleverly:** This has not been choreographed, but this leads perfectly into the question that I have had scribbled down here for the last 10 minutes. We so often hear markets like China and India discussed as if they have just been discovered—these amazing emerging markets



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that no one else has ever heard of—whereas, of course, they are now massively established markets. But as economies develop, their import requirements shift from products to services, and services is an area that we are particularly expert at. So what I am asking is what horizon scanning is being done by the Department to make sure we are spotting where the next big fish is going to be rather than where the current big fish already are? What steps are we taking to engage with them early so we can get first-mover advantage?

Dr Fox: In terms of our export markets, we look at the volume and the value. They are different targets that we set. In terms of the value, clearly if we are looking for maximum value we are looking for big established markets and if we are looking for volume or future value they will be different markets. That is why the Prime Minister has been very keen that the DIT Ministers are undertaking a wide range of activities, including work alongside our DfID colleagues, to look at developing markets.

The point Mr Cleverly makes is reflected in our performance because our services, which are 44% of exports, have increased by 42% since 2010. Clearly, as I mentioned earlier in relation to the Gulf, there are a lot of markets that will be able to mature by utilising a lot of the services that the UK can provide. For us, that is an area of priority where we will want to be identifying opportunities for the UK.

Q471 **Toby Perkins:** I just wanted to come back to this question of staffing. The question was asked about whether we were competitive with the private sector. I understand from your written evidence the majority of recruitment has been within the public sector. You will be aware of the article in January in *The Huffington Post* quoting trade groups and businesses saying your Department was hiring third-rate people and had people running around like headless chickens trying to get civil servants into place. I am just clarifying from your perspective, Secretary of State, that you have the quality and the resource in place that you need and we are not going to hear, as we have in past briefings from Ministers, that the problem is the civil service. We have in place the quality of people we need for the tasks that we have in front us.

Dr Fox: We do. I thought that particular article was ill informed and, I thought, rather insulting to our staff because we had been looking across Whitehall first of all to see where the skills are that we can import and there is a lot of skill across Whitehall. If, for example, you are going to be looking at agricultural arrangements as part of an FTA, we have a lot of that expertise already sitting in Defra, people with a lot of experience, sectoral experience. In the FCO we have people with country experience. They are all parts of teams you have to build for a trade agreement. So we purposely set to say, "How much talent do we have in-house that we could bring into the Department?" and then, "How much will we have to augment that?"



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So recently we identified a further 96 posts that we didn't think we had the capability in Whitehall to fulfil. We put that out for external applications. We had 1,698 applications from the private sector for those 96 jobs.

Q472 **Toby Perkins:** Have they been filled?

Dr Fox: They are in the process of coming through our HR, which is, I would say, the most overworked of our Departments inside the DIT at the present time for obvious reasons.

We do have to get the balance and I don't like it when articles like that talk about the skilled staff we have already working in Whitehall as second rate. I do find that—

Toby Perkins: Third rate, actually, yes.

Dr Fox: Third rate, yes. I am giving *The Huffington Post* the benefit of the doubt, which is not something I would normally do. I do think that people need to understand that we are building a capability here and there are a lot of very good people who work in Whitehall, but not all the skills will be available there and some we will have to buy in.

Q473 **Toby Perkins:** But, importantly, we have in the past heard Government Ministers railing against the civil service that is being provided but you are saying, "Trust us, if we fail it is a Government failure; the civil service that we have here is world class".

Dr Fox: First of all, I don't think Ministers should ever blame their civil servants.

Toby Perkins: I am with you.

Dr Fox: Secondly, the advantage of creating a new Department has been that we are able to build. Probably uniquely in my experience, my own private office does not include anyone that I didn't choose to work in that private office. So developing a new Department does have its advantages. It had its drawbacks because we have to fill gaps that are not there, but I think on the whole that process has worked very well. I think the calibre of the people that we have are first class, not third rate.

Sir Martin Donnelly: If I could just add point on that because it is very important. We have been able, as the Secretary of State has said, to build this Department from the base on a culture of co-operation and teamwork. We work very closely with our Ministers, with the wider special adviser team and with our excellent non-executive directors, who also bring a huge amount of experience and insight from the wider world. We are a learning organisation. We are learning from the best in the world and I am clear that my excellent successor in two months, Antonia Romeo, will be taking over a Department that is a going concern and absolutely adding value with Ministers on this agenda.

Q474 **Sir Edward Leigh:** The Prime Minister's speech was admirably clear,



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with one exception: the Customs Union, which has caused some confusion, not least to my colleagues. She said she wanted, and I quote, "A customs agreement with the EU" but she doesn't want the UK being part of the Customs Union. What does that mean?

Dr Fox: The Prime Minister was very clear that she wants us to be outside the common external tariffs that would be part of the full Customs Union membership, but the Government has not yet decided what that agreement will finally look like. However, the aim is clear: what we want is to maximise our market access and minimise friction at our borders.

Q475 **Sir Edward Leigh:** I understand that you want to be outside the common external tariffs, indeed you have to be because the whole point of your new Department is you want to create new international trade agreements, free trade agreements around the world. Why did she use this phrase that she wants a customs agreement with the EU? Did she mean she wants a free trade agreement? Was it a slip of the tongue?

Dr Fox: No, a free trade agreement is a free trade agreement and what the relationship will be in terms of our customs arrangements has still to be determined, and that is something that—

Q476 **Sir Edward Leigh:** I am sorry, but you haven't answered my question, Secretary of State. Why did she say she wanted a customs agreement with the EU? What was she talking about?

Dr Fox: A customs agreement in terms of our customs arrangements with the EU, it is not the same as our trade arrangements around FTA. They are not the same thing.

Q477 **Sir Edward Leigh:** I see, so explain a bit more; I don't quite understand.

Dr Fox: The full Customs Union would have implications for, for example, the issue I talked about earlier about EU FTAs. If we are in the Customs Union then countries—let's say Korea—would have access to the UK markets with the Customs Union. They would have less incentive then to want to negotiate a disaggregation of an EU FTA because they already have access to the UK market without UK having reciprocal access.

Q478 **Chair:** Like Turkey has at the moment?

Dr Fox: Well, Turkey is in a slightly different place because Turkey is in negotiation for a different customs union. The opposite would apply if we were completely outside the Customs Union. So there are advantages to that. What we will look like in terms of our customs arrangements is yet to be discussed fully and determined because of the complication that the UK has with the Irish border. We will want to ensure that there is no return to a hard border in Ireland.

Q479 **Sir Desmond Swayne:** The Prime Minister has said that she wants a phased implementation of final trading arrangements with the EU



negotiated during the Article 50 process, so two questions. First of all, is that actually doable in the two years, particularly given the complexity that will attend to services, financial services particularly, where even now on both sides of the Channel there is dissatisfaction that the current arrangements don't work properly and there would be an opportunity to try to get them right? Secondly, Mr Barnier had said that it is not lawful to do this during the Article 50 process. Are we confident that he has the law wrong or will it simply be overtaken by realpolitik?

Dr Fox: There are a number of elements in that: the goodwill of those involved in the negotiation; the self-interest of those involved in the negotiation; and, obviously, the legality of where we find ourselves. There is a strong self-interest in getting an agreement as soon as possible. The European economy is not in its strongest shape in terms of the global economy. The European Union has a large goods surplus with the UK and any introduction of tariffs or barriers to trade and investment that don't exist at the present time would only be harmful to the overall prosperity of the citizens of Europe. We need to avoid that.

We can get substantially involved in those negotiations and I think that there is a growing awareness, certainly among the discussions that I and fellow Ministers are having with our European partners, that to do anything that would harm the European economy would put Europe at a huge disadvantage in terms of global competitiveness, which would not make any sense.

Having said that, I think we, as a country, need to be cognisant of two things. First, that we have always seen the European Union as largely an economic project—I generalise, but largely an economic project—whereas many of our European partners have seen it in a very different way, a much more political and perhaps more emotionally committed relationship. We need to show sensitivity about that in our dealings with them rather than purely being economically transactional.

We also need to understand that there will be elections in the Netherlands, France and Germany throughout this year where things will be said from a position of national electioneering, which we are all well aware of, and where we would be well advised to keep the temperature down and stick to the economic fundamentals as part of that debate.

Q480 Sir Desmond Swayne: She said that no deal is better than a bad deal. Has there been any modelling done as to what would be the implications if there is no deal in terms of the impact on particular sectors of the economy, be it agriculture or automotive? If we were back on World Trade Organization rules, is there a silver lining?

Dr Fox: The modelling is, of course, ongoing to advise us about different positions that we might take during a negotiation, and I am sure that no one will expect us to set that out in much detail. I do ask the basic point: why would anyone going into a negotiation even hint that they might accept a bad deal rather than no deal? I cannot think of any



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businessperson in the world who would go into a negotiation on that basis.

Q481 **Chair:** But isn't no deal a bad deal?

Dr Fox: Well, what we want is to get a deal that gives us maximal access. There is a difference between what we are seeking to achieve and what anyone else has ever sought to achieve.

Q482 **Chair:** I understand that, but isn't no deal a very bad deal? What is going to happen to aviation with no deal?

Dr Fox: We don't expect there to be no deal.

Q483 **Chair:** So now you have just given your hand away that you are—

Dr Fox: We don't expect there to be no deal; we expect to get a good deal.

Just in answer to one of the points Sir Desmond makes, we are not seeking the same sort of access to market that other countries who are trying to do a deal with the EU would be trying to have. We are already at the point of maximal regulatory equivalence. We have complete coincidence in fact of regulator equivalence so we are not trying to achieve something that doesn't exist at the present time. With goodwill, that kind of disaggregation should be much easier than accession would be but it does depend on our willingness to get a good result. If we govern our negotiations by what is good for the prosperity of the people we represent rather than abstract political ideology then we will be on the right track.

Q484 **Chris Leslie:** I want to ask some questions about this insurance policy if we fall out; you said we don't want to leave a vacuum. The WTO has schedules that you want to put in place and negotiate so we don't have that sort of period with nothing after 1 April 2019. You sent a note around last night that was further evidence from your Department. Do you have that note in front of you?

Dr Fox: No, I don't, I am afraid.

Q485 **Chris Leslie:** The evidence that you sent around last night from your Department to the Committee, which is entitled "Written Evidence for the DIT Select Committee": on the very back of that document you sent around this list of external tariffs from the EU; there is a range of issues there. Can you just read out for me what the simple average tariff would be for animal products there? It is the sixth line down; what would that be?

Dr Fox: Given the size of the print, Chairman, without reading glasses on, I am afraid I am not able to read anything.

Q486 **Chris Leslie:** I am sorry about that. It says 20% tariff, a simple average for animal products. I was going to ask you about dairy products, 36%; clothing 11%. If you are proposing to lodge those as a cut-and-paste job



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potentially from the current EU schedule with the WTO, when will Parliament formally approve those new tariffs?

Dr Fox: They are not new; they are a continuity of what we have already. They are not a modification in WTO rules and law, they are a technical rectification. Otherwise we are keeping the tariffs that we currently have. The ones that we are already bound under our EU arrangements with WTO will continue as are. For example, these are bound tariffs, they are the maximum tariff that we can apply under EU rules and we are keeping them the same as we transition over.

Q487 **Chris Leslie:** But, hold on, isn't it for Parliament to decide whether to keep them the same or not? It is not a fiat in the Crown Prerogative; this is something under the 1958 Import Duties Act, before we joined the EU, that Parliament used to agree in statutory orders. If we are coming out of Europe, it is surely for Parliament to decide these things. No taxation without representation.

Dr Fox: These are, in the current process, as I said, a technical rectification. Were Parliament to change tariffs it would need to be done under legislation in the House of Commons. One of the things that we will have to do as we go through the Great Reform Bill is to look to see whether we still have powers and, if necessary, where we have to take new powers to set tariffs at a different level than we inherit from our EU arrangements. Were they to be altered, it is correct; they would have to be done by primary legislation.

Q488 **Chris Leslie:** Yes, but it is very serious, if you are saying as Secretary of State you are just going to take it upon yourself to tell the WTO what the tariffs from the UK could potentially be. You are proposing to do that without parliamentary approval?

Dr Fox: No, these are the tariffs, the bound tariffs, the maximum tariffs, that we have been operating under since 1995 and we will simply say that at the point of leaving they will be the same unless we change them.

Q489 **Chris Leslie:** Have you taken legal advice with reference to Parliament?

Dr Fox: Yes, unless we change them, which would require a change in tariff and would require the UK to take powers to set tariffs, which we don't have, I don't believe, at the present time but as part of the Great Reform Bill we will need to see which powers, including trade defence and trade remedy powers for example, we needed to take because we would not in our own right have the legal abilities to do those as the United Kingdom.

Q490 **Chris Leslie:** But on this Parliament isn't taking back control?

Dr Fox: Parliament will have control because Parliament will be able to set future tariffs in the way it cannot set them at the present time.

Q491 **Chair:** The other implication, of course, of this form is these are EU tariffs. When we are outside the EU, our dairy products will be



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experiencing 36.1% according to the agreement that the Prime Minister has accepted that she would go to, and lamb and beef products will be facing a tariff of 20.2%. There are fish and fishery products; 12% would be the tariff in the EU. Are you quite prepared to take the UK to that point?

Dr Fox: We want to have a fully comprehensive FTA with the EU.

Q492 **Chair:** We know that, but are you prepared to take the UK to that point?

Dr Fox: We don't think that that will be—

Q493 **Chair:** But are you prepared to take the UK to that point?

Dr Fox: We believe that we will get a trade agreement and we believe—

Q494 **Chair:** Isn't it crossing your fingers for diplomacy in the future because trade—

Dr Fox: I will give a specific sector reason why.

Q495 **Chair:** So can you guarantee that the lamb sector, the beef sector, the dairy sector and, say, the fisheries sector won't have the tariffs of 20%, 36% and 12%? Can you guarantee them now that won't happen?

Dr Fox: The French agricultural sector—

Q496 **Chair:** But can you guarantee—I want this specific question answered. Can you guarantee these sectors that—

Dr Fox: I will answer the question in my own way.

Chair: —these tariffs will not happen, that the policy you are an architect of will not result in farmers having tariffs of 20%, dairy farmers having tariffs of 36% and those in fisheries of 12%? Can you guarantee them that will not happen?

Dr Fox: Let me tell you why I believe that will not happen.

Q497 **Chair:** Can you guarantee it?

Dr Fox: If you look at the French agricultural sector, for example, the numbers are broadly correct; they may not be absolutely precise, but the French agricultural sector exports about, I think, £2.58 billion worth of agricultural products to the UK. The UK sells about £1.32 billion to France. Now, why on earth would the Government of France want to come to an agreement that penalises French agricultural exporters in terms of value twice as much as UK ones? It doesn't make any sense.

Q498 **Chair:** But with respect, Secretary of State, you are already taking industry sectors in the UK down a possible path of penalisation. You cannot guarantee there will be no penalties. So you are expecting logic from another side that you are not applying to your own side.

Dr Fox: We are applying exactly the same logic. We are saying that the best interest of both producers and consumers across the EU is the



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maintenance of a tariff-free arrangement, which we have at the present time. That is what we will want to have in our FTA. The point I am making is this: if those tariffs are introduced, they will harm EU producers more than they will harm UK producers.

Q499 **Chair:** But it is not the EU that is opening up this possibility, it is the UK and at the moment we are crossing our fingers.

Dr Fox: No, it is an agreement. It's an agreement and a trade agreement is entered into because both parties believe it to be in their best interests. Why would the Government of France, for example, want to have an agreement that penalises French farmers?

Chair: But it is not the French who is opening the possibility, Secretary of State, with respect. I move to Shabana.

Q500 **Shabana Mahmood:** I want to return to parliamentary scrutiny of trade deals but in the context of free trade agreements that we would hopefully be making with non-EU countries. My understanding at the moment is that the Executive branch, the Government, can go ahead, cut any kind of trade deal that it wants, that there is no official recourse to Parliament unless there is a legislative change. Is that correct, Secretary of State?

Dr Fox: Any future trade agreements would be subject to parliamentary approval.

Q501 **Shabana Mahmood:** That is a cast iron, every single deal will come to the House for—do you envisage that for a vote on the floor of the Commons?

Dr Fox: We have a 40-day procedure for ratification and that would continue, but any new trade deals would come to Parliament for ratification—absolutely¹.

Q502 **Shabana Mahmood:** That is helpful, thank you. I want also to ask you about the National Health Service. This has been coming up a fair bit in the context of a proposed US/UK trade deal. It is a cause of some concern that the National Health Service might be opened up to American companies, or other companies from around the world. That is something that I don't think the public would stand for because it is our premier public asset. Can you give an unequivocal answer today on protecting the National Health Service from being opened up to foreign competitors when you strike trade deals around the world?

Dr Fox: This is really on a par with alligators in the sewers as urban myths. There was never a prospect under TTIP, as was, of the Governments losing their ability to regulate their public services specifically written into the agreement. So it is a fear that has been stoked up that is not borne out by the facts of the agreement. All Members of Parliament have had lots of letters and it is worth referring to the document itself saying it is specifically written into it that Governments will not lose their ability to regulate for public services. So it is, I am afraid, an urban myth and not a very helpful one.



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Q503 Shabana Mahmood: Obviously TTIP is one thing and it is not happening but that is a slightly different answer from just saying clearly to anybody that wants to do a free trade with us that we are open for business and we want to have a conversation with you but if you want to talk to us about our NHS forget it—that is not going to be part of the deal.

Dr Fox: It has not ever been part of our approach to go into any of these big, multilateral or plurilateral agreements and sacrifice the right for Governments to have the ability and the right to regulate for the public services. That is what I would expect to see continue. That is what I would want to see continue and that is what I would endeavour to ensure was in any future agreement.

Q504 Shabana Mahmood: Okay—not quite the unequivocal, “The NHS is totally off limits” that I was hoping you might say.

Dr Fox: I am afraid by extension it is because what we have said is that—

Shabana Mahmood: Would you say that then?

Dr Fox: —Governments will have the ability to continue to regulate—

Q505 Shabana Mahmood: Just say, “The NHS is off limits in any future trade deal” and anybody that is getting worried about it can then calm down and—

Dr Fox: Let me tell you, as the person who will be in charge of negotiating that, it would not be happening on my watch.

Q506 Shabana Mahmood: Okay, that is close enough, I suppose.

Can we just come on to the Commonwealth? I want to press you a little bit following the Prime Minister’s visit to India where obviously there were some successes to celebrate. But the mood music in India, particularly in relation to India’s desire to see more access for Indian students and Indian workers to Britain, was not positive, let’s say.

Certainly, there is a lot of consternation in India, and other parts of the Commonwealth, that their students are not able to come freely to Britain due to visa restrictions that the Prime Minister was in charge of when she was the Home Secretary. Do you see that as a potential bar to successful further trade agreements with parts of the Commonwealth, including India?

Dr Fox: I was part of that trip with the Prime Minister and I don’t think that the mood music was nearly as bad as was portrayed in certain elements. However, it is quite correct that the visa element was a particular concern of the Indian Government. We had very positive discussions about it and they understood that while we have no control of total migration because of free movement in the EU it makes it very difficult for us to look at some of these more specific issues elsewhere. They also understood our concerns about those who have not left the UK when they have been granted visas and why that needs to be dealt with



and how we could possibly deal with it but all the so-called Mode 4 arrangements on transfer of staff and so on would have to be part of any future agreement.

One of the reasons why we did the trade audit with India in particular was that we had these concerns. The large amount of foreign direct investment from India to the UK has led to an increased amount of concern about intra company transfers, which was a bigger concern for business than the student visa issue. We have said that we will look at that as part of our trade audit. It puts it on, as I said earlier, a properly empirical basis where we can weigh up one thing with another. The Home Secretary is currently, as you know, involved in a wider review of Government migration policy, which we will come to the House of Commons with in due course.

I am well aware of the issue and in virtually all the trade agreements that we have looked at, movement—particularly intra-company transfer—has always been part of any ability to secure an agreement.

Q507 Shabana Mahmood: The position in relation to students was negative enough that a Vice-Chancellor saw fit to have to write in *The Times Higher Education*—I think it was the Vice Chancellor of Sheffield University—about his own feelings that we were not being even-handed or fair when it came to our dealings with India and, in particular, access for students to our higher education institutions.

Higher education is one of our biggest export industries. It is a great British success story. Would you agree that continuing to count international students within our net migration figures is a mistake and that we should take international students out of our calculation for net migration in order to free up our higher education sector to be able to play a bigger role in our exports going forward?

Dr Fox: The Government has traditionally taken the view that we did count them as part of the net numbers—

Q508 Shabana Mahmood: But you as the Trade Secretary, would you want to see them taken out of the net migration figures?

Dr Fox: I don't think you can look at that in isolation. I think you need to look at it along with a range of other issues that we raised with the Indian Government about—if you are not counting those numbers but you get a substantial number who stay when their visa expires, then you are crossing—

Shabana Mahmood: Yes, that's different from counting them in the net migration figures, which is why—

Dr Fox: Well, you cannot quite separate them out to that extent.

Q509 James Cleverly: Secretary of State, Lord Bilimoria criticised the India trip as an unmitigated failure before the wheels of the plane had even touched down. Bearing in mind we have an extensive, experienced and



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thoughtful Indian diaspora in the UK, might it not be wise in the future to have more positive voices accompanying the Prime Minister and Ministers on overseas visits?

Dr Fox: Well, I am not sure we will get to the point of ensuring we had total verbal compliance from anyone who went on a trade mission with us; attractive though that would be for the Government's media handling, I am not sure that that would be either possible or wise. What I would point out is that this so-called unmitigated failure landed £1.2 billion worth of UK export contracts. Maybe from his background his definition of failure is different from mine, but it looked like a great success from where I was standing.

Q510 Mr Nigel Evans: President Trump has said we are at the front of the queue for a trade deal. When does your Department intend to embark on meaningful discussions for a trade deal between the United States of America and the United Kingdom?

Dr Fox: I may have answered this in that question earlier. We are waiting to see what the new structure of trade engagement from the United States looks like, whether it is going to be the Commerce Secretary, Wilbur Ross, who takes charge of trade policy and negotiation, the role of Peter Navarro and Robert Lighthizer, they would be potential—

Q511 Mr Nigel Evans: When are you sending any of your officials out to start discussions?

Dr Fox: So the Prime Minister, of course, had discussions when she was there with President Trump. We are sending officials in the next week to Washington to scope out those agreements with American officials and I will lead a UK delegation at ministerial level as soon as it becomes clear what the scoping of those agreements will be and when we are very clear about who our interlocutors will be at the appropriate level in the new Administration.

Q512 Mr Nigel Evans: Finally, you have mentioned these three new trading posts, which are very exciting. Many of the economies of the United States of America, many of the states' economies, are bigger than a lot of the economies of individual countries within the EU. How many more of these trading posts are you thinking of opening? Are you happy and content looking at California on its own with an economy bigger than Italy, almost the same size as France's economy, that we have enough people there in order to give you the advice on these trade deals?

Dr Fox: We will look at that as we go along, but in California we have staff in San Francisco, we have staff in Los Angeles, and we are now going to have staff in San Diego. It is a matter of being guided by what business also tells us about they think their needs are and where they perceive there to be a need for extra help.

Yes, the US economy is of a different scale. I was in discussions last week with people constantly talking, in relation to the EU, about the Swiss



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model or the Norwegian model and I was pointing out that the UK economy is three times the size of the Norwegian and Swiss economies combined, and the US economy is six times the size of the UK's, so it is sometimes getting an idea of the scale gives us an idea of where we need to be balancing and putting our resources.

Q513 Sir Edward Leigh: I am going to ask you about parliamentary scrutiny, which is very important for us. In 2010 there was a framework agreement in the Commission of the European Parliament, which states, and I quote, "Parliament should be immediately and fully informed at all stages of negotiation and conclusion of international agreements, including the definition of negotiating directives". So this is a very clear agreement between the European Parliament and the Commission so it means that from the end of March when you start these negotiations, immediately everybody in the European Parliament will know everything that is going on. Are we going to have to go on the European Parliament website every Monday morning just to work out what is happening, or are you going to tell us every Monday morning? Will you have your reading glasses on at all times?

Dr Fox: Again, I make the point that we are not in negotiation in the European legal sense with any country. We are scoping out the future trade agreements that we may come to when we leave the European Union so as such does not fall, in my view, within the realms of what the EU would term negotiation.

Q514 Sir Edward Leigh: There is one more. That was quite a disappointing reply because your friend, the Secretary of State for Exiting the EU, gave a more positive reply when he went to the House of Lords. He said that we would as fully informed as the European Parliament. Are you disagreeing with your Right Honourable friend?

Dr Fox: No, in terms of when we come to negotiate agreements then of course we have to be fully informed in the same way that the European Parliament would be were we negotiating at the present time.

Q515 Chair: Secretary of State, some mopping up questions then. CETA: there is a debate promised. I understand that the European Parliament will have a debate on 15 February in Strasbourg. I assume the UK Parliament won't be having a debate before then but when do you plan to have a debate on CETA?

Dr Fox: There will be a debate in Committee on Monday.

Q516 Chair: A debate in Committee on Monday. What about on the Floor of the House?

Dr Fox: The business managers were unable to find a time on the Floor of the House that would be ahead of the European vote—not least because of our recess that is coming up—so it was decided to hold a debate in Committee next week.



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Q517 **Chair:** Before the end of February, will anything become before the House?

Dr Fox: It will be done in Committee.

Q518 **Chair:** The aviation sector is quite concerned on, first, what might happen if there is a cliff-edge and their legal rights to fly to scores of countries across the world that are covered in the EU Open Skies Agreement. Where might that be if we have no deal? Will they be stuck on the ground waiting for a couple of years until we have a deal?

Dr Fox: Both the Transport and Secretary of State for Exiting the EU are currently looking at how we might come to early agreement on those.

Q519 **Chair:** On the aviation sector, I have been asked by them as well: when you look to negotiate trade deals, are you also looking to negotiate air deals, because obviously trade, in a large part or in many parts, will be facilitated by direct aviation links?

Dr Fox: Yes, and some of those are separate arrangements that are done by bilateral agreements.

Q520 **Chair:** On chemicals and pharmaceuticals, will you be keeping the REACH protocol in place that is used across the European Union at the moment and allows easy transfer across borders?

Dr Fox: As part of our negotiation, we will be looking at those facilitation arrangements—as we will, I might just add, at regulatory equivalence—to try to make sure—two very important sectors for us, pharmaceuticals and chemicals—that there is hopefully no change from the current situation.

Q521 **Chair:** In an earlier answer, you seemed not to close the door to ECJ involvement in dispute resolution between the UK and EU. How does that differ from what the Prime Minister's words are when she said absolutely no ECJ? Is this a realisation in Government that the reality is when you have deals with foreigners, foreigners do have a say in the dispute resolution?

Dr Fox: None of the EU FTAs has the ECJ as the dispute resolution mechanism.

Q522 **Chair:** What about in another guise?

Dr Fox: Since it does not exist and the EU has not sought the ECJ to be the dispute resolution mechanism in any of its other FTAs, it would be quite remarkable—

Q523 **Chair:** What do you see as the dispute resolution mechanism in that case?

Dr Fox: Well, each of the treaties that the EU has, has a slightly different one. They tend to have an ad hoc grouping of some sort that carries out that dispute resolution.

Q524 **Chair:** So, for the tabloid newspapers, foreigners will still be involved?



Dr Fox: Well, we will come together but in terms of what the Prime Minister has made very clear, Britain will not be under the primacy of EU law with the jurisdiction of the ECJ. When we come to dispute resolution, it would be rather strange to assume that since the EU has not used that mechanism before it would want to do it uniquely with the UK.

Q525 **Toby Perkins:** The country has made a decision to leave the EU and part of the outcome of that decision is we need to put in place all of these resources, such as your Department, to start negotiating our alternative future. Now, obviously the EU countries haven't made that decision but there is a substantial equivalent cost on the EU for them to now start putting people in place to start these negotiations with us over this period.

While we have been sat here, Sir Ivan Rogers has been speaking to a different Select Committee in the House and he has said that he expects effectively a bill from the EU in the region of €40 billion to €60 billion for the cost of the EU negotiations as part of all this. Have you, in your discussions, been made aware of the likelihood that there is going to be an expectation from the EU that we are going to pay towards the costs we now expect them to spend on negotiating with us? Would you countenance anything like that sort of contribution to EU costs for negotiating with us?

Dr Fox: I find this argument bizarre, and I find it bizarre because the United Kingdom is using a legal power that we have under the Lisbon Treaty, a provision that was freely entered into by all our European partners. Why should they then turn around and say we should pay their costs for a process that everybody equally entered into at the time? It seems to me an absurd argument.

Toby Perkins: It won't be happening? No?

Chair: Can I bring matters to a head? Time has beaten us. I note from the House of Commons Library that apparently no country in the OECD is outside a regional trade agreement, apparently not even North Korea, so in respect of where we boldly go as a UK I wish you very well, Secretary of State. Thank you all for your attendance this morning. Thanks for coming along.

ⁱ The Secretary of State later contacted the Committee to correct his statement. The standard parliamentary scrutiny process for ratification of free trade agreements as set out in the Constitutional Reform and Governance Act (2010) involves laying the agreement before Parliament for 21 sitting days.