

International Trade Committee

Oral evidence: UK trade negotiations, HC 233

Wednesday 8 July 2020

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Members present: Angus Brendan MacNeil (Chair); Robert Courts; Mark Garnier; Sir Mark Hendrick; Mark Menzies; Taiwo Owatemi; Martin Vickers; Mick Whitley.

Questions 100 - 132

Witnesses

I: Jappe Eckhardt, Senior Lecturer in International Political Economy, University of York, Dr Anna Jerzewska, independent customs and trade consultant, UK Trade Policy Observatory, and Professor Christopher Dent, Professor in Economics and International Business, Edge Hill University.

II: Ian Howells, Senior Vice President, Honda Motor Europe, Antony Walker, Deputy CEO, techUK, and Mike Cherry OBE, National Chair, Federation of Small Businesses.



Examination of witnesses

Witnesses: Jappe Eckhardt, Dr Anna Jerzewska and Professor Christopher Dent.

Q100 **Chair:** Good morning and welcome to this meeting on free trade agreements, particularly with Japan. This is our third hearing. We have two panels today and three witnesses in each panel. Can I ask the first panel to introduce themselves, in no particular order of seniority but all in order of fineness and brilliance to be in front of this Committee?

Jappe Eckhardt: Good afternoon everyone. I am a senior lecturer in international political economy at the University of York, researching on trade policy for many years and very happy to be here. Thank you.

Chair: Dr Anna Jerzewska, and can I ask you to introduce yourself and with more correct pronunciation as well, please?

Dr Jerzewska: Your pronunciation was fantastic. I am a trade and customs consultant based here in Geneva, working for the International Trade Centre and for a number of private and public sector clients back in London. I am also a UKTPO associate fellow.

Chair: Thank you very much. It is good to see you here again at the Committee. Finally, Professor Christopher Dent.

Professor Dent: Thank you, Angus. My name is Professor Christopher Dent, Edge Hill University. I am an expert in FTAs and the Asia-Pacific region generally.

Q101 **Chair:** Excellent. Thank you all for coming along today. We have been quite immersed lately, as you can imagine, with America's FTA talk so it is almost a liberation to go and look somewhere else.

A question to you all, to start scene setting. Can you briefly describe the nature of the UK and Japan's bilateral trading relationship at the moment and the role of an agreement with Japan within the Government's wider trade strategy?

Dr Jerzewska: This is an important relationship. Japan is the UK's fourth largest non-EU trading partner. It is an important agreement. We obviously have an agreement with Japan, so this agreement is more about minimising the impact of losing the agreement that we already have and maintaining the current terms of trade as much as possible. None the less, it is an important agreement, for example just for the pure reason that Japan is one of the CPTPP members, an agreement that according to the UK Government is one of our strategic priorities and strategic goals going forward. It is also an important agreement for Japanese investors and Japanese manufacturers, who have invested heavily in the UK as a gateway to the EU and now, potentially, their supply chains are impacted because of that. That is one of the reasons why Japan, having been initially quite reluctant to sign an agreement with the UK before the agreement with the EU has been settled and sorted out, has now decided to change its mind.



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One important point of scene setting is that this agreement probably should not be looked at from the same perspective, is not in the same category of agreement, as the agreements with the US, Australia, New Zealand and so on. Towards the end of last year, Japan and the UK expressed an interest in signing a comprehensive new, ambitious trade deal. This will not be this trade deal. This is the deal that we did not sign last year. This is a continuity agreement, the last kind of rollover agreement that we have not signed—not the last one but one of the deals that we have not signed so far. The main reason for that, obviously, is time.

I think last time I was in front of this Committee we talked about the fact that it takes a while to negotiate a trade agreement. We were wondering whether one year is enough. Six weeks is really not enough. Even the Japan-US trade deal that was, first, limited in scope and, secondly, was a bit of a “sign on the dotted line” type of agreement for Japan took six months. Six weeks is just about as much time as we need to copy and paste the majority of the deal with the EU and add some of the provisions that both sides are on board with, or are happy to include, such as digital trade provisions. That is not the main point, but it is going to be a very limited rollover agreement, a continuity agreement rather than this new comprehensive deal that we were supposed to sign.

Q102 **Chair:** Thank you. Christopher Dent, can I get your view?

Professor Dent: There is a very strong investment dimension to this agreement, and also a very heavy service dimension, which I can go into later. I wanted to raise the point that there are important comparative regional, strategic, and geopolitical context factors that are playing very heavily in the background to this agreement.

There is a lot that binds the UK and Japan together. Both have a somewhat ambiguous relationship with their respective continental landmass economies, Europe in the UK’s case and east Asia in Japan’s case. Both are large island economies, globally connected but caught between a continental regional identity and the very significant economic gravitational pull of the core regional economies to which they belong. At the same time, both have strong oceanic alignments with the US, trans-Atlantic in Britain’s case and trans-Pacific in Japan’s case. Both Japan and the UK have had to manage this kind of ambiguous relationship in terms of their identities and strategic alignments over a number of years. Moreover, I think as two middle powers looking to navigate the choppy geopolitical waters they are currently having to navigate, there are strong strategic and geopolitical factors that bind both countries together. It is interesting, you have the historical precedent set by the 1902 Anglo-Japan alliance, which was also happening during a time of mounting geopolitical tensions, faltering multilateralism, structural tensions to the hegemonic order being caused by a large, emerging economic superpower, rising protectionism and rising populist nationalism.

There are a lot of background factors here that I think are binding and aligning Japan’s and Britain’s interests. This FTA would be the most



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significant treaty signed by the two countries since 1902. There are very strong economic binding forces as well, but I think it is important to keep in mind these important background strategic and geopolitical factors.

Q103 **Chair:** Thank you very much indeed. Jappe Eckhardt?

Jappe Eckhardt: I agree completely with what the previous speakers have been saying. What I could add is that I think Japan is a crucial contributor to the UK economy and vice versa. In particular, Japan is the second most important non-EU investor in the UK. There are over 1,000 Japanese companies operating in the UK, employing more than 100,000 people, and in fact that has gone up since June 2016 after the Brexit referendum. That is very important.

There are a few other areas that I would like to highlight. Apart from the trade and investment relations, this agreement is important, as Professor Dent was saying, for geopolitical reasons but also for the fact that Japan has always been, but in recent years has become even more so, a leading voice in defending trade multilateralism and an open global economy. It is a strategic ally for the UK in that sense as well.

Another point to highlight here is that given the fact that the UK has not, of course, negotiated a trade agreement for over 40 years, it could also help the UK to gain negotiating experience. One of the key issues when it comes to the UK's future trade relations is that it should build capacity and, in a way, learn to play the trade negotiating game. It is an opportunity for the UK to gain negotiating experience, not just in building capacity but also in getting that negotiating experience.

A final point to raise—it was also highlighted by Dr Jerzewska but it is important to highlight it again—is that the costs of no agreement between the UK and Japan are very significant. We all know that if there is no agreement UK businesses can no longer take advantage of the EU-Japan EPA, which means that barriers will be reimposed on trade between Japan and the UK. There is an absolute necessity for the two countries to sign such an agreement.

I also agree that the timeline of six weeks—or I think they even said to the end of July—is absolutely unrealistic. I had a quick look at all the agreements that Japan has signed in the last 20 or so years, and the average time it takes them to negotiate a trade agreement is 30 months. I know, of course, that the negotiation between the UK and Japan has somewhat of a different format in the sense that there will be no negotiating rounds but continuous negotiations, but that just shows how ambitious it is to say that you will be able to sign a comprehensive trade agreement in such a short period. The best the UK can hope for is a continuity agreement and then to continue negotiating with Japan for a more comprehensive agreement in the future.

Q104 **Chair:** What do you think the GDP gain might be? There is various talk about the GDP gain, but some will say that the GDP gain versus the current situation is not as great as some of the high headlines GDP gains



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that have been given. They are modest either way. Jappe, I can see you are poised to come back.

Jappe Eckhardt: It is always difficult to assess GDP gains. I think the consensus is that the overall GDP gains will be relatively marginal. However, for certain sectors it is definitely crucial to have an agreement. For instance, the car industry, the pharmaceutical industry, some parts of the services sector will definitely need the trade agreement. Then again, it is not just about the economic gains. There is also very much a political component to this in terms of the strategic position of the UK in Asia.

Q105 **Chair:** Thank you. Christopher Dent, you are more than poised.

Professor Dent: I have a couple of points to follow on from what Jappe said. It may be instructive for the Committee to know that if you look back at Japan's FTA negotiations with Australia—a comparable economy to the UK—that took five years to negotiate, and it took over 20 chapters and about 230 pages, plus all the annexes.

The other point is the GDP gains. I have not looked into this in any great detail; maybe Anna will have something to add. I am thinking about the longer gain here, because the Japan-UK deal is going to be the single most important pivot or leveraging point from which the UK can try to muscle into the CPTPP. I think you need to look at the additional benefits, the wider geopolitical and strategic benefits that a stronger alliance between Japan and the UK will provide in a very turbulent geopolitical world going forward. Look at the wider benefits of this deal, not just in number crunching GDP terms.

Q106 **Chair:** I can see Dr Jerzewska smiling. What are your thoughts?

Dr Jerzewska: We know that this agreement has, as was nicely put, marginal impact on the UK's GDP. One of the estimates that I saw yesterday from Bloomberg was less than half a percentage point, which is not much, and stresses the importance of other geopolitical and strategic reasons. I don't think the official impact assessment has been published by the Government yet so we do not know what the official numbers are.

Q107 **Chair:** Do you think this is getting the attention in the UK, the bandwidth? We know that the media in the UK, if they are obsessed with anything, are more obsessed with America, and there are simultaneous negotiations going on with America and the EU. Do you think there is the focus, even the opportunity, for businesses to respond to and deal with all these negotiations going on at the same time? Is that problematic?

Professor Dent: I know the DIT has ramped up its capacity to negotiate FTAs quite considerably, and it needs to. Compared with doing a FTA with Mongolia, for example, or with Peru, you need a much wider bandwidth to negotiate a multi-sector, multi-chapter agreement with sophisticated economies like Japan and the EU and the US, but it depends on how long the negotiations go on for. It would take years to do a substantive deal with Japan, especially if you want to do something new and innovative and extend beyond the current regulatory scope of the EU-Japan deal.



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These are factors that you have to think about when trying to estimate those kinds of capacity issues.

Chair: Thank you very much. Just to warn you, I will be leaving this panel at about 2.55 pm—I have another inescapable engagement with the Joint Committee on the National Security Strategy—when Mark Garnier will be taking over the Chair. In the meantime, I will call in Robert Courts.

Q108 **Robert Courts:** Dr Eckhardt, I understand that the EU-Japan economic partnership agreement is used as the basis for the negotiation between the UK and Japan. I would be very grateful if you could lay out some of the main provisions, please.

Jappe Eckhardt: The EU-Japan EPA is a very comprehensive trade deal. If you look at trade liberalisation in trading goods, it basically liberalises trade in almost all goods—I think 96% of all trade. On where the UK could improve there, I think there is relatively little room to manoeuvre. You could perhaps think of a slightly more ambitious timetable for liberalising tariffs on vehicles, cars, because there is a seven-year phase-out period there. Overall, however, I would say that the EU agreement with Japan produced the most gains for manufacturing sectors and agriculture and fisheries, and perhaps slightly fewer gains for the services and investment sectors.

There is a services and investment chapter, chapter 8, which is also fairly comprehensive. There are, however, a few areas excluded. Public services are not included, audio-visual services are not included, air transport is not included, and there were issues when it comes to e-commerce. Even though both sides were largely able to agree on uniform standards, they could not bridge the difference in data protection. The EU wanted that all data must be held on servers within the EU. That is something that the UK could potentially get a better deal on than the EU.

There is also an investment chapter, but the only thing that the EU and Japan could not agree on was investment protection standards. There was disagreement between the two parties over the exact mechanism by which that should happen. The EU pushed for an investment court system whereas Japan wanted the more traditional investor-state dispute settlement mechanism. They are now negotiating a separate agreement on that.

Other areas included are public procurement and—an important point to make—there is a quite comprehensive most favoured nation clause and provisions within the agreement in both goods and services. I am happy to say a bit more about that.

Q109 **Robert Courts:** I was going to ask you about that next but just before we get there, from what you said it sounds as if the agreement is largely goods based. It sounds like the agricultural provisions are quite far reaching, but there may be opportunities to expand on the services sector, which exists but is not particularly comprehensive, by the sounds



of it.

Jappe Eckhardt: Yes, that is right, and that has to do in part with the most favoured nation provision.

Q110 **Robert Courts:** Could you tell us about the effect and the scope of that?

Jappe Eckhardt: The agreement could be improved from a UK perspective in those sectors or areas that are not included in the agreement because they fall outside MFN. Those sectors are excluded and there the UK could potentially get a deal that is more far reaching than the agreement with the EU.

On the issue of e-commerce, I think the UK could potentially offer stronger commitments on the free flow of data. This is something that Japan has asked for and which is also very important, I think, for Japanese multinational corporations.

Q111 **Robert Courts:** Is that linked to the data protection element that you mentioned a moment ago?

Jappe Eckhardt: Yes, that is right. That has to do with e-commerce and there was no agreement on that. There is also the issue with multinational enterprises that would not be happy to have all their data only stored in servers within the EU. I am not entirely sure that Japan will really push this point, however. We should not forget that the EU is a regulatory superpower and that is particularly the case in the area of data protection. I am not entirely sure that Japan will be willing to deviate much from what it has been negotiating with the EU on this point, but those are the kinds of areas where I could see the UK go beyond what the EU has negotiated as well as in the investment areas, as I was saying before.

Q112 **Robert Courts:** Anna, do you have any comments on either of those points, particularly the most favoured nation clause?

Dr Jerzewska: I would largely agree with everything that has been said. Digital trade is an area where we could go further than the EU-Japan agreement. The two aspects of digital trade that are included in the CPTPP provisions but are not included in the EU-Japan agreement are where IT facilities are located and the protection of the free movement of data across borders. These are aspects that the UK will need to sign up to anyway if it wants to join the CPTPP, so it might as well do it now. From what I understand, both parties seem very interested in including these provisions in the bilateral agreement just now. As was mentioned, I think there is quite a bit of an appetite on the Japanese side to include auto liberalisation, in fact immediate auto liberalisation, in this bilateral deal.

The other two provisions or the other two areas where I think that UK could go or potentially the UK's ask is going to exceed what was agreed with the EU are, first, rules of origin. We have seen the UK try to include this new type of cumulation, extended cumulation, in all of its agreements, but was only successful with some. A provision whereby



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both Japan and the UK would agree that they can use inputs and components from the EU and treat them as originating for the purpose of bilateral trade is something that the UK might potentially ask for.

Another area where it can go a bit further, potentially, is non-tariff barriers. This is something that we have also heard from the UK Government. It is all about testing and conformity assessments for products, testing products in the UK before they reach Japan. It is about approvals, or quicker approvals, for UK agri-products, and potentially something around investment or services in the areas where it is not covered by the MFN, such as recognition of professional qualifications. That might be one of the areas where Japan is not bound by the EU-Japan agreement and can offer something more to the UK and the UK might as well ask for that.

Q113 Sir Mark Hendrick: My question to Dr Jerzewska and Professor Dent relates to something that Professor Dent touched on a bit earlier. Do you agree with the Government that the UK-Japan negotiations can be seen as what they call a logical stepping stone to the UK joining the CPTPP? Dr Jerzewska first, please.

Dr Jerzewska: In terms of the potential for the UK to join the CPTPP?

Sir Mark Hendrick: Yes.

Dr Jerzewska: CPTPP is a very interesting agreement. I remember back in 2018, when the Government issued public consultations for a number of trade agreements—I was responding to them for a client at the time—we were initially quite surprised to see CPTPP as one of the priority agreements that the Government were thinking about, largely because this is a regional bloc; it is an Asia-Pacific agreement and the UK is nowhere near the region, but it is an interesting agreement nonetheless.

At its inception, P4 merged into CPP then CPTPP, and it was supposed to be a very ambitious agenda-setting, rule-setting type of agreement. It was all about creating a rules-based system for the Asia-Pacific. That perhaps changed somewhat when the US left and the agreement was scaled back a little bit, but it is still quite an advanced agreement—digital commerce, international property, labour standards, environmental standards. On services, CPTPP has a negative list whereby everything that is not specifically excluded is included, which is quite a liberal approach. It is an interesting agreement.

There are two parts to the UK joining. There is the rules part, where the UK just signs up and it does not really have much to say—just kind of take it or leave it. Then there are bilateral schedules for goods and services, which you have to negotiate, that would obviously take time.

Whenever I hear anyone from the UK Government mention CPTPP—including Liz Truss last week at a webinar about this agreement—there are two things that strike me. One is that the tariff aspect of it, and the traditional economic benefits of an FTA, are not really stressed so much



by the Government. I don't know why. Is it just because the impact assessment has not been conducted and published yet, or is it something else? The second thing is that it is portrayed as an alternative to the WTO, or like a club of like-minded countries that will go further. I am not entirely sure that the CPTPP current members and the agreement itself are on board with such an ambitious agenda. This is something that was supposed to be the case at the inception but it is largely an Asia-Pacific agreement. I am not sure whether this is just the way the UK Government try to portray it domestically or something more, but it is an interesting idea, an interesting concept.

Q114 Sir Mark Hendrick: You mentioned earlier that you felt that there was little growth to be gained purely and simply through Japan. Do you see the growth as greatly increasing with these other countries in the CPTPP?

Dr Jerzewska: I was just quoting numbers and research on potential growth for Japan. It is very difficult to judge an agreement before it is signed. I am not a big fan of any kind of economic assessment before the agreement is signed because there are just too many variables to assess that. But definitely, the fact that it is a regional agreement, even in terms of the ability to cumulate origin and source from all these countries, could be interesting. The geopolitical aspect of this agreement and the fact there is the digital trade area, perhaps more on investment and so on than we have seen so far, is definitely not to be underestimated. It is an interesting concept. The initial surprise was the fact that it is a regional grouping and the UK is not part of the region, but I think that could be overcome. In terms of international geography, potentially that could not be as much of a problem as we initially thought.

Q115 Sir Mark Hendrick: Do you think it is seen as a long-term alternative to the WTO by some?

Dr Jerzewska: I think the UK might potentially see it this way. I don't know at this point whether the CPTPP current members see it that way. I think this was a very ambitious agreement from the start and the geopolitical elements of it have not necessarily been realised. It was supposed to be—and I think someone mentioned this last week at the webinar—a liberal trade agreement, a very ambitious trade agreement at China's doorstep and it was supposed to influence the way China behaves, which so far has not really happened. That is not to say it won't happen or that it will not develop. We also have a question of whether the US will rejoin this agreement at any point and I guess we will know more about that after November and the elections. That remains to be seen.

Q116 Sir Mark Hendrick: Thank you very much. Professor Dent?

Professor Dent: I agree with all that Anna said there. I have some points to make about the UK and the CPTPP. The first fundamental point is that this will be an accession to an existing agreement and an existing agreement that still retains, ironically, quite a few elements of US trade policy and other commercial regulatory measures in it. If the UK and



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Japan sign an FTA, as I said earlier, this could be a good leveraging point for the UK to enter into the CPTPP, and Britain will be the second largest economy in this grouping. That would maybe suggest that the UK and Japan could be the leaders of a future revised CPTPP going forward when the agreement is reviewed and revised as it changes to the world around it. We are talking many years in the future, of course, where Britain would be able to imprint its own regulatory, commercial and other interests into this very large, diverse agreement.

The point that Anna made about the geography of this is a very important one. Australia's Trade Minister, Simon Birmingham, said last year that the last time he checked Britain was not in Asia-Pacific. For the UK to join such a distantly-located regional bloc I think is going to be difficult to sell to many constituencies both abroad and at home. There may be some people, for example, in Britain asking why we are wanting to join another regional economic community, complying with all the different rules and regulations and all the politics that go with that.

There is a number of issues to look at there. I completely agree with what Anna said about the capacity of the collective of TPP countries. Even under the leadership of Japan and Britain, to lead new frontiers of trade diplomacy and trade regulation is going to be a big ask. Many of the countries there, like Malaysia, Vietnam and Peru, for example, are going to be reluctant to move innovatively in many areas of trade regulation going forward.

Q117 Sir Mark Hendrick: Yes, it seems as if we are desperate to do a deal with anybody except the European Union at the moment. Jappe, do you want to come in?

Jappe Eckhardt: Yes, just a few additional comments. I completely agree with what has been said already. You were asking about the impact. I agree with Anna that it is difficult to assess, but it is good to remember that only about 8% of British exports now go to the 11 countries of the CPTPP. I agree with Chris that the traditional argument about trade, that geography and gravity matter more than politics, would suggest that this is unlikely to change radically in the short to medium term. That is one point to add about what the actual impact should be. It is an illusion to think that it will somehow compensate for a possible no-deal with the EU.

Another point is the idea that this could be the future WTO. That is something that particularly Japan is pushing for. It sees the UK as an economically strong country with political influence that would help CPTPP become a counterweight against US bilateralism and could revive the WTO. I think it is mainly Japan and possibly the UK that think that way. I am not so sure if other countries within the CPTPP agree with that.

I have two final points. As Chris was saying, it is an existing agreement so there needs to be consensus among the existing members and they can ask for quite far-reaching concessions from the UK as well. There is a fear that this could cause regulatory divergence, particularly for



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agricultural products, between the UK and the EU, which would make it more difficult to trade between the UK and the EU.

It is also important to mention that it is a multilateral agreement with countries in very different stages of development. It might be relatively easy to agree with Japan, Australia and New Zealand, but there are also countries like Vietnam. I agree with Chris that that changes the dynamics as well. We have seen a lot of discussion in the UK and other countries that not everyone necessarily benefits from trade; there are also people who lose from increased trade on workers' rights and so on. The dynamics change when you have lower income countries as part of the negotiations on trade agreements. Those are just a few points to add to that.

Q118 Sir Mark Hendrick: On that point, I remember that when the Committee visited Brussels a couple of years ago we had lunch with the Australian ambassador. He was quite clear that the Australian Government were not necessarily too pleased that we were trying to join the CPTPP, possibly for agricultural reasons as you touched on.

Jappe Eckhardt: Yes, I have heard similar reports. Sorry, Chris, go ahead.

Professor Dent: Thank you, Jappe, very kind. Yes, Sir Mark, one thing to remember is that the Pacific alliance relationship between Japan and Australia goes back a long way—back to the 1960s. I think Australia sees itself as the natural co-leader of this CPTPP and it would see Britain as a kind of rival co-leader in that context.

[**Mark Garnier** took the Chair.]

Q119 Chair: Angus has bailed out now, so I am taking over as the interim Chairman. Coming back to CPTPP, the one thing none of you has mentioned is ASEAN. While ASEAN is a much looser arrangement, there was a point that I think Jappe made, which is that the UK may be the second biggest economic power within CPTPP countries but in its influence it is far from second biggest because it is on the wrong side of a massive continent. Can one of you comment on the influence of ASEAN within CPTPP?

Professor Dent: I have studied ASEAN quite closely over the years. You are right in that ASEAN has a presence in the CPTPP. You have Malaysia, Vietnam, Singapore, for example, which are all leading ASEAN members. I am not too sure as a collective, though, that the CPTPP is the main focus of ASEAN's interests and efforts. ASEAN is at the hub of the rival Asia-Pacific or east Asia-based trade agreement currently in negotiations—I think they have had 30 rounds so far—the regional comprehensive economic partnership agreement. That includes Japan, China, South Korea, Australia, New Zealand and all the ASEAN member states. As a collective, I think that is what ASEAN is hoping will exercise more influence and leverage over the commercial landscape of east Asia and the Asia-Pacific.



Q120 **Chair:** Anna, I think you wanted to say something.

Dr Jerzewska: I should have known that Chris would mention this. It was just to say exactly what Chris said, which was about the ASEAN plus six new agreement. It will be very interesting to see the dynamic of these two agreements if we have one agreement in the region that includes China and the other five non-ASEAN countries, and ASEAN, and then CPTPP. I think that will be quite an interesting dynamic. The importance of CPTPP might be diminished if this new agreement is actually reached with China in it.

Professor Dent: Can I add that the GDP and trade significance of RCEP is far greater than with CPTPP? It would make more logical sense to want to join that, economically at least, than CPTPP.

Chair: It is going to end up as quite an alphabet soup, isn't it?

Q121 **Mick Whitley:** Good afternoon, everybody. I would like to ask each member of the panel what impact the UK's other ongoing trade negotiations, such as those with the EU and US, could have on UK-Japan negotiations.

Jappe Eckhardt: I think Chris mentioned this earlier. In theory, the UK could simultaneously negotiate with several countries at the same time, but I do not think it is realistic to expect that it could do this in the same manner as it is doing currently with Japan, which are current and continuous negotiations. It is not very realistic that the UK would do negotiations with the EU, Japan, US, Australia and New Zealand at the same time in the current situation. We mentioned before that much depends on capacity, so the quantity of actual people within the negotiating teams but also the quality of staff of negotiators. I know a lot of effort has been put into increasing that capacity, but I think there is still quite some way to go.

In an ideal world, you would say that the UK would be wise, apart from reaching agreement with the EU, to start negotiating with relatively small trading partners such as Japan, Australia, New Zealand, perhaps CPTPP, rather than immediately go for an agreement with the US and China, for various reasons. The first is the experience of the negotiating teams of the US and China but also because Trump's trade policy is not very coherent. Trump's Administration would likely use a trade agreement to restrict economic ties between the UK and China. There has already been talk about perhaps a boycott of Huawei and the inclusion of a possible "poison pill" clause that would prevent the UK from signing a pact with non-market economies, in other words with China.

While there is capacity now to do several negotiations at the same time. I am not so sure if it would be feasible to do so with very large economies at the moment.

Dr Jerzewska: I obviously agree, but to add to this I come back to my original point. This agreement is slightly different than the agreement with Australia, New Zealand and the US in that capacity is an issue, and



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even though we have now heard that we have more trade negotiators than the USTR, there are probably still capacity constraints. This negotiation, this deal, will be completely different. It will be quick. The purpose is to do it quickly and in the form that it is just a rollover agreement, I believe it will be done by the end of the year, whereas the US, Australia and New Zealand will not be done by the end of the year. These are long-term plans, so these negotiations, especially with the US, will continue for a number of months, if not years.

In terms of the next five and a half months, I think this one can be done very quickly on the basis of what has already been agreed, with some additions as we have discussed. The EU is the obvious priority right now, and these two negotiations are pretty much all we can hope for by the end of this year. Everything else will just continue with additional trade agreements that might still be announced going forward.

Professor Dent: I think it is really important to get the UK's priorities settled and sorted on this. As Sir Mark indicated earlier, the most important game in town and partner by far is the European Union. That is where we should be concentrating our efforts because it still accounts for 40%-plus of all our trade. I want to get this in at some point anyway, but in my view we should not be negotiating an FTA with the United States for various reasons. I can come back and take questions on that later if you like.

Chair: Christopher, I would love to hear your views on this, but unfortunately we are running a bit short of time, so we will go to Mark Menzies.

Q122 **Mark Menzies:** We have touched on this already but just to be clear, how feasible or desirable do you think it is for the UK to reach an agreement with Japan in six weeks?

Dr Jerzewska: It is feasible on the basis that it is a rollover agreement, with the addition of things that both parties want. Six weeks is still a very short length of time, so I would say it is feasible to get it through by the end of this year on the basis that we are not renegotiating anything that has already been negotiated. It is just a rollover agreement, just a continuity agreement with additional bits in it.

What is desirable is, of course, continuity. It is important for our supply chain. It is just that I think it is being sold and portrayed in the UK as a new comprehensive deal and it is very important to remember that this will not be that deal. That deal will still need to be negotiated going forward, perhaps when the UK negotiates accession to CPTPP separately, but this is just a rollover. We have to set our expectations—that is something that Japan said to the UK, to set your expectations right. This is six weeks and it is not going to be an ambitious deal. Bearing that in mind, yes, possibly.

Q123 **Mark Menzies:** What are your thoughts, Christopher?



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Professor Dent: I do not have too much extra to add to what Anna has just said. The only point I would add is: how easy would this be to sell politically to the British public, depending, of course, on how closely they scrutinise the deal? Basically, we are signing a trade agreement that has a very heavy EU regulatory stamp and imprint on it. I wondered about the political fallout from that, but then again I guess if the Government can sell this as just an intermediate step, they should be able to assuage any anxieties in that respect.

Q124 **Mark Menzies:** Thank you. Dr Eckhardt?

Jappe Eckhardt: I agree with what has been said. As a more general point about the desirability of trying to negotiate trade agreements in a very fast way, as Anna was saying, if you want a more bespoke, ambitious deal you would definitely need more time. This is also important in terms of bargaining power. If the other side knows you are under a lot of time pressure, that clearly changes the negotiating dynamics.

There is another point to make here. You want Parliament to have time to look at the deal and also for engagement with Wales, Scotland and Northern Ireland, which will be affected by any trade deal, as well as consultations with the business community, trade unions and other relevant stakeholders. All these things take time.

Finally, and this is also an important point and something Chris said, you want to explain to the general public why we need these trade agreements. Why do we need a trade agreement with Japan? If you look at the general rhetoric on trade, not just in the UK but elsewhere, there is a rise in anti-trade globalisation sentiments and there is also real concern about unequal distributions of gains from economic integration. What you want to do is explain carefully to the public why these trade agreements are important and what the costs and benefits are.

Q125 **Mark Menzies:** You have covered some of the other things I was going to ask. The final thing would be to what extent could reaching a quick trade agreement affect the economic benefits of a UK-Japan FTA as detailed in the Government's scoping assessment?

Dr Jerzewska: Can I just clarify? Is the question what impact on the benefits would a quick deal have versus a more comprehensive deal? I am sorry, I am not sure if I understand the question correctly.

Mark Menzies: Basically, if a quick agreement is reached, what other economic benefits of that UK-Japan FTA in the Government's scoping assessment would a quick deal take us away from what the Government's scoping assessment wanted to try to achieve longer term?

Dr Jerzewska: Okay, thank you. We do not really know that much about the scoping assessment. There is the whole thing that the Government keep saying about not wanting to pre-empt the negotiations. We do not really know what the asks will be, so one of the difficulties is that we have not seen a lot of this documentation.



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There are a couple of ways to do it, I guess. Like the one with Korea that was time limited, and some other continuity deals that had this limit of time, you could do it that way and then renegotiate, or you can treat this as a way to access CPTPP. From what I am seeing right now, it seems that the Government are dead set on accessing CPTPP, so perhaps the next step from this quick deal would be to start negotiating with Japan on that.

On the impact on benefits, while it is an important agreement and is something that we probably should have by the end of this year in terms of visibility, it still will be, just purely in terms benefits, less than what we have now. In supply chains we are losing the continuity between Japan, the UK and the EU, with the UK potentially trying to mitigate this by asking for specific rules of origin from the EU, but the chances of that are very small. Whatever happens, whether we negotiate a comprehensive deal—not that it is possible but even if it was possible for us to negotiate a comprehensive deal with Japan over the next five and a half months, versus this very limited rollover agreement—it will still have a negative impact because of our supply chains. I think that is one thing to bear in mind. Perhaps there are other elements that someone else wants to cover, but just for trade in goods that impacts supply chains.

Jappe Eckhardt: I agree with what has been said. The best the UK can hope for is a deal that is very similar to what the EU now has with Japan, and then—this is actually quite common—have an updated agreement along the way. They can have this agreement in place by the end of the year and then continue negotiating in the areas where the Government have hinted that they would like to go beyond what the EU and Japan have agreed. That is in the area of services and data protection, where there is some scope for a deal that perhaps goes beyond the EU agreement.

It is the same in investment, even though I would like to say that the investment court system that the EU has suggested, and Japan was not really happy with, is still an interesting idea and seems to be part of the EU's attempt to make trade and investment agreements more progressive. The EU could opt for a standard investor-state dispute settlement mechanism. There could be an updated agreement later that will take time to negotiate and a lot will depend also on the agreement that the EU and the UK end up negotiating. As Anna was saying, Japanese firms depend heavily on supply chain trade through the UK with the European Union, so they would be very eager to see what that agreement looks like before they sign up to any far-reaching regulatory convergence, for instance.

Mark Menzies: That is great. Thank you.

Q126 **Taiwo Owatemi:** My question is directed to all the members of the panel. What prospects do you think there are for the UK to improve on the EU-Japan EPA in respect of the trade in goods?



Jappe Eckhardt: To be honest, I do not think there is an awful lot the UK can do there. It is very comprehensive; almost 96% is covered. There is some leeway perhaps in having a more ambitious timeline for liberalising tariffs on cars, some power products, motorcycles, and that is something that Japanese companies have been asking for. There is now a seven-year transition period in the EU-Japan EPA, so potentially the UK could offer an immediate elimination of tariffs on those products. Apart from that, I do not really see much room for the UK to improve on the agreement in trade in goods.

Q127 **Taiwo Owatemi:** Professor Dent, do you feel the same way?

Professor Dent: Yes, I do. The only thing I have to add—and this may be out of the remit of your question and I can add details if you like—is the different areas of co-operation that Japan and the UK could develop. I can answer those questions if you like, so I will stop now and I will go into those if you would like me.

Taiwo Owatemi: Feel free to go into it.

Professor Dent: Thank you. The thing about the EU and Japan is that both are very strong on having co-operation sectors incorporated into all the FTAs they do. Japan and the UK have a very multi-layered, multi-dimensional relationship. It is not just about trade and commerce; it is also about growing cultural ties, technological ties, education ties and science ties. Japan's largest exports to the UK are in the energy sector. There are multiple sectors of economic relationship that bind the UK and Japan together.

The only thing I can think of for the UK and Japan in the longer-term deal is to push out the innovation of co-operation into areas not covered by the EU-Japan deal, such as artificial intelligence, biotechnology; there is a bit on climate action and sustainability but not too much; the chapter on trade and sustainable development is quite limited; cultural industries and creative industries where the UK is a powerhouse and where Japan has quite a lot of interest and demand in prestigious British cultural products. There are all kinds of different areas and dimensions to the agreement that the UK and Japan can work on beyond just the trade in goods elements.

Dr Jerzewska: I don't have a lot to add on that. I agree with what has been said about trade in goods. Other than auto, I do not think we can expect many concessions. I know the UK will probably want concessions in the agricultural sector, but the EU-Japan agreement was quite difficult for Japan to reach. It was an agreement where Japan needed to make a number of compromises. Having just compromised and made these concessions for a market of 500 million people, I do not think it will want to make additional concessions for a market of 66 million people.

Q128 **Taiwo Owatemi:** That is understandable. My question is directed at Dr Jerzewska and Professor Dent. To what extent will the UK global tariff provide the Government with leverage in their negotiation with Japan in



respect of trade in goods?

Dr Jerzewska: The new MFN tariff that was published a couple of weeks ago in that respect is an improvement on the first MFN tariff that we had with the previous Brexit deadline back in September, I believe. First, it is an improvement that we have it so early on, with seven months, I think, to go at the time when it was published.

Secondly, the initial MFN tariff that was published last year was much more liberal. Many products were at 0%. I do not remember the exact percentages of how many tariff lines were liberalised to 0%, but I felt it did not give us enough leverage in negotiating free trade agreements. This one is completely different. It resembles the EU's tariff much more. The simplifications that the UK made were more around rounding down or rounding up and simplifying certain tariffs and the way that tariffs are calculated rather than setting everything at zero. I think this new tariff helps us negotiate trade agreements because we have tariffs to negotiate as opposed to what we had back in September 2019.

Professor Dent: I do not have anything extra to add on that. That was very comprehensive.

Q129 **Mick Whitley:** Dr Eckhardt and Professor Dent, to what extent does a UK-Japan FTA present opportunities for the UK service sector?

Professor Dent: Going back to one of the first points I made, to me the investment dimension of this deal is really important both ways. If you look at current UK-Japan trade and UK exports to Japan, 51% of our exports are in services and 49% are in goods. Britain is the second largest service trade exporter in the world. That 51% of our exports to Japan compares to the global norm of services trade representing about 7% to 10% of global trade, so Britain's exports to Japan are well beyond the global norm of where services trade fits globally.

We exported just over £7 billion worth of services to Japan in 2018. To sell more products that British service companies generally sell beyond what we can directly export to Japan, foreign investment in Japan is going to be really important. For foreign investors, penetrating the Japanese market has historically been very challenging for various regulatory, commercial and corporate governance reasons, but for me that is where the main benefits commercially of this deal are for British service industry firms. We have a wide range of firms in the service industry that I think could have big, important market potential released for them in Japan, not just financial services but a range of other business services—law, accountancy, management consultancy, architecture, design. There are all kinds of industries in which so far British firms have not really penetrated the Japanese market through foreign investment. If the FTA we broker with Japan is able to do that, for me that is where the biggest gains could be for British industry.

Jappe Eckhardt: Yes, I completely agree with that. I have just a few points to add. Definitely, if you look at services trade between the UK and



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Japan, UK services trade is massive but still only 2% of total UK trade in goods and services goes to Japan. That is just to put things in perspective.

Another thing to mention here is that the UK has a trade surplus in services and a deficit in trade in goods with Japan. Services imports from Japan are relatively low, so I think definitely that is where Japan also wants to invest. It is already trading quite substantially with the UK in goods, but I think Japan wants to improve and increase its services trade with the UK.

Another point related to what Chris was saying is that overall it is absolutely right that investment is where the biggest economic gains can be made from this agreement. If you compare total Japanese investments in the UK, that is almost £90 billion, whereas trade is less than £10 billion. Investment is where the biggest gains can be made in these agreements.

Q130 **Chair:** If I might carry on with that, looking at the foreign direct investment or bilateral foreign direct investment between the two countries, where do you think the strengths and weaknesses and opportunities and threats lie in these bilateral opportunities of direct investment?

Jappe Eckhardt: Like I said, and as Chris was saying, there is massive opportunity for UK firms to increase their services trade with Japan, and this is across various services sectors. There is a real gain to be made and, as I said, Japanese companies feel the same. They feel they can increase their services trade with Japan—

Q131 **Chair:** Sorry, I was thinking more of foreign direct investment, so companies investing directly into each other's countries, as opposed to the service sector in terms of trade.

Jappe Eckhardt: I think the key point has to do with the point that was made earlier. A lot of these investments are part of supply chains. This is particularly the case for Japanese investments in the UK. If you look at that number of £90 billion, a lot of those investments are part of Japanese companies producing products in the UK that will then be exported to other markets, in particular the European Union. That comes back to the point we were making earlier that Japanese firms—and I think the Japanese Government also—are interested to see what a future EU-UK trade agreement will look like because these investments are part of supply chains that link Japan via the UK to the European Union. I think that is a crucial point to make.

Q132 **Chair:** It has certainly been the case that the Japanese Government have been lobbying very hard, certainly since 2016, to make sure that we have a very good relationship with the European Union for exactly that reason. Christopher, you might like to come in on this one. Beyond just the straightforward opportunity to create an export opportunity into places like the European Union, where do you think we have an opportunity in



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terms of investing into Japan? What will be the opportunities there and do you think there is one? Secondly, where would the risks lie in that? If we are about to invest huge amounts of money into each other's countries, do you think there is any risk with that, or do you think this agreement will cover any potential problems that may come up? Christopher, discuss the loose area of FDI.

Professor Dent: Up until about 10 to 15 years ago, Japan had the lowest inward FDI ratio of any OECD country. It has been typically very difficult to penetrate because the Japanese economy is made up of strong oligopolistic markets where Japanese companies dominate. There is a very strong sense of economic nationalism in Japan, where Japanese consumers have very strong loyalty towards Japanese firms and Japanese-made products. There are all kinds of other technical reasons about how goods are distributed through the Japanese economic system. This was one of the main foci of American trade and commercial policy with Japan in the 1970s, 1980s and 1990s. The Japanese economy is much more open now than it was in the past, but there are still important structural rigidities that make it very different and constraints that make it difficult for foreign firms to invest in Japan and do well.

However, to give you an example, I think one area that could have interesting potential for Britain is in high-end retail and in cultural and creative industry sectors in Britain—Paul Smith, the famous fashion designer, has 400 shops in Japan. That is one area where you may find there is quite a strong appetite from the Japanese consumer for prestige British goods. I don't have any data to share with you about how British retailers have fared in Japan, but likewise the Japanese retail sector may be interested in trying to reciprocate and penetrate into the UK market.

You have to do your homework really well when you are a foreign investor in Japan, just as you have to in China, but in Japan for different kinds of reasons. It is a huge market and it is absolutely crucial to understand the socioeconomic and demographic profile of Japan. It has had a shrinking population for the last 10 or 12 years and I think it has the oldest population of any country in the world. Healthcare is another area where perhaps British healthcare and pharmaceutical firms could see interesting new opportunities arise from the FTA if it was geared towards those kinds of sectors.

Chair: That is fantastic. Thank you very much indeed. I think that brings us to a close of the first session. It also brings a close to my session being the interim Chairman, as I see our real Chairman is now back from his Harris Tweed factory visit. We will let him take the Chair again. Thank you very much indeed.

[**Angus Brendan MacNeil** took the Chair.]

Chair: What a fine job you have done, indeed, Mark. I fear that revolution could be in the midst of the members. I thank the first panel for their help with the evidence on Japan.



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