

Exiting the European Union Committee

Oral evidence: The UK's negotiating objectives for its withdrawal from the EU, HC 1072

Tuesday 21 February 2017

Ordered by the House of Commons to be published on 21 February 2017.

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Members present: Hilary Benn (Chair); Alistair Burt; Maria Caulfield; Mark Durkan; Jonathan Edwards; Michael Gove; Peter Grant; Jeremy Lefroy; Craig Mackinlay; Karl McCartney; Mr Pat McFadden; Dominic Raab; Emma Reynolds.

Questions 1003-1058

Witnesses

I: Roderick Abbott, Senior Adviser on Trade Policy, European Centre for International Political Economy, Dr Federico Ortino, The Dickson Poon School of Law, King's College London, and Professor Jim Rollo, UK Trade Policy Observatory, University of Sussex. Examination of witnesses

Witnesses: Roderick Abbott, Dr Federico Ortino and Professor Jim Rollo.

Q1003 Chair: Good morning. Can I warmly welcome Roderick Abbott, senior adviser on trade policy, European Centre for International Political Economy, Dr Federico Ortino of the Dickson Poon School of Law at King's College London, and Professor Jim Rollo from the UK Trade Policy Observatory at the University of Sussex? Professor Rollo, I think you once famously said, in a meeting I was at, that bringing home a trade deal was as easy as landing a jumbo jet on a postage stamp. This may be a subject that we explore during the course of the evidence sessions.

I want to begin with this question, and I wanted to start with you, Dr Ortino, if that is all right: what does it mean for businesses in the United Kingdom that Britain will be leaving membership of the single market? What will businesses notice that is different when they wake up on the morning after we have left, since that is the declared policy of the British Government?

Dr Ortino: Thank you for inviting me. The question is difficult to answer, because I would have to know on what conditions that exit takes



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place. We can make assumptions. Say there is nothing in place, in the sense that there are no other relationships in place, whether transitional or permanent, between the UK and the EU. That would be clearly going back in time, and even under those circumstances it may still depend on how the UK deals with the regulatory framework that has been put in place by the EU in the last 50 years.

The idea of adopting a bank regulatory framework developed within the EU as part of UK law would certainly facilitate future trade relations between UK businesses and the EU. Certainly, there are things that businesses take for granted, such as no tariffs, that will change. That is the first broad issue you may encounter; there will be higher tariffs. There is then the whole set of regulatory structures. You have to comply with the export market regulatory framework and certification. As for the extent to which that would create a problem, I am not able to answer that. I am not sure whether anybody has done that work, in part because it is difficult to identify what will be the framework in which one operates. I would stop there.

Q1004 Chair: Would our other two witnesses like to comment? Mr Abbott, please.

Roderick Abbott: I would perhaps give you a rather more forthright answer, because I am not a lawyer and therefore I do not have to be very balanced. I would say that on the day after you exit, businesses will face the common external tariff on their trade to the EU, unless, of course, you have made some kind of a trade deal by then. We know that the formal position is that the Commission and the EU does not negotiate with a member about a future trade relationship until after they have exited. There is a political question there about whether or not that would stand. If you assume there is no deal, then the common external tariff would be applied on the next day, because you are a non-EU country and that is what the EU does.

The second consequence would be that, unless you are very quick to introduce a UK customs tariff, businesses would have no protection against imports. You would have to have a tariff, so presumably that would be perhaps based on the common external tariff or on something else. You cannot just go back to 1972 and bring a tariff down from the shelf. That would be a second consequence.

Whether all of this would be destructive to business is an open question, as you said. My belief is that if you are out, under those conditions, and you are trading under WTO, it is perfectly feasible. Trade is not going to stop. There will be areas where you will face barriers that you did not face before. You perhaps will make less profit, but trade will flow.

Q1005 Chair: I will come to you, Professor Rollo, because the UK Trade Policy Observatory's submission said that the UK will lose out by being outside the EU single market. The point I am trying to get at is to distinguish it from the customs union, because we have quite quickly elided into the



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consequences of not being part of the customs union, but there are nations that are in the customs union and not in the single market.

Trying to focus on the single market element, what is different because of the Government's decision that we should cease to be members of the single market? In relation to trade, it has said in the White Paper that it wants trade as free and frictionless as possible, and we will come on to that in further questions. I am still trying to focus to get a sense of what us leaving membership of the single market looks like and feels like to businesses. As I asked the first time round, what will they notice that will be different? Do you want to come back on that, and then I will come to Professor Rollo?

Roderick Abbott: I would just like to make the point that it is very hard to take the single market on its own in this context. The Prime Minister, in her speech, said you are out of the single market. Effectively she has said you are out of the customs union, because you are not accepting the common external tariff or the common commercial policy. Effectively you are out of the customs union, and that means you are out of the EEA, which is the agreement where you have non-EU members like Norway, Iceland and so on. It is quite hard to separate the single market from the rest.

I would give you two different kinds of answers to your question. One would be about the change in institutional terms: what do you feel like on the day after you are out? The second would be more on what the economic impact would be, and I can address either of those as you like.

Professor Rollo: Just to be clear on the attribution of that metaphor to which you referred, it came from my wife, a former Australian trade negotiator. I love trade negotiators so much that I married one. Exactly as Dr Ortino said, it depends on what you think the counterfactual is here, and that is the really difficult question. Of course, that is to some degree arbitrary and speculative.

Assuming that "out of the single market" means out of the single market, I have to bow to our legal expertise here, but as an economist this is my understanding of it. It seems to me that the first thing that goes, with all the EU standards that are applied here through direct effect of EU law, is that we no longer get that recognition that what we produce is automatically and by law consistent with the EU standard. There are currently no administrative barriers based on standards that apply to UK exports to the EU, or on EU exports to us. That would, in principle, change on day one of Brexit if there is no other deal done.

There would be some cost, then, for British exporters to prove that their goods meet EU standards, and there will be some cost for EU exporters to prove to British customs that they meet UK standards. That sounds slightly ludicrous, because the day before, no one was looking. To some extent the standards issue is overseen by trading standards officers, not by customs officers. This in some senses would be a new activity for



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customs officers, as far as it applies to EU trade. As always with these things, it is a question of how it is actually practised. What will they do? On day one we will have the same tariff book as we had on the day before Brexit.

However, as I understand it, if we are thinking about what happens when we reassert our individual membership of the WTO, we would not expect in the first place that the commitments we make are different from the commitments we made in the Uruguay round more than 20 years ago. In a sense, the customs officers could go on doing what they were doing. If the Government said to them, "Do not charge tariffs on imports from the EU", for example, they would not have to do that. Nothing would change. However, the Government could say to them, "You treat the EU as what was a third country when we were members of the EU", and then you would charge the common external tariff.

The thing that would change, essentially, if we went to MFN trade, or WTO-consistent trade, is that we would then introduce some form of conformity assessment: do these goods meet the standards of our country? Both sides would presumably do that. That seems to me to be the main difference we are looking at as we leave the EU. In principle, nothing else will have changed, so the goods should meet EU standards, but you have to prove that.

Q1006 Emma Reynolds: Related to that question, Professor Rollo, in your paper, you said that the need for rules of origin and possibly tests to demonstrate compliance with EU norms, as barriers, could be as costly as tariffs that are abolished. Could you say a little more about that and the trade-off between what the Government seem to want to do, which is to have some sort of customs agreement that retains many of the advantages of the customs union while getting rid of the common external tariff, and the common commercial policy? Is it possible to have this middle way?

Professor Rollo: Again, I am going to defer to some degree to our legal expertise here. There is a lot of controversy around these issues. Let me just deal with the rules of origin issue first of all. Rules of origin only come into play in this as a potential barrier if we have a free trade agreement with the EU. If we just have MFN trade or WTO-consistent trade, then we will not need rules of origin in that context, because everyone is facing the same external tariff.

The question comes when two countries have a free trade agreement and they have different tariffs towards third countries; there is then a possibility that a third country could choose to export to this free trade area through the one with the lower external tariff. That is called trade deflection, and the rules of origin are there to prevent it. There are a lot of different measurements around. There are a range of numbers, from not a lot more than 1% or 2% up to levels of around 8% or 9%. Some recent work done by OECD economists has hinted at those sorts of numbers for the EU.



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What are those costs? Those are the costs of complying with the rule of origin. The EU rule of origin basically is that you have to have something in the order of 60% of domestic value added in the good for it to count as a British good, which would then be consistent with an EU/UK free trade area. I am sorry that this is complicated, but it is. How big the number is depends who you talk to. It differs from industry to industry. Indeed, someone in the car industry said to me that it was not a matter of the industry, the company or the plant; it was a matter of the model of car they were producing and whether it fits.

There is also the third country aspect to it. Say we are contributing something to a car model through a value chain, such as the engine, which is then assembled with the rest of the car in Munich, for the sake of argument, and then sent to Mexico, because we have a free trade agreement through the EU with Mexico. The Mexicans would not accept it as being of EU origin. They would accept it now because the UK is part of the EU. Once we are outside, that engine could throw it the wrong side of the rule of origin, and the Mexicans would say, "It is not EU; it does not get the preference." That trade could be stopped as a result of that. It is more likely that the engine manufacturer would be moved inside the EU's borders; that would be the incentive for them to do that.

I am sorry; this has taken us quite a long way from your initial question. I do not know how far I have answered what you want, or whether you want me to say a little bit about the whole question of sectoral agreements at this stage.

Q1007 Emma Reynolds: Sorry to interrupt; what I wanted was a sense of whether, legally and practically, it is possible for the Government to do what they seem to be trying to do: to somehow retain the advantages we currently enjoy in the customs union, such as lack of delays at the border, lack of checking, lack of duties, for real-time automated and other sectors, whilst at the same time trying to seek the advantages of being able to negotiate our own free trade agreements. It is a noble aim, but I am just wondering whether you think that is possible.

Professor Rollo: Let me start, but I am sure my colleagues will have plenty to say on this, because it is a complicated and controversial area. I find it difficult to see us running something that looks like a free trade agreement and a partial customs union in parallel. This will run into problems at the WTO, if nowhere else, because it will get on the wrong side of rules about free trade areas or customs unions meeting substantially all trade rules. That rule itself is deeply ambiguous as to what is the criterion for that, but if we put that to side for one moment, people could argue if it was quite small, with one or two sectors covered by the customs union, that probably would not be substantially all trade. If there were still not quite enough sectors left in the free trade area, that might not qualify to be substantially all trade either, so there is an issue there.



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There is one possible way out of this. Assuming we just adopt the EU's existing schedules of commitment, putting aside the complications on the agricultural side for a moment, we start with identical MFN tariffs on day one of Brexit. That would allow us to say, "There is no threat of trade deflection as a result of this, so there is no need for rules of origin". We could just agree between ourselves. It does not seem to be compulsory that you have rules of origin under WTO rules, but as I say, I will leave my colleagues to deal with that.

Q1008 Chair: I am just keen to hear, on this specific question Emma Reynolds has raised, whether you think it is possible, practically, politically or legally, to have those two things together.

Dr Ortino: Legally, there is really no clear answer there. It is arguable. This is an interpretation of Article 24 of the GATT and Article 5 of the GATS that allows for regional trade agreement. I am sceptical about this solution, because it would not work in practical terms. You have an FTA to eliminate tariffs. The advantage of a customs union in addition to it is that you do not have to prove origin, in simple terms. You cannot really have both. If you have an FTA and you try, sectorally, to eliminate the problem of rule of origin, you have to somehow co-ordinate what would be the external trade policy of those two countries. In a customs union, you would do this through the common tariff. You have to somehow substitute that co-operation sectorally. You could do that, but it involves the fact that in any agreement that those two countries have with third countries, there would have to be the same co-ordination. The idea is that if a car comes into the EU, it will be subject to x tariff; if it comes into the UK it will be subject to the same tariff. This is the current EU-Turkey arrangement. If the agreement between the EU and the UK is to co-ordinate in terms of cars and car parts on what the tariff will be coming in, it will restrain the ability of both the UK and the EU in their third country arrangements. The UK has a clean slate and it can do that. The EU already has treaties; maybe later we can come on to whether or not they are valid. In any event, even if both countries started with a clean slate, that co-operation agreement would have to be respected in the relationship with third countries. That is not practical. I see it maybe in one sector that may be minor.

I will give you an idea. The UK, when it negotiates a treaty with the US, will have to say, "When it comes to cars, it has to be this tariff, because we have agreed with the EU that that is the external tariff". I do not see any other way to avoid the rule of origin between the UK and the EU but to co-ordinate their own external policy, which is what you want to get away from by not being part of the customs union.

If you want to do it sectorally, there is another issue. You are focusing on certain sectors that you think are most important. Funnily enough, those sectors really do not need any help, or at least their cost related to complying with rule of origin is marginal, because of the size of the trade. The bigger the size of the trade, the lower the cost of complying with rule



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of origin. It is a technicality. The rule of origin issue as a cost to traders has a greater effect on sectors that have a smaller size in terms of trade.

Roderick Abbott: I would like to come back to the question. As I understand it, partly you want to know what a customs agreement is, which is what the Prime Minister talked about, and you want to know whether it is possible to have some form of close association to the single market somewhere in the middle between a free trade area and something else. Nobody knows what a custom agreement means because it is a term that nobody uses very much in the trade policy world. Therefore, probably, it was deliberately chosen to be vague, so that it could mean lots of different things to different people.

Personally, I thought it meant a free trade area, because it was related in some way or other to the negotiation that the EU has just had with Canada, which is a kind of model. It may not be completely appropriate for the UK, and I can explain that, but it looked to me as if a customs agreement meant that. It could be anything that has a customs duty component of any kind. Nobody knows what that means, and probably it was used for that purpose.

If you are asking about how you can get a close association to the single market, that is a very difficult question. Technically, I do not know how you do it. The only kind of precedent is the EEA agreement. Here, the non-EU countries—and the UK would now be out and therefore non-EU—are associated with the single market, or members of the single market, depending on what you want to say, but under conditions that I believe the UK would not accept. That seems to be ruled out. What else you can do is the \$64,000 question. I do not know.

I am a trade negotiator professional, and I do not know how you can do this. The rules of origin point is a consequence further down the road, so I do not think that helps you to answer the question. The question of sectoral agreements is a possibility. Could you have a free trade agreement, for example, if that is what a customs agreement means? On goods, it is perfectly straightforward: you recover your trade sovereignty and can set your external tariffs and make your deals with third countries. The problem is with services, because a free trade area is supposed, these days, to cover goods and services. If you are going to cover services, you are back to single market.

Rules of origin is just one possible barrier, but there are all the barriers of the single market regulations. If you are going to enter the EU market, you have to comply with those regulations. That is what people will check on the border. Rules of origin is only an example. There is an argument, and I am quite sure the UK Government will use it, to say, "We the UK have been in the club, the EU, for 40 years. We have established that we are perfectly capable of complying with all of these regulations. We have a very good record, arguably better than anyone else." This is what I would call the continuity argument. If you use that



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argument you could say to the EU, "Why make a great big thing of this? We are perfectly capable of doing this. Perhaps, on a transitional basis for a few years, you could allow us access to the single market, please." Whether they would agree is an open question.

Q1009 Emma Reynolds: I have a very quick follow-up. On that point, that is fine for day one when we leave; we could have regulatory continuity then, but over time there would be regulatory divergence, because obviously the EU legislates and the UK Parliament legislates. Is there any way around that? Would, for example, the Swiss have a certain arrangement on this?

Roderick Abbott: No, I do not think the Swiss thing is going to help you, frankly. You are right that in the early days, after you leave, if you have this Great Repeal Bill, you have moved all EU legislation into British legislation. That is static. The question is, as you say, over time. It will not necessarily be a problem over the next two or three years, but over time, the British legislation will not move in phase with the EU. However, you could have a system where you did that, although that might be difficult to sell domestically.

Q1010 Dominic Raab: Professor Rollo, this month you were cited in *The Economist*, pointing out that the EU of 28 had been a rather slow negotiator of free trade agreements, because of agricultural protectionism. The example that *The Economist* gave was the negotiations or deal with Mercosur, and in particular, as an illustration of the kind of problems, the tariff on oranges. This was specifically designed to protect Spanish farmers, and does not do much for UK farmers, but it inhibits trading partners from opening up markets that British companies would wish to export to.

With that in mind, let us take a half-step back. What do you think are the top three EU external tariffs now in place that the UK might consider cutting on leaving the EU, which would be most likely to persuade non-EU global trading partners to reduce their barriers to trade to UK exports, whether in goods or services?

Professor Rollo: I have not done those sums; let me be very clear on this. The first thing to say is that it will vary from partner to partner. What is relevant for the US may not be relevant for Australia, to take two countries at random. We may have a model agreement for ourselves, and there are certain sorts of things that we might be willing to use as negotiating capital in those sorts of negotiations.

I used oranges as an example. I do not have to tell you this, but when you talk to a journalist, it is not always clear how what you say will come out, and I am not sure that oranges will buy us a huge amount in every market. Nonetheless, it is a product that we, when we joined the EU, had no substantial protection against, because we did not and do not produce it.

Q1011 Dominic Raab: Professor Rollo, I understand it is very difficult. I guess



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I am hoping, in practical terms, to come up with some positive suggestions as to how we might break the deadlock others have had. In the Mercosur deal with the EU, the Presidents of Uruguay, Paraguay and other countries came out and were very critical of the French, Spanish and others around agricultural protectionism. I just wondered, in relation to those markets—and that is a massive Latin American market—what you would say to the UK, if we were trying craftily to get ahead of the game and strike the kind of deal the EU should be able to strike, but failed to. If you are Mercosur, would that not also then help to encourage the EU to perhaps show a bit more flexibility? If you were advising Britain in relation to that specific negotiation and those specific concerns, what would you suggest that we considered cutting in terms of tariffs?

Professor Rollo: I spent a lot of my career trying to encourage people to reform the common agricultural policy in a more liberal direction; I cannot say that there has been a career high for me on that basis. I would generally say that agriculture was an area where my preferences would be to liberalise more than we do now. A number of these tariffs are extremely high: the sheep meat tariff, which is one I use as an example, is around 13%. I think it is a 12.8% ad valorem tariff, plus a tariff of €1,730 per tonne on top of that. That means it is a multiple of the world price. That is a tariff that I would argue we could give up.

Now, the New Zealanders might hate that idea, because they already have free entry on sheep meat through the tariff rate quotas that we would have still, somehow or other, in our schedules. If we give something to the Uruguayans, we might not be able to quite square our position with the New Zealanders in the same way. That is why I say you really have to be case-specific here. I understand what you are driving at, and the principle is correct: we have to look very carefully across where we have current MFN tariffs, and which we would want to protect in a free trade agreement. You are allowed to have some exclusions from the free trade area, and some you would not.

Agriculture is one the EU has chosen to protect down the years. We would not have done so to the same extent, but we now need to find out what the appetite is for agricultural liberalisation at home. I would say that is a point worth remembering: trade policy is a domestic policy.

Q1012 **Dominic Raab:** I appreciate that. My question was about what was most likely to leverage our Latin American partners into saying, "Actually, if you are willing to take that bold step that the Europeans did not—". What would encourage them to open up their markets? You have answered that question, I think. If you or any of the other witnesses had any detailed suggestions, tactically, for UK negotiators, I wondered whether you might consider, with longer time to reflect on it, sending us a submission on that. I am just conscious of the time that we have here.

Do you think there is a basic strategic equation, which would need to be adapted by region and from trading partner to trading partner, where we are more likely to expand access to UK services in a free trade agreement



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and set of negotiations if we discard or dilute the EU's approach to agricultural tariffs? Does anyone disagree with that?

Roderick Abbott: No, I do not disagree with that, but I want to make a couple of points. First of all, as I understand it, the British Government have decided in terms of schedules to replicate the commitments of the EU on behalf of the UK, and that would mean the common external tariff bound level would be taken into these schedules. That is a movement that is already happening. It is not yet formalised, because you cannot do this until you have left, but that is what I understand the Government have decided and they are talking about in Geneva, where this would have to be done. That is the bound level. The schedules are the bound level of tariff. Nothing prevents you from applying a tariff much lower.

The answer to your question is that in future, the UK would have complete freedom to apply any level of tariff on agricultural goods, for example, lower than the bound level, if that is what it wants to do. There are certainly academics who argue for complete unilateral tariff-free policy, particularly in agriculture, but not only there. I do not personally think that will work in the 21st century, but still, there are academics who argue that. Regarding the question about leverage with specific Latin Americans, you would be completely free to offer to have lower tariffs. These would be lower tariffs into the UK market. The question is what they would give you in exchange.

Q1013 **Dominic Raab:** That is exactly the question. Do you think they are more or less likely to be willing to be flexible in key areas of UK market comparative advantage, in terms of our exports to them, if we were willing to take that step? Presumably the question is the extent to which they went.

Roderick Abbott: You are talking about oranges, basically. You would have to look at the dynamics of UK trade with the whole of the Mercosur region, not just Uruguay and Paraguay but also Brazil. You would have to look at the dynamics of that and where the actual trade flows took place.

Dominic Raab: Sorry, but that does not really answer my question. Do you think we are more likely to get them to liberalise tariffs on the exports we wish to make if we are willing to take that step?

Alistair Burt: We sacrifice agriculture and we win elsewhere.

Q1014 **Dominic Raab:** I am not sure I would have put it quite that way, but I take your point. Alistair, you will get a chance to come back in due course. What I am asking is whether there is a strategic equation here for the UK.

Dr Ortino: Can I maybe jump in? If I understand correctly, the question is whether the UK on its own can try to liberalise, say, services in a third country, and can in exchange liberalise other sectors that it previously was not able to, because they were part of the EU. Is that the idea?



Q1015 Dominic Raab: I have to say, I am shocked at the surprise on the faces of our expert witnesses at hearing that we might be considering trade liberalisation in order to further UK exports. That is the basic dynamic. I am trying to work out what UK liberalisation would be most likely to spur greater access for key UK exports.

Roderick Abbott: I am not shocked. I am just thinking about your question.

Professor Rollo: I would hope that that was what we were trying to do.

Q1016 Dominic Raab: I am conscious of time, and the Chair is being very patient with me. Feel free to write back with more detailed strategic advice. I am sure the Committee, and indeed the Government, would be very grateful.

I have one further question, if I can test the patience of the Chair. Professor Abbott, this is to you, given your experience at the WTO. The Brazilian head of the WTO, Roberto Azevêdo, gave an interview to Sky News in October. He said—and I will quote so that I am not accused of skewing the language—“The UK is a member of the WTO today; it will continue to be a member tomorrow. There will be no discontinuity in membership...Trade will not stop, it will continue...But it doesn't mean that we'll have a vacuum or a disruption.” Do you think he is right?

Roderick Abbott: Yes, in a word. In other words, there will be no discontinuity of the UK's membership of the WTO. The UK was a founding member of the GATT in 1947. It has a very good record internationally on trade. There is no question that that is going to be interrupted. What is going to happen—and Roberto Azevêdo has said a number of different things at different times, which has been a bit confusing—is that the UK, in order to maintain its membership once it is out of the EU, has to make a submission of its own commitments. They will extract them from the EU commitments, which at the moment cover the UK and other member states. That is what will happen.

I can say more about that in terms of the process. I do not myself think it is a big affair. It was not a question of somehow coming to a major conference that then decides something. It is not a question where anyone else has a veto. It is a straightforward, pragmatic, business-like process, and I think the UK should be able to control it.

Q1017 Dominic Raab: I have one final question. We have had a wave of international protectionism, probably since the 1990s, and the experience of the Doha round has been rather salutary. I think it is fair to say that a lot of the poorer developing countries, particularly in Africa but in other parts of the world too, feel that the West has adopted double standards. Within the multilateral framework of the WTO, how valuable do you think it would be to have Britain—the fifth-largest economy in the world, a developed country—energetically making the case for trade liberalisation?



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Roderick Abbott: The WTO is at the moment very volatile. The fact that the Doha round has never really taken off, and pretty much collapsed in 2008, is testimony to the fact that it is very volatile. You have the EU and the US and others on the OECD side arguing for continuing liberalisation, and you have China, Brazil and India, particularly those three, arguing on the other side that it is more important now to consolidate and help developing countries who are not integrated into the system. You have this basic stand-off.

With the UK adding itself to the club, you would have the EU, the US and perhaps Japan, Britain and Australia—all those sorts of people—on one side. You would still have the same people on the other side. The key to this is whether you can persuade China, and India to some extent, which are now major diversified economies and very high in the trade league, which is what I deal with, to come back to the original idea of the GATT and the WTO, which is liberalising trade and getting rid of barriers.

Q1018 **Dominic Raab:** I understand that. I wondered whether you think it is more or less likely to happen, and how valuable it would be, to have Britain out of the EU and taking a clear position, as the Prime Minister has said, wanting to be a global leader when it comes to free trade. Obviously, this will be a marathon and not a sprint, but presumably you think it would have a positive effect on the dynamic you are talking about to have Britain making the case for trade liberalisation. That is what China wants; it wants other markets open to it.

Roderick Abbott: There are two areas where Britain could have an influence. One is in the future trade agreements they make, incidentally with people like China, Brazil and India. The other is in the WTO, and there I have told you where the lines are. I do not think the addition of Britain into that club makes a great difference, to be honest. It enlarges the number on one side, and you still have the people on the other side.

Chair: That is a very clear answer, thank you. I think Jeremy Lefroy wanted to come in with a quick question on this point.

Q1019 **Jeremy Lefroy:** I had a rather technical question on the customs union, which came out of a conversation I had with a major company in my constituency. They import machinery made in Tunisia, but they have to import it through France. If they were to import it directly into the UK, it would attract tariffs and so on. However, it is imported into France and then into the UK, and it does not attract tariffs. It seemed to me rather strange, given that there are supposed to be common external tariffs. Are there such anomalies? Are these common, currently, within the EEA and the single market?

Roderick Abbott: I am not sure who is going to answer you. I am not aware of major anomalies like that. Everything is in the common external tariff, including what Jim Rollo has referred to, the tariff rate quotas and so on. Between Tunisia and France, is there some kind of bilateral arrangement? I do not know.



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Dr Ortino: Does the same tariff apply when the machinery goes to France as when the machinery comes straight to the UK?

Q1020 **Jeremy Lefroy:** I understand not. This may be just a small exception because of France's history with Tunisia, but is it not something that could be explored? It seems to me that the whole idea that you have a monolith of a customs union where there are no differential tariffs seems to be breached in this particular case. That is why I wanted your views.

Dr Ortino: The first thing I would do is check whether that is correct, and if that is the case. As you suggest, there may be some old colonial preferences that could play a role, but in general that is not possible. Even in terms of development aid, it would not make a difference whether it is France or the UK; it is the EU. Sometimes you do grant tariff-free access to products coming from certain developing countries on that basis, but there should not be a difference whether it comes to France or to the UK.

Professor Rollo: There are Mediterranean agreements that link the North African countries to the EU, and my understanding is that those should give fairly significant tariff preferences. Those should be collectable, so to speak, at the British border as much as at the French border. I would go with Federico on this: this needs quite a bit of teasing out before we conclude anything from it.

Q1021 **Peter Grant:** I have a question initially for all three of our witnesses. There was an article in *The Guardian* either yesterday or today that suggested that the cost in tariffs of moving straight over to WTO terms for the United Kingdom could be in the region of £1.6 billion per year. Is that a figure that seems credible to you? Have you had a chance to look at that particular analysis?

Professor Rollo: I did not see that particular article, and I do not recognise the number in this, but clearly, if we move from the customs union to something like WTO terms, there will be a cost, where tariffs exist. It is worth remembering for a moment that about 50% of EU tariffs are zero, and well over 50%—nearer 60%—are under 5%. There are quite a lot of areas where there is not a lot of heavy protection. Motor cars are a classic; there is a 10% tariff on the finished good. Agriculture has a lot of very high tariffs hidden in it, although some of it is merely rated by these tariff rate quotas that we hear a lot about.

In general terms, you would expect there to be a fall in trade in these areas where tariffs do apply under MFN terms. There are lots of ways of looking at how to estimate the costs of that. I am not a modeller, so I will not give you a rundown on those, except to say that the other thing that is important in trade policy is always the distributional aspect of it. For everyone who wins, someone loses, and vice versa, in this story.

Roderick Abbott: I already said that if you leave a preferential type of agreement, customs union or free trade area, and go to WTO, there are



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obviously going to be tariffs paid. I have also said that it is perfectly possible to trade under those terms; trade will flow. I have no idea what this would cost, and in a sense that is a misleading kind of figure. If you base yourself on the fact that trade will continue to flow, then everything is possible. This might be in the transitional phase while the UK is still trying to make its preferential deal with the EU; it is perfectly possible.

I do not think you can sensibly calculate what this costs, for the reasons that Jim Rollo has given. You are basing yourself on average tariff levels, which frankly on the industrial side are very, very small, and on the agriculture side they are different but are affected by the TRQs. It is very difficult, really, to make a cost estimate.

Dr Ortino: I would just add that it also depends on the perspective when you say "cost". Is it a cost on, for example, the ultimate consumer, or in terms of lost trade? For example, if you are thinking of lost trade in trade volumes because of the exit from the single market, including the customs union, then tariff would play a role, in that higher tariff may lead to less trade. Then again, there may be trade somewhere else. Also you would have to take into account the impact, as we discussed earlier, on regulatory diversity, standards and compliance.

There may also be a decrease in terms of trade volume, due not to the zero tariff increase or 1% increase, but because now you have to comply with certain standards, particularly when it comes to goods. When it comes to services, it is even more difficult to predict, because there are fewer liberalising obligations under the WTO when it comes to services. There you may even have greater impact, because in many sectors we do not even have a national treatment obligation. You could say, "UK businesses cannot provide services in the EU".

Q1022 Peter Grant: Dr Ortino, when you gave evidence to the International Trade Committee before Christmas, you referred to a potential scenario under WTO terms where the current system of financial support to the agriculture industry may come under scrutiny. I think you suggested that there may be a bit of resistance from trade partners to allowing that to continue. You also mentioned, I think as a scenario that is technically possible, the idea that perhaps at some point an appellate court or other body could start to look at the current regulations we have about genetically modified food. You said it was technically possible that at some point it might become more difficult, certainly for Scotland, to continue to regulate those products in the way we do just now.

Are these simply technical, hypothetically possible scenarios? Is there a real possibility, if we end up out and working under WTO terms, that farm subsidies will either have to be significantly reduced or done away with altogether in order to land the deals that we need? Is it possible that the regulations we have now with regard to GM crops, for example, would have to be weakened in order to strike trade deals elsewhere?



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Dr Ortino: Let me take the second point, which I have to say I am more familiar with. The point about the appellate body, which was a dispute settlement mechanism that functions within the WTO, was raised in the context of being subject to international dispute settlement systems. One of the key policy objectives is to get away from the jurisdiction of the Court of Justice of the European Union. In that context, yes, there would be a possibility that such a dispute settlement mechanism would be called upon and give a decision on whether specific domestic UK legislation contravenes certain WTO rules, like the one on sanitary standards in the SPS agreement.

There are similar cases or decisions to that, and there are more specific standards that you find in the SPS agreement. It all depends on whether future British legislation, say in the area of genetically modified organisms used to produce food, will comply with those WTO-specific standards.

Q1023 **Peter Grant:** If I can come to Professor Rollo now, please, in a paper that you published recently, you speculated that we might see a need for somewhere in the region of 700 people carrying out trade negotiations on behalf of the United Kingdom. I notice that the Government are currently advertising for up to seven trade lawyers and are prepared to take applications from people who have not qualified yet. Are you comfortable that that figure of around 700 is realistic? Is it optimistic or pessimistic?

Professor Rollo: When I did that, no one was thinking about the story at all, and I just did a little bit of scenario-planning. We have to essentially take on all the responsibilities DG Trade and a bit of DG Agriculture have in administering and negotiating trade policy. We will have all the same instruments in front of us. I just asked, "What are the resources being used in Brussels?" There are some economies of scale here in this sense, and we are breaking those. That 700 is roughly the number that DG Trade employs. There are another 200 or thereabouts in Agriculture in international divisions, who might not all be negotiators. Not all of the 700 are negotiators. I think we came out with a number of about 300 or so for potential negotiators.

The plan for international trade seems to me to be moving forward. I thought it might move faster, but I am not criticising it for not moving faster. It is quite a difficult challenge to find the skills and the knowledge, because there are two elements to this. There are lots of negotiators around Whitehall; if I understand politics, a lot of it is about negotiation. Domestically, you negotiate, and it is not very different from negotiating with foreigners, but you need to know about them in a different way, perhaps, and so on. It seems to me that they are building capacity, and in due course we will see where that finishes.

There are some big challenges out there. There are something like 52 or 53 countries where we currently have an FTA through the EU, but will we or will we not have one on Brexit day? What exactly is the status of those? Again, I defer on the legal side, but it suggests that we ought to



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be talking to them. Indeed, I think we are talking to a number of those countries about what might happen on Brexit day, if that is the right term of art for this. The ideal outcome was that we would agree what is sometimes called "grandfathering" of those agreements; we would just take them as a through-train on that day, to use another metaphor. They would apply on Brexit day as they did on the day before. That would be the easiest thing. However, it is not as clear-cut as that for them, I suspect, because they will say, "You are the UK; you are not the EU."

If you think of the EU 28 as 100, we are 15 in terms of the size of our market. That is our GDP share, more or less. The Koreans, for example, who are known to be tough bargainers, might say, "We do not want to do this." It is not in our gift just to run it through. Add to that the fact that there are 92 developing countries with whom we have a generalised system of preferences relationships, which are bound in the WTO. That is currently handled by the EU. We will now have to deal with that ourselves. It seems to me that that is a big diplomatic resource. If we want friends in the WTO, 92 developing countries seems to me a good place to begin.

There are then the countries for which the EU does not yet have agreements, although it is negotiating with a number of them. There is quite a big set of tasks out there, just on scale. I suspect it may have to be built up and move to a cruising speed afterwards. We are going to need quite a few people.

Roderick Abbott: This is my patch, in the sense that I worked 30 years in DG Trade, so I was involved in resources. I have avoided giving any figure in total. When I was asked this question in another Select Committee, I said that you cannot make a total, but what you can say is that you need so many trade negotiators for a particular agreement. The example I gave was that in a simple kind of free trade agreement, of the kind that you may have made with Singapore or Vietnam, you probably would need about 25 people covering the industry, agriculture and everything else. If it is a complicated thing, with a lot of evolved chapters, like Korea or Canada, where I think there are 25 different chapters, you would probably need double that.

What you cannot really say is how long this would take, and how many you are doing in parallel. If you are doing 15 new trade agreements that are evolved, ambitious and comprehensive, you will need a lot more resources.

Q1024 **Jonathan Edwards:** One of the reasons for what has been termed a hard Brexit is the fact that the UK Government have the ability to negotiate their own new trade deals. If you were the Secretary of State for International Trade, and we had left the customs union and the single market, what would be the first trade deal you would want to do? Which bloc or country would it be with?



Roderick Abbott: To be perfectly frank, the first deal you would want to do is with the EU, but that is not under Dr Fox's remit, as far as I understand. What would be the first deal outside? They have to prepare for this in terms of the amount of trade the UK does with each country. I am quite surprised to find that the amount of UK-US and UK-China trade is not that big. Together, I think they are something like 10% of total UK exports. You need to look around the world at where your trade interests are. To some extent you want to replace what you have lost, because when you leave the EU you will no longer benefit from the EU's trade agreements. That seems to be quite clear.

Some of this is replacing those things, like in Korea and Canada, and if you go back, Mexico, South Africa and Chile. There is a whole swathe of African countries in different kinds of partnerships. Some of it is that; some of it is new agreements, which you want because they are important to UK trade. The US is one that people talk about. China clearly would be of interest—maybe of more interest to the UK than to China. India is talked about, and so on. I cannot tell you what they would decide, but it would be based, presumably, on the dynamics of UK trade with that particular partner and the size of it, and perhaps a little bit on the extent to which you are getting friendly noises from the other side. Canada, Australia and New Zealand, the old Commonwealth countries, are giving friendly messages. I come from a mercantile world, where friendly messages do not count for very much, but the noises you are getting from your partners in your preparation phase will influence what you decide to do.

Q1025 **Jonathan Edwards:** Does anyone disagree with the EU being the first priority? Does anyone disagree with that on the panel, or are you quite happy?

Professor Rollo: I would add one more dimension to the question, which is that we are not going to have had a lot of practice at doing trade negotiation. Trade negotiating, if I can put it this way, is a craft. It has to be learned, and it is mainly learned by doing, in this context. That is just like normal diplomacy in a number of ways, but it is a bit more complicated because of all of the detail you will have to master, to understand both what is important to your own country and what is important to the other side. You always have to be in a position where, in a sense, you can argue the other side's case at least as well as they can, to be clear that you understand what you really have at stake.

In the early days you probably do not want to take on anything that is too brutal. I will leave you to speculate what that might be.

Jonathan Edwards: I shall get to that.

Professor Rollo: You should take some lessons from the Chinese. The Chinese, when they started doing free trade agreements, went to talk to the Norwegians and the Swiss, and the Seychelles—sorry, not the Seychelles, but one of the Indian Ocean countries—and so on. They were



learning, and to some extent there is an element of that in it. I know we are all sophisticated people, but nonetheless this is a new game we are playing, and we should be getting good practice. I would probably start out with people like the New Zealanders and Australians to begin with, because they are pretty smart at trade negotiating. We will learn a lot from them by negotiating with them.

Jonathan Edwards: But you would prioritise the EU first.

Professor Rollo: I think pretty well everyone in the Trade Policy Observatory thinks that there is a sequence that goes "WTO; EU; rest of the world," because on day one the EU will still be 45% or 40% of our exports. That is our biggest partner, and they will want to know what deal we have done with them before they can think about what deal they want from us.

Q1026 **Jonathan Edwards:** I am really grateful for that. I was not going to raise this question, but because you raised it, Mr Abbott, I will. You mentioned the 30-odd trade deals that we have across the world at the moment, due to the customs union membership, with 60-odd countries. It is a huge trade volume for the UK. The Secretary of State seems to think that there will be a seamless transition, post Brexit, in terms of adopting those trade deals. Is it your view that it will be seamless, or difficult?

Roderick Abbott: I do not think it is seamless. As Jim Rollo has said, the dynamics of trade between the UK and a partner are not the same as they were between the EU and their partner. It is not seamless in that sense. There is a question or an approach that says, "Why do we not cut and paste from an EU agreement with, let us say, Mexico, which already exists?" You cut and paste; you simply put in all the same clauses. Maybe you change some things, but you basically have the same agreement, and you go to Mexico and say, "How about this?" The question is what answer you are going to get, because this is where dynamics enter into it. As Jim Rollo has said, from a Mexican point of view, they may have been willing to do something for the EU that they are not willing to do just for the UK, because it is a much smaller market. The key here is that the UK on its own, outside the EU, is a much smaller market, in terms of population and consumers, and therefore in a mercantile trade sense it is less interesting.

Q1027 **Jonathan Edwards:** So there could be disruption.

Roderick Abbott: What the Department for International Trade and Liam Fox's people are doing at the moment, as I understand it, is preparing to move as soon as they can, which is when there is an exit. The preparing stage will probably mean informal discussions here and there. They will try to establish whether cut and paste will work, and this kind of thing. They will get a sense of how easy it will be from the partner.

Q1028 **Jonathan Edwards:** We are all working on the assumption, of course,



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based on the UK Government's positions, that they want to do the divorce and the trade deal in one go. The position of the Commission and of their chief negotiator, Barnier, is that they will do the divorce first, and then they will talk about the trade deal. In that scenario, is it conceivable that the first deal might not be the EU trade deal, and that we might do the first trade deal with the US? It is a yes-or-no answer; I do not need an explanation. Say the Commission decides to stick to their current position; we have a divorce, and then the UK is free to do its own international trade deals following the conclusion of the divorce, but then you have protracted negotiations for the EU trade deal. Can you see a situation whereby we might do a trade deal with the US or another country first?

Roderick Abbott: It is a yes-or-no question; I am going to give you a yes and a no. If you can get the negotiation in parallel with the divorce discussion, despite what Barnier says, because that will be a political choice, then you may arrive with the EU first. If you cannot do that, everyone is out, and then I do not know whether it is going to be more difficult with the EU or with the US.

Q1029 **Jonathan Edwards:** If the UK was to conclude a trade deal with the States before concluding the FTA with the EU, are there potential problems? The reason I ask is that I was over in DC last year scrutinising TTIP with the States, and one of the meetings we had was with the agricultural trade lobby. They were playing extreme hardball. They said that they would basically block anything that went through Congress unless they had the standards they had for US food implemented in the EU market. If we did a deal with the States whereby you had US standards for, for instance, food production, would that have an impact on the trade deal we would be able to make with the EU?

Roderick Abbott: I will answer it a different way, because agricultural lobbies in the United States are always against everything, as they are protectionist and defensive. What counts here is the interest in the UK, as opposed to the interest in the EU. In other words, there are partners who will not want to decide exactly what their relationship is with the UK until they know whether that will be an effective portal into the EU. It is the idea of a close association with the single market that we started with. That could be a factor that holds other countries back until they know whether the UK will continue to be a place you can go through with your global value chain, or your investment into the EU. That is the key point.

Q1030 **Jonathan Edwards:** If you will excuse my ignorance on this, does the first trade deal with whoever it is have an impact on the future trade deals you can do, in terms of what you are able to offer at the table in future trade deals? Does the first trade deal bind your hands for future trade deals, or can you offer different terms to different blocs or countries?



Roderick Abbott: That is a good question. If you are aiming, as I understand generally to be the UK's ambition, at free trade agreements with third countries, then the first deal you do will bind your hands in a general sense. It will be free trade across the board. It is the "substantially all the trade" slogan that Jim Rollo mentioned. There is still room within that, perhaps, to have some differentiation between partners. However, a free trade area is a general, generic approach, and once you are going there, you are probably going to offer the same kind of things to the others. The question will be perhaps more on the services side, that kind of thing, where you can have more scope for change.

Q1031 **Jonathan Edwards:** Would you argue, then, that getting that first one right is absolutely key? You have to get that first trade agreement right, because that sets the tone for all future trade agreements?

Roderick Abbott: It is generic; it sets a pattern.

Dr Ortino: To some extent yes, but also no. Just look at the several hundred FTAs. They do not look alike. There are similar provisions in them sometimes, but they do not have to be alike. An FTA mostly provides for a range of possibilities. It may be that if you agree certain things with a country, the next one may say, "We would want to have the same". At that point, there is no obligation for you to give the same treatment, but you could use it as a benchmark. You could say, "We are prepared to give you that, but in exchange you have to give us something else."

In that sense, it provides a range of options for the future. There is no real obligation, particularly when it comes to the UK having to give the same as it has given to the first country. That is my impression.

Roderick Abbott: I would add that if you are looking for ambitious, comprehensive ambitious free trade areas, as I think has been said, you are looking for 95% tariff duty free, which therefore sets a pattern. That does limit your possibilities. With the US, and even with Canada, that is the kind of liberalisation you are aiming at.

Q1032 **Jonathan Edwards:** I will finish with perhaps a more political question. What do you understand of the Trump trade doctrine, and what impact will that have on the future UK-US deal, especially considering that the UK currently enjoys a significant export surplus with the United States?

Roderick Abbott: The straight answer is: very little. I do not understand very much about the Trump trade doctrine, but I will tell you this: nobody knows, because all of his trade people are not yet confirmed. They are not yet in place—neither his USTR, nor his National Trade Council person, nor his negotiators, nor his Commerce Secretary, so you have to wait.

Professor Rollo: I will just make one comment on that. The one thing for the moment that seems to be fairly consistent is that he is talking



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about bilateral agreements, rather than group agreements, if I can put it that way; they are sometimes called multi-regionals. The Trans-Pacific Partnership piece is, apparently, unsigned. He has unsigned that because he does not think it is a good enough deal for the US. That is not surprising, in a way, because to get an agreement across 12 countries, including Japan, requires trade-offs, and essentially everyone does not get everything they want in that story.

From an economic point of view, it is a good way of doing things, because it increase competition across a large number of countries, and therefore you get more efficiency gains from that. By moving to bilaterals, he is clearly maximising the US's political power in that agreement. If you were a Central American in the 2000s and the Americans turned up for negotiations, they dropped their book on your table and more or less said, "Sign here". You might negotiate for three years, but you ended up more or less signing there. He wants to go back to that. If we are at the front of the queue for one of those types of agreement, you can look for some quite hard pounding, and possibly only in one direction.

Craig Mackinlay: I will pick up on what we have heard thus far. We have heard a lot of complications, that it is all very difficult and complicated. What we have not heard is that our EU partners, if we reciprocate to them whatever tariffs are the general external tariffs to the UK, will be facing similar discussions. I hope that German car manufacturers and those elsewhere will be wondering what the UK might do to them, and what this might all mean. We have not really explored all that today. We have heard how difficult it all is for the UK. It particularly needs to be put in its place when we consider we have a huge trade deficit with the EU. This is a two-way street, where everybody wants to get on.

You discuss some of the difficulties of standards. On the day of departure, we are parallel; it is from thereon in, as my colleague over there said, that departure might happen. This must happen in other free trade deals around the world. Think of Mexico's—one that has been quite long-established, and probably one of the best understood. What happens when Mexico decides to do different things for its domestic market? Does it not simply have to comply with what have become broadly international standards? Professor Rollo, you talked about how we only have customs people at the border, and not trading standards. It is trading standards who do the work, and not customs. What do we do with the Apple phone that is made in China, or with my TV? Who checks that? Are there more generalised international standards that are emerging, not particular to the EU, UK, US or wherever else? Are we in reality moving towards international agreements for many of these fairly complex products?

As a second question, I do not know what free trade deals Mexico has, but it must have free trade deals with countries that the EU does not. How do we deal with that sort of supply chain? Obviously, there is a Mexico-US free trade agreement. How do we deal with components



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going from the US to Mexico that then comprise a finished product that comes over to the EU under a free trade arrangement? This is a complicated geometry that happens. People get over it and it works. Is it really as horribly complicated as we are led to believe?

Dr Ortino: Maybe I will take that in reverse order. The latter issue is a classic issue of rule of origin. That US product or part that goes to Mexico may be treated as a Mexican product for purposes of the Mexican-EU FTA, depending on the rule of origin in the Mexican-EU trade agreement. If it fits, if it qualifies, then it will benefit from the preferential agreement. If it does not, it does not, and it has to come through as a US product. That is fairly simple. As you say, it may meet the rule, or it may not. What is the impact? It depends on the tariff. Sometimes, because the tariff preference is so low, businesses may not even bother with trying to get the preference that an FTA may give them. It may cost more to get through the documentation than to pay the 1% tariff that is in place.

The former issue is much more central. Maybe on average, from a global perspective, the question of tariff is not really central. Since the 1970s, the real barriers to trade—not just goods but particularly services—have not been tariffs; they have been the standards, the licensing requirement, the authorisation based on qualification standards. This is for goods and services. It is true there is a certain convergence towards international standards, even business standards.

Q1033 **Craig Mackinlay:** I suppose it comes down to the question: is my Apple phone the same Apple phone that is sold in Australia, Brazil, the US, Canada, the UK and France? Is it the same phone?

Dr Ortino: I do not know the answer. I suspect that mostly it is; maybe it has a different plug.

Roderick Abbott: Let me add one thing. Apple is a good example. There has been a whole development of discussion about whether you should look at the Apple phone or iPad in terms of its origin or the last transaction that it came from. For example, if it was assembled in China it could be regarded as a Chinese product, although it is an Apple product. There is a whole discussion about whether you should not do this in terms of added value, which has been going on in the WTO for the last two or three years. It is an alternative way of determining what the origin and identity of the product is. An Apple product, in terms of its conception and design and everything else, is clearly American. It goes through a series of assembly things that may be all over the world—the global value chain—and at the end of it, it is either going to the US market or another market. There is a whole international discussion about that kind of thing.

However, I want to say to you that international standards are a complicated area. In the WTO, you have two particular agreements that deal with these things. One is called the Technical Barriers to Trade



agreement, TBT, and the other is the SPS, which is the agricultural part. These exist and were part of the result of the Uruguay round in 1995. Therefore, everyone who is a WTO member is obliged to follow those rules. The fact is that they are very generic. It is a matter of, "You should not have more protection than you need", and that kind of general principle.

If you then drill down into the specifics of a product, you are getting into a very complicated area; I am sorry to tell you that. For example, in the EU you have some standards that are set at EU level, and within that you have standards set by the UK, or Germany, or France. There is a very active standards-making body in the UK. These co-exist with standards at the EU level, and the standards at the EU level co-exist with the international level, which is run by the International Organization for Standardization. There is a whole background here that makes life, from our point of view, complicated, and from your point of view also very difficult to deal with.

Q1034 Craig Mackinlay: What I am saying is that a mobile phone is a fairly complex product. It has multiple parts. There must be a standard applying to the chip and the battery and whatever else is in there. I am guessing—but I think I am right—that it is the same phone being sold internationally. We hear a lot about the complexities of when the UK and the EU potentially diverge in terms of different standards post-Brexit. Will that make any difference? It does not seem to make any difference now with what is a very complex product that seems to be the same around the world. I am hearing so much complication, and I am describing one of the most advanced products in the world, and we seem to get over this. This is not a blunt machine tool or an orange, or something far less complex.

Roderick Abbott: The analysis has mostly been in terms of where the global value chain, the assemblies and the final product are, because that is what the import—

Craig Mackinlay: I can understand the difficulties of the point of origin; that is fine. It is the standardisation of product.

Roderick Abbott: I am coming to it. It depends on the standard in the import market you are coming into. You are probably right that an iPhone is an iPhone. It is made wherever it is made, and we discussed the question of how that will be measured. I suspect that it is exactly one product. It is possible for them to make small changes during the value chain, if they needed to, in order to get into China, for example.

Professor Rollo: If I can add one point to this, the complication is less—

Craig Mackinlay: You see where I am coming from. I am hearing so much complication—



Professor Rollo: It is complicated—there is no doubt about that—in terms of the actual nature of the standards. The real question that is being asked at the customs officer's desk is, "How do we know you meet the standard?" It is not what the standard is itself, but how we know that. How do we know you conform? It is the conformity assessment that is the key issue here. We do not have, for example, mutual recognition of testing and certification. This means, for example, in the context of the UK and the EU, that if we had an agreement like that with the EU, we would be in a situation where the EU customs officer would recognise that a certificate issued by the UK's certification body does certify that this product meets EU standards, whatever they are. It is not that it meets the standard, but that it meets the EU standard. It is not a harmonisation issue that is going on here; it is an assessment issue. That is where the complication comes, to the extent that, right across the world: there are different testing and certification processes and so on.

We do not have that inside the EU. When an iPhone enters the EU for the first time, from wherever it comes from—the US or China—in that sense there will be some sort of assessment of that. Once it is inside the EU, it is in free movement. Once we leave, it will not be. If it went to the EU first and then came to us, there would be two transactions rather than one. That would add to costs. That is the key issue.

Those costs are both the costs of the testing and certification, and also the cost of the checking, which may be the time it takes for a lorry to get through, and so on. That is where the complications arise. I do not think you will get away from these. If I were to say, "What will it be like in 10 years' time?" the answer is that we will have done the adjustment. That does not mean there are no adjustment costs. There will be adjustment costs and costs of compliance. As I say, and as Roderick has said, the issue around the standards themselves is complicated enough, but everyone is pushing in the direction of internationally recognised general standards.

Some countries are less enthusiastic about that than others, China and India being two prime examples. We are not going to get very far negotiating with China and India about their standards. The EU and US might have a bit more clout in those arguments, but then we would just be at the tail end of that process. That is another sort of loss: that we are not in the room when the standards are being discussed among the big boys.

Roderick Abbott: Those were key issues under TTIP, which apparently now is either moribund or in the deep freeze somewhere. They were key issues about equivalence of certification and equivalence of the standards themselves. If you could get harmonisation—perhaps a dreadful word—between the UK standards of equivalence and the American ones, you would have the beginning of a global situation that would be very important.



Craig Mackinlay: There was a little discussion about services. I am a chartered accountant in practice still, and my firm does not do this but other firms that I know of do: they will send off the client's records electronically to India, and youngsters in Bangalore will do whatever they have to do with those books of records and send them back as a set of UK accounts. That is a services transaction that happens massively across the UK, completely unregulated. It does not need any rules; it just happens. Is that not the reality of quite a lot of service transactions? There is no free trade agreement between India and the UK on services, and yet these transactions are happening on a daily basis. It might be websites designed in India, or accounts put together, or a variety of other things. Is this not the reality of the new digital world, rather than the complications we hear a lot about?

Roderick Abbott: I have said already that a free trade agreement is more effective on goods than on services. In the WTO, you have the WTO itself, which is a series of agreements on goods, and you have the GATS. The GATS does not give you any right of access. It controls things in terms of everybody who is a provider of services being treated the same way as everybody else. It is the MFN rule and national treatment rule: you should not be treated worse than a domestic supplier. The whole thing in services is, first of all, very intangible. It is the way in which you treat the providers.

A lot of what you say is correct: there are service transactions going on between the UK and India, for example. There is no specific control on much of that, other than in some cases under single market regulation. It is not the example you are giving, but if you are talking about professional qualifications of doctors, architects and so on, that is controlled in the single market context. There are other transactions, especially in the financial services field, that are also very much controlled. The example you are giving, which is more or less an accounting type of thing, is probably—

Q1035 **Craig Mackinlay:** If you went online today you would find website providers who build you a website in India overnight.

Roderick Abbott: Yes. That is not particularly controlled within the single market. Whether the UK has any controls, I do not know.

Dr Ortino: It is about the extent of regulation. There may be certain activities, particularly online ones, that are totally unregulated. However, there may also be regulation in terms of data protection, just to give you one. There may be certain issues that will be regulated in the future. It is not 100% sure that things that are not regulated today will not be regulated tomorrow. The financial crisis shows how certain things went totally unregulated and then, given the problems with it, they did attract some form of regulation. In that sense, you can never be sure unless you bind in an international trade agreement what form the future regulation may take.



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Professor Rollo: If I might make one other small point, what you were talking about there was an Indian export. It is very unusual to get export control. Sometimes that happens, particularly in commodities, but not usually in complex processes or manufactures. That is an area where you would expect the Indians not to get in the way. The question is whether we are getting in the way. Another point to remember is that trade policy is a domestic policy. It is what we do that we have control over. For anything else, we have to negotiate. The question then is whether we are stopping it, and if we are stopping it, that is well within the control of the UK.

Q1036 **Mark Durkan:** On Northern Ireland, the Prime Minister and various Government Ministers say that they are going to work with the Irish Government and the Executive in Northern Ireland, whenever it comes back, to make sure the land border in Ireland will be as seamless and frictionless as possible. It is a constantly repeated phrase. When you hear that, do you understand that to mean that the land border arrangements in Ireland will be especially seamless and frictionless, over and beyond wider arrangements, or do you see that as being that the land border will be a particular example of how seamless and frictionless the UK hopes their negotiated wider customs and border arrangements with the EU will be?

Roderick Abbott: If you are asking me, I would say I am a trade policy and trade negotiator professional. I do not determine where borders are or what crosses in each direction. I have to deal with that as items crossing the border. In other words, this is more of a political question, which I will defer to my colleagues.

Q1037 **Mark Durkan:** It is on the wider question of seamlessness and frictionlessness that has been talked about. When they address this with particular reference to Northern Ireland, do you see that particular arrangements can be made there, or do you just see that as an example of the wider arrangement?

Dr Ortino: It will not be able to be the same as it is now; that is for sure. At the same time, it depends what kind of problems you envisage for certain things that cross the border. If you are thinking of individuals crossing the border, that could remain as seamless as one could want. If you talk about products moving from one place to another, probably that will somehow not be possible. Say the UK is out of the EU and there is no customs union. You cannot have the Ireland-Northern Ireland border as a free entry into the common market; there has to be some control. It may be applicable to products such as big shipments. Maybe there will not be any checking if you have the classic trade where an individual goes to a shop in Ireland and buys and then moves back home; that might not be subject to anything. There may be those kinds of arrangements where you are free to do that. However, when it comes to actual trade, with products moving from outside the market to inside the market, I am sure that cannot be seamless.



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Professor Rollo: I am not sure I have much to add here. I have to say that, with the whole issue of border crossings, we know more about what happens in Africa than we know about what happens in the UK at the moment. We are looking for some money to start investigating some of these issues, because research does not come for free, unfortunately. Until we get that, there is not a lot of room for manoeuvre. One thing we do know as an example is simply that with regards to the EEA—the European Economic Area—the Swedes had a look at what happens at their border with the Norwegians and were surprised to find how much more onerous the barriers were than under the customs union inside the EU members. That is about delays and so on.

Since a lot of Irish exports to the UK are food-related, with meat and other issues, there are some quite stiff checks if we end up at the MFN trade end of the spectrum. I have been told by people in the meat trade that something like 50% of lorries have to be looked at as they cross the border. Just how onerous that is particularly needs to be assessed, but that in itself suggests there could be delays, and a hard border would indeed be that. There might be some gee-whiz electronics that can be applied in the situation to monitor these things going through, but if they have to look at carcasses or whatever it is that are being moved, then they have to look; someone has to stop it and open the door and say, “Yes, that is what it is”, and so on. It is quite a complicated area.

Q1038 **Mark Durkan:** Mr Abbott, you distinguished between matters that are political and matters that are then legal, technical and operational. In political terms there are pre-standing agreements, for instance, that treat the island of Ireland as a space in terms of trade and business development. One of the areas of co-operation under the Good Friday Agreement is the promotion of trade and business on an all-island and cross-border basis, and the enhancement of the global competitiveness of the all-island economy to the mutual benefit of north and south. Of course, that agreement is there not just between north and south in Ireland, but between Britain and Ireland, and it is supported and recognised by the EU.

In that context, would there be particular WTO difficulties if there were understandings, at least for certain sectors, or businesses with certain volumes, that the island of Ireland could be treated in effect as one space to enjoy equivalence with what happens at the moment?

Roderick Abbott: What I said was that I am a trade professional, so I am not a professional in the politics, but of course I am aware of the politics of Northern Ireland and Ireland. In any final deal between the UK and the EU, probably on the divorce side, there would have to be some kind of protocol dealing with this, because as you say, and as I know perfectly well, there has been continuity of movement from north to south and vice versa ever since 1916. There would have to be some kind of a protocol in whatever final UK-EU agreement emerges under Article 50. As to whether it would go into that sort of detail in terms of specific sectoral arrangements, that is looking too far forward. If the



arrangement is not the same as it is between the EU and the UK, if there is some variation, you might be looking at some kind of a waiver—in the WTO, we talk about waivers. This means that you are not actually compliant with something, but you get away with it. This is perhaps a unique situation that may require a unique solution.

Q1039 Mark Durkan: If, for want of another term, the idea of Northern Ireland being able to enjoy a lean-to arrangement with the south in terms of certain EU accesses was agreed between the UK and Ireland, and possibly agreed and supported by the EU as well, would there be a WTO problem with that?

Roderick Abbott: The first thing is: what would be the nature of this close association between the UK and EU and the single market? Maybe that would be close enough to solve much of the problem, although there is always going to be a problem with immigration of people. In the WTO, this is further away. I do not believe this is going to be a big issue in the WTO. In the WTO, the UK would have made its proposals for its schedule and its commitments and you could get some sorts of questions about whether it is consistent with a free trade area and that sort of thing, but that is not going to be a problem.

Professor Rollo: There must be an element of choice here. The issue comes down to the immigration issue. The requirement for a hard border could probably be managed in a free trade area of most descriptions as long as food and agriculture were inside that. There are significant tariffs in the UK schedule, as it would be on agricultural goods and also the Irish facing us if we were a third country, so getting rid of those would be an important point to keeping that border open. It is how the movement of EU nationals in and out of Northern Ireland was managed, or whether the border for individuals was moved to Belfast Airport—issues like that.

Q1040 Mark Durkan: I was trying to stick to our theme of trade, and this aspect of the operability of whatever the trade border may or may not be in the future. You made reference to, in the agricultural sector and the movement of meat, the value chain in Ireland moving around north and south of the border. Stuff goes to the south to be processed, and then it comes back again, and vice versa. It does not just go one way, and it is not contained to the island of Ireland. In discussions, the Irish Government has been running an all-island civic dialogue in relation to the implications of Brexit in 14 sectoral meetings, and there was a further plenary meeting in Dublin on Friday. There are particular concerns coming through at a number of levels about the trade implications, and there are concerns that this phrase, “a seamless and frictionless border”, gets drained of meaning with more repetition without any examples of what it may mean.

My concern is to try to understand whether there could be a particularly seamless and frictionless context that can be visible on the Irish border over and beyond what will be achieved between the UK and the EU in general, particularly consistent with the Good Friday Agreement and the



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fact that strand 2 is about north-south and all-island and is supported by the EU. It was to see whether there was any particular principle or practice around trading operations that would stand in the way of such a political agreement being translated into practice.

Dr Ortino: I am not familiar with the details of the Good Friday Agreement in terms of the business and commercial relations, but in the WTO at the minimum you would need an FTA between the UK and the EU. If you had an FTA within that agreement, you would get at least the compatibility with the general non-discrimination principle that you have in WTO law. Outside an FTA agreement, it would be difficult for any specific deal to try to grant some preferences in terms of the trade between Northern Ireland and Ireland. It would have to come under a waiver or a specific derogation. That is possible. It certainly is more difficult than many of those waivers that are being given by the entire membership of the WTO. Maybe in light of the circumstances, and maybe subject to some limitations, that may be possible. In terms of the WTO perspective, you would have to have a trade agreement between the EU and the UK, and in that agreement you can maybe try to find adjustment in terms of the trade relations in line with the Good Friday Agreement.

Q1041 **Mark Durkan:** Anticipating the negotiations, were any of you able to note that whenever Michel Barnier made his first speech in relation to his role, he personally volunteered a particular personal attention to the position of Northern Ireland because of his previous experience with the peace process and negotiating, especially with new programmes, funding, etc, in relation to supporting the Good Friday Agreement? Do you think it would be a possibility that, in relation to this question of negotiating the divorce first and the future relationship afterwards, there may be some room to explore with Michel Barnier whether or not he is prepared to acknowledge now that part of the future framework for the relationship between the UK and the EU should specifically acknowledge the Good Friday Agreement as one of the features of that future relationship?

Dr Ortino: Article 50, detailing to some extent the process of exiting the EU, specifically made reference to the withdrawal agreement having to take into account the future framework. It is perfectly legitimate and everybody expects that, if there is a political willingness to have a future trade agreement, there are certainly some lines that may already be decided and this could be one of them, with no specific details, but at least a political agreement or willingness to find those details.

Q1042 **Mr Pat McFadden:** Thank you for your evidence this morning. The Government have set out two potential futures for us, in terms of the future trade relationship between the UK and the EU. The preferred option is a free trade agreement, which is what they will try to negotiate. The Prime Minister has also said, "No deal is better than a bad deal", which most people take to mean trading on the basis of WTO rules. I just want to take you through and ask you to take us through what this might mean for UK-EU trade. Let us begin with the tariff situation. Some



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voices in Parliament think that there is no problem with trading under WTO rules, and that really we do not need to be negotiating all of this and we should be quite relaxed about it. Those voices will increase in volume if there is an early heated argument between the UK and the EU about the divorce Bill, and people will be saying, "This is not worth the candle".

In that context, take us through this. Let us start with tariffs. I appreciate we are going to come to non-tariffs after this but what, in practical terms, from the point of view of the British economy and British industry, is the difference between a free trade agreement negotiated between the UK and the EU and a WTO regime in terms of tariffs and trade of goods?

Roderick Abbott: The major difference is that if you do not have a free trade agreement with the EU, you have no preferential arrangement. If you have an FTA you have a preferential arrangement where you have duty-free trade between both sides. If you do not have that, you are living on the MFN rates, which, in practical terms, is the bound rates of the EU if you are talking about exports, and whatever the UK puts in place for its commitments if you are thinking of UK imports.

Q1043 **Mr Pat McFadden:** Give us an example of what that would mean.

Roderick Abbott: We have had the example quoted of cars. The tariff of the EU at the moment is 10%. If the UK proceeds to replicate that in its own commitments, its bound tariff in the WTO will be also 10%. It is possible to apply a rate below that if you wanted to, but then you have to apply it to everybody. I am a professional and I do not think that 10% is very high. The media attention has suggested that 10% is so high it is an insuperable barrier. If you look around the world, 10% is pretty low. You do not have to look much further than India, where some tariffs are in two or even three digits. As I have said already, trade will flow across the MFN rates, which would be the case that we are talking about.

Q1044 **Mr Pat McFadden:** At 10%, a car that costs £20,000 at retail price exported to the rest of the EU would cost £22,000 for the EU consumer to buy if that car is made in the UK. Is that how we should understand it?

Roderick Abbott: The price in the market is determined by the producer, not by the tariff. If it was 10% on £20,000 then yes, but you might decide to pay your tariff of £2,000 at the border but you might on the market make it less, to keep your share of the market, and therefore have less profit in there.

Dr Ortino: A further layer of complication is that if the 10% tariff may be imposed, you may decide to transfer part of the car manufacturing business to the target market. That depends whether it is convenient, but the 10% tariff may lead you to do that. It may not be the entire manufacturing; it might be part of it, so that it will be seen to remain a local EU car after Brexit, although maybe 40% of it has been produced or manufactured in the UK, partly because some parts of the final product



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may be subject to a lower tariff as they are in the schedule. It simply may add a complication. It depends on the nature of the product. If it is an agricultural product there may not be much in terms of production but there will be a further layer of complexity in the impact that a higher tariff may have on the production of the final product.

Q1045 Mr Pat McFadden: A rational response to the tariff is to shift the production to a tariff-free area.

Dr Ortino: Maybe. Maybe not.

Professor Rollo: There is an increased incentive to do that. Nothing is a given in this. People do complex calculations on it. One notes that the Nissan deal seems to be around the question of whether a particular model would be produced here or not. Whatever is in that deal that gives that incentive, that demonstrates that, at least for the Japanese, they thought there was a choice here about how to do it.

Let me make two other points. The first one is the tariff does not apply at the level of the retail price. It applies at the import price into the particular market. Because of all the marketing and sales cost and all the rest of it, the £20,000 that it retails for may mean that it goes into trade at £15,000 or something like that. Those are just illustrative numbers.

The second one is the point that Federico picked up on: there are lower tariffs also in the system on automobiles on parts. It is a complicated question about what happens in value chains as these parts whizz backwards and forwards, embedded in more and more complex manufactured outputs. There is an 8% tariff, from memory, on gearboxes. If that gearbox crosses an EU border three times, for the moment that does not incur any tariffs but it might incur that 8% each time it goes across if we were under MFN terms. This is all to be explored. I am not saying this is absolutely how it might be but you hear stories about things crossing EU borders 10 or 11 times. Maybe you could do all of it in one place and not incur the charges. There is a whole spectrum of choices that might go on there.

Q1046 Mr Pat McFadden: You mention Nissan there; the Chief Executive told French magazine *Le Point* last week, "What we have made is European investment, not British, based in Britain ... If walls are erected between the EU and Britain, investments will be reduced." That is the Chief Executive's verdict on the potential situation.

I want to move to non-tariff barriers because a particular strength of the UK economy is services. We want to export more services. Again, if I can begin with you, Mr Abbott, trading on a WTO basis, what are the implications for non-tariff barriers and the export of services? Can you just explain the difference between an FTA that tries to cover some of those—you said FTAs mainly cover goods—and the WTO rules on this?

Roderick Abbott: The WTO rules on services are in the GATS, which is the General Agreement on Trade in Services. I have said already that



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this is at the level of general conduct and general principles. You have most-favoured-nation treatment where any supplier of services is treated the same as any other, and national treatment, which means you are treated the same as any domestic supplier. Those are broad general principles. There is no commitment in the GATS to access. There are protocols to the GATS that deal with areas like telecommunications and financial services, which are again about conduct rather than access. There is no access change in WTO terms for being outside. This is where the single market kicks in, because the single market has lots of regulations that deal with the area of trade in services.

Q1047 Mr Pat McFadden: What has been the effect of these rules on our capacity to trade with countries with which we enjoy no FTA at the moment? I am thinking of India, China and so on, where our trade relative to the size of those economies has been quite small. For example, we trade more with Ireland than we do with China. Is that partly because of the difficulty of exporting services to these countries?

Roderick Abbott: I have not done any study on this; I do not know if my colleagues have. I would answer slightly differently. There is no doubt that the UK record of export of services is much better than it is on export of goods in terms of competitiveness. In terms of goods, the UK is struggling to stay abreast of Germany—it is not abreast of Germany; it is not as big—and to stay abreast of France, the Netherlands, Italy and so forth on goods. On services, the British are way up in terms of productivity. They are doing very well on services, coming in the top two or three after the US and Germany and ahead of Japan. I give you that as a measure of competitiveness but I cannot tell you anything about specifics in India or other markets.

Q1048 Mr Pat McFadden: If I could complete my questions to you on the impact of trading on WTO rules, I would like to ask about enforcement. What are the enforcement mechanisms in the WTO compared to an FTA for, say, a business, not a Government, that thinks, “This trade has not been fair” or “These rules have been transgressed” and so on? The context of the question of course is the enforcement mechanism for the single market is the ECJ, but the Government have set as a red line on the negotiations no ECJ jurisdiction in the UK in the future.

Roderick Abbott: Enforcement in the WTO includes a Dispute Settlement Understanding. It was part of the results of the Uruguay round 1995, and it is generally thought that this moved things forward from a political compromise situation, which had existed before, to something that is much more judicial and much more structured in the way that it works. The business people would have no access to this. It is only Governments that can launch a dispute in the WTO.

Q1049 Mr Pat McFadden: An individual business has no access to the WTO enforcement?



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Roderick Abbott: No, it has to go through a Government. The WTO is an intergovernmental treaty and a body of Governments. Businesses have to go through their Government, which will then make a complaint. The nature of this is the enforcement is largely done by the complaint mechanism. If you think you are being badly treated, contrary to the rules, you make your dispute. You go to a consultation first and so on, all through the process. It is usually triggered by a complaint by someone who thinks they are badly treated. There might be one exception, maybe more, which is a free trade area. When you have a free trade area you notify the WTO and you go through a process of checking that you have met the rules. The rules are that substantially all trade has to be covered by the agreement. That has caused problems in the past because there have been FTAs with no agriculture content. What happens? It tends to get into a stand-off. In other words, when you are looking at a free trade area, the enforcement is not always that rigorous—I am being very straightforward—because the members who have to judge do not reach agreement. You have members who support the agreement and you have members who do not and usually there is a stand-off. I am being very straightforward.

Dr Ortino: To go back to your general question, on the difference between an FTA and if we go back to WTO, particularly when it comes to non-tariff barriers and particularly if you talk about services the difference between a WTO world and one with an FTA is very marginal, almost non-existent compared with a world of a single market. This is due to the fact that outside the single market we have not been able to liberalise trade in services, particularly when it comes to, where it is relevant, non-tariff barriers. Look at even the most ambitious FTAs, such as Canada. What that gives in terms of the commitment in financial services in CETA is very marginal, with the exception of some countries within the EU that have actually included a larger set of financial services, such as Cyprus and Malta. Overall, it is not much different from what you get from the GATS schedule of WTO members.

Q1050 **Mr Pat McFadden:** Thinking of this as a spectrum of services you have WTO and an FTA, between which there is not much difference. The big difference is between both of those and a single market.

Dr Ortino: Yes. It does not mean that an FTA could not get there or closer to the single market area. It is possible. It is legal and would be legal under the WTO but as a matter of fact we have not been able to do that.

Q1051 **Alistair Burt:** You know an awful lot about that. To your knowledge, did anyone representing the Leave campaign, or any significant figures from the Leave campaign, actually come to talk to you before the referendum about the complexities of trade policy, should they win the referendum?

Roderick Abbott: To me?

Alistair Burt: To all three of you and in the observatory.



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Roderick Abbott: I have to say yes, but it was a long time ago. It could have been 2014. I had some contact from parliamentary assistants of certain MPs. I did not know at the time, but it turned out that they were on the Leave side. That was a long time ago. If you are talking 2016 and the campaign period, no.

Q1052 **Alistair Burt:** You cannot recall any conversations with yourselves with the kind of in-depth explanations that you might need to understand the consequences of your actions? Of course, there are other people that they might have gone to.

Roderick Abbott: I certainly had no conversations with frankly anyone in London, whether they were Leave or Remain or Government.

Q1053 **Alistair Burt:** On a scale of 1 to 10, what do you think the chances are of actually achieving a negotiated deal with the EU in the two years set out by Article 50?

Professor Rollo: Covering what?

Alistair Burt: Covering what it is we need to, which is firstly the terms of our leaving which must be done within two years and to make a sufficient stab at the future relationship, which is bound up in negotiations.

Roderick Abbott: Dr Ortino and I have answered this already in the other Select Committee, in the sense that we said it depends on what you are looking for. If you are looking for a simple framework kind of agreement, which could be a simple FTA type of thing, with not too much services involved, then maybe that could be done in that period. The overriding question is whether it will be in parallel or not. I have noticed, apart from the other things that I have seen, Juncker has recently said something like there may be a need for more than two years just to solve the Article 50 process. We are facing a target that is moving all the time. I would not rule out that it would take more than two years to just do that, and then you have the question of whether trade is in parallel or not.

Q1054 **Alistair Burt:** If that is the case, then obviously a transitional agreement becomes very important. I notice from the submission you put in you talk about maybe 100 new trade agreements to be agreed, 38 different national Parliaments involved in negotiating a new arrangement. In your mind, is a transitional agreement to give business and services the time they need to put in place the changes that have already been agreed by the negotiations? Is a transitional agreement a period of time during which the negotiations could continue if the parties wish? Is it a combination of both?

Professor Rollo: I would argue it is a combination of both. When we joined what was then the EC, we had a five-year transition to implement the changes. We did them in five equal jumps for tariffs to close the gap. I was engaged in the Ministry of Agriculture at that time. We had a lot of work on changing the pricing of agriculture, and that was done year by



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year. That arguably will be needed now. That is not the most complicating or pressing issue. The pressing issue is how we find the time to negotiate without stopping trade or reducing trade by collapsing to WTO terms on Brexit day, if that is the right term.

It seems to me we need time in between Brexit day and the introduction of the new agreement to negotiate that agreement. I cannot see it being negotiated in detail even for quite a simple FTA, potentially. If agriculture is involved in it, for example, there will be a lot of complicated stories around TRQs and what our WTO terms are going to be before we even get to what our EU terms are going to be.

We actually said in November, in a paper I was a joint author of, that we thought there might be a need for pretty well rolling forward the status quo for a fixed term. How you make sure that is a fixed term is a very interesting political question. Why the status quo? Because if it is not the status quo, it turns out to be a third type of agreement that we are going to have, a transition one that is different from the final agreement and is different from WTO terms. We start having negotiations about negotiations about negotiations against that background.

Q1055 Alistair Burt: Does this not suggest that at some stage people both in the UK and the EU throw up their hands and say, "We cannot do this", and actually the simplest thing is to default to the WTO and start to prepare people for that?

Roderick Abbott: That is a bit of a counsel of despair. I see transition not quite the same way. I see it being the result of either of two things. Either you have tried to make a trade agreement but you have not got it in the time you are allowed or, if it is not done in parallel, you cannot start until you reach the end of Article 50 and you are on the cliff edge. I see transition as being not so much something that allows time for everyone to make adjustments, although that may also be needed. I see it as a transition simply that at a cliff-edge you drop down to the bottom but you need something that is going to regulate UK-EU trade for the next period, whatever that is. Either of those situations could arise and some form of transition might be required.

If it is the WTO process that I have described of the UK making its commitments pretty much the same as the EU ones, you have some kind of basis at that level. Of course that can vary in terms of the actual applied rates and so on. There is not really a single answer you can have but transition may well be required because we may well be in one of those situations.

Dr Ortino: This is all a choice. Starting with the presumption that there is not a great difference between an FTA or a WTO scenario, which would happen if you had Brexit without a trade agreement—you would go back to the WTO—there would be costs, particularly where tariffs are relevant, but how great they would be is difficult to tell. If those costs are on the scale not as great as being part of the Union for more than another two



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years you would take those costs. Ideally, from my perspective, one of the first things I would do is have a timetable that is feasible agreed with the EU. It might be five or 10 years; I do not know what is feasible. That is one of the first things I would do: lay out a timetable for all parties to reach an agreement. That will have the effect of extending the status quo, which is in a way an easier transitional arrangement because you do not have to create anything; it is there. Whether that is politically feasible I cannot tell.

Q1056 Jeremy Lefroy: Coming back to the question of borders, particularly Ireland but more generally, Professor Rollo talked about standards being around assessment and the importance of that almost more than tariffs. The main aspects of the checking of goods from my experience are, first, that they are what they are, some kind of phytosanitary checks if they are agricultural produce, and other types if they are other manufactured goods. For security reasons, would not the best way be to have effectively very, very soft or invisible borders not only within the island of Ireland but also with the rest of the EU, and concentrate much more on those assessment checks, whether it is the end user, a factory, a supermarket, or whatever it is, rather than at the border? Would that be a feasible way of dealing with things certainly from the UK's point of view and the EU's point of view? It means you are not stopping or spending a lot of time at the border; you are dealing with pre-registration of exports.

For instance, when I was exporting to the US, we had to pre-register the goods with container numbers and so on, and that would mean less disturbance at the border, and then there would be post-import assessment by the various authorities, whether it is phytosanitary, trading standards or, in cases of security problems, police or potentially customs.

Roderick Abbott: The essential negotiation between the UK and the EU will not be about standards. The EU will approach this as, "We have got our standards; we have got our single market regulations. If you want to discuss whether you adopt those and have a continuity and so forth, that is up to you. On our side, we are not putting forward a negotiation about our standards."

Q1057 Jeremy Lefroy: I am assuming that we are going to have to continue to accept those standards. It is about how you deal with the movement of goods in conformity with those standards and whether you do it at the border or by other types of import.

Roderick Abbott: My second point would be what actually happens at the border? The whole of our discussion has been a little bit as if the only thing that customs people do at the border is apply the tariff. Maybe they also apply rules of origin and checks of that kind, but this is very far from being the whole picture. Customs people at the border are increasingly—I am talking about EU experience—enforcing other legislation, whether it is about terrorism, dangerous goods that are dangerous for consumers, narcotics or whatever it is, they are enforcing



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other legislation that is not really trade legislation. You have a customs border force and they exist in every country because there is no EU customs force. They are enforcing legislation, some of which is EU legislation, some of which is national, which goes way beyond trade.

Incidentally, much of this is not even at the border. These days it is all done electronically by some form of customs centre where you submit your documentation for pre-registration and then you are either subject to some kind of random check if they want to check something or you are not. It is a much more complicated picture than perhaps we have been dealing with in the discussion we have had. Standards is not the key to this. The key is the very first question we had: how can you get a close association to the single market in terms of some deal where the EU accepts that you are able to pragmatically comply with single market regulations as you have in the last 30 or 40 years?

This is the continuity argument that I referred to. That is the key kind of point. How it will play out is at this stage anybody's guess. Technically, it is quite difficult for me as a professional to see exactly how you do this because you run into problems over whether you are complaint with the WTO on the FTA side and so forth. You run into problems that are to do with discrimination in favour of one country rather than another. It is technically difficult but this is not going to be a technical negotiation; this is going to be a political negotiation.

Q1058 Jeremy Lefroy: At the moment, would goods travelling around the EEA or EU be subject to those kinds of checks that you were talking about, i.e. the non-tariff, security or dangerous goods checks? You may get goods travelling between, say, France and Germany that would be checked.

Roderick Abbott: Yes, if there is legislation about dangerous goods—for example, the composition of goods—or if there is legislation of other kinds that are enforced at the borders then yes, those checks will be made. On the trade side, you come back to single market regulations.

Chair: Thank you very much indeed. You said a moment ago, Mr Abbott, that how this will play out is anybody's guess, which seems to me to be a pretty fair point on which to end our deliberations today. I want to thank you on behalf of the Committee, because you certainly illuminated the complexity, the uncertainty and the range of issues that are going to have to be addressed in these negotiations. For that, we are extremely grateful. Thank you for coming.