

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 133 - 158

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: Ian Howells, Antony Walker, and Mike Cherry.

Q133 **Chair:** I call for our second panel to come forward and introduce themselves in their own terms. Let us start first with Ian Howells.

Ian Howells: Good afternoon. Thank you very much for the opportunity to share my views and those of Honda, which I am representing today specifically on the trade agreement. I have listened with interest to the previous witnesses, a lot of which I would align with. On where the industry is at the moment—

Chair: We will just do the introductions part briefly. Maybe I should be declaring I have a Honda quad bike in the croft here. I am not sure whether this is quite required, but on the basis of being comprehensive, it is a fantastic 300cc quad bike built about 20 or 25 years ago. Honda has done a good job in quad bikes for crofts in the Hebrides, so thank you. Can I ask Antony Walker to introduce himself, please?

Antony Walker: Good afternoon. My name is Antony Walker. I am deputy CEO of techUK, which is the largest trade body representing digital companies here in the UK. We have a mix of UK and global firms, including a large number of Japanese firms who are major investors in the UK.

Chair: Thank you very much. Last but by absolutely no means least, Mike Cherry OBE, please.

Mike Cherry: Good afternoon, everyone, I am Mike Cherry, national chair at the Federation of Small Businesses, representing micro, small, self-employed predominantly, but the largest business organisation in the UK.

Chair: Given he chaired the last Committee so brilliantly, all I have to do is just turn and defer to Mark Garnier, who is going to open with the second panel.

Q134 **Mark Garnier:** This is an opportunity for you all to give a brief overview of the current levels of trade between Japan and the UK in your respective sectors. Ian, it is very nice to see you again. Why don't you go first? You were raring to go just now.

Ian Howells: Yes, sorry about that, I was getting ahead of myself.

Chair: It is the way Honda is.

Ian Howells: Yes. The motor sector is quite an important part of the trade between Japan and the UK. To give you some numbers on that, in value terms the UK exported to Japan just on £1.1 billion in sales and



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Japan to the UK £1.5 billion. These are completed car units; I will deal with parts in a moment. Going back to a point that was raised by the previous panel, if you compare the value per unit it is very different. The UK exported 33,500 units to generate its £1.1 billion, whereas Japan exported 143,000 units to generate its £1.5 billion. In the perspective of the UK aiming towards the top end of the marketplace, that is very much where it has had the advantage.

With parts—and this reflects on the issues raised earlier about the supply chain—UK to Japan is just on £100 million in parts and Japan to the UK is about £0.5 billion, so it is significantly different there. Taking that all together, you have total trade of about £3.2 billion, two-thirds Japan to the UK, one-third UK to Japan, so trade is very significant. Japan inward investment into the UK was built up in the 1980s. The three major manufacturers, Honda, Nissan and Toyota, all came into the UK in the 1980s, and that parts number is largely driven by their activities. In broad terms, it is a key area of FDI but also of trade.

The industry as a whole is moving very rapidly towards electrification and this is starting to have some impact on the way that companies are viewing trade but also how they are viewing their FDI. As a global business, we obviously very much rely on global trade and one of the key things has always been the ease of doing business within the UK, either on a trade or an FDI basis. That has always been very important for the flow of raw materials but also of capital.

Given the investment, we have had a great deal of interest in what is happening. JAMA, which is the representative in Japan for the motor manufacturers, and the SMMT, the UK equivalent, have worked very hard towards this agreement and are very much supporting it. This is not just a Honda-type reflection, it is very much a reflection of where the Japan OEMs in general stand, and likewise the UK.

In our view of the UK-Japan agreement, we are looking for a very ambitious timetable, and that has been described by your previous witnesses. We see putting in place at this point very much a continuity agreement rather than necessarily looking for something very bespoke and very detailed. By that I mean following quite closely with the Japan EPA. Indeed, if it followed that route, we would be encouraged by that, although we would like to see an acceleration particularly on the tariff side of things, where there is currently a seven-year tariff reduction programme on the EU-Japan EPA. Clearly, if we could accelerate that that would be highly accepted by the trade.

Eliminate and liberalise tariffs on electrified vehicles; that is obviously a key one going forward because of what is happening within the global OEM business and motor trade business in general, and I can include bikes into that as well. Less restrictive on rules of origin; I am sure this is something that the Committee will come back on. It was raised in the previous round. It is a very key area for us and one that is quite complex—there is never a very straightforward explanation of how the



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rules of origin impact. Simplification of transfer of employees between Japan and the UK is reasonably good, but we would like to see further simplification.

Finally in this round is creating a framework for data flow. Within that I can include services between Japan and the UK, where we feel on our own experience that the UK has a lot to offer in services, particularly at the moment in energy. That is an area that we have identified in particular, and that is where we are pushing the expertise we have gained in Europe back into Japan, as an example.

I think there is a lot that can be done, but at this stage with speed being the key, it is around continuity.

Q135 **Mark Garnier:** That is very helpful, thank you. I will come to Mike in a second, but I want to come back to you on those numbers on Japan into the UK. You are certainly right, something is coming up later on the rules of origin, which is very important. From memory, Japanese manufacturers in the UK collectively sell 60% of their output into the European Union. I am interested in that figure of 143,000 units worth £1.5 billion and £0.5 billion of parts coming through. How much of that is trans-shipments from the UK through into the European Union, or is that all UK-destined stuff? Presumably, some of those parts must be going to the EU. I suppose what I am coming to is, all things being equal, if we essentially come up with a deal with Japan that roughly reflects the EPA, presumably the biggest and most important thing for you is the UK-EU deal.

Ian Howells: In the 143,000 units is Japan into the UK, I am not aware of a huge amount of trans-shipment of completed units into Europe. Certainly, it is not something Honda does. I do not know if other Japanese OEMs do that. Nevertheless, it is something that could be in those numbers but I think it would be relatively small. I can certainly follow that up if it is of interest to the Committee. In terms of parts, a good chunk of that £0.5 billion from Japan to the UK would end up in completed units going into Europe. Certainly, that would not just be parts for the UK market alone. A good chunk of that would end up in the EU.

Going back to rules of origin, that is where there is a relative weakness in the UK position because certainly, if our experience is anything to go by, only a relatively small amount of componentry can be sourced as genuine UK componentry for finished product. You have to add in the EU content to get anywhere near existing rules of origin and even then quite often you are struggling. If this triangulation, as it is called, or this cumulation does not come about through the Japan-UK agreement, broadly speaking I could call this a competitive disadvantage of UK plc in componentry.

Q136 **Mark Garnier:** Thank you very much. Mike, it is very good to see you again. How is the FSB going to benefit out of this trade deal?

Mike Cherry: We believe that there is an opportunity for all of our members, not just those who export and import but also new members,



to look at opportunities for growth in overseas markets. On the speed with which the Japan-UK deal is being looked at at the moment, if I can just give you some stats from our recent trade survey, which was a very comprehensive one in 2019, Japan is the ninth most popular market for exporters—17% of exporters, 5% of importers—but clearly behind the EU single market, USA, Australia and Canada. Statistically, though, it is interesting that about 83% of our current exports to Japan are in goods, about 24% in services and 11% in intangible goods like software and so on.

FSB members attach great importance to Japan on the single basis that Japan is seen as a significant player in CPTPP, as we have already heard from the previous panel, and about 45% of our current exporters see CPTPP as being very important over the next three years for their new markets.

One of the other things that we see within the negotiating objectives that the Government have set out here is that there is due to be a comprehensive small business chapter incorporated in this deal. We see that as fundamental, whether it is Japan, the US or any other partner that the UK Government are proposing to negotiate an FTA with in the future. That would include the EU as well.

Q137 **Mark Garnier:** Thank you, Mike. Antony, it is very good to see you, too. Perhaps you can give us an overview of your sector.

Antony Walker: Japan is seen as a very important and significant market for the UK tech sector and for digital in general. Essentially, the UK and Japan have similarities in that they are two of the world's leading digitised economies. Japan has one of the largest computer and telecoms markets in the world. ICT is one of the largest sectors within the Japanese economy. There is a huge opportunity in particular on the services side for UK tech but, of course, Japanese investors and Japanese companies have also been important and long-standing investors into the UK economy. There is quite a high degree of integration on both sides already in these two markets.

What I think is particularly interesting is the outlook of the two countries when it comes to digital and digital trade. You have two economies that both see digital transformation and digital innovation as absolutely vital to their ongoing economic growth, and you also have two economies that are very much focused on trade liberalisation in the area of digital as a route to broader global growth as well. We see this as a really important relationship. As speakers said in the earlier session, we are pretty realistic about what can be achieved in this first step in essentially a rollover agreement of the existing EPA agreement.

We see on both sides a real interest in going further on digital and, in particular, on those two critical issues of data flows and measures of data localisation, where we think there is potential to go a little bit further than the current EPA. We view this as a very important first step and one where we see real opportunities in the longer term in deepening the



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relationship with Japan by the free trade agreement itself but also deepening areas of wider policy and regulatory co-operation. That can be just as important, if not more so, in addressing some of the non-trade and tariff barriers that can inhibit the potential for deeper trade. Yes, it is very much an important first step.

Mark Garnier: Fantastic. That is really helpful.

Q138 **Chair:** Listening to some of that stuff there, it reminds me of the time the Committee, in a previous incarnation, went to Detroit and met with Ford. Ford told us at various levels—it did not want to put too much on the record at the time and maybe it does not want it now either—that to it a trade deal with America was incremental but the UK's trade deal with the EU was almost existential. Is that the feeling here? We are talking about EU-Japan, UK-Japan, but from your point of view, and particularly at Honda, which is the most important of the three agreements to you, the UK-EU, the UK-Japan, or the Japan-EU, bearing in mind that is already in existence?

Ian Howells: Broadly speaking, we export the majority of our production into North America, so as an export market the EU is not that large for us. Having said that, we are very much an integrated—

Q139 **Chair:** What about for the sourcing of components?

Ian Howells: The sourcing of components is a slightly different issue. We bring in a sizeable chunk of our componentry from the EU. At the moment, because of the way the tariff system works, that is broadly 0% for us. Under the current EPA, that would also be 0%, assuming that this one continues; our understanding is that that would be the same. From that perspective, componentry does not really change the mathematics that much. In actual importance to us, as a marketplace it is very much second behind the US and about equivalent to the UK.

Q140 **Chair:** Which of the three agreements is the most important to you of the UK-EU, the UK-Japan or the EU-Japan?

Ian Howells: We have not seen the UK to Japan yet, so I will have to leave that to one side. The Japan EPA has been important to us. We have such close working relationships with the supply chain in Europe and that still remains the most important. Therefore, from that point of view, a close deal with the EU is seen as a particularly important element for our business.

Q141 **Chair:** Can I spread that question out a little bit to the other two, just to get some enlightenment? When the EU-Japan economic partnership agreement came in, how did that change the way you do business with Japan?

Antony Walker: It is still relatively early days for having an input into the volume of trade.

Q142 **Chair:** Has it made any difference?



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Antony Walker: I would say it has made a difference because it has opened up markets, but then it takes time for businesses to penetrate those markets. I think we have not seen the depth of that penetration yet.

Coming back to your earlier point, in one way I like to think of these various trade deals as pieces of a jigsaw puzzle. There is no doubt in my mind that the UK-Japan piece is a very important and good piece of the jigsaw puzzle to start with, but it is absolutely critical that it fits in neatly with the UK-EU trade deal. When we look at Japan, it is absolutely focused on the UK-EU deal. In some ways, unless these two bits of the jigsaw puzzle fit together, just having that one piece of the puzzle by itself does not really add the kind of value that they would be looking for, nor for us. We see this very much as a process of building these pieces of the puzzle and, as discussed already earlier, CPTPP is also a very interesting part of the puzzle that we can see helping to put it together.

Mike Cherry: We have not, as Antony has said, seen the benefit of the EU-Japan deal coming through our members yet, but I think it is important to put all this in context. The EU single market collectively is the largest single market for our exporting members. The important thing to realise is that we put a huge emphasis on the UK-US negotiations going on at the moment because for our members that is the single most important country market that they deal with now.

We very much see this as one of the bits of the jigsaw that the UK Government are trying to do. Putting this into context, according to the same survey back in 2019 we have a huge opportunity to be able to double the number of micro and small businesses who are looking to grow by exporting with the right support. That is something that we must not lose sight of. It is a great opportunity. We also see this as trade being an integral part of the economic recovery post covid-19.

Q143 **Chair:** As an aside before I move on, from the FSB point of view, if there was a contradiction between a UK-US and a UK-EU one, which would you plump for?

Mike Cherry: Very short term, I would have to say, because that is where the majority of our members engage in export markets and, to some extent, imports at the moment, as a collective it would have to be the EU. As a single country, it has to be the US and the opportunities for having FTAs with a number of countries has to be the medium to long-term goal.

Chair: That was an aside because that was away from Japan.

Q144 **Mick Whitley:** This is to each and every one of our experts. To what extent should a UK-Japan FTA be a priority for the UK?

Antony Walker: We absolutely think it should be a priority. There is a real opportunity to achieve an agreement quickly. Given the timescales involved, the scope for expanding that agreement beyond the EPA is



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going to be very limited, but we absolutely believe it is essential that we achieve that as a first step in building the longer-term relationship, and also the first step in what we will see as ongoing trade discussions between the UK and Japan. To lose the benefit of the EPA by not agreeing a deal with Japan would be a real failing at this stage.

Ian Howells: Yes, I agree with that sentiment. In the short term, as we are currently positioned and in the context that Mike was talking about earlier, the Japan agreement is an important continuity to where we stand today. From a business point of view, it gives us some certainty in the trading element that we have with Japan currently. It is important to get that resolved, simply because it means that we have that business continuity and we know where we stand as opposed to an additional area of uncertainty.

Mike Cherry: I will confirm that, because we believe that that would give consistency for the businesses that are currently operating under the EU-Japan rules. It would also ensure that, if we can get the comprehensive small business chapter included in this, it could set the standard for other FTAs that are going ahead. That obviously helps small businesses because normally FTA utilisations are low for many small businesses, and it can give the important elements of support and help and information, e-commerce and IP rights, as well as customs facilitation, that we are looking for in any future FTA, wherever that is agreed.

Q145 **Mark Menzies:** This is to all the witnesses. In which areas would you like to see a UK-Japan FTA differ from an EU-Japan FTA?

Ian Howells: It has broadly been mentioned, but digital and services is one area that we would like to see very much enhanced from the existing EPA, which is very trade oriented in a manufacturing sense. From that point of view, that is the way we would like to see it. As a manufacturer, the EPA as it exists goes a long way to meeting our requirements as a business operating in the UK, but beyond that, if we are going to make this a much more comprehensive agreement, it needs to consider services and digital in particular.

Antony Walker: I absolutely concur with that. We think the novel opportunity here is about incorporating data flows into the trade agreement itself in a way that is consistent with the adequacy agreement that the UK hopes to achieve with the European Union and because Japan also has an adequacy agreement with the European Union. This is the first opportunity for data flows to be incorporated into the trade agreement itself, which sets an interesting precedent for further agreements elsewhere. Data flows are an absolutely fundamental enabler of services, so there is an important and significant opportunity there that is achievable within the constraints of timing and so on around this agreement.

Mike Cherry: I concur with both Ian and Antony. I have nothing further to add to what they have said



Q146 Mark Menzies: This one is to Honda. We have touched on aspects of this, but what provisions would you like to see in the agreement in respect of tariffs for automotive goods and rules of origin requirements?

Ian Howells: If it follows the route that we have already with the EPA, that would be fine, we would like to see that accelerated. At the moment, it goes down to 0% but that is over seven years for a completed unit. Clearly acceleration of that would be very much appreciated, particularly as we are starting to electrify the fleet, and we are not alone in that obviously. That is a very important element if we can get that acceleration.

Rules of origin is quite a complex picture. The EPA as it stands has this seven-year horizon during which the rules of origin start off at 55% and fall to 45%. From that point of view, it is going to be a slow process to see the migration to 45%. Unfortunately, as I mentioned earlier, the UK supply chain is not that deep in the manufacturing of automotive. Those rules of origin, even at 45%, is still going to be a tough ask if we do not get the rules around accumulation. If we were using the example made earlier, the UK, European and Japan accumulation would mean that you can reach those sorts of percentages, but if it was just Japan-UK, with very low parts and componentry coming into the UK and going out from the UK in terms of Japan, that is not going to help the 45% very much. The supply chain from Europe for us as a business is much more important in the total percentage value sitting in the vehicle that we build currently.

Q147 Mark Menzies: To the FSB: how could the UK and Japan build upon the EPA in respect of provisions relating to small businesses?

Mike Cherry: As I said, the inclusion of a comprehensive small business chapter that enables businesses to very easily get the information that they need to be able to do the trade between the countries. We need to be seeing better customs facilitation. Small businesses are disproportionately affected by non-tariff barriers; that is one of the things that we have been highlighting, not just within the FTAs that the Government are trying to negotiate but also in conjunction with the TPO out in Geneva with the publication this January of our report "The representation of SME interests in FTAs". That enables this sort of thing to be absolutely fundamental to how small businesses can better engage and be supported going forward.

There are some gaps, though. While we welcome the ambition that is included in this and the Government's objectives, we feel that there is some best practice that could be found in others, like the US-Mexico-Canadian agreement. Also we would like to see if it is possible in the timescale to have the inclusion of an SME dialogue as well as a small business committee. Small businesses are absolutely right at the very heart of this. There needs to be comprehensive support from the UK Government to facilitate the opportunities for doubling the numbers who are looking to grow their businesses, particularly as we come out of covid-19 on the economic recovery path.



Ian Howells: I was going to add, following on from what Mike said, that you should not underestimate how difficult compliance with rules of origin is. We are a very large business, we have a lot of resource and specialists in this area, and it has taken us a good length of time to get anywhere near the current EPA requirements, never mind something more extensive that we might see in the UK. One plea I would make is that these systems, these rules need to be as simple as possible and very user friendly because otherwise, as Mike said, small businesses are going to struggle with this. If they cannot comply, they are going to have a problem with pricing and being competitive in the Japanese marketplace. Simplicity is very much a rule of thumb if we could possibly achieve that.

Chair: Ian Howells, that is a point well made. Something else we learned on the US-Canadian border is that although NAFTA was in place, sometimes falling under the NAFTA requirements it was easier for a lot of businesses just to pay the WTO tariff than to prove that they could have all the contents as required by the paperwork.

Q148 **Robert Courts:** Before we start, I declare to the Committee that I am a member of the FSB—Mike Cherry is here, of course—and I chair the all-party parliamentary group on small and micro business, for which the secretariat is provided by the FSB.

Having made that clear, my question is for Antony. I wanted to ask about the digital and data provisions. Of course, those are missing from the EPA. They are in the TPP and the Government have said that they intend to include ambitious digital and data chapters in the agreement with Japan. We have covered some of this ground already. You mentioned data flows and data localisation, but could you tell us what else you would want to see in that advanced chapter?

Antony Walker: The data flows is the key bit because that is the thing that is most significant for enabling trade and services, which has to be underpinned by data. The data localisation piece is also where there is an opportunity for UK and Japan to go further than the EU was able to go and we believe both UK and Japanese Governments are of like mind on these issues. We think those are important areas.

There are other areas that are significant in intellectual property, but also things that can facilitate trade for small businesses, such as recognition of e-signatures and things that can take out some of the friction in international trade for smaller businesses. There are other things like de minimis thresholds on small packages, things that enable more e-commerce to take place.

There is a range of issues. We are realistic about how much new and novel content could make it into an individual chapter at this stage. If we can achieve the data flows and the data localisations pieces, they are absolutely the big prizes here, and given the very short timescales, they would be very significant wins if they could be achieved.

Q149 **Taiwo Owatemi:** My question is directed to all the witnesses. Have you



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had appropriate opportunities to input into the Government's policy in respect of the negotiation with Japan and other partners?

Ian Howells: We had informal discussions and we have entered into some elements in more detailed discussions with the Government. That is not just in respect of Japan; that is in respect of other FTA negotiations as well. Obviously Japan is the one that is particularly important to us at the moment.

Mike Cherry: The FSB is very satisfied with the engagement that we have had with DIT in the preparation of the objectives for the Japan agreement and for others. We feel that the DIT has definitely listened to our ongoing calls for a comprehensive small business chapter to be included in this. I come back to Antony's point about *de minimis*, which we have been pushing for for a very long time—since the beginning of last year—and putting that at a sensible level that helps small businesses export to all overseas markets.

Antony Walker: I agree with the other witnesses. We feel that the issues we raised have been reflected in the document published by DIT setting out the UK strategic approach. In the case of this particular trade agreement, we feel that the engagement has been good and that we have been listened to.

Taiwo Owatemi: That is good to hear.

Q150 **Martin Vickers:** I want to explore how effectively the witnesses feel that the Government have assessed the potential impact of an agreement on their own sector. I will go to Mike first, because although your sector is small businesses, it obviously covers a very wide spectrum of activity. What is the feedback you are getting on that?

Mike Cherry: Clearly, we are a cross-sectoral organisation. Our interest is in making sure that micro and small businesses in particular, but also some of the self-employed professionals, have the opportunities that FTAs should provide for those businesses to grow. That is particularly important as we come out of covid-19, as we look to significant economic recovery, which of course will be driven by small businesses. It is welcome to see some of the ongoing support announced earlier today.

Ian Howells: The Government's impact assessment indicates that there could be a loss in added value for UK auto manufacturing. As I have illustrated though, it is probably unlikely in terms of complete units, simply because the two countries are operating in different parts of the market. In that respect, we may see it more on the componentry side. But I would restate the point that from a parts and componentry perspective, they are coming into a relatively weak market in terms of competition. It is probably less on the value-added side and more in dealing with the non-tariff barriers that are there and quite clearly could perpetuate.



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From our point of view, consumers will have a big benefit from having additional access to Japanese product and it would work the other way around as well. When we are looking at the environmental elements—and that is probably an area we have not spoken that much about but it comes into the services and digital pot that we were talking about earlier—with the UK moving towards its zero goals by 2050, and in automotive by 2035 or 2032, quite clearly we are going to have to accelerate our ability to get our hands on the technology, whether it is a completed unit or partly componentry. From that point of view, there are some big benefits but there could be some offset there.

Antony Walker: It is important to remember that this is about continuity in the first stage. An FTA is necessary in realising the potential trade gains but it is not sufficient in itself in driving the subsequent economic opportunity. As we heard from speakers in the first session, the Japanese market is not the easiest market to engage with. There is a need for considerable ongoing trade and support from Government, from DIT in particular, in supporting UK companies that want to engage with and penetrate the Japanese market.

Particularly when we think about the opportunities around digital, we are going to need to see ongoing policy and regulatory co-operation between the UK and Japanese Governments where we think there is real opportunity. Last year we had some very useful and constructive engagement about the wider policy agendas for AI, for example. If we think about some of the opportunities in areas like healthcare, Japan has an ageing population and it is a very interesting healthcare market. It could be very interesting for a wide range of UK firms, large and small, but you need to have a process of strategic engagement in that market in order to build and develop those opportunities.

We see trade agreements as being absolutely necessary and essential but they are only enablers to what needs to be ongoing co-operation. But given the nature of the Japanese economy and the Japanese market, we think that it is a long-term opportunity for the UK and for UK tech and one that we should be nurturing.

Q151 **Mark Garnier:** Mike, I will start with you on this one but I am interested in the views of all the witnesses on the CPTPP. The Government have already stated that this Japanese deal potentially is a gateway to accession to the CPTPP and thereby presumably the other 10 or so countries that are involved in that. What is your view of this? Do you see greater opportunities or is it a red herring? How does it affect your members?

Mike Cherry: In my opening remarks I said that 45% of those who export see Japan as a constituent part of the UK's accession to CPTPP. They see it as a huge opportunity that opens up more of the market across all the countries that are currently members of CPTPP. It shows the excitement there is among small and micro businesses to reach out to these new markets and they see this as a facilitator for doing that.



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That comes back to the point I made earlier, that if we get the right support for small businesses we have, according to all the survey information we provided, the opportunity to double the number of small businesses exporting, and that has to be a goal worth grasping, if we possibly can.

Mark Garnier: And the challenges that we certainly face as a country?

Mike Cherry: Challenges, there always have been. It is a long distance away. Small businesses are not going to take an easy punt on going out there unless they have something definite that they can go for. Therefore, it is being able to free small businesses up to do more on e-commerce, more digitalisation, being able to free-flow data, being able to mutually recognise our professional qualifications, whether that is in teaching, health or other areas. The opportunities are clearly there from what we have seen from our surveys of our members. We need, particularly post-covid, to have the right support there to be able to grasp these, but they are not just about getting on a train or taking the car across on the ferry as it is with many of the EU markets.

Q152 **Mark Garnier:** One of the challenges that I remember when I was in DIT was that there was plenty of demand for British product but the supply side of it was more challenging, and that was down to the fact that many people did not see an export market as a priority. They were more enthusiastic about selling to the next town down the road rather than to the next country or the next continent.

Mike Cherry: You make a fair point there, but businesses are becoming more open to realising that there are other overseas markets that they could be looking at. One of the biggest problems that you face with the Pacific countries is the difference in culture. In a lot of the European markets, and indeed America, culture and law are very similar to ours in many ways. In Japan the culture is very different and of course it takes a long time—as we heard from the first panel—to reach into some of these markets. But if there is a desire there and people recognise that UK products particularly is something that is wanted, the small businesses that can tap into those markets with quality products and goods, but also services, have a real opportunity that we should be exploring.

Q153 **Mark Garnier:** It sounds to me that entering into the CPTPP or the Japanese trade deal is the first part of what you guys need. You not only need those trade deals done in the first place but you then need significant in-country support from DIT in order to access those markets. You want to have the trade show access programme. You want to have trade advisers to teach you how to export stuff; multiple different ways you can deliver things across the world; how you get out there. It is not just doing trade deals; it is also all that support. Is that a fair comment?

Mike Cherry: It is all the support, but it is different support inasmuch as it is not what historically Government have offered. It is recognising that with e-commerce, the worldwide web and the access that you have digitally, this would enable small businesses to better reach out to these



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markets, as it already does. It is recognising that, whether it is something around vouchers or other things, to be able to just facilitate the engagement with a business and knowing that there is an opportunity out there, which is not necessarily around market research reports and things like that that have been the historical bit that has been on offer. Why not use overseas government pavilions as an opportunity to highlight those small businesses that are looking to showcase goods or services? We have to be looking at this in a smarter and better way on what it is that micro and small businesses need and how to enable that support to get to them, which is not the same as the traditional support that has been on offer in the past.

Q154 Mark Garnier: That is very fair comment. This is going to the wider issue about what DIT should be doing but your points are incredibly important. Antony, can I turn to you again with CPTPP, specifically on that? You may want to reflect some of Mike's comments as well on that support.

Antony Walker: I totally agree with Mike's comments. Mike raised the point about the impact of Covid-19 and what we have seen—the very fact that we are doing this session online—is this phenomenon of three years' worth of literal transformation happening in three weeks or three months. It is true for this session. It is also true for the way in which companies around the world are looking at global markets. Particularly for small companies, we have seen examples of small companies who, in the depths of the lockdown in the UK, were already looking at Asian markets that were opening up earlier and starting to see opportunity for business in those Asian markets at a time when the UK felt very shut down. To Mike's point, these very distant markets are looking more accessible, particularly when you think about digital, e-commerce and services, trade. Therefore, these distant trade agreements geographically become more interesting.

Coming back to CPTPP and the way we look at that, one of the reasons why we think it is particularly interesting is precisely because it is the most digitally advanced trade agreement. It incorporates all the aspects of data flow, privacy, consumer rights, things like combating spam and so on; they are all incorporated in that agreement. We think it is a very interesting model for the agreements that could subsequently flow. At a time when we see rising protectionism, in particular between some of the largest economies and largest trade blocs, the agreements that have been done more around the periphery are particularly interesting.

The UK strategic position on the direction of trade policy at a global level is very interesting from that perspective and why we think it is an interesting stepping stone for the UK.

Q155 Mark Garnier: Ian, I have come to you last because broadly it has been assumed that you will take CPTPP as it comes, because obviously Japan is already part of it. Do you have anything to add to this from the point of view of the Japanese motorcar manufacturer in Swindon?



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Ian Howells: No. I agree with what Mike and Antony have both been saying. As you just summarised, we were broadly supportive of it. We are very much behind anything that encourages free trade and the like. My only concern is if it starts to cloud the conclusion of the FTA with Japan. We would certainly like to see that finished off first and then move on to any accession talks on the CPTPP, from the point of view that that represents the most important development for us at the moment.

Q156 **Chair:** A final question from me to Mike Cherry. We were talking about businesses exporting. What percentage of FSB members will vault the tariff wall and are exporting beyond the single market and dealing with the paperwork?

Mike Cherry: There are about 22% of our members exporting at the moment and another 10% are importing. Of those exporters 93% are exporting across the EU single market, but the single most important country as a market is the USA, closely followed by some of the Europeans and then you are getting into Canada, Australia and some of the emerging markets.

Q157 **Chair:** You have given me a supplementary point of data. What percentage are exporting into the USA?

Mike Cherry: I can follow up with all the figures on that.

Q158 **Chair:** Basically the point I was going to reach was: have you seen any change in the percentage ready to jump the tariff wall and to deal with the paperwork? A problem that has been highlighted to us in and around the Committee in the past is that at the minute the hurdle of paperwork that comes in that is added to business, depending on the size of a business, seems to put people off or to impede or to stop them. It is obviously not so easy if you have something else to comply with. It seems to be a deterrent.

Mike Cherry: It is a deterrent and one of the things we are asking the UK Government for, sooner rather than later, is to know exactly what is going to be required wherever customs procedures are invoked. We certainly see that within the current EU negotiations where any increase in paperwork or customs requirement is obviously going to be time-consuming for a small business.

But let us not forget that we all have freight forwarders; our hauliers are well versed in all of this. If you use overseas carriers like DHL and UPS, they do a lot of the paperwork for you. For the smaller businesses a lot of that is not within their responsibility. But what we want to see from any comprehensive small business chapter is the freeing up of customs barriers, freeing up of paperwork, digitalisation, making sure that things are as easy as possible cross border, and that these trade barriers that disproportionately affect a small business compared with a large business are removed as much as they possibly can be.

Chair: I will leave the final word with you there, Mike Cherry. I thank you, Ian Howells and Antony Walker for being here in the second panel



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this afternoon in stakeholder interest in our third session of the Committee's inquiry into UK trade negotiations, with today's focus on UK-Japan. Further thanks as well to the first panel for their time. I hope you found it useful; we certainly did. There is a lot in these areas and there is a lot to catch up on at the moment. Yesterday we spent a lot of time looking at the USA. It is good to reorient ourselves somewhere else for a while. There is a lot happening in this space. Thank you all very much and I wish you all a very good afternoon.