

Welsh Affairs Committee

Oral evidence: [Brexit: Agriculture, Trade and the repatriation of powers, HC 402](#)

Tuesday 20 February 2018

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Members present: David T. C. Davies (Chair); Tonia Antoniazzi; Chris Davies; Geraint Davies; Glyn Davies; Paul Flynn; Susan Elan Jones; Ben Lake; Liz Saville Roberts.

Questions 313 – 364

Witnesses

[I](#): Jill Rutter, Programme Director, Institute for Government, and Joe Owen, Senior Researcher, Institute for Government.

[II](#): Professor James Foreman-Peck, Head of the Economics Section, Cardiff Business School, and Professor Patrick Minford, Professor of Applied Economics, Cardiff Business School.

Written evidence from witnesses:

– [Institute for Government](#)

Examination of witnesses

Witnesses: Jill Rutter and Joe Owen.

Chair: Our first session is with the Institute for Government, so a very big welcome to Ms Rutter and Mr Owen. Thank you very much for the report that your organisation produced, which managed to be unbiased, objective, readable and brief, which is quite an achievement. I congratulate you on that and I recommend that report to anyone with an interest in this subject. May I ask Glyn Davies to start with the first question?

Q313 **Glyn Davies:** I have question 1, which I must admit could take you half an hour to answer.

Jill Rutter: I will try not to.

Chair: Normally, we have 10 or 15 questions and I try to keep on track, but I just know that everything is going to go out the window. Everyone will have supplementaries and we will be all over the place, but you are very welcome here and feel free to tell us what you want to tell us.

Jill Rutter: Thank you.

Glyn Davies: To avoid me taking 10 minutes to ask the question, I will just read it because it is quite succinct. Your report identified lots of different models. There are quite a few different models that you could have in terms of how future UK-EU trade could operate, ranging from the European economic area to a comprehensive free trade agreement, which is pretty well where we are at the moment. Can you talk us briefly through the advantages and drawbacks of the main models—those models, and any others that there would be?

I may as well ask the second part of my question now. Looking at the different models, is there a fairly direct trade-off between the benefits for the third country and the obligations to the EU—there will be; there must be—or are there some arrangements that you think might just represent a better deal? That is what I call a fair question.

Jill Rutter: What we did not do, in this report, was the detailed economic assessment of the alternative models that a lot of people have done, and that the Government appear to have been doing quite recently, which some of you may have been able to look at. We did not go through a proper economic or sector-by-sector assessment of their relative merits.

The first point of setting out the different models was to look at what the precedents were for the EU's choice of different trade arrangements with third countries, which is obviously what the UK will become when we leave the European Union. When we listen, as we do quite a lot, to Monsieur Barnier, he stresses that it is a choice between Norway—membership of

the EEA—or the comprehensive economic and trade agreement that the EU concluded with Canada.

First of all, we were trying to look at whether that actually was the stark choice on offer, or whether there were other possibilities. That is why in our report we went through various other precedents to show that in the past the EU has been quite creative when it has suited it. It basically invented the European economic area when Scandinavian countries decided not to join the European Economic Community. It did a separate set of deals with Switzerland when it decided it did not want to join the European economic area.

For various clear political reasons, the EU did a series of agreements with the eastern neighbourhood states, including Ukraine, Georgia, Moldova and other countries, where it was looking at a different sort of arrangement, designed to incentivise them to reform domestically by offering them some carrots in terms of access to the single market. The Canada deal was the Canada deal only when they agreed it. There were different things in the Canada deal to some of the things that the EU had been proposing in TTIP—the Transatlantic Trade and Investment Partnership—which has sort of fallen away now.

We want to say that actually it is a more variegated picture, but the one thing that we wanted to bring out is that the EU did seem to us to try to insist, through all of those, that—this is, I think, why the current arrangements with Switzerland are a bit moribund—if you want rights in terms of access, the price you pay is obligations in terms of observing the rules of the EU, some form of compliance arrangement, and some sort of surveillance arrangement. If you look at the closest arrangement to the EU, the European economic area, there is a whole institutional structure, with the EFTA surveillance authority, and the parallel EFTA court, which looks to the ECJ to make sure that they comply with EU regulations.

Clearly, any Government—and anyone trying to make up their mind—has to choose, in a sense, whether to continue as closely as possible with the current trading arrangements. Of course, over the 45 years of our EU membership our economy has grown used to being part of the single market. We have been in the single market since the 1980s, and in the customs union since we joined. The price you pay for staying as close as possible is that, although you minimise disruption in the short term, you potentially reduce some of the opportunities in the longer run to do things very differently.

Different people put different weights on the potential benefits of that opportunity: whether you want to deregulate substantially, and we have some distinguished economists coming in afterwards; whether you want to pursue a very distinctive trading policy from the one that the EU has done; where you think you will take this opportunity; and whether you really think there is a huge amount to be gained through big comprehensive free trade deals with countries where, for various domestic reasons, the EU has found it difficult to agree. That is the trade-off that people try to make. We tried to set out those options, but the one fundamental thing that we said

throughout is that the closer you want to be to the EU and the better access you want, the more obligations you will have to accept.

Q314 Glyn Davies: Tell me if this takes us too far away from the original question. Clearly, there is the possibility of a failure to agree to a deal on any of the various options. Did you do any work on the implications of a failure to agree and the kind of relationship we could have with the EU following a failure to agree?

Jill Rutter: We did not look at the WTO option, because the Government have made it clear that they want some sort of agreement. We looked at where is the space. We took as our guiding text the Prime Minister's desire to do a deal that was between Norway and Canada. WTO is over there. Joe has done quite a lot of work on some of the logistical consequences: for example, on customs and borders if we exited the EU without a deal. Joe, do you want to pick that up?

Joe Owen: When it comes to the practical implications of no deal, it is easy to see how UK goods are likely to be treated at the EU border, because it is the same way we treat goods from outside the EU. The EU has what it calls a Union customs code, which is the regulation that determines how goods are managed at the border. It has certain provisions around the percentage of goods of different types that need to be checked by specialists at the border. Then, of course, there is the question of tariff issues and some of the other customs documentation that needs to take place. In some respects, you can use that as a benchmark for what will happen on the other side of the border in the circumstances of no deal.

When it comes to what we can do to try and limit friction if there is no deal at the border, we could unilaterally decide not to have any friction at the border on our side. It would be up to the EU. There are some challenges in that approach, not least because we would need to collect tariffs, unless we decided to unilaterally drop tariffs for everyone. You cannot just selectively choose the EU.

Then there is a question about regulatory checks. In terms of the international rules that are set through the WTO and the World Customs Organisation, you cannot give preferential treatment on regulatory checks unless there is a scientific basis to do so. There is an argument that the UK could reduce the number of scientific regulatory checks at the border—checking animal goods and so on—on the basis that nothing changed overnight. However, that would be open to challenge at the WTO from any other country that thinks the EU is getting preferential treatment over them at the UK border. It could cause some complications there, but that would be a short-term fix because you could not necessarily argue that in the longer term.

So there is some flexibility on the UK side as to what would happen with no deal, but, as far as the EU goes, it has quite rigid rules and regulations about how you treat third countries. Without an agreement, it would be very difficult for us to get additional leeway.



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Jill Rutter: When the Chancellor gave evidence to the Treasury Committee last year, he distinguished between two sorts of no deal. There is one where we leave with no deal on trade but we have a range of other flanking agreements on customs facilitation, data sharing and aviation in what I think is called an “amicable no deal”. We haven’t got there on trade, so we revert to WTO rules on trade.

The good thing on trade is that there are WTO rules that we can revert to. On the other areas, when we looked, the number of countries that trade with the EU on WTO rules alone is a very small subset. Somewhere like the US has a lot of other agreements to try and ease trade with the EU, even though it does not have an overarching free trade agreement with the EU. Those are the circumstances of what I think he called a “bad-tempered no deal”. We call it an “acrimonious no deal” where you leave, both sides aren’t talking, and you have no deals in place. That is clearly the most disruptive scenario.

Q315 **Liz Saville Roberts:** Surely, either of those scenarios in a no-deal scenario—amicable or not—would be open to challenge legally by a member of the EU, as well as possibly by other WTO members.

Jill Rutter: The key bit of the WTO, as we understand it, is what is called their most favoured nation clauses. What that basically says is that without an agreement that is registered at the WTO, you cannot discriminate between countries. The EU cannot unilaterally decide, “Well, we haven’t got there with the UK. We haven’t got any treaty basis for giving them a different deal, but we don’t really want to charge tariffs to the UK so we won’t.” They would be obliged to revert to the tariffs that they charge other countries, otherwise those countries could bring a case at the WTO, and the same the other way round, obviously—the UK could do the same. That is the key bit. If you exit with no deal, you are supposed to observe the rules governing world trade generally.

Q316 **Susan Elan Jones:** May I ask Mr Owen about tariffs and the intriguing option, which I have heard raised by some Members of this House, that we could be left in a situation where we agree to tariff-free access to our markets from some countries and that is not reciprocated? Could you elaborate on that a bit? If I was a New Zealander with cattle and sheep, I would be delighted about that. I am not sure I would be so pleased if I was a farmer outside Conwy.

Joe Owen: As Jill was saying, you cannot act unilaterally to drop tariffs for specific countries. In the absence of a trade agreement with New Zealand, if we decided that we would start applying zero tariffs on all their goods because we felt like that would be a sensible thing to do, we would have to apply zero tariffs to all countries, because you cannot show specific favouritism towards a single country. That is the same with the EU and with New Zealand—it is the same across the board. As Jill was saying, you can only make those reductions through a formal agreement signed by both sides.

Chair: I know how much interest there is, but I am wondering whether we

should just ask the questions and save up a whole load of supplementaries. They might come over as a bit random afterwards, but it might be the only way to get through this.

Q317 Ben Lake: Your report suggested that the UK Government could adapt various precedents to “propose a model that better suits its priorities”. How difficult do you think it will be for them to bring forward a proposal that can be agreed by the UK Cabinet, the EU and the House of Commons—and Parliament, for that matter—and meet the expectations of the UK electorate? It strikes me as a very difficult position.

Chair: Challenging.

Ben Lake: Yes, challenging.

Jill Rutter: Yes. We have obviously seen that it is not proving extraordinarily easy to reconcile the very different viewpoints within the Cabinet and within the different parties, and then to reconcile those with the right interpretation of the referendum vote. One of the issues with the referendum vote is that it was a vote to leave, but it was not a vote for one of a number of competing visions. One of the issues is that there are clearly quite different interpretations of that vote.

How easy would it be for the UK to negotiate tweaks on those deals? I think potentially quite difficult. The EU has its red lines too. Where it has set out some of the red lines, they are on what it calls the legal autonomy of the European Union—the prerogative of the European Court of Justice to interpret EU law. When the Council proposed a new court to oversee the EEA agreement, the ECJ struck it down as interfering with the legal autonomy of the EU, which is why we have the slightly awkward parallel EFTA court arrangement.

Another big red line, which the UK keeps hitting its head on, is the indivisibility of the four freedoms. Obviously, that was a big issue in David Cameron’s renegotiation. But the notion that you cannot have free movement of goods, free movement of services, free movement of capital, without free movement of citizens, however you want to interpret that—that has so far been something the EU has been very clear it is not prepared to do.

There are quite a lot of people who clearly would have a big preference potentially for staying in the single market and the customs union, but see the need to do something on immigration and would see it as really problematic if the UK couldn’t do something to control immigration—to take back control of our borders. That is another set of red lines. There are others, such as the very clear view that we hear repeatedly in the phrase that the UK cannot cherrypick, so we cannot say, “We will have that, that and that, but we don’t like those so we won’t do those”. That seems to have various different interpretations.

We were listening this morning to David Davis in Vienna, starting to set out what may be the basis for the agreement the Cabinet will reach later this week, although we are not sure yet. We look to the Prime Minister’s



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speech in 10 days or so to hear where they really get to. The UK and the EU both start from the position where our regulations are aligned. Most free trade agreements are about how much sovereignty you are willing to sacrifice for trade benefits and how far you are prepared to bring your rules into alignment so that you can remove non-tariff barriers and remove tariffs. We are in a very different position: we start from the position of zero tariffs and complete regulatory alignment. Could we do something where we basically have a relationship where we are prepared to mutually recognise each other's rules?

There is a precedent for that, which we set out in our report, in the Trans-Tasman agreement between Australia and New Zealand. However, that is quite a limited agreement and does not apply to highly-regulated sectors—that is, obviously, the sectors to which regulations matter most. It does not apply to financial services; it doesn't apply to pharmaceuticals, chemicals and things like that. It is also without precedent anywhere else, so the nearest you get to the single market, without being in the single market, is the Trans-Tasman.

It strikes us—although other witnesses may have different views—that the Australians and New Zealanders have a bit more of a laid-back view of regulation. One of the issues is that the EU has quite a cautious approach to regulation. It embodies the precautionary principle, and various other principles, so that has given it a particular way of regulating. It is culturally easier for the Australians and New Zealanders to agree. One of the questions is how much the UK would really stay aligned in the future and what guarantees we would give and what mechanisms you might give to demonstrate that to the Europeans. Again, that would be giving up some of our regulatory autonomy.

Joe Owen: If I may very quickly—

Chair: I will bring in Mr Flynn, if that is all right.

Q318 **Paul Flynn:** Were you as beguiled as most of the Members of the House of Lords were during their debate by the anecdote by Lord Lisvane? Perhaps you are familiar with it. He told a touching story about his three maiden aunts. He invited them for a day out and asked them to vote on what they'd like to do. They voted to go to the cinema. He said, "Well, that's the decision taken." He made some inquiries at the cinema and found that the only films on were "The Texas Chain Saw Massacre" and "Groundhog Day". As these were people of a delicate disposition, he thought, does he accept their decision or does he go back to them and get an informed vote, now that they know what is going on, or do they stick by their original vote? Many Members of the House of Lords picked up this anecdote and, quite rightly, said that having had an advisory, preliminary decision taken in ignorance, it is time for us to take a decision based on the deal made in the full knowledge that we have. As second thoughts are always better than first thoughts, are you not in favour of having a second referendum?



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Jill Rutter: We do not have any views on whether there should be a second referendum or not, as the Institute for Government. It is perfectly possible that Lord Lisvane's maiden aunts were very enthusiastic at the thought of going to see "The Texas Chain Saw Massacre"; perhaps he didn't know them as well as he thought he did.

Q319 **Paul Flynn:** As you were listening to Austria this morning, rather than listening to Michael Gove, can you understand what he said? He said that part of the joy of Brexit would be that he is going to alter the system so subsidies are not paid on the basis of owning land and that there would be a limit on subsidies. Those are two conditions that already exist in Wales—they do not need Brexit; they are things that the Government could do tomorrow, should they want it. Do you understand what he is saying?

Jill Rutter: At the moment, under CAP pillar 1, if you want EU subsidy to come through, you are required to make quite considerable income support payments that are now based on land rather than on production. Under pillar 2, you clearly also have the right to make some payments for environmental services, but you have to match fund those. That is why different Administrations have decided to do different levels of modulation on CAP pillar 2 payments.

I used to be in the Department for Environment, Food and Rural Affairs and under a number of Administrations, not just this one, it has long been an ambition to do more payments for public goods and less direct income support. We will see quite where he gets to with that, but it is quite interesting that one of the consequences of leaving the CAP will be that that subsidy budget, which has been protected through our membership of the EU, will now just become a matter for domestic policy negotiations. It remains to be seen how that plays through the fiscal framework with the devolved Administrations.

Q320 **Paul Flynn:** If the Welsh lamb industry and the Welsh steel industry are exposed to competition, fighting tooth and claw with New Zealand and China, what would the consequence of that be?

Joe Owen: We haven't done any economic modelling to understand the consequences from a financial perspective.

Jill Rutter: I think the second panel is better placed to answer that.

Paul Flynn: One of you suggested that there were alternative markets available. What are they? If we take the Welsh sheep industry, 90% of its product is sold in the EU at the moment. What alternatives can you suggest will appear, in our planetary system? The markets are already being taken up by Romania and Spain and we are certainly going to be slaughtered in a competitive market by New Zealand and Australia.

Jill Rutter: I think that is a question better addressed to our second panel.

Chair: Excellent. We will look at that. Can I bring in Liz and then Geraint

Davies?

Q321 Liz Saville Roberts: I was looking at the New Zealand and Australia meat production company, ANZCO, and it is having problems accessing markets in China as we speak, so where we anticipate our great markets to be is an interesting question.

I would like to turn now to the nature of the customs arrangements that you would anticipate that we will need on the UK's borders and how they might change post-Brexit—the different scenarios that you have been considering and the consequences of those. This applies particularly to the port of the Holyhead, but also to the other ports in Wales. I understand that David Davis told the Brexit Select Committee that he had been looking at this matter from the Irish perspective. Obviously, as the Welsh Affairs Committee, we will be looking at it from the Welsh perspective.

Joe Owen: When looking at impacts on the border and what the arrangements are on the border, it is quite helpful to think about what exactly a border does from a technical perspective and the functions that it serves for the movement of goods. There is revenue collection, safety and security around smuggling, environment and health—plant health, animal health. There is consumer protection, which makes sure that products entering the UK are safe, meet the UK standards and conform with marketing standards. Then there are trade policy questions around quotas, trade defence measures and so on. All those areas will be up for debate with the EU and could change as a result of our future relationship with the EU.

At a high level, there are two big drivers of that change. There is where we end up with the result on the customs union and where we end up with the result on the single market. We know that we are leaving the customs union—that is the Government's position—so there is a question about what you can do to minimise the checks that are required at the border from a customs perspective. What can you do around tariffs? What can you do around some of the declaratory checks and rules of origin checks that are required outside the customs union?

In some respects, there are levers that you can pull with those to at least move them away from the border as far as possible, through technology or deferred accounting rules for VAT, for example. The problem you come up against is that the best example of such a border is the one between Norway and Sweden, and although Norway is in the single market so there are none of the regulatory checks—it is just the customs checks—you still have physical infrastructure along the border, stop checks and big X-ray machines that scan lorries. While they have done a lot around shared IT and there are joint control zones where the two customs officials work side by side to limit checks, there are still checks.

Even if you tick off all the regulatory barriers to trade through the single market, some customs checks will remain. Can technology get rid of those? Possibly, but it will be over quite a long timescale when you



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consider that we are not yet sure about what that technology is, let alone in the design and implementation phase. Past large customs IT programmes have taken around seven years from design for the Government to put in place. That is the customs side.

There is then the question of what happens at the border in terms of regulation. That will largely depend on where we end up against specific regulations in the single market and what we can agree either by side deal or as part of the overall agreement around mutual recognition of conformity assessment, which basically says, "We trust your people to check to our standards, so we don't need to do duplicate checks and we can minimise some of the paperwork and testing that is required at the border." To the question of how you can minimise those checks, what needs to take place really depends on where you end up in relation to the relevant single market regulations.

There is one last point I would make. People often talk about taking a sectoral approach to protect different sectors at the border. Our integrated supply chains are integrated not just across national boundaries but across sectors within countries. Take the automobile sector and all the different inputs that come in and go into the finished product of a car. More than 50% of them—your metals, chemicals, textiles and so on—do not classify as automobile at the border. Even if you wanted to take a sectoral approach to protecting trade at the border, it would be quite difficult to get that given the integrated nature of the different sectors, particularly manufacturing.

Q322 Liz Saville Roberts: We were told that at present it takes one and a half minutes to process a lorry on to the ro-ro system at the port of Holyhead. Given what you have explained to us, how do you anticipate that timeline could change in practical terms?

Joe Owen: As I say, it depends massively on what sort of deal we end up getting. If we ended up staying extremely close to the regulatory regime, staying inside the single market and having a very good deal on customs, you could probably move a fair amount away from the port itself, which is in a little cove on a tiny island and so is obviously quite heavily constrained geographically. That is obviously a constraint, but the regulatory side is the big challenge. Throughput at the port of Holyhead has increased by just under 700% since the advent of the single market, when some regulatory checks were removed, so if you started to reintroduce some of those regulatory checks, you would see a big impact on what was required at the port in terms of animal testing, for example, if things were coming from Northern Ireland.

Chair: We only have about six minutes left in this session. I know that Geraint wanted to ask a question—ask any question you want. I know we have the set questions, but if Committee members have a burning question, ask it. Perhaps I could gently suggest that we have quick questions and quick answers, if that is all right.

Q323 Geraint Davies: There is clearly a trade-off between market access and



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migration. Do you anticipate that Britain, in striking new trade deals with countries outside the EU, will have to make concessions on migration and visas? Otherwise, why should we get more market access?

Jill Rutter: That has been a big issue for some countries. The country it has been the biggest issue for is India. They are very keen to liberalise the visa regime. Obviously, future Governments will have to make trade-offs on each deal about how far they are willing to go on that. For some countries, it may not be a big issue, such as Australia and New Zealand. For them, it is probably not a huge issue. It may not even be of that much concern if we had complete free movement with Australia and New Zealand, so I think it will depend.

India is really the crunch country for the trade-off of freedom of movement. Most FTAs include freedom of movement in what are called mode 4 services—where people need to come and get business visas to move to establish a services business. Obviously, a lot of services exports involve physically moving people to the country. That will be an issue for future Governments, but I think that India is the difficult place.

Q324 **Tonia Antoniazzi:** Your report stated that the Government have failed to articulate their preferred option for future relations with the EU. Why do you think that is?

Jill Rutter: Because, I think, it is very difficult. This report was written in December. The Government are now clearly in the process of trying to work out how to balance all the issues that we have been discussing here today: the disruption, the opportunities, the EU's insistence on its various red lines, and how to reconcile them with what the Prime Minister has taken from the referendum result as the UK's red lines. It is very difficult, because we are looking for something that has not been done before.

It is easy to speak about "bespoke" or "deep and special". The question is: what sort of bespoke, and what does deep and special look like? That is why we are all looking with such interest at the series of speeches by Cabinet Ministers, to see where we end up with the Prime Minister's speech. Of course, the Cabinet agreeing a position is only the start of the negotiation with the EU. Just because we have agreed internally, that does not necessarily mean that it is bought by the EU instantly.

Joe Owen: I would just make a quick point, which links to Mr Lake's earlier question about whether we can actually negotiate what we want in bespoke deals and modifications to existing models. It is about the element of timing. We saw from the first stage of negotiations that the EU agreed its guidelines, and the final deal did not end up a million miles away, because trying to get the EU to adjust its mandate and move outside of areas that it has previously agreed once it has set them is quite difficult. One of the things that we really stress in our report is that there is now a window of time, before the EU sets its mandate at the end of March, where you need to really push for what those modifications are, and what the bespoke elements are that you want, so that when that mandate is agreed, what you are after is on the table to start with, and



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you do not have to go through the process of trying to persuade the EU to adjust its mandate, which can be quite time consuming and difficult to do.

Jill Rutter: Basically, we have lost two months arguing among ourselves, rather than lobbying the EU for where we want them to be going, and why that is in their interests.

Q325 **Geraint Davies:** Is it realistic to think that we can settle and work out what the mandate should be by the end of March, given that the Cabinet cannot agree among themselves? How long, then, does it normally take to do these trade deals? It takes years, doesn't it? Do you not think that the transition period should be five, 10 or 20 years or something?

Joe Owen: You will see us both turning to the chart that we have at the back of our paper on the timelines for different trade deals.

Jill Rutter: If it is a conventional, bottom-up trade deal, that takes a long time. If we just say that we will join the EEA, there will be a process of what we should put in the annex for exceptions and things like that, but there is something there and we are already compliant with the *acquis*, so you could do that quite quickly. If you wanted to do a line-by-line, bottom-up trade deal such as Canada, those take four to seven years—I think that is our period—as that is very detailed.

The other thing about the UK is that we have not had to negotiate those sorts of trade deal. We are building trade capacity in Government, but we do not have it and we have not had to use it.

Q326 **Chair:** Let me see if I can do a couple of quick questions. The Government have been very clear that they want to be out of the customs union. I think the Government have been very clear that they do not want freedom of movement, and freedom of movement is an integral part of the single market, so therefore we will be out of the single market and the customs union—no two ways about it. If we maintained the same regulatory legislation and kept our customs tariffs at the same level the EU currently levies, would that theoretically enable us to move goods between Northern Ireland, southern Ireland, Britain, France and the rest of the EU without checks and any extra tariffs being levied?

Jill Rutter: That is a bit like what the Government appear to be suggesting in their Northern Ireland and Ireland future partnership paper. We would be collecting tariffs, but we would then be transferring tariffs—you would not have tariffs, but you would have to collect them somewhere. It would be interesting to see how that would work, because clearly if we have left the customs union, that is the external border—

Chair: We would have our own customs union within the same customs levels and tariffs.

Jill Rutter: But there is a question of where you collect the tariffs when they cross a border. If we had zero-tariff trade with the EU—I am trying to work this through—I think it would help. You would still need things. If you were going into Ireland, you would still need to be able to prove origin,



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because one of the issues is that if you have a preferential deal, you need to be able to show that the goods you are exporting qualify for that preferential deal. That is why you have all this hassle of origin certificates with rules of origin. With regulatory checks, if both sides were absolutely satisfied that there was no potential leakage of lower-standard goods across the border, you could operate the border as—

Q327 Chair: So what the Government would have to do to square this rather large circle is have the same legislative requirements that the EU currently sets and the same customs levels that the EU currently sets. I speak as a Brexiteer—I am all for it—but if we do not have that, there obviously would have to be some kind of hard border between Northern Ireland and southern Ireland somewhere and in some form, would there not? Is that a reasonable statement to make? Is there any way of doing this out of the customs union and out of the single market without a hard border?

Jill Rutter: That is something we are aiming to do a bit of work on to find out whether there is a way of squaring the Irish circle. That is not just in a piece of text, but looking at the practicalities.

Joe Owen: On your point about mirroring tariffs, mirroring regulation and having zero tariffs between us and the EU, there would need to be a formal agreement recognising that for you to be able to benefit at the border. If you had a formal agreement saying, "There are zero tariffs between us and we will apply the same tariff to everyone else," that is in essence what a customs union is. At the top level, a customs union is just an agreement for a common external tariff. There are different bells and whistles that you can add on to it, but that is essentially what it is.

Q328 Chair: Mr Owen, you mentioned the Norway-Sweden border, which I was reading about in the book "Brexit and Ireland", which is also very good. My recollection is that he spent a day there, and he said that most lorries cleared within 45 seconds, if I remember correctly. It was certainly within a minute or two. Most of it was done online or through different text messages. He said that customs officers hug each other from different sides of the border, but perhaps that will not be happening in Northern Ireland any time soon. The message was that it can be done very quickly. Is that fair?

Joe Owen: Yes, it is extremely streamlined, and part of that is because of the absence of regulatory checks. When it comes to customs, there are more levers that you can pull to remove the burden of proof and checks from the border. It is worth saying that the speed of throughput is largely because of the number of crossings. If you were to try to apply that sort of model to Holyhead, Fishguard, Dover and so on, you would not be able to because the scale and number of checks are completely different. There is an average of 1,300 with some of the border posts along the Norwegian border, and the number of lorries that pass through Dover is 10 times that.

Q329 Chair: Lastly—these are a bit random—we all seem to be looking at big-



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picture stuff here. Bringing it down to more specific issues, can you think of any examples of goods that are produced around the world and sold much more cheaply in other countries than they are in the EU because the EU applies particularly high customs tariffs? The two that have been mentioned to me are processed coffee and shoes. Are there a lot of things like that and is it fair to mention those items?

Jill Rutter: I think that might be a subject for the next panel. The Welsh Government's "Trade Policy: the issues for Wales" has an interesting chart about what EU tariffs look like. It shows that the big manufactures do not have terribly high tariffs. The big tariffs are all on agricultural goods. The EU has been protectionist on agriculture. If you look at where is the big opportunity to have cheaper imports, some of the discussion has been about oranges, for instance. EU tariffs on oranges are designed to protect southern European orange producers. We do not produce oranges. We would have cheaper oranges if we took the EU orange tariff off. So there are those sorts of thing. Whenever I talk to friends from North America, they are always shocked by prices in UK supermarkets. They always say, "Why is all this stuff so much more expensive in the UK than it is here?", but there is clearly a mix of maybe a bit of tariffs, maybe scale economies, maybe land prices and how much it costs to run a city centre shop in London compared to Ottawa. There is a range of factors, but that is an interesting area for work.

Joe Owen: On tariffs, there are a number of measures that the EU puts in place for developing countries to be able to access the market. There are agreements in place called "Everything But Arms" that allow developing countries that qualify to trade anything but arms, and there are similar agreements that help developing nations of low or lower-economy to access the market with reductions in tariffs. So there are some levers in play within the EU.

Chair: We are running out of time, so I will go to Susan Elan Jones.

Q330 **Susan Elan Jones:** Do you think there is an inconsistency? If we go back to the Parliament before last, one of the things the Government got very well by the end was the whole idea of the groceries ombudsman. There were arguments particularly about the production of milk. If we took the ultra-free market argument, it was very simple. It was basically that most of our milk producers would have to sell their milk at a lower cost, and the Government actually got what was happening. But they don't seem to be getting it in terms of some of the models they are thinking of post-Brexit, which some of us feel would have a devastating effect on dairy production, agriculture and the like.

Jill Rutter: One of the effects of Brexit is going to be that Ministers, in the sense of being able to delegate some of these difficult trade-offs between consumers and producers, have said the French are very protectionist and that is why we have all these tariffs on agriculture. We will be forced to find that taking back control means taking back responsibility for those decisions. It is obviously an interesting discussion that the Committee will want to come on to where the different devolved nations want to take very

different decisions about the way they treat their farmers. That is a separate set of issues.

Chair: I'm sorry. This is fascinating, but we have completely run out of time. In fact, we are overrunning and we have another panel. Thank you very much indeed.

Examination of witnesses

Witnesses: Professor Foreman-Peck and Professor Minford.

Chair: Professor Foreman-Peck and Professor Minford, thank you both very much for coming along. You can see that we are all very interested in this subject. The questions that have been set will probably not get asked in the way that was envisaged. We shall try and keep to time if possible. I will start off, if I may, with Mr Paul Flynn.

Q331 **Paul Flynn:** Professor Minford, you have challenged conventional wisdom on farm subsidies, particularly in Wales. Could you tell us what your view is, and how you see the future developing with or without Brexit?

Professor Minford: Well, Mr Gove—you discussed this earlier—has said what he plans, which is to base it on environmental contribution. That seems a sensible way forward, and it will lead to flows of money to hill farmers in Wales, who are obviously importantly involved in preserving the environment.

Q332 **Paul Flynn:** You have expressed views in the past that have suggested that they should be lower or higher. There is a great difference between the subsidies paid to hill farmers and the subsidies paid to millionaire farmers in England and Scotland, where there is no limit on the amounts paid—

Professor Minford: There is no justification for subsidies in general. The only point is that if you are paying for what a farmer is doing in the way of an environmental service by preserving the environment, that is a public good and that is a justifiable approach. That is essentially the approach that Michael Gove has taken. I think it is extremely sensible because we value the environment. I do not think we want to give subsidies, as the CAP does, indiscriminately to extremely efficient farmers who do not need it.

Q333 **Paul Flynn:** Do you agree that the Welsh lamb industry and the Welsh steel industry should be exposed to competition if we fall off a cliff edge—if we have the Brexit that Mrs May tried to avoid with the election last year and drop off a cliff?

Professor Minford: When we leave the customs union and the single market, and we sign free trade agreements with the world as a whole, a lot of this protection will disappear, and I hope it does. What will be left will be—there is a difference between farm subsidies and farm payments for an environmental public good, which is a completely separate regime.



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What we want to see from an economic point of view is the abolition of protection, so consumers can buy food and manufactures from the rest of the world at world prices. We also want to see a logical support system for farming that is based on the public good argument that we just discussed.

Q334 **Paul Flynn:** What is an alternative to the 90% of trade that Wales does in red meat with European countries other than ourselves? Where will that be replaced? Where are the new markets coming from?

Professor Minford: I don't quite follow your question.

Paul Flynn: The suggestion is that there will be a breach—it is already happening—in the fact that we sell Welsh lamb at favourable rates to the EU now, but we cannot sell it to many places in the rest of the world for all kinds of considerations. Environmental and animal welfare considerations stop us exporting on the hoof, or they should. There is a likely loss of markets within the EU—isn't that virtually certain? If those markets have to be replaced, where can we get acceptable markets that are further afield?

Professor Minford: The point is that if you remove protection and you sell at world prices, where you sell it may be the same place, but you will get a lower price for it.

Paul Flynn: Are you disturbed by the fact—

Professor Minford: When you have protection, it raises the price. It does not necessarily change where you sell it. In fact, it is very likely that if protection for agriculture was removed in terms of variable tariffs and the common agricultural policy, as I think it ought to be, prices on farm products will fall to world prices. If producers of those things produce the same amount, they may well sell them in the same places but at lower prices.

Paul Flynn: When protection was removed from the New Zealand sheep meat industry in 1985 overnight, they became more competitive on the world market. We are in a situation where we cannot compete with them now, even on things like controlling the temperature.

Chair: Do feel free to come in, Professor Foreman-Peck, as well.

Q335 **Paul Flynn:** I am asking a general question. You seem to be entirely out on a limb on this. I know that you have the intellectual support of the *Daily Express*. If I may say so, the serious organisations, the civil servants and the rest of them, suggest that you are putting forward an excessively and unreasonably optimistic view that falling off the cliff is beneficial.

Professor Minford: I don't understand. He keeps on asking this question. Shall I just give a final answer? Then, perhaps, my colleague can say something. He seems to be addressing it to me, but I am happy for you to answer, James.



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Professor Foreman-Peck: I have seen some simulations of different scenarios of what is going to happen. My impression is that the real change is that if you go for free trade, it will certainly wipe the floor with the Welsh lamb industry as we know it. If you go for the same tariff that the EU maintains against the outside world, there will not be that much change, as I understand it.

Paul Flynn: That is not going to happen, is it? If we take the might of opinion—standard opinion, whether pro-Brexit or anti-Brexit—it is very much in conflict with the maniacally optimistic line that you are reproducing.

Chair: Perhaps I can bring Susan Elan Jones in, who probably shares your instincts on this, Mr Flynn, because I am just trying to work my way around gently. I should say to our witnesses that we are very grateful to you for coming in, but as you will detect, there are differences of opinion on this Committee, as there are everywhere else in the country, but as guests of this Committee we are grateful to have you here and appreciate your contribution.

Q336 **Susan Elan Jones:** Professor Minford, the single market was a marvellous idea when the late Baroness Thatcher proposed it and was in favour of it. Why is it not such a good idea now, in your view?

Professor Minford: Sorry, when was it a good idea?

Susan Elan Jones: I think you will find that the late Baroness Thatcher was a great supporter of it with the Single European Act and the run up to that.

Professor Minford: Yes, Mrs Thatcher did push for the single market. The idea was that it would be an integrated market with free trade. That was what I think she was hoping to achieve. She also put it forward as one where there would be regulatory competition and not mutual recognition. Of course, both those things failed to occur. What actually happened is that it brought in the single market, which brought in qualified majority voting. Then Monsieur Delors, you will probably remember, changed the direction of European policy quite substantially and brought in social objectives that were then put into the single market framework. I think quite a lot of things changed as a result of the decisions of Monsieur Delors and the Commission after the single market was brought in.

Q337 **Susan Elan Jones:** So you are concerned, therefore, where there are social objectives that interfere with a market mechanism. Therefore, if we go on from what you said about protections for agriculture and why you actually want those to be got rid of, does that mean in your view of this that you would wish employment and environmental protections to be got rid of? Does that fit into that world view?

Professor Minford: There can be pragmatic and good regulation, and there can be excessively interventionist regulation. It is kind of a spectrum, isn't it? We could talk about it a lot, but I don't suppose we are going to get very far. Going back to the question of agriculture and



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protection, I was trying to say that the Government are committed to doing free trade agreements and that is an important process, which will involve mutual exchange of protection—mutual reduction of protection. Quite where it will go and what will happen in detail on that depends on how the trade agreements go. In terms of regulation, if you are asking if I expect a bonfire of regulations, I don't. I do expect, though, that over time there will be divergence of regulation, particularly for things like new technology, biotechnology, robotics and a whole bunch of things that are coming over the horizon.

Chair: Would you mind if I just brought in Liz Saville Roberts, because she has to leave in a minute?

Q338 **Liz Saville Roberts:** Forgive me, I will need to leave at 5.30 pm. I would like to ask both of you about your interpretation of what the impact of a hard Brexit would be on Wales's manufacturing jobs.

Chair: Professor Foreman-Peck, we have not heard quite as much from you as from Patrick Minford.

Professor Foreman-Peck: I think a hard Brexit would be uncomfortable, to say the least, for manufacturing jobs, because we do not know how hard. The difference between manufacturing and agriculture, as we have heard from the previous contributors, is that actually the tariffs are not that different in manufacturing. They are low in manufacturing; they are high in agriculture. I do not think that manufacturing will suffer that much. It certainly will not suffer as much as it would with free trade in agriculture.

Q339 **Liz Saville Roberts:** Yet we heard earlier on that our communication links, the ways in which we import and export, and supply chains are very complicated. It is not a matter of identifying a specific sector; we are talking about raw materials as well. Frankly, with what would we replace them in Wales?

Professor Foreman-Peck: I think it is worth remembering that before the European Union, we did have relatively integrated production. It was nothing like as internationally integrated as it is now, but Ford Europe was created in 1960 to conduct integrated production across western Europe, despite the barriers. I do not think that it will be impossible to get round the problems; I just think that it will not be particularly easy.

Q340 **Liz Saville Roberts:** Professor Minford, you have stated in the past that you would be prepared to sacrifice manufacturing jobs.

Professor Minford: The point is the whole process of free trade agreements with the rest of the world. I think it is most likely that we will have a free trade agreement with the EU that will keep zero tariffs. It is highly in the interests of the EU to do so. Also, since we are aligned in terms of standards, and all the industries involved have a strong interest in making sure that their product standards conform to either the UK, in the case of EU exporters, or the EU, in the case of UK exporters, I do not

think that there will be any great problems in terms of the EU for manufacturing.

Where things will change will be as FTAs are concluded with the rest of the world. That will introduce more competition for manufacturing as other countries have access, with the removal of non-tariff barriers that the EU currently puts in place, and tariff barriers. The tariffs are low, but the non-tariff barriers are about three times as high, as far as the estimates that we have go. The protection of manufacturing seems to be about the same order as the protection, on average, of food. When you include tariff barriers, it is about 20%.

As FTAs are concluded, I expect that that will create more competition in manufacturing, but I think that the way that manufacturing will respond to that will be by raising productivity. We have already seen enormously strong productivity. In fact, on average about 50% of our manufactured exports go outside the EU. In cars, 60% by value go outside the EU, and therefore they are already competing in world markets. I do not think that we will see an enormous problem in manufacturing raising productivity to compete with the new competition to the domestic market.

In the short run, you have to remember that manufacturing has benefited from an enormous devaluation, which has enormously boosted profitability. That gives the manufacturing industry a medium-term boost to deliver the productivity rise over the next decade or so, as the free trade agreements come into operation. I am pretty optimistic about it. I think we underestimate how competitive our manufacturing industry is, across Wales and everywhere else in the UK.

Q341 Liz Saville Roberts: As an aside, you mentioned the weak pound. That has not translated into extra sales for upland farmers, as I was told yesterday, who are still facing extremely volatile prices.

Professor Minford: As you know, net exports are well up as a percentage of GDP, so something is going on.

Q342 Liz Saville Roberts: They are losing their markets as we speak.

Professor Minford: No, they're not. Net exports are up as a percentage of GDP quite substantially, and the current account is coming down quite substantially as a percentage of GDP, so something is happening out there as a result of something.

Liz Saville Roberts: I could refer to the upland farmers in Wales. The markets in Bala are down. It is extremely volatile and we know that Romania is already moving in on their small carcase markets. These Welsh-speaking areas can only breed upland sheep. They are dependent on their exports. As a Member of Parliament for those areas, I will do my level best to defend them.

Chair: I'm going to give everyone a couple of minutes each, so feel free to make use of that in any way you wish.



Q343 Geraint Davies: On the last point, devaluation before the advent of tariffs and restrictions will have a short-term trade boost, but given that the EU will want a situation that doesn't encourage other people to leave, we can assume that there will be some sort of tariffs to trade with the EU. With the third countries that we trade with through the EU—you mentioned 60% of car sales—would you agree that those countries will now not be negotiating with the EU; they will be negotiating with the UK as a much smaller player and will want to change the terms of trade in their advantage, whether that be prices or standards?

There is a group of countries which we don't trade with. It seems to me that it will take a long time to reach those trade agreements and negotiate them. Isn't it inevitable that we are set to take a major battering, certainly in the first few years of having a hard Brexit?

Finally, wouldn't you agree that, given the people who voted to remain—the 48% of people—would want a soft Brexit as opposed to a hard Brexit, you only need a small fraction of people who voted for Brexit to want a soft Brexit, which there surely is, so there is no democratic mandate for a hard Brexit to start with and it is economic madness?

Chair: That is an interesting lot of questions for either of you.

Geraint Davies: Could you answer on the trade questions—

Chair: If you make a point in the Committee, the guests can pick up on anything and answer anything you said.

Geraint Davies: Specifically on the third countries, wouldn't you accept that they will want a better bargain, and that with the EU, the best it can be is as it is and it will probably be worse?

Professor Minford: Actually, the thing is that a big benefit trade agreements bring you is to get rid of your own protection. Mr Abe was particularly disappointed at the failure of the US to be in the Asian one, because he was going to use it to reduce protection in Japan. That is an important element of the whole picture. Obviously, you also try to open up other markets.

On the trade agreements that are being discussed with the US, as far as I am aware the discussions have already been going on for about a year. President Trump has said that he wants it to be done as fast as possible. Similarly, we have been urged by the Australian Prime Minister to get a move on and to start doing it during the transition. These free trade agreements, as the Australians found, can be done very quickly. So I think the whole process of dismantling protection will take place rather rapidly once we are outside the EU.

As far as Brexit is concerned, there is only one Brexit—it is called Brexit. It involves leaving the customs union and the single market. I don't know what you want to call it—I would just call it Brexit. The rest is not Brexit. If you stay in the customs union and the single market, you are not leaving. You are essentially doing the same thing, but not being in the EU. Essentially it is the same thing.

Chair: Professor Minford—

Professor Minford: Maybe my colleague would like to say something more on those points.

Chair: Yes, on those points. Sorry.

Professor Foreman-Peck: I am rather losing track of what it is we are supposed to be commenting on. There was a question as to whether we would be able to negotiate such good trade deals outside the EU as within it. I don't know. The whole thing about trade deals is that they take so long because of lobby power. It is actually your own domestic manufacturers and foreign manufacturers that are lobbying the negotiators. You have to try to square all the pressures that that brings round, so I don't think negotiating and getting to a free trade deal is going to be that easy at all. That does not mean we should not try to get there, though, and I think that would be an advantage of leaving the EU.

What I cannot see is how we can have a persistent free trade agreement with the European Union and the common external tariff that goes with the single market. A free trade agreement can break a common external tariff, because third countries can get round the common external tariff through the free trade agreement. As soon as you start getting free trade deals with the rest of the world outside the European Union, you break the European Union's fortress Europe.

Q344 **Chair:** Unless you have a rules of origin situation, which I think Norway has.

Professor Minford: You have to have rules of origin. That is clear. My colleague is absolutely right. You have rules of origin so you cannot get round it, essentially.

Q345 **Chair:** May I put in my two penn'orth? I am actually a strong supporter of Brexit, so Professor Minford and I are on the same side. The Government have said that we will be out of the customs union, and we cannot be in a single market without accepting freedom of movement, which I think is going to be unacceptable, so presumably we will be out of the single market as well. There has to be some sort of hard border, doesn't there, between the UK and the other EU countries? That is going to be noticeable in Northern Ireland. Have the Government done enough to prepare for this? Is there anything we can be doing to ensure that, when we sell goods, presumably with some form of tariff, we can move them through as smoothly and efficiently as possible?

Professor Minford: I refer you to WTO rules on this. I know this came up earlier today. WTO rules say that borders must be seamless and effectively virtual. That is the new rulebook for the WTO. If you look at the World Bank logistics performance index, which I also refer you to, the 15 top developed countries achieve seamless customs through use of the computer. Some 98% of traffic is not physically inspected, and the 2% that is—presumably because there is something problematic about it—gets cleared on average in a day. A lot of people were brought up in the era



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when you sat in great lines at customs and have not caught up with the new technology of borders.

This is the answer to your question about the Northern Ireland border or any other border. At the border between Canada and the US, over which there was a huge fuss in the economics literature about 30 years ago, trusted users have barcodes and go through without stopping. That is the modern analysis of a border. That happens at ports. It happens at bridges. That is the new world of technology that applies to borders, which is mandated by WTO rules.

Q346 **Chair:** That is a very welcome contribution, but let me throw you a slightly harder question. Have the Government done enough to ensure that that technology is in place? That is surely what is coming when we are out of the customs union and the single market.

Professor Minford: Jon Thompson, the chairman of HMRC, has made very clear on many occasions to many of the Committees of this House that that is the case and that the UK is totally prepared for this.

Q347 **Chair:** It is?

Professor Minford: It is totally prepared for it. He has said it on several occasions. They are all in *Hansard*. He has made it totally clear that we are absolutely ready to apply the technology to as much trade that comes under the new customs arrangements as is required. He has made it totally clear, and his counterparts across the channel should be making it just as clear—and, by law, they must. If they are not ready whenever the moment comes, they will be in breach of international law. The WTO is the international legal authority that will govern our relations with the EU when we leave. It is the only basis of law. The EU, of course, is very law-abiding. It has to be, because it is all constructed by law.

Q348 **Chair:** So a lot of the concerns are worries over nothing, effectively.

Professor Minford: Essentially, I am afraid this is true. There is a massive lack of information on this topic, because most people have got in their mind's eye a picture from 30 years ago of stuff queuing up in ports, or their experiences importing some drink or other across the border.

Q349 **Chair:** May I ask another one, then? On freedom of movement, while we need to control migration, is there any reason why we shouldn't look at having relaxed migration rules with countries that have similar living standards, from which we are not going to see a big influx of people? I do not just mean Australia and New Zealand, but places like Singapore, Japan, South Korea—the Asian tigers. There are many countries out there—even some now, I think, in Africa—that have a standard of living that approaches European standards. Is there any reason why we could not have much easier visa rules to allow travel between countries with similar living standards?

Professor Foreman-Peck: I am not sure the relevant consideration is similar living standards; it is whether these people are going to make a useful contribution to the British labour force. I can see that one might



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want to relax visa requirements if somebody from the country has got a job offer; our employer is hiring people from all the way around the world with tier 4 visas and the like. I just don't think the living standard is the way to formulate it. I think it is skills and contribution.

Q350 **Tonia Antoniazzi:** Bringing it back to Wales, which areas of the Welsh economy will see the greatest opportunities from future trading arrangements? Where are we going to benefit?

Professor Minford: Welsh consumers, the same as any other consumers, will benefit enormously from lower prices as a result of competition and rising productivity. This is the main point of leaving the customs union and the single market—so we make the British economy better as a result of competition and better regulation, and not subsidising unskilled labour, which of course undermines the labour market at the bottom end by distorting it. These are all gains that the Welsh consumer households will make, and poorer households will make even bigger gains than the 8% gains in prices, because of the improvement of the migration situation.

Q351 **Tonia Antoniazzi:** But don't you feel that Wales's interests differ from the interests of the UK as a whole? We have got quite a different populace in certain parts of the country.

Professor Minford: I will let my colleague answer that one.

Professor Foreman-Peck: Can I suggest that what made a big impact on me about the relationship between Wales and the rest of the UK was the speed with which the Welsh economy turned downwards in the recession of 2007-08? I didn't expect that, because I saw the crisis as essentially a finance crisis, and what has Wales got to do with finance? Very little at all. But Wales went down at the same speed as the rest of the UK economy. We are very tightly tied to the rest of the UK, like it or not.

What I would say, in answer to your original question, is that if we could predict the future and how Wales will make money in the future, we would be very rich. That is why we are academics. We don't do that; we will give you the broad parameters, and we will say, "We can't predict it."

Q352 **Tonia Antoniazzi:** You haven't got a crystal ball.

Professor Foreman-Peck: If you look at the Franco-German deal that gave rise to the European Community, the idea was that the French would get a lot of money for agriculture because we knew their manufacturing was going to be wiped out by the Germans. That didn't happen. Completely unexpectedly, French manufacturing flourished. That is the sort of unpredictable thing that happens in economic life. You wouldn't expect a multinational like Admiral to spring up in Wales, yet it did; it is one of the few FTSE 100 companies with headquarters in Wales, if not the only one.

Asking us to predict what the Welsh economy is going to look like in 10 years' time would be difficult. This is an economy that was completely driven by coal a long time ago. There is now basically no coal, and people



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are much richer. That is the general point made by my colleague: competition and trade improve productivity. We cannot tell you precisely where they are going to improve productivity. If we could, we would be a lot richer personally than we are now.

Q353 **Tonia Antoniazzi:** Do you think there are areas in which the Welsh and wider UK interests are incompatible?

Professor Foreman-Peck: The ONS recently did a fiscal transfer study of the regions, which showed that London and the south-east subsidises every other region of the UK except for the eastern region. So you could say that the interests of London and the south-east are opposed to those of Wales, because that is where the money is coming from for a substantial proportion of the Welsh society and economy.

Chair: I can see you looking at me, Mr Davies, but I am working my way round the Committee in order.

Chris Davies: That's all right, Chair; I was late.

Q354 **Ben Lake:** Could I take you back to the border between Northern Ireland and the Republic? You have discussed new technology. Just so I am clear, would it be a completely seamless border with no infrastructure or technology on it? Is that what we are talking about, and is it possible? Is that what the chair of HMRC is saying we are ready to implement?

Professor Minford: I do not think that the chair of HMRC was commenting particularly on the border; he was talking about the technology and being ready to implement it in the way I described. I think many people have explained that the Northern Irish border can be handled technologically quite easily. A lot of things at the border already do not get looked at, even though there are different VAT regulations.

There are various areas in which Ireland and the UK are not exactly the same, but they are not handled at the border. I am not an expert on the Irish border at all, I can assure you, but what I hear from colleagues who are pretty expert on it is that there are technological solutions that do not have to be implemented at the border. The border itself can be an essentially seamless operation, as the vast majority of borders are already.

Q355 **Ben Lake:** One thing we heard some concerns about on a recent trip to Ireland was that in the December agreement between the EU and the UK, a specific paragraph that related to the border said that the UK had already committed to a completely seamless border—an infrastructure-free border, or something like that. I am curious. In order to implement this new technological, seamless, digital border, we will still need some sort of machinery, but perhaps it can be further away from the border itself. Is that what we are talking about?

Professor Minford: There are various ways of implementing these things. The Detroit Bridge has barcodes. If you are a trusted user, you don't have to stop, because you are registered on the system. That is the sort of



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thing that people are talking about and that could make it essentially seamless.

In fact, the UK Government have said very clearly that they are in favour of doing that and would do it themselves, but there is this curious situation where the Irish Government and the EU say they will not. We wonder where that is coming from; it is clearly illogical and anyway illegal, probably. As I said earlier, there must be a seamless border in any case, by WTO rules. I am not quite sure where this is all coming from, but it is certainly not coming from the UK Government side, and there is nothing technologically that seems to be a problem.

Q356 Chris Davies: Gentlemen, I must say that usually when we have academics sitting in front of us, I am very sorry to have stayed for the whole session. However, today I am sorry that I arrived late, because what I have heard so far has been very encouraging and enthusiastic. Usually we find people who are constantly still trying to fight the referendum, rather than looking beyond it and giving us great advice.

Chair: If you'd been here earlier, you might well have heard some of that.

Q357 Chris Davies: I am sorry I arrived late. The four of us on this side of the Committee Room were out in Dublin only the week before last, as you may know, so the evidence we gained from our visit is very fresh in our minds. It seemed very clear that the issue of the physical border between southern and Northern Ireland is more of a psychological issue, because people remember that only a generation ago they had checkpoints rather than an actual border to cross in technology terms. That is really a different matter; whatever we put there, however we do it, if we come up with physical borders it is going to be a problem. That was clear to understand.

But on the virtual border you spoke about, I remember asking the chief executive of the Dublin port authority whether the world was now ready for technology, and he basically laughed and said, "No." It is very interesting to hear your viewpoint that we can. Unfortunately, whether we voted for Brexit or remain—I am sure my colleagues would agree—it seemed to me he was very anti-Brexit and still fighting the Brexit position from an Irish point of view. Can you assure us that the virtual technology is there and, whether it is for a land crossing or a port crossing, if the will is there from each Government, it can be put in place?

Professor Minford: The figures from the World Bank say that 98% of traffic for the 15 major developed countries goes across physically unchecked borders—some are land and some are sea. That is the figure.

Also, because of the importance of logistics and supply chains—it all comes from the economics of supply chains, which want to have seamless operation—the borders, which have always been the problems in those chains, have got to be seamless. That is why there are these WTO rules about it. So, yes, those are facts. That 98% is a fact for what happened in 2016. And the other 2%—presumably some problem was flagged up in



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advance, so it had to be checked—was cleared on average in a day. That is just the facts. As I say, the rules are very clear, too.

Obviously, some developing countries cannot do this, because they have not got the resources—technology requires resources. By the way, on the question of physical borders, my colleague and I often cross the border into England across the Severn Bridge, and I must say that it is fairly seamless if you have a tag. It is probably less seamless, actually, than the Detroit Bridge, where you just need a barcode.

Q358 Ben Lake: That is one of the concerns that has become clear. Although crossing the Severn Bridge—

Professor Minford: I believe it's going to be more seamless in future.

Chair: Thanks to this Committee, partly.

Ben Lake: The fear is that even having that series of checks, cabins, booths or tolls—whatever you want to call it—presents a target for certain groups and sections of the island of Ireland to attack, which would cause an escalation where you would then need somebody to guard said booths. Then, if that individual is attacked, it escalates. So it is not so much the fear of the economic or trade border but the propensity for that, even if it is just a booth and tag system, to lead to a security border. That was the clear root of the concern, at last on the Republic side.

Professor Minford: But if you have got Canada and the US, who are both in NAFTA—I hope we will be in EUFTA—operating a border with essentially nobody there, just a barcode and someone looking at it from the sky, that should satisfy the Irish border, it seems to me, pretty straightforwardly. It just needs the will on both sides to implement that sort of technology.

Q359 Chris Davies: That is very interesting indeed. I am delighted to hear you are such a globetrotter, going across the Severn Bridge—well done.

Not to let your colleague off the hook, it appears from the evidence heard already that, of course, you have not got a crystal ball and you cannot predict what will happen what in 10 years. We all know what has happened in the past. Do you slightly get the impression that we are not progressing as quickly as we should be because people are still trying to fight the referendum rather than to look at what will happen after it?

Professor Foreman-Peck: It is really up to the Government to make progress. I would have thought that indeed the problem was that the Government seems to have many minds. But I think we have made some progress. The exchange rate has started appreciating because the City slickers think that we have made some progress.

My colleague is, I have to say, congenitally optimistic about many things, one of which is the seamless border, but I think we are making some progress. When I am feeling optimistic, which is rarely, I think that maybe there will be a midnight agreement on the last day when the issues are fudged and we actually manage to get some sort of agreement that stops a very nasty bump, which otherwise looks as if it might occur.



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Q360 **Chris Davies:** As an economics professor, you have evidently studied how Europe works. Would you not agree that what you just described is usually how Europe ends up making decisions? It is last minute, and reasonably often it is a fudge.

Professor Foreman-Peck: That's the idea—yes, fudging things. I think this emphasis on legalism has been overstated. They know how to trim when they think it is in their interests. They didn't think it was in their interests over the UK referendum, as some of them now recognise. What politicians get up to at the last minute is a gamble, isn't it?

Q361 **Chair:** Is what you are suggesting legally possible? The Institute of Government made the point that it would not be possible under WTO rules for the EU to give Britain, as a third country outside the EU, a tariff-free deal unless they are willing to offer the same deal to all the other countries in the WTO. They said that once we are out of the EU, under the WTO you can't discriminate favourably or unfavourably against other WTO countries.

Professor Minford: Not for a free trade agreement. That is always accepted in WTO rules. If you just have a general tariff, it has to be most favoured nation to everybody, but if you then negotiate a free trade agreement, under WTO rules you are free to give a different arrangement to the free trade agreement partner. That is the exemption, you see. Otherwise, it has to be everybody the same.

Q362 **Chair:** But if that were to happen, Professor Foreman-Peck, it couldn't be at the last minute, could it? It couldn't just be a late-night sitting between the EU and the UK, because the WTO would have to be involved in agreeing it. It is not something that could just be knocked up over dinner at Brussels on the eve of Brexit.

Professor Foreman-Peck: I think these rules are well established. If the European Union decides to accept a free trade agreement with the United Kingdom, then, because that is consistent with the WTO rules, there wouldn't need to be any negotiation with the WTO.

Professor Minford: That's right. The simplest possible agreement is simply one of zero tariffs. Since product standards are all aligned already, there is no problem about those. Then you could have mutual recognition in services, which again already exists.

Q363 **Chair:** But if we did zero tariffs and were free to set our own customs levels—if we were outside the customs union—theoretically we could import cheaper shoes or processed coffee from around the world, bring them into the UK, and then they could be shipped straight over to Europe.

Professor Minford: No, we can't, because of rules of origin, which you pointed out earlier. Rules of origin prevent that activity.

Chair: I'm on your side here.



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Professor Minford: That's what rules of origin do. If we do a free trade agreement with the United States, and it sells us cheaper oranges or whatever you like, they can't be re-exported to the EU without attracting the EU's tariff.

Q364 **Chair:** But if we have a rules of origin situation, we are back into some paperwork, which we didn't otherwise have, and therefore a border, as my colleague said.

Professor Minford: A lot of people talk about this rules of origin thing as being a source of customs cost, but essentially they are dealt with in exactly the same way technologically. Once a load—remember that all these things are usually repeat loads—is registered on the system, it is either non-EU and subject to rules of origin, or it is UK-EU content and therefore subject to the free trade agreement. Once it is classified, it is treated seamlessly like everything else. It just pays the tariffs or whatever it is that it needs to pay. That is usually done in arrears, but not at the border. That's how it works. That is why it doesn't really matter anyway. It is all governed by the same computer technology, essentially.

Chair: We have overrun again, but I am very grateful to you for staying a bit longer. We look forward to continuing these conversations. Thank you very much for coming in.