

International Trade Committee

Oral evidence: The work of the Department for International Trade, HC 436-ii

Wednesday 1 November 2017

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Members present: Angus Brendan MacNeil (Chair); Liam Byrne; Mr Nigel Evans; Mr Marcus Fysh; Mr Ranil Jayawardena; Mr Chris Leslie; Julia Lopez; Emma Little Pengelly; Faisal Rashid; Catherine West; Matt Western.

Questions 97 - 210

Witnesses

[I:](#) the Rt hon. Dr Liam Fox MP, Secretary of State for International Trade and President of the Board of Trade, Antonia Romeo, Permanent Secretary, Department for International Trade, and Crawford Falconer, Second Permanent Secretary and Chief Trade Negotiation Adviser, Department for International Trade.

Examination of witnesses

Witnesses: the Rt hon. Dr Liam Fox MP, Antonia Romeo and Crawford Falconer.

Q97 **Chair:** Good morning, all. Before I start this morning I would like to say on behalf of the Committee, given especially that we are doing an inquiry on UK-US trade relations, that our thoughts this morning are with the eight people who died in New York and the 11 who were injured last night.

Can I ask the Secretary of State and perhaps just the two who are with him to introduce themselves for the record? The Secretary of State of course needs no introduction. He is also President of the Board of Trade. I am tempted to paraphrase William Hague and say I might expect to wake up some morning and find that he has been made an archbishop, such is his collection of titles, but I would not say such a thing.

Antonia Romeo: I am Antonia Romeo, Permanent Secretary for the Department for International Trade.

Crawford Falconer: Crawford Falconer, the Second Permanent Secretary for the Department for International Trade.



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Q98 **Chair:** Thank you all very much. It is customary on these occasions to offer the Secretary of State the opportunity to make a brief statement, and if the Secretary of State wants to take that opportunity, he can. If not, we would be more than happy to go straight into questions.

Dr Fox: Thank you, Chair. If you are happy, I will give a very quick update on the changes to the Department since I last appeared in February. I have to say it does not feel like it was February; it feels like it was about four weeks ago.

The Department for International Trade helps businesses export, drives investment, opens up markets and champions free trade. The overarching objective of all these strands is as stated in the WMS establishing the Department: promoting British trade across the world. Over the past nine months, the Department has made significant progress in improving the UK's international trade performance. To deliver our mission, the Department has continued to rapidly expand, and I can confirm that in the period since I last appeared, 734 people have joined the Department, ably led of course by our two Permanent Secretaries sitting beside me. Considering the Department is not yet 18 months old, I think this represents a significant achievement. As well as recruiting the brightest and best, we have also put in place improvements that will enhance the UK's wider trade performance.

Can I take this opportunity in front of the Committee to praise the hard work of our civil servants? I think there is nothing worse than elements outside Parliament denigrating the hard work that our civil servants do for us, and all of us who have served in Government I think would like to place on the record our thanks to them for that.

In our election manifesto, which we did not foresee when we last met in February, we committed to convening the Board of Trade, and last month the Board of Trade met for the first time. Its members are drawn from across the UK and its purpose will be to ensure that the benefits of trade are spread across the entire country. We have also committed to putting in place a network of Her Majesty's Trade Commissioners, and work to establish this network is ongoing. To ensure that exports and investment are equally weighted, I have also reallocated ministerial portfolios so we have a Minister who focuses on each. As can be seen from the recent statistics, the initiatives we are putting in place are already bearing fruit. The year 2016-17 was the most successful on record for foreign direct investment, with some 2,625 projects landing in the UK, and yesterday we saw the improvement in our export performance in the ONS Pink Book.

On the trade policy side, the Committee will know that we have published our White Paper, entitled "Preparing for our future UK trade policy". The consultation period for the White Paper closes on 6 November. While of course we will listen to the views expressed by the whole Committee, I would also invite each member of the Committee independently to the consultation and to set forward their own views on establishing our new



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independent trade policy. We have also announced working groups with many countries including the US, the Andean Community, Australia, China, GCC, Israel, India, Japan, Mexico, New Zealand, Norway, Turkey and South Korea.

We have also begun, as I think we discussed at the last meeting, briefing sessions for MPs. I am delighted to say that at the first session we had briefing MPs, we had 72 parliamentary colleagues attending, which, as far as I can remember in the 25 years I have been in the House, was a record number for attendance on a voluntary basis by colleagues at any briefing whatsoever, which I think shows a very healthy interest across the House in all of the issues that we have discussed.

Q99 Chair: Thank you very much. I think it shows the exponential rise in understanding of trade, which begs the question, did people understand what they were voting for when they voted to leave the EU? Because certainly the learning curve the rest of us have been on has been quite steep.

The Secretary of State said, of course, that we did not expect the election in February. Perhaps the Prime Minister did not expect the election in March when she triggered Article 50 either, which was subsequently called in April. February being a few weeks ago means we only have a few weeks' time until March 2019—the great cliff-face, perhaps. With that in mind, in May the Institute for Government stated that one of the greatest risks facing the Department for International Trade is that it fails to act strategically. Given this, why has it taken the DIT nearly 18 months to produce a White Paper that merely calls for evidence to explore the DIT's emerging approach to establishing an independent international trade policy?

Dr Fox: We are at the beginning, as everybody knows, of creating a capability and a capacity in the UK to do something we have not done for 43 years. We have been building up the expertise within our Department to enable us to do that, and we have looked at the range of issues that we faced. No doubt the Committee will want to explore them. We set those out in our White Paper, but we also set out in the White Paper our direction of travel. It will be the first of a number of ways in which we will set out our future path. The White Paper concentrated largely in a legislative way on what we needed to do to replicate the position we currently have to avoid market disruption at the point we leave the European Union, but we also set out that we have plans, for example, for new methods of consultation for future free trade agreements. We intend that to be as wide as possible, and I have had discussions recently, for example, with the devolved Administrations on how we involve them and wider stakeholders in that. It is the beginning of a process. I think we have been very transparent in setting out what we want, and there will be further publications as we go forward.

Q100 Chair: All that has taken 18 months. In 18 months' time the Article 50 period will have ended. Where will we be then? Academics in Sussex have



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criticised a lack of detail in what and where the UK will be. What is your own view? In 18 months' time, will the UK have a transition deal, and what will the transition deal mean? Will we still be in the EU as full members or not, or will your Department be fully functioning then and operating across the expanse of the globe? Business particularly needs to know.

Dr Fox: At the end of March 2019, we will leave the European Union. We will be outside it. We will be a separate legal entity. Our Department has been preparing for that, irrespective of whether there is an implementation period after that. That is why we have put such emphasis on getting our trading schedules regularised under the technical rectification in Geneva. That is why we have been moving forward with a process of getting transitional adoption of the EU's FTAs, so that again there is no disruption and there is a legal basis for trade on the day that we leave the European Union.

Whether we have an implementation period or not of course will depend on whether we have an agreement. You cannot have an implementation period if there is no agreement. I hope that there will be an agreement and I still believe that there will be. If we have an implementation period of course that will depend on what we are implementing and transitioning to, but we will be ready for the UK legally leaving the European Union at the end of March 2019.

Q101 **Chair:** A final point from me at the moment. Article 50 having been triggered then puts the transition period in the hands of the EU27 by unanimity as well, so just to be clear, it is your view and the position of the UK Government that from March 2019 the UK will cease to be a member of the European Union, regardless of what the deal is or not, assuming the European Union grants it to the UK?

Dr Fox: Yes, we will cease to be a member of the European Union in a legal sense.

Q102 **Catherine West:** The White Paper has been described as vague, and I am wondering what your priorities are as a Department.

Dr Fox: The three functions of our Department are the promotion of UK exports of goods and services, both inward investment to the UK and outward direct investment, which is perhaps something that we might turn to, because that is new in terms of our priorities, and trade policy.

Q103 **Catherine West:** That is very broad. What are the actual priorities? What are you seeking to do? Because the world is a big place.

Dr Fox: Our priorities are to increase UK exports. We have seen a good export performance over the past year. Our total exports to the EU were £236 billion—and beyond, £312 billion. That represents a 3% and 8% rise respectively. We are working to get more foreign direct investment into the UK for obvious reasons, and we are working to help get more outward direct investment, not least as a counterbalance to the trend in



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our current account. In 2010 we were running a current account deficit of some 2.5% of GDP. By the end of last year, we were running 5.9% of GDP. That current account imbalance is largely because of our primary income flows, because in an open economy, if you have lots of foreign direct investment. That becomes outflows of dividends after year one, and if it is not counter-balanced by overseas direct investment, you get that imbalance. We want to try to correct that by increasing our UK stock of investment abroad.

Q104 Catherine West: What aren't your priorities, then? Because you do not seem to be able to say what your priorities are.

Dr Fox: I think I have stated very clearly what our priorities are: to improve the export of British goods and services, to get more inward investment and to encourage outward direct investment, as well as preparing trade policy for when we leave the European Union. I am not sure I could be much clearer.

Q105 Matt Western: Secretary of State, the Department is reported as having about 10 priority countries earmarked for free trade agreements. I think it is clear on record that you have a preference towards, say, an Atlantic bridge as opposed to a Channel bridge. Which countries do you see as the priorities, and on what basis have they been chosen?

Dr Fox: There are two separate categories, I would say, within the EU FTAs. We clearly have a range of priorities there. For example, the two of the EU FTAs that are most important by value for the United Kingdom would be South Korea and Switzerland. In terms of new FTAs that we would be looking at to negotiate when we leave the European Union, the United States, as our biggest trading and investment partner, is very important to us. It is worth pointing out that it is not just the state of our exports to the United States, which is considerable, but the level of investment stock that the UK has in the US, around £250 billion, and the inward stock that the US has in the UK, again slightly more than £250 billion. After that, we have had an expression of interest from a number of countries. We are continuing to look at those, but at the moment it looks like Australia and New Zealand would be our priorities after the United States.

Q106 Mr Nigel Evans: Secretary of State, we read a lot in the newspapers, in the media, about divisions—

Dr Fox: Always a mistake.

Mr Nigel Evans: Absolutely, and I believe every word. We read a lot about divisions within the Cabinet over Brexit. Have they all been ironed out now?

Dr Fox: In terms of the policy that the Chancellor and I set out in particular over summer, it was this point that the Chamber has already raised: that we will leave the European Union, and we will be outside the single market and the customs union, at the end of March 2019. What we



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would then want to see is a period where we give business certainty during any implementation period, where we have to devise systems to get us to whatever the new end state is. I have to say that I share the frustration of many of my colleagues that we are not able to begin negotiations on end state at the present time. It is not just an issue for the United Kingdom.

For example, when I was in Japan a few weeks ago, international investors there were making the point that it is not just about the UK's access to the European market we are talking about. It is also European access to the UK market as the world's fifth largest economy. I should possibly have added at the beginning that I am very keen that we get a deal with the European Union, but I am not afraid of not getting a deal, and I think that we need to work within those parameters. I think that those who say we want a deal at any price undermine our negotiating hand, and those who say we want no deal and we want to walk away are not taking a realistic view of our economic position.

Q107 Mr Nigel Evans: Do you not feel frustrated by the lukewarm attitude of the Chancellor of the Exchequer towards Brexit?

Dr Fox: I had a very constructive meeting with the Chancellor yesterday and it was far from lukewarm. We were discussing in detail, for example, the UK's future trade posture, what we might be saying when we get to the ministerial conference in Argentina in December, and how the UK might look, post-EU, to encourage different ways of looking at global trade and different mechanisms of global trade.

Q108 Mr Nigel Evans: You say you are not afraid of a no deal and it would be better than a bad deal, but what does this cliff-edge look like? If we go crashing out of the European Union in March 2019 without a deal whatsoever, what is the agricultural sector in the United Kingdom looking at?

Dr Fox: That is why we do not want no deal. That is why we are working towards a deal. We want to see a full and comprehensive trade agreement. As I have often explained, it is a very different prospect from dealing with what we are doing at the present time with a traditional free trade agreement. Normally, if we were negotiating a free trade agreement, we would be a distance apart. We would negotiate down the difference until we could reach what would be a new status quo, and then we would set the parameters and the penalties for deviating away from that agreement. In the EU, we already have utter coincidence. We have zero tariffs, we have 100% not just regulatory equivalence, but regulatory harmonisation, so all that can happen is we stay the same or we move further apart. That is really a political question, and a question of whether we end up with a political Brexit, which seems to be what some elements of the Commission want to see, or an economic Brexit that is in the interests of European Union citizens.

Q109 Mr Nigel Evans: Who do you think is going to win that battle? There



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does seem to be this image that certain people within the European Union just want to punish Britain to stop anyone else from leaving, and to also pay us back. Who do you think is going to win this battle?

Dr Fox: I think the language, which is regrettable, that some people want to punish Britain for leaving, in case any other people would want to leave, is the language of a gang, not the language of a club, and it should be avoided.

Q110 **Chair:** Who is employing that language, do you feel? Is that the language of the European Union, that gang language?

Dr Fox: I think there have been some unwise phrases used. I think it is much better for us to get away from the hyperbole. In the longer term, it is in the interests of all European Union citizens to maintain an open, liberal trading environment. I would add one thing to that: to go back to the international—

Q111 **Chair:** Just a minute. Would a part of that hyperbole be that the European Union can go and whistle for its money?

Dr Fox: I think we need to stay away from language that suggests we do not want a deal, or that we want a deal at any price. I think either of those is unhelpful to our negotiating position. What I was just going to add in terms of global investors is that they are looking at Europe from a global economic perspective, and any introduction of impediments to trade or investment across the European continent that do not exist today will be a disincentive for global investors.

Q112 **Mr Nigel Evans:** One final question about the United States of America. We are absolutely desperate to do a deal with the USA, and last week we were told by one witness that we have absolutely no leverage with them whatsoever. They are going to be hard negotiators, and we may even get a bad deal out of the United States of America. Is it best to have no deal or a bad deal with the USA?

Dr Fox: First of all, I do not accept the premise of the question that we are desperate to do a deal with the United States. We would like to do a deal with the United States. It is one of our biggest trading partners. In fact, as a country, it is our single biggest trading partner. Of course we would like to see increased openness for both goods and services, but we have begun our workstreams with the US. We are scoping them out at the present time. We would not agree to a bad deal.

Q113 **Mr Nigel Evans:** America First?

Dr Fox: America?

Mr Nigel Evans: I am talking about Trump's policy of America First. It is a protectionist racket. They are going to give us a bad deal, aren't they?

Dr Fox: If we were offered a deal we did not think was to our advantage, we would not take it. It would not be a deal.



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Chair: So no deal is better than a bad deal with the United States.

Q114 **Mr Ranil Jayawardena:** I wonder if I could probe a little bit more on the US and the EU concurrently. Do you think there is value in making sure that there are concurrent talks with both parties, both so that there can be trade-offs, and so that we strengthen our hand with both parties?

Dr Fox: Perhaps Crawford might want to say something about this, but clearly there are some unavoidable overlaps in the two, which is why we set up not one but four working streams with the US. Our first working stream is in continuity agreements. The second is on where we might get short-term bilateral liberalisations during our period of membership of the EU. The third is scoping out the future FTA itself, which is obviously at an early stage, and the fourth is how we might co-operate bilaterally when we leave the European Union, in terms of WTO reform to get it to operate more effectively in the global system.

On the first of those, which is clearly, in a Venn diagram, an overlap, we have things like open skies, where there is an unavoidable sharing of interest. We have made considerable progress with the United States on that, and considering that we then will have an open skies agreement with the United States and that the European Union will have an open skies agreement with the United States, it is inconceivable that the European Union would not have one with the United Kingdom, otherwise in the real world it would mean the dismantling of things like the Oneworld Alliance and the Star Alliance, which is not going to happen.

Q115 **Mr Ranil Jayawardena:** It very much strengthens our hand, then, to have these discussions, which your Department is undertaking, but I wonder if I can then turn to some benefits for the future. If we are no longer bound by EU regulation when we leave the European Union in 2019, what benefits can the UK expect to see in terms of growth and investment from the US as a result of an FTA with them?

Dr Fox: That would depend on what an FTA looked like.

Q116 **Mr Ranil Jayawardena:** Can I probe on that? Are there particular sectors in which you can envisage us having a sector-based FTA, rather than a comprehensive one?

Dr Fox: Again, I will hand over in a second to Crawford on that, but I would say as a general point that we do need to get away from the concept of huge, multilateral agreements that take too long. We need to get away from using FTAs only as the top tool in the box. There are other things, including open equivalence agreements and mutual recognition agreements, that we will need to consider using, because they will be quicker to achieve and might get us to our goal of trade liberalisation more quickly.

To go back to Mr Evans's question about the US, there are a number of areas that make the UK a prime choice for the US in a future FTA. We have similar types of economies in terms of relation of goods to services.



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We clearly do not threaten US manufacturing jobs, which is therefore not a political impediment to the President or his Administration. There is strong congressional support for an agreement with the UK. The Administration is keen to show that it is not against free trade, and setting up an FTA with the world's fifth biggest economy is clearly a way to do that, and there is strong US public support for it. But perhaps Crawford might want to say something specifically about the processes.

Crawford Falconer: Thank you, Secretary of State. As far as the content of an ultimate negotiation is concerned, in general terms, the more comprehensive the better. That means it would cover all goods and services. The UK is an enormously powerful economy. It is not as large and powerful as the United States, but it has lots of areas in which it will be complementary to the US economy. There is no reason why, in areas as diverse as food and beverage, digital, and high technology, we cannot have a mutually beneficial agreement with the United States. It takes two to tango. They have to be prepared to take the steps to make the changes to their own market to allow for us. We would have to do the same. We have been open to the European Union and we already have a completely free trade arrangement with the EU. We have open markets globally ourselves. Consolidating with the United States should not be a threat for us. It should be an opportunity, and they are committed to it. It makes a lot of sense.

Q117 **Mr Ranil Jayawardena:** In respect of what we heard last week, with some critics decrying the Australia-US FTA as rushed, and with the lack of access to key markets such as beef for Australia, could you assure us, with regard to a UK-US deal, given what you have just said—and indeed, what the President of the Board of Trade has just said—around us being complementary, that this would not need to be rushed, and would not prevent us having the access that we seek? The suggestion was made last week that it had reduced trade to other markets, but would you agree that regardless of where trade goes, trade going up is good for the British people?

Crawford Falconer: One of the most important things is that this will not be rushed. We are in a very sensible process right now where we are reflecting bilaterally with the United States on a range of issues. We have quite a period through to March 2019 where we are not in a position to be able to negotiate, because we are part of the EU, we respect the principles of sincere co-operation. In fact, we are in what you might say serendipitously was a very good homework mode, and that is what we are doing: making sure the homework is right.

In parallel, what we will be doing is what any good negotiator does: conduct very extensive negotiations with all the private sector and stakeholders to make sure that we have exactly the right kind of approach to the negotiations. This will not be something cooked up by a few bureaucrats sitting in a corner. It will have to be part of a serious



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engagement process with the people who are commercially affected, and we will be doing that calmly and in a considered way to achieve it.

Chair: Thank you. I think Australian agriculture brings me quite neatly to Catherine West.

Q118 **Catherine West:** It does. What about the agricultural questions we have heard rehearsed by Mr Gove and so on about the standards of food coming into and out of the UK, and, secondly, defence? In a British-American parliamentary trip that I undertook with other Members, the negotiators whom we spoke to were very clear that the US's own defence is very much No. 1 for them—America First—and I think we have to be realistic. Just how realistic is the Department being about how competitive we could be? Agriculture and defence: the two toughies.

Dr Fox: I do not think that anybody thinks the US is a pushover when it comes to any trade negotiation. Anyone who has worked with the US would understand that. Clearly there are going to be asks that they will want, probably in agricultural sectors. We will have to decide if we think they would be acceptable as a price for what we would want, in terms of the US markets.

Q119 **Catherine West:** I think Mr Gove has ruled it out.

Dr Fox: Let me say on standards, first of all I think that UK consumers will have a strong view in all future trade agreements. Pascal Lamy has written a very interesting piece talking about how we are moving away from the age of producer protection to consumer precaution. In other words, consumers are likely to be more active than before, as we saw, for example, with TTIP.

Q120 **Chair:** Does that mean consumers would get chlorinated chicken?

Dr Fox: We need to understand the parameters of where the public are before we would get into negotiation. I think that one of the things that we are very conscious of post-TTIP is the need for us to understand what the political parameters would be prior to any negotiation. It would seem to me to be a waste of time and effort to try to get agreement on things that we could not sell to either Parliament or the public. I think that politicians need to understand we are in a different place now, in terms of the public's perception. Safety standards, environmental standards, workers' rights and ethical production will, I think, all be issues that the public will have a much stronger view on in future trade agreements than they have had before. We will have to understand that, and take that on board, in terms of planning a consultation.

Q121 **Catherine West:** Defence?

Dr Fox: In defence, we would want—and I think there is some appetite from the United States—to see whether we can avoid some of the complex and expensive duplication that goes on on both sides of the Atlantic. You will be well aware, as we all are, having spoken to any of our big defence companies, how irritated they are on both sides of the



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Atlantic with the regulatory framework that requires them to effectively duplicate what they are doing. I think that the US Government as well as our Government understands there is a lot of potential savings to be made there, but it does require some changes, for example, on ITAR posture to enable us to do that.

Q122 Matt Western: This question about the balance between trade and investment, and what you are saying about post TTIP: do you agree with the view that the US's real interest in trading or dealing with this country is about investment, as opposed to simply trade?

Dr Fox: It is both. I do not think you can separate out trade and investment. They are two sides of the same coin. If you look, for example, we have a very well-balanced investment picture with the United States. The US has about £265 billion invested in the UK, and we have about £250 billion invested in the US. UK firms employ 1 million people in the United States; US firms employ 1 million people in the UK. There is a very well balanced and working investment relationship there. On top of that, there is a considerably balanced trade flow compared to most countries, so if we can find ways of improving all of those, that is to our mutual benefit. I do not think you can separate out the investment and the trade elements of that, because they are very closely intertwined in many ways.

Q123 Mr Nigel Evans: Is there anything wrong with chlorinated chicken?

Catherine West: Yes.

Dr Fox: There are no health reasons why you could not eat chicken that had been washed in chlorinated water. Most of the salads in our supermarkets are rinsed in chlorinated water. In terms of reduction of campylobacter bacteria food poisoning, the United States has in general much lower levels of campylobacter food poisoning than most countries in Europe.

Q124 Mr Nigel Evans: Would you like to see British consumers eating chlorinated chicken, yes or no?

Dr Fox: I have no objection to the British public being sold anything that is safe, as long as they know what they are eating. I am a great believer in giving the British public the choice over what they eat. As long as scientists tell us it is safe, then I think that should be our guiding principle.

Chair: I think we can take that as a straight political yes.

Q125 Mr Nigel Evans: There are millions of visitors who go from the UK to America every year; I will be there next weekend. Should they avoid eating chicken in America?

Dr Fox: No.

Q126 Chair: Before we move on from this area, Dr Adam Marshall of the British Chamber of Commerce—who himself is half-American—this morning



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cautioned against rushing into a trade deal with the United States from evidence from his membership. There are about 15% of UK traders in the US, and they are doing quite well at the moment. His fear, and the fear of members, is that this will ease buyouts and asset stripping and takeovers by Americans of UK firms.

I think you arrived in Washington earlier this year with 27 officials on trade talks, none of whom had any experience in negotiating trade deals, where the Americans had a 77-strong team, about three times your size, made up of largely seasoned negotiators. Combined with the fact that it has taken two years to agree on the labelling of tomato ketchup and Coco Pops, of all things, this shows that making a deal with America might be rather difficult, particularly when the seasoned trade experts will say this will have zero impact or negligible impact on American GDP. The important point is: how much cognisance do you give to the views of the British Chamber of Commerce, who caution against rushing into this?

Dr Fox: I have already said in answer to an earlier question that we are not desperate to do an agreement. We would like to do an agreement, but we want to do the best agreement, and we will take our time to do so. We are not rushing into anything.

Q127 **Chair:** Do you feel an agreement with the European Union is a greater priority than with the United States?

Dr Fox: I do not think it is either/or. I think we need to do a deal with the European Union. We want to have an open and liberal agreement with them. When we have agreed that, and when we are outside the European Union, then we will have the opportunity to look at trade deals. I would add one really important rider to all of that discussion. In terms of the UK's overall benefit, it is not how many markets we have potentially open to us; it is how well we sell into those markets. Getting greater market opportunities is one thing; being able to fulfil those market opportunities and take advantage is another, which is exactly why we are concentrating on improving our trading performance, not least in the markets where we already have access but could be doing better.

Q128 **Mr Chris Leslie:** Just to pick up that point, did I hear you say that you did not regard it as a higher priority to secure a free trade agreement with the European Union than to do so with the US?

Dr Fox: Clearly, our first priority is to get a deal with the European Union.

Mr Chris Leslie: Phew, right. Just checking.

Dr Fox: That is the main task of the Government at the present time. We want to see a good deal. When we have established our relationship with the European Union, we will be able to look to see what happens beyond that.

Q129 **Chair:** From March 2019, will that be your responsibility or DexEU's?



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Dr Fox: That will depend, of course, on what the Prime Minister decides, in terms of the machinery of Government. Beyond 2019, any—

Q130 **Chair:** Surely the certainty at the heart of the UK Government is that that simple question cannot be answered directly?

Dr Fox: I am not sure exactly what the question is.

Q131 **Chair:** From March 2019, after we have left, who will be responsible for negotiating trade deals with the EU? You have told us we will be leaving the European Union. Will that be your Department or DExEU from March 2019?

Dr Fox: If we already have an agreement with the European Union, if it is what we want, the negotiation of the European Trade Agreement is the responsibility of DExEU, not the responsibility of DIT.

Q132 **Chair:** From March 2019 it will still be DExEU?

Dr Fox: I would expect that to be a single continuous process, and not to be switching battles in 2019.

Chair: So DExEU will continue beyond the exit?

Dr Fox: That is what I expect.

Q133 **Mr Marcus Fysh:** In what exact way are you involved in planning and negotiation for the future relationship between the EU and the UK, given that its nature would define much of what we can do in trade policy after that is settled?

Dr Fox: Of course we have a series of Cabinet Committees where we are able to look at the options we have, and the collective decisions that are taken. Of course, as has already been referenced, there are areas of overlap, and there will be areas of overlap between any agreement we make with the European Union and its impact in terms of its regulation, in terms of what we do elsewhere. Of course, as one of his duties, Crawford keeps watch on the overlap between the two to make sure we have consistency. On issues like the agreements that we have—I mentioned one of them specifically earlier—we have real-time issues on open skies to ensure that we get alignment.

Q134 **Mr Marcus Fysh:** I am heartened by the idea that Crawford is involved in that. What trade negotiating experience does the UK Government have outside of your Department?

Dr Fox: We are building a capability. Let us be very frank about this: we are building a new capability.

Chair: I think the question was what experience.

Dr Fox: The UK has not had to do this for 43 years. The idea that it should come as a surprise to anyone that the United States has more seasoned negotiators than the United Kingdom, which has not done it for 43 years, is really quite something, that this would shock anyone. We are



creating that. Antonia might say what we are doing about cross-Government in terms of creating a capability now, in terms of training a professional cadre of people to do this. That is clearly what we have to do before we get into some of these negotiations later on.

Q135 Mr Marcus Fysh: I am very concerned that the Government outside of your Department does not have any trade policy negotiating experience. I am certainly interested in hearing more detail about how those committees work and how Crawford and the rest of the civil servants in your Department can help in that process because, as I say, I am very concerned.

Chair: Perhaps you can write to the Member with the details.

Q136 Julia Lopez: In July, you suggested that the real cause for us to pursue and champion was the liberalisation of the services sector. I would like to know how you intend to pursue this agenda, and following on from Catherine's question, whether that is effectively going to involve us trading agriculture access for services.

Dr Fox: No. The primary way in which we will do that is to try to move forward the Trade in Services Agreement, which is currently becalmed. Part of that is that the US Government does not yet have a clear position on the Trade in Services Agreement, and we think it is very important to move it forward. In a slightly more general way, we think it is important to get opening up of the service sector. The UK is primarily a service economy, so clearly there is disproportionate benefit for us to see a more liberal environment in services. But TiSA, in trying to move that forward, will be one of the things that we push at the ministerial meeting in December in Buenos Aires.

Q137 Julia Lopez: You talked earlier about pursuing a WTO reform agenda with the United States. What would be the main strands of that reform agenda?

Dr Fox: We will want to see how we can get away, as I mentioned earlier, from reliance on very complex, multilateral agreements. Having smaller plurilateral agreements would be one way to do that—to get those agreed, to post them at WTO, and then to say that countries that fulfil the criteria and are as liberal as we are would be welcome to join those. That is one model.

Secondly, we want to encourage concepts of regulatory equivalence, rather than absolute harmonisation. Equivalence based on outcomes is the way that internationally people are beginning to think about this. One of the most important reforms is getting away from concepts of gross trade. For example, one of the most widely quoted is a Chinese iPhone. If you take a Chinese iPhone and say it is \$400 and you count that as a \$400 export to the United States, you get one picture of the trade balance, but if you understand that that iPhone has only 10% Chinese content, and lots of the other content would come from Korea or Japan,



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or be re-imported and then exported American content, you get a very different view of what global trade looks like.

I worry that our obsession with measuring gross value trade rather than trade with value added is giving us a distorted view of global trading. One of the things that the OECD is concentrating on, and we are working very closely with them, is how we get everybody to have a common currency, if you like, in measuring trade.

Q138 Catherine West: Secretary of State, would you accept that we are in the foothills of understanding these different mechanisms? In the end, it comes down to a contractual agreement between parties, and that requires a dispute mechanism, some sort of resolution, because you cannot just say, "We are going to be friends." I am wondering how realistic you are being.

Dr Fox: I think quite realistic, given the conversations that I have had.

Q139 Catherine West: But conversations are not a contract that is signed and sealed and has a regulatory—

Dr Fox: I do think we are talking here about methodology, largely—about how we do things, about how we measure things better. My worry is that if we do not have the correct datasets, if we are not looking at data that is properly sensitive to the multiple flows that occur in trade, for example, then we may decide that we have a massive trade imbalance with a particular country, which when you get down to it may not be as clear-cut as it looks. I think that in the era of globalisation, we have to understand cross-border flows much better than we do at present.

Certainly the OECD are trying to push these ideas and are looking for a political champion, and I think that is a natural role for the UK to adopt.

Q140 Catherine West: I would just like us to be realistic, rather than just having a few conversations, because a lot does hang on this if we do not get that deal. We cannot just say we have had a few conversations. We will have to have a whole new system if there is no outcome in 18 months' time. I am all for blue skies thinking—

Dr Fox: I do not think we are talking about the EU here. We are talking about WTO, and I think we are talking about the global system, how we measure global trade, how we can help liberalise global trade by looking at the regulation around it differently, and how at the WTO we can make things move more quickly, so that we have an agile system. My worry at the moment, which is shared by many, is that if we want everyone to sign up to a rules-based system around WTO, it has to work properly, it has to have operating on better datasets, and I think it has to be more agile than it has been.

We took a long time, for example, to get the Trade Facilitation Agreement, and we do not have the Environmental Goods Agreement



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yet. If you cannot agree that it is a good thing to reduce the tariffs on solar panels because it is beneficial to the global environment, it is quite hard to see how you could do much more complex trading agreements.

Q141 Julia Lopez: What do you see as the major barriers to getting a deal with the US on financial services in particular, and what discussions have you had so far with your US counterparts about dismantling those barriers?

Dr Fox: We are at an early stage with the US of scoping out the areas that we might want to consider, so we are not negotiating with the United States. That would be in contravention of common commercial policy.

Julia Lopez: But a discussion?

Dr Fox: As one of our four work strands, we are looking at what areas we think we might want to concentrate on, where we think the difficulties might be, and what the various asks might be that we would look for, going ahead, and we will take those in plenty of time. We have a lot of time, as Crawford said, to do our homework before we have to begin a negotiation. That is not a luxury you would often get.

Q142 Mr Ranil Jayawardena: What work is your Department doing to educate consumers on the benefits of freer trade, lower tariffs and the lower prices that could follow?

Dr Fox: Interestingly, we have had a series of meetings, the most recent one being yesterday, with the British Retail Consortium to talk about how consumers can understand the benefits of trade. Of course in global trade those who win do not always notice that they are winning. For example, the big reduction in the prices of electronic goods over the last 20 years means that we can get a better choice at higher quality, but at a price that has fallen by some 50% in real terms, and clothing prices have fallen by 38% over the same period. But those who lose from global trade are much easier to identify, and self-identify.

We have had discussions on two strands, I would say. One is getting consumers to understand the benefits they get from having goods available all times of the year, not just seasonal goods, and benefits in terms of food, cheaper non-food goods, better choice, better quality, and better competition. There is also understanding the impact that the reverse position—the more protectionist position—would have, for example, on many of the producers. If we had a more protectionist environment in terms of shoes, what would that do for producers in Vietnam or Bangladesh, and the people who depend on those jobs for their livelihood?

Q143 Chair: Before we move to Emma Pengelly, from 1 April 2019, does your Department and your Secretary of State intend to be in a position where you are theoretically able to go and negotiate deals with the United States of America or anywhere else, given that DExEU are still dealing with the European Union, when you could theoretically do a deal with any



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country that you want?

Dr Fox: We would want to have the freedom, including during any implementation period, to do that.

Q144 **Chair:** Will you be able to do that? Is it the intention of the British Government, the UK Government, that from 1 April—

Dr Fox: We will have the ability to do that, yes.

Q145 **Emma Little Pengelly:** Regarding the 60 countries with which the EU currently has free trade agreements, a former Trade Minister tweeted over the course of the last week that all have agreed to roll over. I know that you made some positive noises in relation to this as well, in terms of earlier conversations, and that there was a willingness with those countries to continue post-Brexit, but at this stage, can you outline what exactly has been agreed? Is it very much to your understanding that there is not an issue with any of those third-party countries at this point, with whom have you had those conversations?

Dr Fox: As I said, some of those countries are a high priority in terms of value for the UK. We are at a fairly advanced stage with some of those, and we have not had any indication from any of them that they did not want to get bilateral market access and continue where we are. Of course there are issues. It is not quite as simple as rolling them over, because we have disaggregation of quotas, for example, in some of those, and we have been involved in discussions about the methodology by which we will do those. But remember it is a transitional adoption, with an implicit understanding that this agreement is to ensure market stability at the point we leave the European Union, but with a view to being able to develop a more bespoke agreement with those countries in the future.

Q146 **Emma Little Pengelly:** In relation to that disaggregation point, there has been a lot of talk in relation to this no-deal situation, which of course is very much no deal with the European Union. What, if any, impact might that have in terms of this rollover and discussion with the other countries in relation to these existing free trade deals not with the EU? For example, does that discussion about the quota or the baseline require European Union agreement if there is no deal with the European Union? Does that threaten in any way our ability to roll over, with some discussion, those other agreements?

Dr Fox: We set out our methodology early on and the principles that we would adopt in doing this. We said that we wanted to be transparent and fair, but the three overriding principles that we had were that we would not disadvantage current exporters to the UK by diminishing their market access, we would not diminish UK producers by increasing that market access, and we would not disadvantage UK consumers. In other words, market stability was the best way to guarantee all three of those. Incidentally, guaranteeing all three of those minimises any risk that we would be taken to dispute at WTO, because we are not harming any of those particular interests. So we put those as our key considerations.



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We set out a basic methodology that said we would not, for example, divide by 28 the EU quotas—or divide by 15, as most of them were when we joined—or do it by GDP, but we would look at market share. Market share seems to be, averaged over a number of years, the best way to get a starting point. We have had those discussions with trading partners both at Geneva and at the WTO in relation to our schedules, and of course very similarly with our trading partners in terms of EU FTAs. Crawford might want to add something to that.

Q147 Emma Little Pengelly: Would you go so far as to say that you are confident, even in a no-deal situation with the European Union, that after Brexit, we would continue to have those 40 country free trade deals?

Dr Fox: Yes, because those countries will want to have a legal basis for trading with the UK and to avoid any disruption to markets. That is in our mutual interest. Of course there is a corollary issue there, which is that while some countries have expressed satisfaction with the UK in terms of the basic methodology that we have set out—and the EU basically shares our methodology—a number of countries are worried that the EU may try to reduce the EU quota by the amount that the UK gives as quota. They might argue at WTO that they have less access to the EU in total than they have today, their argument being that they did not get more quota when countries joined after Britain, so why should they get less quota when Britain leaves?

Q148 Mr Chris Leslie: Let us try to speed this up, just to get it clear. We are asking for priorities. The first priority is a free trade agreement with the EU. It is about 12%, isn't it, of our trade, the grandfathering, rolling over these free trade agreements that we have, by virtue of our membership to the EU?

Dr Fox: If Mr Leslie is asking across the whole of Government, clearly our priority is the European Union agreement for our Department, because we do not negotiate the EU agreement. Our departmental priorities will be getting our schedules under technical rectification at Geneva and the EU FTAs, and only then will we look at new FTAs.

Q149 Mr Chris Leslie: I am a bit confused by your answer earlier to my colleague, because one of your Ministers—a former Minister now, of course—Lord Price, was very clear in his tweet. All of the 60-plus, I think it is, non-EU countries who had FTAs bilaterally or regionally with the EU have agreed to roll over. Is that not the case? Was he wrong?

Dr Fox: No. As I said earlier, we have not had any indication from any of our trading partners in those countries that they would not want to do so.

Mr Chris Leslie: But they have not agreed.

Dr Fox: We do not have agreement with them, but they have agreed with the process.

Q150 Mr Chris Leslie: There is nothing to lodge in the House of Commons



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Library—no agreements that are signed, no paperwork, nothing?

Dr Fox: Nor is there likely to be until we get considerably closer to March 2019.

Q151 **Mr Chris Leslie:** Have all of those countries confirmed at least that they will use the existing texts of the EU FTAs as a basis for the new agreements with the UK?

Dr Fox: Yes.

Mr Chris Leslie: They have all agreed that?

Dr Fox: The whole point is just as I described previously to the Committee in terms of our EU schedules in Switzerland at Geneva. This is a technical replication of the existing structure. We are not trying—

Q152 **Mr Chris Leslie:** It is a really simple question and very quick. Let us go through this. Have they agreed or have they not agreed to use the existing texts of the EU FTAs in their agreements with the UK?

Dr Fox: As the basis, but as I have explained, we cannot use the exact same text.

Mr Chris Leslie: There are agreements that have been reached?

Dr Fox: No, we have not finished any agreements yet, but we have agreed on the method that we will use to get to that end point, which is to use the EU FTA as the basic text with as technical a replication as we can have, notwithstanding the disaggregation of things—

Q153 **Mr Chris Leslie:** Is that a verbal agreement with those 60 countries? What form is the agreement in? I am just trying to pin that down.

Dr Fox: We have had initial discussions with them, and we are now beginning to get more granular with the most important ones of them. As we go through the process, we will get closer to agreements. When we have the agreements on the biggest of them, then we will work our way through the others, hopefully finishing them all by the time we leave the EU.

Q154 **Mr Chris Leslie:** All of them have indicated that they are not going to seek to renegotiate any parts of those agreements. They have all indicated that, yes?

Crawford Falconer: They have all accepted the process that we have described. We have to try to be clear about it. We have an EU-wide text, which they have. Obviously we are not going to be applying an EU-wide text, so you have to make the technical changes to that EU-wide text to refer to the UK. EU institutions that were in that legal text, EU arrangements—that all has to be done.

Q155 **Mr Chris Leslie:** I am not interested in the technical side; I am talking about in principle—the principles of the deal. They have all agreed to roll



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over those principles, and none of them have said that they are going to seek to renegotiate any part of the principles of those agreements; they have all agreed that?

Crawford Falconer: They have agreed that that is what they intend to do. All I would say is that I have been around negotiations a lot, and what people say today sometimes changes tomorrow.

Mr Chris Leslie: So they are not all agreed.

Crawford Falconer: People agree at a certain point in time, but they sometimes change their mind.

Q156 **Mr Chris Leslie:** Yes, but if a Minister of the Crown is tweeting out, “All have agreed to roll over”, that is not correct. Do you see the problem? I know the Minister has now departed, but it is quite important that we are clear. These are not agreements that have been reached so far.

Dr Fox: What Lord Price had said was that he had variable agreements with all these Governments that this would be the process that we followed. We have not had any indication from any Government that they wanted to deviate. Some countries have said they would prefer to move directly to a new FTA with the United Kingdom, but we have made very clear that that is an ambition for another day, and that what we want is a technical replication—

Q157 **Mr Chris Leslie:** My last question might be to the Permanent Secretary; I am not sure. There are a series of non-FTA trade-related EU treaties to which the UK is a party: the mutual recognition agreements, the regulatory co-operation agreements—all these other things. The UK is going to cease to be a party to those at the point of Brexit. How many of those are going to be grandfathered as well? How many of those are going to be rolled over? Do you know how many are involved? What is your indication of the number that we are talking about?

Dr Fox: I need to write to the Committee, because of the wide range, and we are not the departmental—

Q158 **Mr Chris Leslie:** I think *The Financial Times* was saying it is something like 759. Does that seem about right to you?

Dr Fox: I have learned recently not believe everything I read in *The Financial Times*.

Mr Chris Leslie: But are they in the right ballpark?

Antonia Romeo: There were multiple hundreds, but as the Secretary of State says, we are not in the lead on information, so we can write to the Committee.

Mr Chris Leslie: Is there a figure? There is a figure though; somebody has a grip of that?



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Antonia Romeo: Yes, there will be a number of such agreements that we are working on, but they are not all being worked on by the Department of International Trade.

Mr Chris Leslie: I will look forward to the letter.

Q159 **Chair:** Before we move to Faisal Rashid, I think you said that the 60 countries in these 40 agreements did not want to change the agreements and were willing to roll them over. Would the UK want to change any of the details in those agreements and perhaps renegotiate parts of them?

Dr Fox: No.

Q160 **Chair:** So the Korean deal that has 55% rules of origin for automotive, which enables the European Union to use entirely European Union as its rules of origin base: you would not seek to renegotiate that?

Dr Fox: The whole point of transitional adoption is to provide a technical replication of the conditions that exist today, so there is no disruption at the point at which we leave the European Union.

Q161 **Chair:** What does that mean for the automotive business in the UK? I want to be clear.

Dr Fox: What it means is no change from the current status.

Q162 **Chair:** With respect, it does not, because if you cannot locate your 55% of rules of origin within the UK, you then cannot export those finished products to Korea. If some of those come in from the European Union, it is then not 55% rules of origin, and you have a problem for the automotive industry.

Dr Fox: Indeed, there is an overlap there.

Q163 **Chair:** With respect, it is more than an overlap. It is a non-export. It gives Korea licence to export into the UK, but not the UK to export into Korea.

Crawford Falconer: One of the issues that will have to be resolved when you sit down and look at the technical rectification—because it is not exact; it is not EU-wide, it will be UK—is precisely how you properly carry that over to the UK. That will depend as much on whether the party at the other end is prepared themselves or will seek to have some arrangement that will allow common content. Until we have that detailed discussion on the replication, neither we nor they will be 100% sure of exactly how you will define what is as close as possible to what we have had with the EU.

It is certainly true that technically it cannot be EU-wide. It can be UK-wide, because that is the sole jurisdiction we have. Therefore we need to make sure that when it comes to a rule of origin, the rule of origin is as close to what would reasonably be expected for a single arrangement between us and the third country as opposed to an EU one. You cannot



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abolish the rule of origin; you obviously cannot apply an EU-wide rule of origin if you do not have that power.

Q164 **Chair:** Does that not show, in just one example of one trade agreement, that there is already a negotiation started there? If Korea yields something to the UK there, they will expect the UK to yield back. That is the very nature of trade negotiations.

Crawford Falconer: The way to look at it is we are not negotiating, in the sense that neither of us are trying to get a better deal. We are trying to ensure, given the reality that the UK is now a separate sovereign state, that the technical basis for the rule of origin is as close as possible. That is quite different from saying that we are going into this to attempt to get a better or a worse rule of origin. We are going into this on the basis of good faith on both sides to ensure, given the technical difference between the UK and the EU, which is obvious, that we have a rule of origin that is as close as possible to what existed before. That is quite different from having a general attempt to pull one side of the blanket to the other.

Chair: I am heartened by the hope that trade negotiations are led by good faith, as opposed to advantage for one side or the other.

Q165 **Faisal Rashid:** Secretary of State, in June you said, "Our departure from the EU is an opportunity to step up to our commitments to the rest of the world, not step away from them". Does this mean you will increase developing countries' access to the UK market through the new scheme of preferences mentioned in the Trade White Paper? How will this access be granted, and will it be different from the EU's generalised preference scheme?

Dr Fox: First of all, we have said that as the first step we will replicate all our obligations as we leave the European Union, so no country will have less access to the UK than they have today. We will want to do that. The question then becomes: what freedoms do we have outside the European Union that we do not have today that we might be able to use as part of a trade and development programme?

I am very keen that we give countries the opportunity to trade their way out of poverty. If I can use a single example, African coffee producers can sell primary commodities into the European Union at zero tariff. The problem comes for primary commodity producers that if they tend to add value, it then hits a higher tariff level. What we ought to be trying to do is giving those countries the capability to add value to their own primary produce and then sell on at advantageous tariffs. What I would like to see is Britain leading a process where we will reduce tariffs for countries that are adding value to their own primary produce.

Otherwise we have the absurd situation where in 2015 Germany made more money out of coffee exports than the African producers of coffee themselves. I do not think any of us ever intended a situation where the



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European Union became the processing centre for a country's primary commodities so that we could make a bigger profit than those producers themselves could. There will be opportunities for us, and I am working very closely with Priti Patel and DFID to see how we, moving forward, can bring our trading and our developmental work into better alignment to enable us to do that.

Q166 **Faisal Rashid:** Do you think this will be ready by 2019, this new preference scheme?

Dr Fox: Whether we are able to do that or not will largely depend on whether there is a transition or implementation period that maintains us within the common external tariff for a period of time, but at whatever point of time we leave the EU completely, obligations to a common external tariff, then we can do so. We would want to get our ideas in place, because it is not an instant process. We need to get a process of investment, for example, so that countries could add value themselves before we started changing the tariff regime.

Q167 **Faisal Rashid:** Will you replicate the current general scheme of preference?

Dr Fox: Yes.

Q168 **Catherine West:** Will we retain EU rules on restraint of sale of goods and services related to torture and the death penalty?

Dr Fox: Of course, in the repeal Bill, we have rolled over all the EU's legislation on a whole range of issues. I find it inconceivable that we would have a less ethical trading policy in the future once we leave the EU. I am utterly—and have been all my political life—opposed, for example, to torture and the death penalty, and I do not see that Britain would adopt a different ethical posture than the one we have today.

Q169 **Catherine West:** What practically would we do in the case where perhaps we do not share the values of a country? I refer directly to your trip to the Philippines, for example. What do we do in those cases where there are issues?

Dr Fox: We trade with the United States, which does have the death penalty, and we, as politicians, can make our views known. Countries are entitled to have that if they want, but we will continue to protest that we think, in terms of human rights and ethical propriety, that the death penalty is not acceptable.

Q170 **Catherine West:** It will be case by case, rather than retaining the UK rules?

Dr Fox: As I said, we already trade with countries like the United States, which has the death penalty. We do not regard that as a reason not to trade or invest.

Q171 **Catherine West:** Is that a no, that we will not retain the EU rules, or is it



a yes, we will?

Dr Fox: In think in general, yes, we would.

Q172 **Mr Marcus Fysh:** Related to the previous question about free trade agreements and grandfathering, what does it mean for the future EU/UK trade agreement and future non-EU trade policy that with these other FTAs—for example, with Japan—we have indicated that we would seek an agreement with those other countries based on the EU agreement that they have at the moment? It is a question for Mr Falconer, because it goes to the heart of what our trade policy can possibly be. If we are seeking to emulate the EU's current arrangements, what room does that leave for us to do other things in the world?

Crawford Falconer: Certainly we are seeking to transition all of the agreements that have been entered into. That includes certainly Canada. With Japan, it depends a little bit on when the EU finishes its negotiation with Japan. Those can be transitioned, provided the dates are right, post-March 2019. But as you will know, publicly there has been a readiness on the part of Japan and Canada to indicate that they are happy to transition with us on that basis. Further down the road it is our expectation that all of these agreements would have in them review clauses that would enable us—if both of us are agreeable, and certainly the UK has indicated its readiness for this—to further deepen and expand those agreements, if we choose to do so.

The transition will be valuable in itself in ensuring that we have adoption of those, that we are not in a disadvantageous position compared to what we were before, but then the door remains open thereafter, if both parties agree, to take those negotiations further. With a major economy like Japan or Canada, that is an option that both of us may well exercise further down.

Dr Fox: It is also just worth pointing out that we were not passive in these negotiations with countries like Japan and Canada. We were playing an active role through the European Union in those negotiations, so it is not as though it is an alien entity that we would be looking at.

Chair: Due to time, I have to move it on. The talk of positioning and adopting EU agreements seems to indicate the UK Government think the EU has been doing rather well, perhaps, in their agreements and trade negotiations.

Q173 **Mr Chris Leslie:** I want to press a little bit on the scenario where we get no deal with the EU. Obviously your Department will have been behind some of these discussions about hiring the extra 5,000 staff for the new Customs Declaration Service, is that right?

Antonia Romeo: We are, like all Government Departments, planning for all eventualities, which is what we are expected to do. Other Departments will be planning on significant increases in staff that might be needed



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under different areas. We are part of those discussions, but I am focusing on the—

Q174 **Mr Chris Leslie:** The 5,000 in the Customs Declaration Service, that is now happening?

Antonia Romeo: I do not want to comment on that, with the tolerance of the Committee. This is not a responsibility of DIT.

Mr Chris Leslie: Secretary of State, is that happening? Because customs is pretty integral to trade.

Dr Fox: Yes, we will have to spend money improving our customs service. That was already planned whether or not we were leaving the European Union, in terms of upgrading customs, and we will be subject to—

Q175 **Mr Chris Leslie:** Sorry, that is slightly different. Upgrading is slightly different from hiring 5,000 people for a Customs Declaration Service. I think last time you appeared in February you were talking about contingency plans. They need to be executed. That is part of your contingency planning. Is that happening?

Dr Fox: There are a full range of contingency plans across Government. One of the reasons that we have not published the details of our contingency plans is that those contingency plans themselves inform our own negotiating position with the European Union. It would seem a touch imprudent to be telling them where our strengths and weaknesses are during the negotiation.

Mr Chris Leslie: The story of a new Customs Declaration Service with 5,000 staff is not a decision that has been taken?

Dr Fox: Across Departments, all contingencies are being looked at. As I said, if we think about it the other way around, were we to respond to every potential, and were we to then say to the European Union, "We are preparing x, y and z," does that strengthen or weaken our position?

Q176 **Mr Chris Leslie:** If you are saying contingency plans need to be made and they need to be executed to prepare for a no deal, which is what I think you have been saying—you said you were relaxed about that no-deal scenario—it makes sense—

Dr Fox: I do not think I did say that. I said that we wanted to get a deal, but we were not afraid of failing that one.

Mr Chris Leslie: But you are executing contingency plans for a no deal?

Dr Fox: In our Department, we have a wide range of plans that we have set up. That is not just inside our Department; across Government, other Departments are developing their own contingency plans. HMRC will have its own contingency plans, as will other Departments.

Q177 **Mr Chris Leslie:** I am sorry to be pedantic, but there is a difference



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between developing a plan and executing a contingency plan. You can think about having a Customs Declaration Service, but are you getting on and instituting a Customs Declaration Service? Are you executing contingency plans in Government for a no deal? Just a very simple answer.

Dr Fox: I think it would be different across Departments exactly where they are, in terms of planning and executing.

Mr Chris Leslie: When it comes to customs and trade, are you executing contingency plans if there is no deal?

Dr Fox: In terms of the stage of planning, that not being my Department, I would need to write to the Committee and get the answer from another Secretary of State.

Q178 **Mr Chris Leslie:** We are talking about the public sector thinking about contingency plans and whether to execute them. Would you advise the private sector to develop contingency plans and to execute them for a no deal?

Dr Fox: No, because on balance at the present time I think we are more likely to get a deal, but it would be reasonable for them to develop such plans. Clearly, the longer we take to get into end-state discussions with the European Union, the greater the likelihood that people would want to implement as well as develop, which is why I think it is in all our interests to get into those end-state discussions as early as possible, so that business has great certainty about what the potential end state looks like.

Q179 **Mr Chris Leslie:** When there is a confusion between the Secretary of State for Exiting the EU, who says that the negotiating of that trade agreement has to be done by March 2019, and Commissioner Barnier, who says the transition is needed to make trade negotiations a success, on the EU side, they are envisaging this implementation period as also having trade negotiations, but the British Government does not envisage that. You are saying the trade negotiation has to be done before March 2019.

Dr Fox: As I said, the Prime Minister has made it very clear that what the United Kingdom wants is an agreement before we leave the European Union. If we require an implementation period, then we can provide the stability for that, but clearly we would want to get that agreement before we left.

Q180 **Catherine West:** A particular focus, of course, is the Home Office, knowing there are lots of skills that we need for people to come quickly, to have that agility, as you described it. Are you and your Department having discussions with the Home Office about creating a kind of fit-for-purpose approach to skills, inward migration and so on?

Dr Fox: Yes, of course we are. We are having those discussions. I am obviously not going to give too much away of what we are discussing. What I will say, however, is that one of the issues that we are looking at,



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which is raised by most investors, is intra-company transfer, where big investors coming to the UK want to have their own senior people being able to look after those particular investments. Within whatever framework we operate and whatever numerical limitations we place on a system, from our departmental point of view, intra-company transfer will be an important part.

Q181 Catherine West: Do you share the view of many here that we are not fit for purpose yet?

Dr Fox: I think that we are moving forward quite quickly to what I think will be a very acceptable agreement. As I say, clearly across Government you get different emphasis, but one of the areas that we are most approached by in terms of UK investors is ICT, because that is a big issue for them and we reflect that.

Antonia Romeo: We focus on exports and investment, so we spend a lot of time talking to business about what it is that they are going to need to help turbo-charge their exports and ensure we are maximising with investment and overseas direct investment. In that regard, we do of course talk about some of these issues, and then we do of course discuss with Home Office colleagues what it is that these large businesses or small businesses would want. We are engaged in the discussion.

Q182 Chair: Before I move to Matt Western, a point of clarification. First, the idea of UK trading at WTO, as has been talked about: what do you say to those who think it will be fine, we can trade at WTO?

Dr Fox: A huge amount of our trade is conducted under WTO rules; a huge amount of EU's trade is conducted under WTO rules.

Chair: So the UK doing more of it is fine?

Dr Fox: It is clearly not the catastrophic outcome that some people put forward, but in terms of European trade, it would be much better for us to do a deal with the European Union that minimised any disruption and stopped the introduction of impediments to trade and investment that do not exist today.

Q183 Chair: Given you plan for all eventualities in the Department, how many countries could the UK move from currently having an agreement with on trade to start trading with under WTO? Presumably the EU27 is a possibility. The 60-plus countries covered in the 40 agreements is another possibility. The number of countries where we could have lower tariffs, or could have increased tariffs, could be as high as 87. Is the Department thinking of that eventuality?

Dr Fox: The point of EU FTA transitional adoption is that we maintain the current relationship.

Chair: But this is all eventualities beyond Brexit.



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Dr Fox: We are not expecting to have no EU FTAs, no schedules in Switzerland and no agreement with the EU.

Chair: Thank you; so you are not planning for that eventuality.

Q184 **Matt Western:** I have a follow-up on the difference between coming out of and trading on WTO. What is the estimate of the total economic cost of trading on WTO, as opposed to EU, terms? Do you have a figure?

Crawford Falconer: We have no precise figure that we are calculating on. For negotiating purposes, it would be unwise for us to indicate, when we are negotiating, what it is we think that the other side would benefit from, from a different position, so that is relatively straightforward. Clearly, it is not mathematically difficult. If you have an increase in your trade barriers with a number of your trading partners, you are going to have some increased costs as a consequence. The amount of it precisely is a question that depends on the nature of the alternatives. At the moment we are not assuming that the alternatives are negative at all. In fact, as the Secretary of State said, if we have an agreement, if we have the transitional option and we continue to trade on WTO, then there should be no substantive difference whatever.

Q185 **Matt Western:** But as you were saying, it would be quite easy to estimate, because you know how we are importing and exporting in different sectors. You could apply that according to the tariffs.

Crawford Falconer: It depends on what your assumptions are, because the UK will have a sovereign power, which it may or may not choose to exercise, to do all sorts of things in its policy, including to vary its tariffs. You can assume at one level that all tariffs will exactly remain the same. You can make assumptions that all your policy areas will remain the same, but you could just as readily make other assumptions and the numbers will clearly be different depending on those assumptions. That is a policy question, rather than a technical question.

Q186 **Matt Western:** Can I just talk about no deal a bit further? Unlike the Customs White Paper, the Trade White Paper has no information about a no-deal scenario. What preparations are being made for that?

Dr Fox: Our Department largely is the Department that prepares for a no deal, because we are preparing for the point of exit. Whether there is an EU deal or not, we still require to have our technical rectification of schedules in Switzerland, we still require to get our EU FTAs transitioned and we still need to look at future trade policy with countries outside the European Union. To that extent, our Department is already focused on what happens on day one. Whether day one happens with a transition period or not, we have to be ready for that point.

Antonia Romeo: We will need to be ready on day one for everything, from no deal to the best possible deal and everything in between, and we will be.



Q187 **Matt Western:** Should it not be in the White Paper?

Dr Fox: The White Paper, as I said, was a first step to setting out policy. We will want to have a very wide consultation. The White Paper has been very widely welcomed, because we have said this is not our policy; this is a first step towards that. We want to involve stakeholders in that, both at the political level and at the commercial level. We will want to discuss the possibilities with them and what they think needs to be done. It is a process, as I said at the beginning, of Britain developing capacity and capability that we have not had to have ourselves, and we need to work with a whole range of stakeholders to ensure that we develop that in a way that is acceptable to all of them.

Chair: I am just surprised, because a few moments ago, there was no preparation for having tariffs with possibly 87 more countries.

Q188 **Mr Nigel Evans:** Secretary of State, you campaigned vigorously for leave, and you stood by that bus that said £350 million would be saved every week from leaving the European Union. Are you prepared for any of that money to be paid to the EU to access the single market on a favourable trade deal?

Dr Fox: If I am, with due respect, I am not going to set out any Cabinet negotiation position here. I think that before we make any offer on any financial settlements, we need to know what we are getting at that end stage. As I asked one of my fellow Ministers in another country, would they be willing to guarantee us a sum of money before we told them what the agreement that we were signing up to was? He said, "Absolutely not". I said, "So why should we?"

Q189 **Mr Nigel Evans:** What I mean is an ongoing payment to the European Union, after the transitional period is over—an ongoing amount of money being paid from the United Kingdom to the European Union for tariff-free access to their market.

Dr Fox: I would not set out a position that—

Q190 **Mr Nigel Evans:** That sounds as if you are thinking about it and it is a possibility.

Dr Fox: It can be interpreted, Mr Evans, as you wish. We said to the European Union, "Show us what the end state looks like, and we can then talk about the financial disaggregation". But the idea that the United Kingdom would agree to a sum of money before we knew what the end state looked like, or what any future potential was, I think is a non-starter.

Q191 **Chair:** Does that not deadlock the talks? Because we know full well that unless there is an agreement on cash, citizens' rights and perhaps the Irish border, there will be nothing happening, and therefore we are heading for a no deal.

Dr Fox: I think it is unreasonable. Given the business interests across the European Union and given the interests of international investors, I



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think it is unreasonable not to want to start the next phase, given that I think substantial progress has been made on issues like European citizens' rights and exit agreements on positions over Ireland. The trouble is that the later these discussions begin, the higher the chance of not reaching a deal on time. But it is not the United Kingdom that is holding it up.

Q192 **Chair:** Yes, but who is affected more, the UK or the EU, by no deal?

Dr Fox: Both parties.

Chair: Who is affected more, one or the other?

Dr Fox: Both parties are affected by a no deal.

Chair: I know both parties are affected, but who is affected more?

Dr Fox: It depends how you measure it. If you want to look in terms of pure goods sales, for example, the EU has a huge goods surplus with the United Kingdom, so they clearly would be affected by the imposition of tariffs.

Q193 **Chair:** As a percentage of GDP, who will be affected more?

Dr Fox: The point is that both sides would be disadvantaged by no deal compared to a good deal.

Q194 **Mr Marcus Fysh:** I am concerned that you said that we might be waiting for the EU to say what we might be allowed in an end state. Why are we not, with the trade negotiation and expertise that we have in this team in this room, drafting an FTA and presenting it to the EU as a draft of the sort of EU/UK arrangement that we might seek from them?

As a follow-on, how would a services chapter of such an FTA look relative to, for example, the South Korean or the Singaporean FTA agreements with the EU?

Dr Fox: We would be looking for an agreement that ideally was as open and liberal as the access that we have today. Why? Because that is for the benefit of the prosperity of our citizens.

Q195 **Chair:** Have you considered writing the agreement, as Mr Fysh suggested?

Dr Fox: We have not produced such an agreement. We would be certainly very happy to work with our DExEU colleagues, were they to ask for such a single document, but our approach has been to maintain as open a level of access across the European market as we have today. We have set that out on numerous occasions. What we do not want is an FTA that gives us less freedom and is less liberal than the access we have today.

Q196 **Faisal Rashid:** Secretary of State, you mentioned quite a few times that you are looking to get a deal with the European Union. For instance, if you cannot get a deal, do you think your Department has responsibility for negotiating an EU/UK FTA post-March 2019?



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Dr Fox: No, I think in answer to another question I said I assumed that that would continue to be the responsibility of DExEU until such time as any negotiation was complete.

Q197 **Faisal Rashid:** Do you not think that your Department is well equipped to negotiate for those deals rather than DExEU, and what is the reason of DExEU?

Dr Fox: Because that is DExEU's *raison d'être*. They are there to negotiate the deal with the European Union. When our Department was created it was very clear what the division of responsibility was: DExEU was about negotiating the separation agreement, and then the future EU—

Faisal Rashid: I appreciate that. Do you not think your Department is well-equipped do those kinds of negotiation deals?

Dr Fox: Could we technically do such a thing? Of course, but that is not what we are there for. DExEU is set up and designed specifically for that purpose. If the full agreement is not decided by the end of March 2019, it would seem crazy to move from DExEU, who had been involved and had the expertise all the way through the process, and to suddenly switch to another Department. I do not think that makes any sense.

Q198 **Julia Lopez:** The Government's position on future customs arrangement suggests the possibility of a customs regime for goods destined for the EU that would mirror the common external tariff. What would that really mean for trade agreements with third countries?

Crawford Falconer: If it was the case with the EU, then it would mean that you would have effectively for goods a customs union during the implementation period; you would have the equivalent of the common external tariff that you have at the moment. If you have a customs union, you have a customs union. It would be something that was very close to what presently is in place for goods, as far as a customs union is concerned.

Quite what the detail of it would be would be something obviously that would have to be negotiated, and that would be DExEU's responsibility. But you have to have the power to be able to do that kind of thing, which is why I think it appears in the customs paper as it does.

Q199 **Chair:** Before I move to Faisal Rashid, there is a point that a large part of Brexit was about sovereignty. Secretary of State, do you agree that any trade deal and every trade deal implies and includes the ceding of some sovereignty to reach that deal, and that sovereignty is not such a precious commodity when it comes to making trade deals?

Dr Fox: If you mean that we have to have a dispute resolution mechanism that is agreed to as part of it, clearly you have to do that, but we would value our ability to carry out these negotiations as a sovereign nation.

Q200 **Chair:** Therefore once you have agreed, as you said, a dispute resolution mechanism is indeed the ceding of sovereignty.



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Dr Fox: I do not agree in the sense that it is a ceding of sovereignty. It is an agreed process that is reached as a sovereign nation as a party to an agreement.

Chair: Is that not what ceding of sovereignty is?

Dr Fox: No, I do not believe it is ceding sovereignty. I think it is because the sovereign nations will determine, to their mutual satisfaction, what a dispute resolution mechanism is.

Q201 **Chair:** Either the dispute resolution mechanism decides or the nation state decides. You cannot have both. Sovereignty will be moving to the dispute resolution mechanism or staying with the state. Which will it be?

Dr Fox: I think the fact is that we would be determining these procedures as a sovereign nation, not the European Union determining them for us. The whole point, in my view, of moving—

Q202 **Chair:** Once you handed it to the dispute resolution mechanism, you have handed that power over.

Dr Fox: But we have decided what the dispute resolution mechanism will be, not somebody doing it for the United Kingdom. The point would be—

Chair: But they decide, not you.

Dr Fox: The point is that we, the United Kingdom, would decide what that dispute resolution mechanism was, not somebody else.

Chair: Correct.

Dr Fox: Up until now it has been somebody else determining it, not the UK. I choose the UK to do it, not the EU.

Q203 **Chair:** Once you have reached an agreement, you have a dispute resolution mechanism. They will then decide on the dispute. That is a ceding of sovereignty, surely, Secretary of State.

Dr Fox: But we have agreed the mechanism as a sovereign nation.

Chair: Absolutely, but the sovereignty has not gone.

Q204 **Mr Marcus Fysh:** Moving on from that, on the basis on which we might reach such an agreement, you mentioned earlier that we need to improve the way we look at the data around these things, and we know that the history of Treasury forecasting, for example, of these economic forecasts around this issue have been completely wrong. What is the way that the Government is analysing the choices it should make in trade policy, and why should we be confident that the Government has the right framework for looking at that?

Dr Fox: The accuracy of a forecast is largely dependent on the assumptions that are put in. If you want to get to a pessimistic outcome in terms of your forecast, you can put in pessimistic data.

Q205 **Faisal Rashid:** The UK and the EU27 have a joint position on establishing separate tariff rate codes at the WTO, but seven major WTO member states in a joint letter said that they cannot accept the terms of



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this agreement. What exactly is the UK/EU position and how do you respond to the joint letter?

Secondly, what will happen if the WTO tariff rate codes have not been resolved by the time Brexit occurs in March 2019?

Dr Fox: As I said earlier, we are working alongside the EU. It is not a joint approach as such, but we are working alongside them. We set out our methodology first, then after a period the European Union said that they accepted the methodology as a basically sensible way of disaggregating quotas. As I tried to explain earlier, the dispute is not necessarily with the UK, although there are some bits to tweak on it.

The major problems that countries like South Africa and Australia have outlined is that they may be satisfied by the quota that they reach with the United Kingdom, but what they would not accept is that that size of quota is subtracted from the previous EU quota, which gives them less access potentially to the other 27. That is where I think you will find that bigger dispute lies. On the technical question of what happens if schedules are not agreed, we continue to trade on the current basis until they are agreed.

Q206 **Mr Chris Leslie:** When you lodged those with the WTO, did you expect those seven countries to lodge that objection? I think they said they cannot accept. Was that something you anticipated?

Crawford Falconer: We would have been surprised, having outlined what we proposed to do on sensitive agricultural products, if agricultural exporters would have said first time, "Well done, UK, we agree with this wholeheartedly", especially when you are a considerable period away from the end game. They understandably feel that they want to make sure that they are not disadvantaged. The Government has made it very clear that they will not be disadvantaged. They want to scrutinise very closely to make sure what the precise arrangements will be. It is perfectly understandable.

What we have entered into with them is a normal process in an unusual situation, which is we share the data, we have gone through the process of saying, "This is why we have arrived at this approach. You are absolutely free—" and we welcome them to come in and say why they think the data is not correct or does not give a full picture. We are going through that kind of process. We would have expected that was the case. People stake their claim and we will—

Q207 **Mr Chris Leslie:** Is there a theoretical risk, albeit small, perhaps—I do not know how big or small you would say it would be—that those objections from those countries could upset the ability of the UK to operate on WTO terms by March 2019?

Crawford Falconer: Theoretical is an abstract concept in anything, and especially in negotiations.

Mr Chris Leslie: Could it upset that?

Crawford Falconer: No, I think there is no reason why we would not



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still be able to proceed post-2019 with our status in the WTO—none whatsoever. We would strongly prefer that we have settled any concerns that people have prior to that, and we have every reason to believe that we will satisfy them.

Q208 **Mr Chris Leslie:** If those objections are not resolved or withdrawn, potentially that is a problem.

Dr Fox: It is worth pointing out that the EU only moved from EU 15 schedules to agreed EU 26 schedules last year and traded perfectly easily on WTO during that period.

Q209 **Catherine West:** I have a question about the Department and the way that it functions. When we looked two weeks ago in the Committee at the number of women in the Export and Finance Department, we saw that there was a problem. We also see that in the Front Bench in the Commons there is a problem as well. If there were a vacancy that became open in your team, would you consider appointing a woman?

Dr Fox: We have just appointed a woman as a Minister in the House of Lords to replace Lord Price.

Q210 **Catherine West:** I mean in the House of Commons, which is obviously more what I, as a Member of the Commons, care about, because they are elected.

Dr Fox: I do not make appointments. That is entirely the prerogative of the Prime Minister.

Catherine West: But you would not be opposed to having a woman in your team in the Commons?

Dr Fox: Absolutely not.

Chair: Thank you very much. On that point of agreement, given that the Commons and the particular woman will be standing up in Prime Minister's Questions very soon, can I thank the Secretary of State and his officials for coming this morning, for sharing, and for interacting in what was at times robust questioning? We do appreciate that, and there is great respect from the Committee to the Department, and we wish you well with what you do in the future. If we can be of help, we will be of help. If we can hold up a mirror, we will hold up a mirror.