

International Trade Committee

Oral evidence: UK-US Trade Relations, HC 481

Wednesday 22 November 2017

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

Questions 74 - 159

Witnesses

I: Nick von Westenholz, Director of EU Exit and International Trade, National Farmers Union, and Peter Stevenson, Chief Policy Advisor, Compassion in World Farming.

II: Gary Campkin, Director of Policy and Strategy, TheCityUK.

Examination of witnesses

Witnesses: Nick von Westenholz and Peter Stevenson.

Q74 **Chair:** Can I welcome this morning's panel to the Committee and can I ask you first for the formal part, just to give your name, rank and serial number for the record? Thank you.

Peter Stevenson: Peter Stevenson, Chief Policy Adviser, Compassion in World Farming.

Chair: Thank you, Peter.

Nick von Westenholz: Nick von Westenholz, Director of EU Exit and International Trade at the National Farmers' Union.

Q75 **Chair:** Thank you very much. That is the National Farmers' Union of England and Wales?

Nick von Westenholz: It is the National Farmers' Union of England and Wales.

Q76 **Chair:** The Scottish National Farmers' Union would not thank me at all for not clearing that up.

Nick von Westenholz: We of course work very closely with the Scottish union.

Q77 **Chair:** In 2016, 10% of UK agricultural exports, food and drink, went to the US, while 3% of UK agricultural imports came from the US. What is the significance of this market, would you both say, to the UK? I will start first with Nick.

Nick von Westenholz: It is a significant market certainly in terms of non-EU markets. It is our biggest non-EU market. However, compared to the amount of trade in imports and exports of agri-food products that we currently undertake with the EU, it is comparatively small. That is the context in which we look at any proposed US-UK deal. It is an important market but certainly of a second order, I would say, compared to the EU as a market.

Q78 **Chair:** Yes. There is a surplus with the US when we include alcohol but a deficit when we exclude alcohol. The exports are £2.1 billion, £1.5 billion of which is probably whisky and good news for barley-growing farmers. Mr Stevenson?

Peter Stevenson: I would agree. The figures in the Defra publication "Agriculture in the UK" show that roughly two-thirds of food and drink exports and imports for us are with the EU. There are much smaller figures for the US, although that said the US is the largest non-EU trading partner for both imports and exports. But yes, clearly the EU is much the bigger market. There is obviously the potential, if there is a trade



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agreement, to increase exports to the US, perhaps, for example, of the high-quality pasture-based beef and lamb.

Q79 Chair: Thank you. In the Department of International Trade, there is some enthusiasm emanating, I could say, for a free trade agreement between the UK and the US. The British Chamber of Commerce, noted in semi-private and semi-public forums, have been far more reticent. How important do you think to the US agricultural sector a free trade agreement would be and how important is it to the National Farmers' Union to have a free trade agreement with America?

Nick von Westenholz: For us—it goes back to what I said a moment ago—it would be a second-order issue. From a UK perspective, or certainly an English and Welsh perspective, we really see a continuation of our current trading relationship with the EU, as much as that is possible, as a priority. That is for the reasons mentioned, the amount of trade currently we conduct with the EU, and given the fact that the EU is on our doorstep and there are 450 million comparatively affluent customers in the EU for UK produce.

As to the first bit of your question, there clearly is an interest from the US agricultural sector in opening up markets in the UK. I would say there were two key elements to that: first, in and of itself, improving their trading prospects and opening up a new market, but also potentially using it as leverage to open up EU markets as well. They certainly would hope that by undertaking and agreeing a trade deal that might facilitate opening up the EU as a market.

Peter Stevenson: Again, we need to be aware that if we look at US behaviour in other trade deals recently they are a very strong, even aggressive partner to negotiate with and opening up agricultural markets for their exports is often very near the top of their agenda in any trade deal. I think our farmers could find themselves undermined by cheap, low-welfare imports.

Q80 Chair: Okay. We are probably coming on to the area of the aggression of the United States of America. Really this is addressed to the NFU. In March you said that the UK's WTO commitments would have implications for a UK-US trade agreement. Given the US has raised objections in perhaps an aggressive manner to the UK's proposal, what do you think this might mean for future negotiations?

Nick von Westenholz: I guess it is all in the mix of the UK establishing itself once again as an independent member of the WTO and how that process will impact not just a possible US-UK deal but indeed any future trade deals the UK wishes to conduct. Chronologically, the WTO issue has to happen first. On the day that we leave the EU the UK would like to, as much as possible, have established itself within WTO with its own schedule of tariffs and some sort of agreement, it hopes, on issues like tariff rate quotas, the issue on which the US and other countries have objected to the approach taken so far. There are other issues around its



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support system for farmers and so on. That all has to be at least to some degree sorted out fairly soon, ahead of us leaving the EU.

At that point we obviously enter into a new phase where we can start securing trade deals with third countries, depending on the outcome of the Article 50 negotiations. An important aspect of that will be the way in which countries like the US and others have treated the UK in the WTO negotiations it is currently undertaking. The UK Government, as I understand it, look at it through that prism. They hope that what they are doing now and where those arguments are, for instance around tariff rate quotas, will be set off against any concessions that might be needed in future trade deals with the US and the UK, for example.

Q81 Chair: To you both on that final point—and this will be the final point from me for the moment—what are the threats and the opportunities of UK movement on the tariff rate quotas, the TRQs, at the WTO, as you see it?

Nick von Westenholz: As we understand it, the UK wants to take an approach in partnership with the EU where they essentially split the current tariff rate quotas. For example, there is obviously a lot of interest in the tariff rate quota around lamb from New Zealand and the idea would be that it is split depending on how the trade of lamb into the EU is currently split. It would be on usage. That is the terminology they use. Now, the view of third countries that use those TRQs would be that that would be a restriction of the flexibility they currently have through having a whole TRQ with the EU. There clearly is going to have to be some sort of meeting in the middle but we think the UK's current approach of a split like that makes sense. It does not restrict in any meaningful sense market access for third countries into the UK and EU markets but it also still provides appropriate protection for domestic producers.

Q82 Chair: Any views, Peter?

Peter Stevenson: I have nothing to add other than that it is already very clear from this issue of the tariff rate quotas that the US and other major agriculture exporting countries are not going to roll over and are going to fight for the market share that they want to see.

Chair: That is maybe a point in all these trade negotiations and the shifting of these goalposts, that everybody else is seeing an opportunity and, as you say, are not rolling over. That is an interesting point.

Q83 Mr Jayawardena: I wonder if I can pick up, Chairman, on the NFU's point about this trade deal or FTA with the US being a second-order issue, which is something you have said twice. Can I just clarify, are you a supporter of free trade or not?

Nick von Westenholz: I think we are, yes. We would support the notion of free trade but obviously we would need to ensure that UK producers would be operating on a level playing field and not unfairly disadvantaged



in terms of the costs of production, regulation, standards and other things that impact on the cost of producing around the world.

Q84 Mr Jayawardena: Forgive me, that does sound awfully protectionist. Arguably, relaxing regulations—I am sure colleagues will come in on this point a bit later—might increase choice and create cheaper options for consumers, which surely would be a good thing for consumers in this country.

Nick von Westenholz: Farmers are consumers as well. The point I would make is, first, that we are obviously already a member of an enormous free trade area and we would like to maintain our access into that free trade area. A US-UK deal might well reduce the amount of access we have into that enormous free trade area. There is an argument to say that a US-UK deal would actually reduce free trade because it would reduce the amount of trade we could do with the EU. As I said, our priority is very much to maintain free trade with the EU, zero tariffs and as low non-tariff barriers as possible.

Coming to the point on protectionism, you may argue there is a protectionist element but if the standards that UK producers are required to observe in their production add cost, and our competitors in other parts of the world such as the US are subject to standards that impose less cost, then clearly opening up trade between the two without addressing those issues puts trade on an unfair basis.

Q85 Mr Jayawardena: Let us be very clear here. If we look at the Alberta cattle farmers, for example, in Canada, they have to create additional herds that conform to the market that they are selling into, in that case, in terms of CETA, the EU. It is not a case that simply the standard in one country can be deployed in another if it does not meet the standards of that jurisdiction. Even so, trade liberalisation with China led to a 7.3% reduction in the cost of living in the USA for people there, sticking to US standards, not reducing them to Chinese standards. That put £250 in the pockets of US consumers each year and disproportionately benefits poorer families who spend a larger proportion of their income on traded goods. Given that that is an example that has worked, maintaining the standards that the US had, not reducing them down to the standards of a third jurisdiction, and given that it put money in the pockets of those who have the tightest purse strings, is that not something we should be open to in the UK?

Nick von Westenholz: First, there is a difference between taking measures, for example through equivalence agreements, that facilitate an increase in trade between countries, and a comprehensive free trade agreement where issues such as standards and others are very much to the fore. That is a lot of what the discussion around the US-UK deal is. It may be that we are not talking about a comprehensive agreement, we are talking about measures that simply facilitate trade more so than exists at the moment. Absolutely that is something we would be interested in because there would be opportunities for UK producers in



that, but it probably would not lead to the increase in volume of trade that a comprehensive trade agreement would.

Of course we are very much part of a system that produces affordable and safe food for UK consumers. We are certainly not suggesting that consumer prices shooting up in the shops would be a good thing. Nevertheless, and notwithstanding there are people in UK society who do struggle to afford food, food prices are cheaper than they have ever been as a percentage of income. I do not think there is a structural issue with food being too expensive in the UK. If you get into a position where we are forever driving food to be cheaper, then you might please some consumers but you will lose your domestic farming industry and that comes with a loss of a lot of things that UK consumers value: the countryside that farmers protect, trusted short supply chains and the wider food chain, our biggest manufacturing sector, which employs millions of people. These are all parts of what you get from a vibrant and viable domestic production sector.

Q86 **Chair:** Is there a view from Compassion in World Farming on this?

Peter Stevenson: Again, we too believe in the potential benefits of free trade but they have to be balanced against other legitimate public policy considerations such as farmer livelihoods and the environment. By "the environment" I mean something very specific. I am talking about the quality of soils, water and biodiversity, factors that are on decline in this country because of intensive agriculture. If these things are not restored, future generations will find it hard to feed themselves.

We need to think about this in the round and we need to be aware, if we are talking specifically about the US, where specifically the US will be putting pressure on the UK on agriculture. The good recent example we can learn from is the TTIP negotiations between the US and the EU, where gaining increased access to the EU market for agricultural products was very high at the top of the list. They put huge pressure on the EU to drop its ban on the import of chlorinated chicken and ractopamine-treated pig meat. The reason that in the US chickens are washed with chlorine is to make up for the very poor welfare and hygiene standards both on farm and at slaughter in the US chicken sector. Ractopamine is a beta-agonist feed additive given to pigs to make them grow faster and produce leaner meat but it can have a really bad impact on pig welfare. It can lead to trembling, to animals finding it difficult to walk, even to death.

Yet what we will see, based on their behaviour during TTIP, is renewed pressure now on the UK to drop the ban on the import of chlorine-washed chicken, ractopamine-treated pork and of course the ban on the import of beef hormones. That is going to undermine UK farmers. It is going to make it hard to compete with these imports. They may then, understandably, feel compelled to go to the Government and say, "Please reduce UK welfare and food safety standards so that we can compete". What then happens to global brand Britain? Our exports can only



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compete on the world market on quality. Finally, what happens to our exports to the EU, which will not accept exports from the UK produced to below their standards of welfare and food safety? The danger is that we could be flooded by low-welfare cheap food that undermines our farmers and makes it hard for us to trade with the EU and the rest of the world.

Chair: Thank you very much. There is an area of interest here.

Q87 Mr Leslie: I know a number of my Conservative colleagues on the Committee have been getting a lot of e-mails this week about animal sentience. This is quite a big issue coming up in the Brexit negotiations. Just to get your analysis, Mr Stevenson, and also that of the NFU, if we end up facing the States, rather than trying to salvage our existing free trade arrangements, we will be moving to a lower welfare regulatory environment. As well as talking about the quality of food, we will be potentially trading into an area that has lower animal welfare standards than perhaps the UK farming sector has at present. Is that basically the analysis you have?

Peter Stevenson: Yes. Almost certainly what the US will press for, if you look at recent trade agreements, is regulatory coherence, a requirement that we in the UK and the US try to bring our regulations on the environment, food safety and animal welfare close to each other. This is going to be very difficult because the USA has almost no regulations to protect the welfare of animals whereas the UK has very detailed legislation on the welfare of pigs, calves, meat chickens and egg-laying hens and on the welfare of animals during transport and slaughter.

You then look at the US. It has a federal law that requires stunning of animals on slaughter but disgracefully excludes poultry, the largest number of animals slaughtered. It then has no other detail whereas we have huge amounts of detail in our welfare at slaughter law. There is a similar picture on transport, just one provision saying animals cannot be transported for more than 28 hours but which then allows further transport after a very short, inadequate rest period. At the federal level, when it comes to on farm welfare, there is nothing. Some states have made progress. Six have banned battery cages. Nine have banned the very narrow sow stalls. But there is, again, none of the detail we have.

There is utter absurdity in the idea that we should have regulatory coherence with a country that has almost no regulations. If that goes through, what will happen is it will make it almost impossible for the UK to ever have good new welfare laws and we might see the US pressing us to dilute our existing laws in the name of regulatory coherence.

Q88 Mr Leslie: Just to get the NFU perspective on this, we have very high standards in the UK. It is one of the best things about our farming sector currently but it also comes because we have been part of that regulatory framework with the European Union. I got the sense from your earlier answer that the NFU is primarily keen to keep that set of not just trading relationships but regulatory relationships rather than flip over to this



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lower regulatory arrangement with the States. Would it be the NFU's priority to stick with that for welfare reasons as well as for cost-competitive reasons?

Nick von Westenholz: First of all, looking at the Government's approach through the Withdrawal Bill and associated legislation we expect very much that UK farmers post day one of Brexit will continue to produce to the requirements they currently do.

Directly to your question, I do not know of any farmers who have said to me, certainly, that they do not want to do that, that they are not proud of the welfare standards they produce to. They see the advantage of that and they are happy to do that, but there is a cost element as well. Of course that means they will continue to be able to sell into EU markets, which as I have said is a priority for us. Where we do not want to get to is a situation where, as Peter touched on, we find ourselves competing against producers who produce to lower standards and you have to start asking those questions about what sort of standards will apply to UK producers. UK producers are happy producing to the high standards they currently produce to and would like to continue to do that.

Q89 Catherine West: Two quick questions. One is about the relationship in a trade negotiation. We are talking very hypothetically here but in actual fact if we have to start negotiations quite quickly, get our side together quite quickly and so on, we could well be a little bit behind the US in terms of our ability to do the trade negotiations. Therefore, in your view, would this mean that perhaps we might have to make some sacrifices on our side in order to compete with the US? If so, what sorts of things do you think we might have to compromise on? You have already mentioned standards but is there anything else that you think we might have to compromise on in order to have the sort of trade deal that might work?

Nick von Westenholz: We are nervous about the tone of the debate around doing a US-UK deal in terms of potential haste. It seems to us that there are both opportunities and risks from any trade deal. That goes without saying. Both sides will have both offensive and defensive interests and it is clear that the US has offensive interests in terms of their agriculture sector. It always does in trade deals and it will want to open up markets in the UK for its agriculture sector. We need to look very closely and carefully at that. I am not saying that therefore it should be off the table but we need to make sure that any concessions we make are at least reflected in terms of opening up market access for UK producers. That is the point of free trade.

The nervousness we have is that in its enthusiasm to demonstrate its ability to do trade deals in the post-Brexit world, the UK may rush into a trade deal with the US. The US are very experienced trade negotiators, there is always a large agricultural chapter to their trade deals and the agricultural sector in the US is very effective in the way it lobbies its Government on access through trade deals. Any rush, any haste, to us would seem to us to carry with it a very large risk that we do not carry



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out due diligence and ensure that our interests are properly represented in those negotiations as well.

Peter Stevenson: Yes, of course there is a potential. Our negotiators do not have the years of experience of the US and it is going to be tough. The US Commerce Secretary, Wilbur Ross, was recently over here and was widely quoted as saying in a speech that the UK, if we want a trade deal with the US, will have to come, in my words, down to their regulatory standards on agriculture. There was nothing in his language about finding a meeting point halfway. I do not think we will be able to get a deal unless we do allow the import of the kind of things we have been talking about.

Q90 **Chair:** Is that the regulatory superpower idea? You have American standards or European standards and for anybody else to enter into the standards game is a non-starter. You are either that or the other?

Peter Stevenson: Yes. We would be compelled to accept US standards. In theory we might be allowed to keep our own standards for our own farmers but in terms of what we say about imports we would have to accept their chlorine-washed chicken and so on.

Remember that probably the longest standing trade deal in the whole of WTO history has been about the use of growth hormones in beef, which the EU banned in the 1990s on human health grounds. I believe when we become free from Europe we need to retain that ban, partly for animal welfare reasons. These growth hormones in beef are injected into the animal. In some cases it leads to swelling and irritation of the injection site and it can lead to a number of other problems for the animals. But above all these growth hormones are being used in something that just does not happen here, which are these huge American feed lots in which literally thousands of cattle are crammed together in very barren conditions on bare earth, which when it rains gets very muddy and filthy. The overcrowding leads to respiratory disease. The animals are being fed on a grain-based diet that is unsuitable for ruminants. That leads to subacute ruminal acidosis, liver abscesses and laminitis. This is the US cattle sector. If we allow hormone-treated beef in, our farmers cannot compete with that. It is low-cost because of the disgraceful standards.

Q91 **Catherine West:** We do not know what is going to happen, there is a lot of uncertainty, but one of the things I think your average person is worried about is that if we fall out of the EU without perhaps organising or being prepared, we might need to be more self-sufficient. Chair, you might say this comes up further in the meeting but I just wanted to ask. We are about 40% self-sufficient as a nation—

Nick von Westenholz: 60%.

Q92 **Catherine West:** 60%. I am just wondering what capacity there is and how long it would take us to get up to something like, say, 80% or 85%.



Nick von Westenholz: We would very much like to improve the percentage of our self-sufficiency. It does not need to be 100%, we want to be flexible enough that we trade in goods as well, but 60% is too low. There is a lag. Production is not something you can simply turn off and on. You have to make sure that the farmers themselves are able to increase productive capacity but also that the allied industries, processing, manufacturing and so on, are able to deal with increased capacity. That is a medium-term game, I would suggest, but certainly there is scope to do that.

Catherine West: We will not be eating potatoes all year round and nothing else, then?

Q93 **Matt Western:** I had a really useful meeting with my local NFU last week. We were talking about glyphosate and those sorts of things. I am interested in the regulatory side and how this would work; a very operational sort of question, I suppose. If a farm is operating and principally working with a European market at the moment, meeting their regulatory standards, is it possible to simultaneously be supplying to the US market or is there potentially an issue about trying to operate two regulatory frameworks at the same time, or within three years, say, with soil changes and so on? How would that be controlled in oversight?

Nick von Westenholz: It is possible. There are countries in the world that essentially segregate their cropping or their production so that they can sell into different markets that have different requirements. The question is whether it is cost-effective and whether farmers would decide to plump for one or the other. If you are a farmer in south-east Asia and you are primarily looking to sell into the EU market then it makes sense to take all the necessary steps to ensure you meet the regulations and standards for that. My sense, and this is just a sense, would be that for a UK farmer and maybe the sector in its entirety it would make economic sense to plump for one set of standards and regulations or the other, whether that would be the EU or the US. As I have said, obviously the EU is a bigger market and that is where we think the priority should be.

Q94 **Julia Lopez:** Let us suppose we made our current, very high animal welfare standards an absolute red line in any deal we did with the US. The Secretary of State has already suggested that would be the case. Are you suggesting that there is no deal that could be done with the US if we maintain our high animal welfare standards?

Nick von Westenholz: I would say in terms of a comprehensive free trade agreement, having had discussions with US farmers and indeed a US mission in Geneva, that would be off the table. I do not think they would be interested in securing it. As we know, Sonny Perdue essentially said that in his recent comments. There could be, I think, smaller things that might be done that might open up trade a little bit between the UK and the US.

Q95 **Julia Lopez:** Such as?



Nick von Westenholz: For example, at the moment there exists a regulatory equivalence agreement between the EU and the UK to recognise organic standards. Organic production in the UK and indeed in the EU can be sold into US markets and would be deemed as meeting the requirements of the US organics system. That is something that has facilitated increased trade. UK organic dairy farmers have done a great job recently increasing sales of organic cheese in the US. There are those sorts of things. It is small compared to what a comprehensive free trade agreement would do but it may be possible to look at a number of those sorts of equivalence agreements that facilitate trade.

The extra access, for example, we have had to import products into China recently has been the result of a lot of hard work in demonstrating the standards that UK producers produce to and trying to release some of the logistical logjams in terms of customs, certification and so on to get into the Chinese market. It is possible to open up markets outside the auspices of a trade agreement. But no, I do not think the US would be interested in signing a comprehensive trade agreement if those red lines were stuck to, if I am honest.

Peter Stevenson: Just briefly going back to the EU position, Michel Barnier made it clear a few days ago that it would be almost impossible for the EU and the UK to reach a free trade agreement if regulatory standards in this country on agriculture and other areas were significantly lower than those of the EU. We have to be aware of the danger of lowering our standards.

In response to your question—sorry, I am blanking for a moment. Just remind me again?

Q96 **Julia Lopez:** If we made animal welfare standards an absolute red line, could we get any type of deal with the US?

Peter Stevenson: I do not think we would get a deal in terms of bringing the standards together, they are just too far apart, but there is constructive way of bridging the gap that could allow a trade deal. What the UK could do—and this was tried by the EU in the abortive TTIP negotiations—is say, “Look, we will give you a tariff rate quota, a zero rate, for those US animal products that meet UK standards on animal welfare, environment and food safety”. We could then say, “But the tariff for those animal products that do not conform to our standards will be high, high enough to make sure our farmers cannot be undermined by low-welfare imports”. There is a way of bridging the gap, allowing imports that meet our standards but having a tariff that makes it unlikely you are going to want to export to us the non-compliant things. That would allow our farmers to continue with our high standards for us to be able to trade with the EU. The only downside from our farmers’ point of view is that yes, it would allow a certain amount of product in at zero tariff, but it is product that would not undermine them because it would be produced to our standards. There is a way forward if we are—



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Chair: Cautious, although it would increase supply. Moving on, a tour de force in the brevity of questions.

Q97 **Mr Evans:** Good morning, Peter and Nick. Tomorrow is Thanksgiving Day in the United States of America and millions of families will be sitting down tucking into their turkey. Should they give the turkey a wide berth tomorrow because maybe it is going to do them some irreparable harm?

Peter Stevenson: I do not know the details of the US turkey sector but judging by the sectors I am familiar with, eggs, meat chickens, pig, beef and dairy, I imagine the standards are very poor, very overcrowded with very fast-growing birds with all the problems you get with fast-growing poultry including leg problems and hip problems because that supportive structure is not growing quickly enough to support the bird's weight. The turkey sector too is probably very poor in terms of animal welfare in the US.

Q98 **Mr Evans:** You have just said it is not your area of expertise and now you are condemning the entire USA turkey production. That is a bit unfair, isn't it?

Peter Stevenson: I am willing to do so on the basis that I know how poor turkey standards are in this country. Given that in every other sector of the US welfare standards are poorer than here, it is not an unreasonable assumption it is pretty bad in the States.

Q99 **Mr Evans:** Do you ever go there? Do you ever go to America?

Peter Stevenson: Yes.

Q100 **Mr Evans:** What do you eat?

Peter Stevenson: I do not eat American—

Q101 **Mr Evans:** Do you take sandwiches? There is hardly anything there that you can eat, is there? Do you seriously not eat any meat when you are in America?

Peter Stevenson: As I am vegetarian, that is not a problem.

Mr Evans: Touché.

Chair: I do note, however, you are not there for Thanksgiving either.

Q102 **Mr Evans:** No, I am here. Talking about production, we are really proud of the high levels of animal welfare we have in this country. We all believe animals are sentient beings, just to put that on the record. I have a lot of farmers in my constituency. They really do produce food to the very highest levels. You know our pig production, Peter? Isn't the level of welfare for pigs much higher in this country than it is in Denmark?

Peter Stevenson: Yes. Obviously Denmark, like us, has now had to ban sow stalls, the very narrow stalls in which sows are kept during pregnancy, but I think Danish law—I would need to check—still allows them to be used for just the first few days.



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Q103 **Mr Evans:** Okay. What I am trying to stress is that there are different levels even within the European Union. The United Kingdom usually comes quite high in all of these things.

Peter Stevenson: Yes, it does, though while I am perfectly content with the statement that we in the UK have generally higher levels of welfare than much of the rest of the world, there are some parts of the EU that have now gone ahead of us on animal welfare. Specifically, Sweden has banned the use of farrowing crates for pigs and Germany has banned enriched cages for egg-laying hens from 2025. We must be careful, while recognising that we have good animal welfare standards, to recognise that some countries are now moving ahead of us.

Q104 **Mr Evans:** Yes. Nick, should British farmers be scared witless at the threat of competition from the United States of America in agriculture?

Nick von Westenholz: As I have said, if the competition is coming from those who for whatever reason have a lower cost of production, particularly if that lower cost of production is the result of policy—standards, regulations and so on—it is fair enough to see that as being unfair competition. Yes, they would absolutely want to look very closely at the basis on which any trade deal is done and at the basis on which British farmers are competing against other producers. I think that is fair.

Q105 **Mr Evans:** Do you not think it is a very good trademark to have British beef and lamb going out to United States of America at the highest level of production? Do you not think that gives us a niche and great potential for British farmers to export?

Nick von Westenholz: As I said earlier, there are certainly opportunities. There are opportunities already that UK farmers are tapping into with the US. That is why I said when we are looking at any future trade deal, we need to take care and time on the details of it. I am certainly not suggesting that there should not be such a trade deal but it needs care and time to ensure that the market access UK producers get is on the same basis as any market access we concede and that we are not competing unfairly.

Yes, there are certainly areas in which UK producers could benefit from the fact that we do produce to high standards. I would say we need to be careful that imposing regulatory requirements on producing to high standards does not add cost without improving price because that will simply make things less productive rather than more productive, and we need to be careful just presuming that consumers, whether in the US, here in the UK or in the EU, will continuously pay more money for what might be niche products or higher standard products. What we do know, and this might be regretful but it is true, is that consumers primarily purchase on price. That has been shown again and again. If we start down a road where, across the board, prices go up, then that is going to create problems for UK producers. But yes, there should be and there is a



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market, for those who wish to pursue it, for high-value, high-welfare niche products.

- Q106 **Mr Evans:** On the price, I totally agree with you on that. You cannot move in supermarkets without a 'buy one, get one free' on Danish bacon, for instance. Clearly, their costs of production are lower than ours. Would you say that is true?

Nick von Westenholz: As I understand it, yes.

- Q107 **Mr Evans:** All right. Looking at beef, what are the tariffs that the United States of America faces if they want to send any of their beef into the United Kingdom and British farmers if they wanted to send beef into the US market now?

Nick von Westenholz: I would have to check that and I can certainly provide that for you. I do not have it to hand. Obviously at the moment we use the EU's MFN tariff—Peter might know the exact figure—and that tariff will be applied on our produce.

- Q108 **Mr Evans:** Am I right in thinking that it is fairly high?

Peter Stevenson: Yes, it is.

- Q109 **Mr Evans:** I know it is 10% on cars but it could be as high as 30%, could it not?

Peter Stevenson: Yes. EU import tariffs on beef and pork—I do not know the exact figure—are probably around that 40% mark. They are high because pig producers and beef producers in the EU could not survive if those import tariffs were not that high. They too would be undermined by low-welfare imports.

- Q110 **Mr Evans:** I just want to go on to the Australia experience when the FTA was done between Australia and the United States of America. It seems to me that Australia perhaps were done over a little bit as far as that trade deal was concerned. They were allowed, what was it, favourable entry on their cars, which they really are not renowned for, and yet they were not allowed to send beef for 18 years, I think. What sort of things ought the United Kingdom to be looking for? The United States of America is a protectionist racket, just as the European Union is. What should we be looking towards as pitfalls in trying to do a trade deal with the United States of America on agriculture?

Nick von Westenholz: Some of them, or probably most of them, have been covered inasmuch as the US clearly have a fairly aggressive set of interests with regard to agriculture. They pretty much always do and that Australian-US deal demonstrated that. That clearly poses some challenges for UK domestic producers and that would be particularly beef and those sorts of products. For us, as I said, there are opportunities, particularly high-value dairy. At the moment we obviously do not sell any beef or lamb into the US but once those logjams get freed up a little bit there may again be some markets that might open up for UK producers.



Again, I come back to this point that it is very clear to me what the US's interests in a UK-US deal are and much of that is around agriculture, both for the benefit to them of the UK market but also in leveraging access, potentially, further down the line, into the EU market. That is why we need to be very careful to look at the absolute details and also deal robustly with some very experienced, tough US negotiators when it comes to beginning to negotiate those deals because if we get it wrong—

Q111 Mr Evans: Are you fearful that we just do not have negotiators with any experience in the United Kingdom?

Nick von Westenholz: We are obviously building up the capacity—there are a few who obviously worked within the EU previously—but yes, that is a fair point. We are very much behind the US in terms of experienced trade negotiators.

Peter Stevenson: It is not just producers of meat who are going to be vulnerable in this negotiation. Eggs and dairy are also problematic. The UK has banned battery cages but the US has not, so again, a trade deal could—I do not think we are going to see fresh eggs coming in but in terms of egg products.

Mr Evans: I was going to say, yes.

Peter Stevenson: Our farmers could be in trouble, particularly the dairy sector. On the one hand, as you say, there are export opportunities for high-value, pasture-based dairy products, but again once our markets open up they are going to find it very hard to compete on price with US dairy. I am not thinking fresh milk. It is cheese, butter, a range of dairy products. If again you look at the US dairy sector, here in the UK we have problems enough: 20% of cows in the UK now are zero grazed, kept indoors all year round, not allowed out to graze even in summer or spring. In the US, I do not know the exact figure but the vast majority are zero grazed. They are kept in huge units of thousands of cows, pushed to very high milk yields, which leads to all sorts of animal health and welfare problems.

To add to things like chlorine-washed chicken and beef hormones, again it is hard to find a precise figure but probably at least a third of US dairy cattle are injected with bovine somatotropin. That is a genetically engineered version of a dairy cow's own growth hormone. It was banned in the EU in the 1990s on animal welfare grounds. It was very clear there was a lot of damage being done in terms of increased levels of lameness, mastitis and reproductive problems. The EU did not try to ban imports of dairy products; it did not want a trade war on that as well. If we have a new trade agreement and start letting dairy products come in, they will be coming from zero-grazed herds, bST-treated cows in some cases, much cheaper, poor welfare, but undermining our hard-pressed dairy sector.



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There are things we need to be alert to in every sector, though as I say there is a constructive solution in terms of having zero-rate tariffs for things that meet our standards but high tariffs for things that do not, which would protect our farmers. That is the only way I can see forward of having a trade deal on agriculture that does not damage our own farming sector and push our welfare standards down.

Chair: I was just going to say my own few sheep looked pretty miserable yesterday in the rain and would like to have been inside for a week or two given the weather in the Hebrides.

Q112 **Julia Lopez:** Peter, you have suggested that if we do not have a trade agreement with the US, then the ban on chlorinated chicken might be challenged successfully by the US at the WTO. Do you think that is a likely scenario?

Peter Stevenson: You mean if we do not have an agreement with them?

Julia Lopez: Yes.

Peter Stevenson: Yes, they could. Certainly, they have not challenged the EU at WTO yet but, of course, in the parallel case of the beef hormones, that dispute went on for about 16 years. It was eventually solved, actually, roughly in the way I am talking about, about the EU being able to say, "Yes, you can keep your ban on the imports of hormone-treated beef, but you will have a generous tariff rate quota for hormone-free beef".

They could challenge us on the chlorine-washed chicken. I believe that the UK could successfully resist such a challenge. There have been a lot of misconceptions about what the WTO rules say. To my great distress, even Government officials still say, "Oh, we cannot restrict imports on animal welfare grounds". I am a lawyer and if I am anything I am a trade lawyer. This just ignores WTO case law of the last 16 years. It is clear from WTO case law that the UK could restrict imports on animal welfare grounds subject to a number of provisos, the main one being that there is no element whatsoever of discrimination that is favouring our own producers. Nothing is ever certain on WTO and I think if challenged we would have a reasonable argument for defending a ban on the import of chlorine-washed chicken on animal welfare grounds.

Q113 **Julia Lopez:** Are there any regulations that are not related to animal welfare standards that our farmers could cast aside once we have left the EU that would make them more competitive in these sorts of deals?

Peter Stevenson: Obviously, my main familiarity is with animal welfare, but I think we have similar problems with environmental and food safety regulations. Ours are stronger than those of the US. I do not think these can be cast aside because we have been talking so far about the import of beef or pig meat or milk, but what will be imported if we are not careful is the US highly industrial farming model, particularly on the livestock side. Yet the Defra Secretary of State, Michael Gove, has made



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it clear in this House very explicitly that he does not want to see and will not have the US industrial agricultural model coming to this country. He has set out a really exciting vision of the future of British agriculture with much higher environmental standards, restoring our degraded soils, restoring farmland birds, pollinators. There are many positive things to be done to improve our agriculture in terms of nutritional quality, the environment and better animal welfare, none of which can be done if we import that US industrial agricultural model.

Q114 Julia Lopez: What does the NFU think? Has any assessment been done in terms of our competitive advantage in high-quality produce? How fast are these markets for high-quality produce growing and where do we see those markets?

Nick Von Westenholz: I am not aware of any specific assessment that has been done, but it suggests something that certainly is worth doing as the potential for opening up new markets arises.

In terms of regulations and standards, we have obviously concentrated very much on animal health but, as has been said, environmental regulations are another major area that impacts on producers. There are areas there where we would like to see change. A good one would be around plant protection, commonly referred to as pesticides, where the EU takes a very precautionary approach to the approval of pesticides, something that WTO members outside the EU get very cross about. So far the EU has stuck to its guns, but essentially it is a hazard-based approach that looks at theoretical risk rather than a risk-based approach that looks at whether there really is a risk in the way that a product is used, the dose rates, et cetera.

We would hope that Brexit might lead to what we would describe as a more science-based approach to environmental regulations around pesticide approvals and the like. We do not think they are fit for purpose at the moment. Again, it would come back to the extent to which that is balanced with our trade interests. There is scope within WTO to have different regulatory approaches through regulatory equivalence as long as the outcomes one is trying to achieve through regulation are the same. There might well be scope to do some things differently. One of the problems that arises is that Michel Barnier is making it very clear that he does not expect there to be any divergence whatsoever in regulatory approaches. We would hope that there would be scope to do that.

I should make it clear it is not about trying to deregulate or loosen environmental protections. It is trying to maintain those protections but at the same time also assist farmers and assist productive agriculture. I would agree with Peter that there has been an interesting, ambitious future being scoped out at the moment for agriculture in the UK, particularly about how we might do things a bit more creatively around environmental protection, animal welfare and so on, but what is really important is that we do not lose sight of the fact that farmers are food producers as well and any agricultural policy has to include agriculture.



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One of the things we are keen to stress is that environmental protections should be part of the future policy alongside helping farmers be productive food producers as well.

Q115 Chair: I want to move on to geographical indications and just how important GIs are for branding UK food and drink in the global market. Like the rest of the Committee, I am probably thinking of Stornoway black pudding, a super food high in iron, calcium, zinc, magnesium and, of course, protein, or indeed Scotch whisky or, of course, Cornish pasties. There are a number of things but, of course, I did mention Stornoway black pudding first. Could I have your views on that?

Nick Von Westenholz: It comes back a bit to the question about opening up markets for some of the high-value, high-niche areas, and clearly GIs and the certification process around that would assist that. It might be fair to say the UK has been a little bit slower than some of our neighbours in the EU at really capitalising on the benefits from achieving GI status for products. We have definitely got a lot better recently at that, and I would certainly hope that any future trade deals recognised as many as possible of our GIs.

Q116 Chair: The US and the EU have very different attitudes to GIs. What do you think is important about them and should they be maintained or is it something that we could trade away?

Nick Von Westenholz: I would hope they would not be traded away but, of course, what they will probably look at is where there is currently market access for those products. If there is nothing currently going in of a particular GI, that might be harder to justify protection for. No, I would not want to see those traded away, especially if we are seeing one of the potential advantages of opening up markets in the US as being for exactly that sort of thing, high-end, high-value British products. The GI system obviously contributes to that.

Peter Stevenson: I have nothing to add on GIs.

Q117 Mr Jayawardena: I want to pick up on the points that we were beginning to touch on regarding cattle. If we agree that consumers should have choice in what they buy, would liberalisation genuinely present a problem if that greater choice for UK consumers was allied to arming them with the right information on what they are buying, so that we can trust them to make the best choice for themselves?

Peter Stevenson: Consumer choice is important, but I think it is also important, whether you are looking at regulations within the UK or how we relate to the US, to say that some things are so damaging, be it in welfare, environment, or food safety terms, that they should not be on the market. The point came up earlier, which I did not get a chance to respond to at the time. It is sometimes argued that a free trade deal with the US would benefit consumers in terms of lower prices and, indeed, yes, it might well lead to lower prices, but it would be lower prices for food that in some cases is unhealthy and of poor nutritional quality.



Mr Jayawardena: I did not get the opportunity to come back earlier on something you said, so thank you for the opportunity.

Peter Stevenson: Sorry, I did not mean that rudely.

Q118 **Mr Jayawardena:** It depends what standards we set in this country. To the point you made earlier and as Ms Lopez said, we could very well say that we are going to maintain our existing standards. If that means that in that part of agriculture or in that part of the economy there is not a deal, then that may well be the outcome. It might be—and this is subject to negotiations and we do not know how they are going to unfold because until we are free from the shackles of the European Union we are not able to have them—that we could get a deal that says that particular quotas, as you say, we are able to do or that we are able to find a way that the value end, the value proposition, might come from abroad but in return we get more rights to sell the high-end, high-quality goods to other markets.

I wonder if I can come to the NFU on that point. If British beef is the high-quality, grass-fed product that we know and love and we want to export that to the world, surely we do not want to force every trade partner to produce those same high-end products, too, because that would put them in direct competition with something in which we have an advantage. If that is the case, rather we should be encouraging our trade partners to have a different proposition so long as it subscribes to the values we want to see.

Nick Von Westenholz: I would be cautious about suggesting that the high-end, high-value market is so large that all UK producers would be able to head down that route and benefit from it. It is niche because it is small compared to the more commoditised production that most UK producers are part of. We have to accept that still for the large majority of UK producers they are going to be operating in a global marketplace for a commoditised product and competing against other countries producing similar end products. So, it is narrow.

Coming to your consumer choice question, yes, I think there is a real opportunity here to do a lot better around, for example, labelling and country of origin labelling. At the moment, we continue to see shortcomings in the way that products in shops are labelled and often it is not clear for consumers where products come from. There is big room for improvement there.

Of course, consumer choice is going to be limited if you end up finding UK producers outcompeted by products from elsewhere in the globe. What is important is that UK consumers have the choice of high-quality, high-standard UK produce. If that is taken away because of an unfair global trading environment, then the choice is obviously reduced.

Peter Stevenson: Consumer choice would be helped enormously in this country if meat and dairy products were labelled as to farming method. Consumers are buying in the dark. For example, when it comes to eggs,



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EU law has for many years now required the egg pack to be labelled as to farming method: free range, barn or eggs from caged hens. There has been a huge shift in the market because of that labelling away from caged eggs. When it comes to meat and, above all, dairy, consumers are just not having the information to help them make a choice. You go to buy a litre of milk in a supermarket. Unless you can afford organic, you have not the slightest idea whether that milk or cheese or butter comes from a pasture-based herd or a zero-grazed herd. As the consumer, you cannot play your part.

Mr Jayawardena: I am pleased we have found a point of agreement.

Chair: We have a fan for Compassion in World Farming here.

Q119 **Mr Jayawardena:** My wife frequently buys pints of organic milk for that very reason.

Can I turn to a point around the hormone-treated beef ban from the European Union? The UK originally opposed that initial EU ban and the US regularly claims that the EU rules are not based on sound science. If that is the case and that is the negotiating position, and given that the US contested the EU's original ban and won, if we were to retain the EU ban, could we end up facing a new case brought by the US at the WTO?

Peter Stevenson: Yes, we could, but I think we will need to adopt the same solution that the EU and the US did after 16 years of WTO cases, which again was on the lines I have been suggesting for other things. The deal that was eventually agreed was that the EU would be allowed to keep its ban on the import of hormone-treated beef but it gave quite a generous allowance, a tariff-free allowance, for non-hormone beef from the US to come to the EU market. That seems to me a sensible compromise.

Q120 **Matt Western:** My grandparents were farmers in North America, so I am interested. The scale is totally different. Very simply, are the margins on the business of farming exports from this country greater or lesser to North America or to Europe?

Peter Stevenson: The margins generally or specifically with trade?

Matt Western: The margins of selling agricultural produce to the US or to Europe.

Peter Stevenson: I do not know. I would suspect that in both countries margins are immensely tight.

Nick Von Westenholz: You mean to say the margins on UK produce depending on its end destination?

Q121 **Matt Western:** Those farmers selling to the North American market versus those farmers selling to the European market, what is the difference in margins?



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Nick Von Westenholz: I would not have thought there would necessarily be a difference in margins in terms of production because they are being produced within the UK/EU regulations and framework. Of course, the stuff you are selling into the US market you might be trying to produce for a specific user. As I say, there is quite a lot of prospect for high-end cheese or organic cheese, et cetera.

Q122 **Matt Western:** But in the future?

Nick Von Westenholz: Yes. Your margins are primarily driven by your cost of production and obviously your end price. If the standards are different—

Matt Western: That is the point.

Nick Von Westenholz: —then there might be different costs of production, indeed. It depends what the regulatory requirements are. Obviously, you can produce for your end market but you still have to observe the actual legal and regulatory requirements on you as a producer, which will add cost.

Q123 **Mr Evans:** I want to ask about the dairy sector, in which we do rather well in America. We have some brilliant cheese in Lancashire. We have one producer that sells £6 million worth of cheese to America every year, and that is without an FTA. Is the potential, therefore, with a free trade agreement going to be even better for the dairy sector in the United Kingdom? Do you think we might have to make some compromises somewhere along the line to ensure that that happens?

Nick Von Westenholz: Certainly, dairy is one area where we would see opportunities for US trade. To your final question, if we were to be able to do that outside the auspices of a trade deal, which as I have said is possible through certain mechanisms and, as you have pointed out, we already sell quite significant quantities of cheese into the US, then you do not have to necessarily make those compromises. We are representatives of farmers in all sectors across England and Wales. We are looking for the best deal for farmers across the board. It again comes back to what I said about trying to ensure that the totality of any deal, or adding together smaller aspects of opening up trade with the US, benefits our producers without putting other producers at a competitive disadvantage. That is not straightforward. I am not suggesting that that is easy.

Q124 **Mr Evans:** It sounds to me as if you would say that no deal is better than a bad FTA with America.

Nick Von Westenholz: Yes, I think I would say that.

Peter Stevenson: The dairy sector is the one livestock sector in this country that is over 100% self-sufficient, so yes, there are some good reasons to look for export markets. I think we can increase those markets with high-quality, pasture-based dairy products. We need to be careful because the cost of that might see other parts of our dairy



industry being overwhelmed by very cheap, low-quality imports from these big, American, zero-grazed, bST-injected herds. Again, we are going to have to be careful.

Chair: Thank you, panel, a fascinating discussion over the interplay between free markets and standards, I thought, this morning. Thank you both for coming along and sharing your expertise with us.

Witness Examination

Witness: Gary Campkin

Q125 **Chair:** Can I ask the witness to state his name, rank and serial number for the record?

Gary Campkin: I am Gary Campkin. I am director of policy and strategy at TheCityUK.

Q126 **Chair:** Thank you very much, Mr Campkin. Between 2007 and 2015, UK financial services exports to the EU increased by a higher percentage than they did to the US. Between 2011 and 2015 exports to the US declined while they increased to the EU. What opportunities does a trade agreement with the US represent for the UK in your view?

Gary Campkin: Chairman, as you will know, some 80% of the UK economy is services based, and financial and related professional services, which is what TheCityUK represents, has an important international and competitive ecosystem. We are looking quite closely, obviously, as you can imagine, at a whole range of international opportunities. A quarter of UK financial services exports, 24% of FS exports globally, go to the US. I think it is also important to recognise that in terms of investment something like 60% of US foreign direct investment in financial services comes to the UK. It is an incredibly rich and important relationship. We believe that there is a strong economic case for a free trade agreement with the United States in terms of both trade and regulatory coherence. I stress also with regulatory coherence because, as I can explain later on, that is where we see some of the real value.

Q127 **Chair:** Is it possible to increase this trade with the US without affecting trade with the EU?

Gary Campkin: These things are not a zero-sum game. The short answer is yes, it is. Over the whole area of trade, both merchandise, services and agriculture, it would be wrong to look at it as a zero-sum game.



Q128 **Chair:** Is there a risk, then, to any trade with the EU currently?

Gary Campkin: I do not believe there is any risk, but it depends on the nature of the agreement and the nature of the way in which some existing barriers are negotiated. Indeed, what we want to see is a comprehensive, ambitious agreement that reflects the issues that we put together in a paper that we published in January, which I think this Committee has seen, about the future of an independent UK trade and investment policy. Issues, for example, like data are absolutely vital in any new agreement. No, it really does depend on the nature of the agreement, but this is not a zero-sum game.

Q129 **Chair:** Agriculture has been seen as a potential trade-off to open up the US services market. Do you see any other avenues or any other trade-offs to help open up that services market in the US?

Gary Campkin: Trade agreements are by their very nature a series of compromises and trade-offs, but what you do on all sides of a negotiation is come to a point where there is mutual advantage for both sides. We will be looking to see a very strong financial-related professional services component.

Q130 **Chair:** When there is mutual advantage for both sides, that is in the broad. In the specifics, there can be losers on each side.

Gary Campkin: If you accept the fact that trade and openness to trade brings prosperity and opportunities and that the world and globalisation has changed the dynamics of profiles in various countries, what is important is to look at coming to an agreement within the trade wrapper that reflects the competitiveness of each particular economy. If you accept the fact that the UK economy is very heavily services based, one of the biggest concerns that I have, having spent 30-odd years in trade and investment policy work, is that services rules have lagged behind rules governing agriculture and NAMA. We have an opportunity now for a services-rich economy to begin to negotiate 21st century agreements that take forward some of the issues that we in the services industry think are important, and that is equally valid for financial and related professional services.

Q131 **Chair:** In a services-rich economy then, does it make sense to trade away, for the broader prosperity of the economy, to give up some agricultural rights?

Gary Campkin: As I said before, the key thing is to look at the balance of advantage at the end of the negotiation. There will be circumstances where some sectors may not get everything that they want, but that is also the basis of a negotiation.

Q132 **Chair:** Some sectors are potential losers while some are gainers?

Gary Campkin: That is the nature of trade negotiation and the key thing, therefore, is when that happens to make sure that there are



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flanking measures to assist those industries that may have to go through some sort of transition period or some adjustment.

- Q133 **Chair:** Given that idea that services, City based, could be the emphasis—agriculture, rural based—doesn't this ultimately work out to be a city versus country battle within the UK itself?

Gary Campkin: I think the best way, Chairman, to look at this is to look at what is good for the UK economy as a whole. Openness to trade and investment brings prosperity. That brings prosperity to all parts of the country. If you look at the industry that I represent, as I hope you know, of the 2.2 million people employed in the UK, two-thirds of those are actually employed outside of London. In Scotland, the financial and related professional services industry is particularly strong. This is a national asset.

- Q134 **Chair:** This will be my final point. How does that, then, help people who live in the Welsh valleys or in north-west Sutherland?

Gary Campkin: What openness to trade does is bring new opportunities and new ways of taking forward business opportunities. If you are looking at the balance of advantage, again negotiating an agreement that is good for the UK as a whole has to be a key goal. As I said before, the flanking measures that need to accompany those sectors that may not be the beneficiary—and I stress may not be the beneficiary because some opportunities will be bigger in some markets for some industries compared to others. Again, what global Britain means for TheCityUK and for my industry is an attempt to look at developed, emerging and niche markets in a coherent and cohesive way, and opportunities will be there right across the country in those agreements when they are negotiated.

- Q135 **Matt Western:** It is interesting, I think, Mr Campkin, that you said—correct me if I am wrong—60% of US direct foreign investments are in the UK. Is that right?

Gary Campkin: Sixty per cent of foreign investment in financial services is in the UK, yes.

- Q136 **Matt Western:** That is buying into that sector, is that correct?

Gary Campkin: This is foreign direct investment that creates jobs here, which brings functionality to the UK because London, as you know, is the world's leading international financial centre. Those companies that invest in the UK choose to do so because it is a good business climate, because they can do the things that they need to do to service international customers and clients from the UK.

- Q137 **Matt Western:** Is it fair to say that in terms of regulatory bodies the US has much sharper teeth than, say, UK equivalents in this sector?

Gary Campkin: The way I would look at it is that international regulation is basically derived from global standards, particularly in banking. There are various ways in which each jurisdiction decides to put those



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standards into practice. I do not think one can make a value judgment in those particular terms. We are both very well regulated jurisdictions, and I think that is quite clear.

Q138 Matt Western: But in the wake of the financial crisis, correct me if I am wrong, but I sense that the US authorities seemed to go after those involved, who perhaps were, not acting improperly, but acted in a way that they were partly the architects of the crash, more so than perhaps we did in this country. Is that fair?

Gary Campkin: I am not sure whether I would accept that observation. The way in which the United States approached things, through the Dodd–Frank legislation, and the way in which the European expression of global standards came to be, has led to issues of regulatory divergence that for business in and of itself is a problem. Again, going back to the question about a free trade agreement, if I may, one of the things that we need to do as we move forward is to make sure that we include issues about regulatory coherence, because when there are divergences in regulatory approach, that adds cost into the system. If you add cost and inefficiencies into the system, it is the customers and clients that cannot get the products and services that they need.

Q139 Julia Lopez: You said there is almost certain to be a degree of triangulation between the UK, the EU, and the US as we are making deals. Do you think that, that being the case, a deal with the EU needs to be brokered in tandem with a US agreement if we are going to achieve that triangulation?

Gary Campkin: If I can make two points about that. What I am hearing a lot of from trading partners is that they are very keen to negotiate deals with the United Kingdom, obviously recognising the fact that the UK cannot do that officially before it leaves the EU. There is nothing, incidentally, that stops the UK getting involved in scoping discussions. Indeed, we encouraged the Government to do that, and a number of those are underway, as you know. But what trading partners also need to factor in and want to factor in is what is the future relationship between the UK and the EU27, because that does have an impact on the deal that they will be prepared to negotiate and some of the way in which the negotiations will be pursued.

The second point is that it is absolutely vital that we avoid any risks of Balkanisation of capital markets, liquidity, and risk in financial services. Having the triangulation, making sure as much as possible that we can have effective regulatory co-operation and mutual recognition between those jurisdictions is going to be a key point.

Q140 Julia Lopez: Dare I say it; you seem to be lacking the sense of hysteria and gloom that we have seen from many quarters of the City over the last year to 18 months. Does this mean that the City has moved on? The US commerce secretary, Wilbur Ross, has suggested in the past that if we lose passporting rights this is a potential landmine that could set back



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talks with the US in any deal. My perception is that the City has started to worry much less about the idea of passporting and moving on to the idea of mutual recognition, which you have discussed or touched upon already in your comments. Has the City managed to realise that the world is not going to implode?

Gary Campkin: Maybe I can just dispel a myth about passporting. Passporting for the parts of the industry that use it is valuable. I think we need to move away from terminology. What does passporting actually do? Passporting gives you market access, and that is what the industry is focused in on. It is, "How do we retain and maintain market access?" That is one of the reasons why US, Japanese, and other foreign investors come here to the UK, to access the European market as a whole. I think we have come to a point where we need to be really clear about what it is we are talking about; it is market access, and those issues are going to be important.

Q141 **Chair:** Given what you have just said, if the UK was to crash out of Europe in March 2019 without a deal of any kind, what will your view be then?

Gary Campkin: The industry has said quite clearly that we would hope that that will not happen, but the industry has to plan for the worst and hope for the best. Contingency planning, which is currently underway, will be obviously looking at the futurescape and making sure that we can do what we need to do in both financial and related professional services, which is to service customers and clients.

Q142 **Chair:** I presume that by "the worst" you mean crashing out without a deal, and "the best" retaining what you have at the moment?

Gary Campkin: We have called quite clearly for the retention of as much market access to that which currently exists.

Q143 **Mr Jayawardena:** I wonder if you could outline what you were alluding to a moment ago, how you envisage UK and US regulatory and supervisory authorities co-operating in future. Are there particular areas in which the UK could allow US agencies to assess services against UK standards, or areas where the UK could accept US standards as equivalent?

Gary Campkin: We believe there is clear potential for greater regulatory co-operation and coherence. Indeed, if you roll back the clock to the TTIP negotiations, it is an element that we spent a lot of time working on together with our US counterparts. Again, in my experience I have very rarely come to a negotiation or an issue where there is absolutely alignment between the two business communities about what they want. We believe it is really important to include this in the deal.

Again, we need to be careful about terminologies of, "equivalence", "convergence", "alignment", and "harmonisation". All those sorts of words tend to come quite value laden. Again, trying to push back and



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really focus in on what we are looking for, which is a clear system that will anticipate regulatory issues, something that does not try to clear up problems after the regulation has been agreed and put into place, something that is transparent and accountable to stake holders, and something that meets regularly so there is a clear process involved. That will be of immense use, not just to the transatlantic relationship and the relationship with EU27, but globally as well.

Q144 Mr Jayawardena: Any specific areas that you can see this working?

Gary Campkin: If you look at what the financial markets arrangements between the EU and the US do at the moment, it is pretty broad-brush financial services, whether that is banking, insurance or asset management. We would want that same sort of holistic approach.

Q145 Mr Jayawardena: You referenced TTIP a moment ago, and Mrs Lopez said that as part of TTIP much work has been done on possible relations with the United States. DIT said that at the time the US Treasury had been a barrier to agreement during TTIP, not just the fact that there were 28 member states of the EU trying to agree. We know from discussions here and elsewhere that many do not like the sort of free-market system that we have that has powered the City of London to what it is. Do you think that the new Administration in the US could help smooth that path through a deal, particularly in the context that it would be between us and them?

Gary Campkin: Can I answer the question this way; I think one of the issues that again came up when I was in Washington in October—a fascinating visit meeting with the Administration, with the Hill, and with counterpart business organisations—the degree of interest in a UK/US agreement is immensely strong. Indeed, there were some times when I was thinking, “Just hold on a minute; we need to get everything properly sorted out”. What is clear is that the UK and the US have well-regarded, highly respected, globally coherent systems of regulation, which should make it easier to bring those issues together and to mutually recognise. That is really important, because in many ways my own view is it will be easier for the UK and the US to come to that agreement than it would for the EU and the US, for reasons that I think are quite obvious.

Q146 Chair: Yes, thank you. My final question, if I may, is: do you think that an FTA, if that is what it becomes, could allow the US and the UK to discuss coherent implementation of regulations developed through other international fora, such as the WTO, the G20 and Basel?

Gary Campkin: Yes, I think that is really one of the big, important elements of the US/UK relationship. We do have an opportunity not just to strike a comprehensive and ambitious free trade agreement that takes forward issues like regulatory co-operation, which has not been done effectively before. By doing that we also begin to potentially unlock other negotiations, like, for example, the trade in services agreement negotiations that are currently in a little bit of abeyance. But I go back, if



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I may, to a point I made earlier in the session where I said that services trade rules have lagged behind. The industry needs those to catch up, and this is certainly a really important opportunity to begin to push that forward.

Q147 Keith Vaz: When you were over in the Hill, Mr Campkin, did you find there was still that special relationship? We talk about the special relationship between the United Kingdom and the United States. Did you feel that there was still that special relationship as far as business-to-business was concerned?

Gary Campkin: To be frank, yes, I did. Fantastic access, people willing to discuss a whole range of issues openly and frankly, which has been the hallmark since I first went to the States in 1988. They have always been rich, informed and useful conversations. We are talking in quite some depth with US business organisations, including the US Chamber of Commerce and SIFMA about how we take forward the sorts of things that we have been discussing already. As I say, up on the Hill, meeting with the main committees involved in trade, there was a huge interest in taking forward the relationship quickly.

Q148 Keith Vaz: The mood music, the background relationship, is still there?

Gary Campkin: To be honest with you, some questions were raised about where futurescape would land, and a real interest in where the future relationship between the United Kingdom and the EU27 will end up, but certainly no negativities that I perceived.

Q149 Catherine West: I want to ask you about the insurance industry in particular. There have been issues raised. Could you in your answer reflect also on the question of human beings? Obviously as a London MP—and I am sure others have found the same—I have had a lot of representations from EU nationals, particularly around changes and the uncertainty. In regard to the deal last week in the press—goodness knows what the reality was—about special concessions for bankers in particular; could you cover those issues in your final reply? I am sorry; we have to rush you because it is Budget day today.

Gary Campkin: Yes, I know it is an important day.

Catherine West: There was quite a bit to cover there. It is the insurance industry issues, EU nationals, and also last week's deal with the bankers.

Gary Campkin: Let me deal, if I may, with insurance first. As you know, it is called a covered agreement. That is a covered agreement under the Dodd-Frank Act, and it addresses three areas: insurance oversight, reinsurance and group supervision, and also the exchange of information. What is really important is to recognise that because insurance is supervised in the US at state level, it must bring in the relationship between the federal administration and sub-federal units, the states in this case. Again, what is interesting about that model and that agreement is that it does provide a potential part of the template for other parts of



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the negotiation that we have been talking about earlier in the session, because a lot of the issues, whether they be insurance, whether they be related professional services, legal services, or accountancy, are regulated at sub-federal level, and we need to find a way of bringing that into the discussion.

When the UK leaves the EU it is really important that the advantages offered by the covered agreement are also transposed and transferred into the UK, in the same way that the trade bill currently before Parliament seeks to transpose them and deal with the issues related to the EU family of free-trade agreements.

The other thing I would just say is that you may be aware that the US Treasury recently issued a report. If I could quote it very quickly, because I think it is important, where it said, "Given the benefits associated with the US/EU covered agreement, additional covered agreements may be mutually beneficial to the United States and other foreign jurisdictions. For example, should the UK withdraw from the EU, the United States should consider whether it would be mutually beneficial for the United States and the UK to enter into negotiations on prudential insurance and reinsurance matters similar to those addressed by the US/EU covered agreement." Those are very encouraging signs from the US Treasury Department there.

On EU nationals, TheCityUK has said that it is right and proper that the interests of EU nationals in the United Kingdom and of UK nationals in the EU27 are dealt with quickly, clearly, and effectively. We would obviously welcome any sign that brings peace of mind and security to individuals, their families, and dependants. As you know, my industry requires a huge range of skill sets, globally sourced; not, incidentally, just from the EU27, but from right around the world. It is very, very important as we go into the futurescape that an effective immigration and migration policy is defined and developed, which deals with, in this case, for my industry, skills needs. Incidentally, it is also about market access for British citizens being sent to operating units overseas and taking their experience overseas too. It is a win/win situation.

Q150 **Chair:** Any further questions?

Catherine West: The banker's deal from last week.

Gary Campkin: I am not quite sure what you mean by "banker's deal".

Q151 **Catherine West:** Mr Davis has said that there will be a particular approach to assisting the banking sector. It was well covered in the press. I am wondering what your organisation's view of that is.

Gary Campkin: Let me take that away and provide a written response, if I may, in more detail.

Q152 **Matt Western:** You were describing a sort of regulatory coherence. In your view, do you think that risks a future that is perhaps a lot more



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concerning, where it is more likely that we have less regulation and, therefore, more risk to our prudential outlook, the sorts of controls that perhaps we should have had more in place in 2008?

Gary Campkin: To be honest with you, I do not. I do not hear the industry calling for a race to the bottom. I do not hear it in discussions with regulators or with Government. The UK will continue to be a high-standards regulated economy, and that is part and parcel of why people want to come here to do business. I do not honestly see that as a risk.

Q153 **Chair:** A final point just to pick up what you were saying in the beginning. The UK has set itself up, or has been set up, or is effectively now an 80% services economy, as you said. You said perhaps it could be more so, because you see that as a particular economic advantage. That would mean sectors of the UK economy sacrificing to deepen that further, but you mentioned flanking methods. By these flanking methods do you mean fiscal transfers from the areas that are benefiting from UK policies, such as London, to those that are not, such as the Welsh Valleys, for instance?

Gary Campkin: No. What I mean by “flanking measures” is retraining and the ability to bring people into skill sets of now and the future.

Q154 **Chair:** Does that mean people from the Welsh Valleys migrating from the Welsh Valleys to London?

Gary Campkin: Not necessarily. What it means is making sure that the—

Q155 **Chair:** What sort of flanking measure is then going to help people in the Welsh Valleys? If the UK Government is further to help London and do not help those areas like the Welsh Valleys that might be more agriculturally—

Gary Campkin: I am not a UK Government spokesman, but I would hope any UK Government would be interested in the—

Q156 **Chair:** I am just interested in what you meant by “flanking measures”. That is what I am trying to probe.

Gary Campkin: If you look at skill sets of the future, what do we need? What does business need? It does not matter what part of the industry you are in: what does business need from an education system? It needs people who are well trained, well skilled, ready for the world of work, and who can make effective contributions in an ever-competitive world. For example, if you look at the issue of data, all of our businesses in my industry are effectively data businesses now.

Q157 **Chair:** I am pushing for those sectors in the UK economy that are going to lose. You mentioned some sort of flanking measure. How will those people, who are losing to the benefit of others, be helped?



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Gary Campkin: What you need to do is to train people, to retrain people to look at different jobs, the jobs that—

Q158 **Chair:** That means migration. That would mean migration, if we go further down a services sector economy, from areas of Wales into London.

Gary Campkin: Not necessarily. I will send you, if I may, Chairman, our recent regional report, which details right across the UK the value added of financial and related professional services to each and every region of the UK. A lot of the inward investors, for example, have major centres outside of London. It is part of the UK's value proposition.

Chair: I will thank you for that, when it arrives. Can I thank you very much for your time this morning, and thank you for sharing your expertise? Very illuminating indeed. Thank you, Mr Campkin.