

International Trade Committee

Oral evidence: UK-US trade relations, HC 481-vii

Wednesday 7 March 2018

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Watch the meeting

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

Questions 355-406

Witnesses

[I](#): The right hon. Greg Hands, Minister of State for Trade Policy.

Examination of witnesses

Witnesses: The right hon. Greg Hands.

Q355 **Chair:** We are going to move on to US-UK trade relations. Minister, I understand you have a second statement that you wish to open with.

Greg Hands: I note that the inquiry is on US-UK trade relations overall. I know Members will have questions about a potential trade agreement with the US, but before I say a little bit about the Government's approach to that question, it is worth reminding ourselves how substantial and important our trade relations are today. There is work we can do to boost UK-US trade even before we leave the EU and can begin negotiating any free trade agreement. It is important that we don't lose sight of that.

The US is already our largest single trading partner, accounting for a fifth of all our exports, worth more than £100 billion a year in UK exports. Our largest goods exports to one another are chemicals, machinery and vehicles. Our largest services exports to one another are, not surprisingly, in finance, travel and business services, such as architecture and accountancy. The US is the top destination for outward investment by the UK and the single biggest source of inward investment into the UK. Together, the UK and the US have more than half a trillion pounds invested in each other's economies.

This is my favourite statistic: every day, 1 million people in Britain go to work for a US company and 1 million Americans go to work for a British company. We want to see the statistics improve for both countries and are taking steps to make sure that happens. The Minister for Trade and Export Promotion, Baroness Fairhead, will work with business to lead the creation



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of a new export strategy, reviewing the Government's financial and practical export support to ensure it is both dynamic and effective. That review will report in the spring. We have appointed a trade commissioner for North America, Antony Phillipson, and we now have staff in 15 offices across the US focusing on promoting UK business and building new economic ties. We have opened Raleigh-Durham, Minneapolis and Santiago offices since the referendum.

There are currently 13 export high value campaigns running in the US across a range of sectors. The most successful campaigns—this is where the Department adds value to an existing set of exports—are currently in life sciences, creative and media, retail, food and drink, and aerospace.

Following the meeting between President Trump and the Prime Minister early last year, where both expressed a clear political will to see a UK-US trade agreement, the Secretary of State and the US Trade Representative, Robert Lighthizer, established the Trade and Investment Working Group. The working group brings together trade experts from both sides of the Atlantic. It has met twice, with the third meeting due next month. Its remit covers four areas. The first is continuity, providing commercial continuity for US and UK businesses as the UK leaves the EU through transitioning the existing EU-US agreements.

The second area covers what we can do to boost trade now. For example, the working group has started collaborating on help for SMEs to protect their intellectual property when operating in each market, and we expect more on that at the next meeting.

We also discuss areas of common interest where we can work together in international forums to boost international trade. The group is starting to lay the groundwork for potential negotiations—I stress the word "potential"—on an ambitious free trade agreement. There has been a lot of speculation about this, including unsubstantiated assertions about what may be in any agreement. It is far too early to say what will be in or out of any trade agreement with the US or any other country as we have not started negotiations. Even when we do, nothing will be determined until a negotiation is complete, so media and campaigners' speculation is often unjustified and premature in this space.

What we do know is that the UK and US economies are highly compatible. We are the world's two largest exporters of services. We have world class advanced manufacturing capabilities, well-educated, relatively high-wage workforces and similar approaches to open and competitive markets. The potential results are that a future agreement could: first, create new export opportunities for UK companies by making it easier for their goods to reach millions of new US customers; secondly, give British people a greater choice of American goods and services at lower prices and without compromising on safety and standards; allow British businesses across regions and sectors to attract and secure more investment from the US; provide a boost to the UK economy, potentially worth tens of billions of pounds—



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Q356 **Mr Leslie:** Sorry, could you repeat that?

Greg Hands: Provide a boost to the UK economy, potentially worth tens of billions of pounds; and underpin the deep political and security relationship through flows of technology, best practice and ideas. The Government are therefore optimistic about the prospects for an agreement when they can begin negotiations. I look forward to taking your questions.

Q357 **Chair:** Thank you very much, Minister. You mentioned the warm and cosy relationship that the Prime Minister and the President presented when they met last year. However, I am reminded of the poem, “‘Come into my parlour’, said the spider to the fly.” There was a story in the *Financial Times*. The Airport Operators Association had its annual dinner last night. Somebody who was in that room has confirmed to me that what was in the *Financial Times* about the less advantageous bilateral agreement is exactly what went on. When the realities present themselves—the Rottweiler approach of US trade negotiators—do you feel that they will not give you as much as you have at present if they can possibly get something more from you?

Greg Hands: Thank you, Mr Chairman. There is a lot in that question, so let me try and unpack the different pieces. First, the President of the United States has stated clearly his interest in seeing a good, strong UK-US trade agreement. But it is not isolated to the President. The whole of the US political firmament is in favour of coming to some kind of agreement in this way.

Q358 **Chair:** On this, I caution you. Crawford Falconer, whom you may know—I imagine you do—from your Department—

Greg Hands: I do, yes.

Chair: He told this Committee that what a country says today might not be what a country will be saying tomorrow, in the realms of trade negotiations.

Greg Hands: What a country is saying today may not be what a country is saying tomorrow—well, of course. But my point is this: it is not just the President of the United States, the UK and the US have a strong, deep and broad political relationship, and we have heard, right the way across the board, a desire—between both political parties in both Houses of Congress; Paul Ryan, the Speaker of the House has been quite vocal—to seek such an agreement. This goes way beyond any relationship of an individual or a couple of individuals. This is actually a very long-standing relationship, across not just trade, but the political security relationship, etc., so I think the two sides, as two friendly powers, ought to be able to come to a good trading relationship. Having said that, no negotiations have started yet. It is still very early in its stages. It is in its infancy. What we have had, as I said, is two meetings of the trade and investment working group; there is a third one coming up. You can see some detail of what has been discussed at those meetings, but essentially it is a scoping exercise at the moment, not a negotiation.



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In terms of what may or may not have been said at the airport operators' dinner, I did see that article—and aviation agreements are not within my remit in the Department for International Trade; that is a question best put to the Department for Transport. But I did read that *Financial Times* article about open skies, and I would note the very robust line put out by the Government in terms of coming to a good agreement, and the robust lines put out by, for example, British Airways and Virgin Atlantic, that they do not have major concerns in this space about not getting open skies agreement.

Q359 Chair: I think this is an attempt at the open skies. Are you not a little disappointed that the first window, the first glimpse we have had, of UK-US relations, seems to be not one of a friendly, special relationship, but a natural one, of trade partners negotiating the best deal for each other and the big squeezing the small in this situation? Following on from that, what economic modelling or impact assessment, if any, have the Government undertaken on the potential effects of a US-UK FTA?

Greg Hands: Thank you, Mr Chairman. First, I do not think that that is a first glimpse. It is a report, rather than what I understood to have actually happened at that meeting. In terms of the modelling, we have done some fairly standard use of Government models in this space, but it is very hard to model what a trade agreement might look like and the effect a trade agreement could have. I mentioned in my statement, and Mr Leslie picked up on that, tens of billions of pounds worth of added value through a trade agreement. It is very hard, until you know what is going to be in that trade agreement, and we haven't started the negotiation yet, to estimate what that amount of added value might be.

Q360 Mr Leslie: On that point, rather ridiculously, the Government have made Members of Parliament go over to the Treasury room and hand in our mobile phones in order to look at this economic modelling document that you were forced to release because Parliament required it. I took copious notes as best as I could, but could you just confirm that the Treasury's modelling of the US trade deal—a central view of what could be achieved—provides a benefit to the UK GDP of 0.2% in the long term? That was the Treasury's view.

Greg Hands: What I would say is that it is impossible to really effect a proper estimate, because we have no idea what is in the agreement.

Q361 Mr Leslie: Hold on a minute, that is not what the Treasury document says.

Greg Hands: Okay, well I am telling you that it is impossible to effect a proper estimate or an accurate estimate until you know what is actually in the said trade agreement.

Q362 Mr Leslie: Are you saying that I read that wrong? I was there without my phone and I was writing it all down. Did I misread it?

Greg Hands: No, I am not saying that. I am saying that you cannot effect an accurate estimate until you know what is in the said trade agreement.



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Q363 **Mr Leslie:** Why did the Treasury put 0.2%?

Greg Hands: I am going to say, Mr Chairman—I am going to repeat it again for the benefit of Mr Leslie.

Q364 **Mr Leslie:** No, my question is why did the Treasury write down in that document, “We take a central view of what could be achieved providing benefit to the UK GDP of 0.2% in the long term”? Why did it put that?

Greg Hands: I am telling you that it is impossible to say with any great degree of accuracy what the economic impact might be of an agreement that hasn’t even started to be negotiated.

Q365 **Mr Leslie:** Let me put it this way. Which is the greater number—4.8% or 0.2%? Which is the bigger of those two numbers?

Greg Hands: Mr Chairman, I am surprised that you—

Q366 **Mr Leslie:** It is a simple question. Which is the bigger number?

Greg Hands: Which is the bigger number out of 4.8% and 0.2%?

Chair: I think I can help you. I can definitely say it is 4.8%.

Mr Leslie: I would like to hear from the Minister. I just want to check.

Greg Hands: I don’t disagree with the Chairman.

Mr Leslie: Okay. Minus 4.8% is the Treasury’s model of what we would lose in an FTA-type scenario if we have that relationship with the European Union.

Greg Hands: Again, I think the premise—

Q367 **Mr Leslie:** Let me finish my question. There is big loss of minus 4.8% under an FTA scenario and a gain from the US trading scenario, on the Treasury’s figures, of 0.2%. It’s not exactly like for like, is it?

Chair: Twenty-four times.

Greg Hands: Again, it depends entirely on what your premise is of what may or may not be included in the agreement. As I understand it, that analysis did not look at the actual agreement that the UK is seeking to get, in terms of the sort of agreement that was outlined in the Prime Minister’s speech at Florence and her most recent speech last week. That has not been modelled. Therefore, it depends entirely on what your assumptions are. In this case, both agreements have not yet started to be negotiated.

Q368 **Mr Leslie:** Have you told the Treasury what you are seeking, or did they just not know it and that is why they came up with 0.2%?

Greg Hands: Again, Mr Chairman, he is asking me to speculate on what may be the value of an agreement that we haven’t even started to negotiate, let alone be near finishing.

Q369 **Mr Leslie:** This is my final point. On the point about steel and aluminium, which the Chairman raised, at this early stage the big kids on the block—



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the United States—are whacking 25% on steel and aluminium. I am feeling a bit sorry for you, Minister. I don't want you to look bullied by Donald Trump on this. Can you explain how you would stand up to that scenario if you were independently in charge of our trade response?

Greg Hands: What I would say is that, of course, the European Union is currently in charge of trade defences in this country.

Mr Leslie: No, I realise that—

Greg Hands: Let me at least start an answer to the question, and then I can perhaps get on to finishing it as well. We have been extremely active over the last few days in lobbying. The Prime Minister phoned the President on Sunday. The Secretary of State for International Trade has spoken to the Commerce Secretary, the US trade representative and the European Union Commissioner for Trade. We have been extremely active in making clear our extreme disappointment with what the President appears to be proposing through his tweet. I would remind you that we haven't actually had a specific proposal yet. We have had the Commerce Department's—

Q370 **Mr Leslie:** We have had a very specific proposal: 25% on what they call "aluminum", and steel. Apart from a phone call and expressions of disappointment—you have got to stand up for yourself here, Minister. You are still around the table within the European Union on the trade side, but give us a sense of what you would do if you were doing this independently. Would you stand up for Britain?

Greg Hands: If I understand Mr Leslie's overall approach to these matters correctly, you don't want to leave the European Union. You must recognise that currently trade defence is a matter for the European Union. Therefore, we have done what you would properly expect us to do: speak to the European Union about it and, by the way, bilaterally lobby key decision makers in the United States, including the President himself.

Q371 **Emma Little Pngelly:** We took evidence from Samuel Lowe as part of this inquiry, and he was very dismissive of the potential for a USA-UK deal, in relation to the benefit it would bring. He referenced in his formal evidence that "most trade agreements are little more than rounding errors in terms of your long-run impact". He also said that the benefits to the UK economy in relation to the USA-UK trade deal would be removed by the UK having to remove ourselves from the EU's regulatory regime in order to get any benefit from that deal. How would you respond to his formal evidence?

Greg Hands: The way I would respond is twofold. I read Mr Lowe's evidence carefully, as I think—to the best of my knowledge—I read all the evidence, or at least all the oral evidence, given to the Committee, and I would say two things. First, of course, we are seeking a comprehensive trade agreement with the European Union and frictionless trade with the European Union. This isn't an either/or mechanism: either we have trade with the European Union or we go and seek an agreement with the United States and other partners. No, we are seeking a continuing good, close



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trading relationship with the EU. That is the first thing to say. I don't agree with him on the comparator—that what we are losing here, we are gaining there—and on trying to assess some kind of weight for those two numbers.

Secondly, in terms of what an FTA might achieve, I return to the original point that we have not seen the start of negotiating this FTA. We have no strong way of being able to predict how far and how wide it might go. We want it to be a good trade agreement that makes a real impact. Historically, what FTAs do is add a significant amount to GDP on both sides. We have seen that with, for example, some of the EU's trade agreements. It very much depends on how far, how wide and how broad the trade agreement goes.

The EU-South Korea agreement, for example, is a very helpful trade agreement in terms of boosting GDP on both sides. It may be controversial to say it, but the NAFTA agreement has been extremely helpful for all three economies in North America in terms of realising GDP gains.

If you take an average of FTAs over the last 20 years, you might be able to effect some kind of estimate, but before we know what may or may not be in the FTA, it is difficult to be very precise.

Q372 Emma Little Pengelly: I want to build on Mr Leslie's point in relation to modelling within the Department. Of course it is true that you will not know exactly what the hoped-for or projected benefits will be until you have the detail of the deal or agreement, but within your Department, have you done an exercise about even the parameters of that, in terms of looking at where we currently do a lot of trade, where there is potential growth within those particular sectors and where there is perhaps a projected reduction in relation to some of the current trading? Presumably, there has been a piece of work or certainly a series of conversations within the Department that looks at the parameters. In preparing for the discussions before the negotiations before the trade deal, you must, within the Department, have identified where the key areas are for growth, so do you have an assessment of the parameters of the potential? In terms of a good-deal scenario with the USA, do you know what the potential benefit would be? And then, I suppose, there would be a sliding scale throughout that. Has that work been done within the Department?

Greg Hands: Yes. Thank you for that question. I think I would say two or three things to that. First, in terms of the modelling, of course what you can model is what the average impact of similar FTAs has been over the last 10 to 20 years. Before you even start talking about what may or may not be in the FTA, you can effect some kind of historical estimate. I used earlier the estimate of tens of billions of pounds of benefit to the UK. That is based very much on that kind of model—using computable general equilibrium trade models, which is the standard in this area, and putting in what FTAs historically or in recent history have yielded. That is where the tens of billions number comes from.



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You rightly ask really good questions about which sectors and areas should or could be put into the trade agreement. Again, it's a little bit early to be definitive, but you can see from, for example, the statement put out at the end of the second trade working agreement, on 14 November, what sort of areas are being included in that. An example is the establishment of the US-UK SME dialogue. The Commerce Secretary, Wilbur Ross, is very, very keen on this area—how we break down barriers to trade as they affect SMEs—and the UK is very much in the same space on that. There is the promotion of intellectual property. Again, the UK and US are world leaders on how to promote and safeguard intellectual property. Another element is strengthening US-UK financial regulatory co-operation. You will know that both countries have incredibly strong interests in financial services and so on. Another example is working towards a US-UK technology safeguards agreement. That will assist things like space research.

These discussions so far have covered a broad range of topics, but it is still a little bit early to be definitive as to what may or may not go into a free trade agreement at the end of the day, once we start a negotiation properly. That will give you some idea of the sectors.

In terms of the ability to trade with the US, I was really interested to hear that the per capita exports to the US across the four parts of the UK are actually highest—on a per capita basis—from Northern Ireland. I think the potential for Northern Irish exporters to the US is huge in this agreement. Actually, the potential is big across the whole of the UK, but it is interesting that the one of the four nations that has the biggest current exports per capita is Northern Ireland.

Chair: Maybe the public is higher again. I am not sure.

Q373 Catherine West: Mr Hands is quite right to say it is too early and that we are still in the generalities of what an FTA might look like, but will he comment on the situation between the US and China following Mr Trump's putting tariffs on washing machines last month, which led to China putting tariffs on sorghum exports to China from the US? Where does that approach lead in big picture terms, in terms of free trade as a concept?

Greg Hands: To be clear, in the UK we are principle free traders, which is something I hope enjoys cross-party support in this House. I hope that she will join us in starting to vote for things like the Trade Bill and the Taxation (Cross-border Trade) Bill, which were opposed by Labour on Second Reading. I am not exactly sure where the Opposition's message is on trade going from here, but we are absolutely clear that the UK is a principle free trader. We think that any talk of trade wars is extremely unhelpful. As a country, we depend on our good and strong trading relations around the world. I don't know if it would be proper for us to get directly involved in any US-China trade dispute, although obviously we watch and monitor these things very closely. As I say, in relation to the section 232 investigation at the moment, we are lobbying very actively in both Washington and Brussels to protect UK interests—to protect the



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interests of UK steel makers, UK aluminium producers and consumers as well.

Q374 **Chair:** Minister, before we move to Ranil Jayawardena, you mentioned frictionless trade, which is a term used all over Government. Which countries currently outside the European Union—outside the customs union and the single market—have frictionless trade? Where does this model exist for trade with the European Union? Where outside the single market and customs union has frictionless trade, unless the UK's intention in this Parliament changes that?

Greg Hands: Well, Mr Chairman, you are looking at an almost infinite number of world borders. There are whatever there are—

Chair: Specifically, who outside the European Union—the customs union and the single market—has frictionless trade with the European Union?

Greg Hands: Well, you are potentially asking me to investigate different customs unions around the world.

Chair: Are you aware of any countries that have frictionless trade with the European Union at present?

Greg Hands: I would have to go and investigate, Mr Chairman. Perhaps you and I might do it together. The southern African—I will give you one example—

Chair: This morning, are you aware of any countries that have frictionless trade with the European Union?

Greg Hands: Let me give you some examples. I think you and I would have to go to examine how different borders work, and how different processes work. For example, how frictionless is the SADC—the southern African community and customs area around South Africa, Namibia, Botswana? I know that you have investigated the US-Canada border and found it not to be entirely frictionless, but it is still an interesting border to study. I know my right hon. Friend the Secretary of State for Exiting the European Union has studied the Swedish-Norwegian border. We are acutely aware of different models that exist around the world, but in terms of the actual specifics of whether something is entirely frictionless or not, we would have to go and see.

Q375 **Chair:** So we have no knowledge at the moment. Minister, do you agree with the idea that the phrase “free trade agreement”, in terms of the European Union and, indeed, world trade, is actually misleading? It is not really a free trade agreement that we are looking at; we are looking at a “less trade” agreement, and for the rest of the world, we are looking at a “bits of trade” agreement. Someone announces that they are free traders, but when it comes to leaving the single market and the European Union, that is less trade, and when we are talking about the rest of the world, we are still talking not about free trade, but bits of trade.

Greg Hands: That is a very interesting question, but you have to make sure whether your free trade agreement is compatible with WTO rules, which state that any free trade agreement must cover most trade between those two sides. The sort of agreements that you might describe may not be acceptable under WTO rules.

Q376 **Chair:** Is there any free trade agreement that is as good as the European Union single market and customs union?

Greg Hands: That is quite a loaded and highly subjective question.

Q377 **Chair:** If you have information that one is better—

Greg Hands: That depends on your use of the word “good”. The single market is very different from most free trade agreements out there in the world. The UK is very supportive of free trade agreements and of third parties—not even including the UK—coming to free trade agreements, because they reduce trade barriers and make trade easier around the world. They also make it more likely that those countries might effect a free trade agreement with the United Kingdom.

We are very supportive of the EU’s FTA agenda. I go to EU Trade Council meetings whenever they happen. You may think this is ironic, but I am always the one of the 28 around the table who speaks most strongly for those EU FTAs, such as the proposed ones with Mercosur, Japan or Vietnam, to drive forward that agenda for as long as we are a member of the European Union. Why? Because we are strong and principled believers in free trade.

Chair: You said that the word “good” was somehow subjective. Good and bad are sometimes mixed up. It was good that you wanted trade deals and pushed forward an agenda as part of something big, but you are saying that you will remove yourself from that, and that will be better still, I am guessing, from your approach.

Q378 **Matt Western:** Minister, you just referred to the Secretary of State for Exiting the European Union; you said that he went to the Norway-Sweden border. What did he feed back to you? Was it frictionless?

Greg Hands: It is a customs border. As I understand it, forms must be filled in and deposited, but going to the actual border, there are not the sort of scare stories that may have been raised in relation to a UK border. That was the message.

Q379 **Chair:** It is only a customs border, though—not a single market border. We would have a single market and a customs border under new direction.

Greg Hands: Again, you are trying to compare apples with pears. Going back to the original question, the Secretary of State had a look at the border; it is obviously of interest, because it is a very nearby border between two very friendly countries. It is our intention to remain very good friends with the European Union after we leave the EU, so it is not

entirely invalid for the Secretary of State for Exiting the European Union to examine and see how that border worked in practice.

Q380 Matt Western: Was there a wait of, say, 10 minutes or half an hour? Did he describe that to you? Are there armed guards?

Greg Hands: That is beyond any discussion I had with the Secretary of State for Exiting the European Union. I suggest that the Committee has a look for themselves. When I crossed that border, going back 12 years, I do not recall there being any armed guards on it. I would be surprised by that, but it is not really a question for me.

Q381 Mr Jayawardena: Minister, a House of Commons Library study on foreign investment into the UK shows that the US has historically been the UK's most important FDI originator, with the most recent numbers showing American investment in nearly 600 projects between 2016 and 2017, and nearly half a trillion pounds invested—around four times more than China. What can our Government do right now, particularly relating to investment, to improve UK-US ties, in addition to working towards the FTA that we will seek?

Greg Hands: That is a very good question. You will have noticed that I stressed the fact that this is a trade and investment working group. The investment relationship between the UK and the US is unparalleled in terms of the breadth and the depth of investment. You will know that US investors have announced really substantial investments in the UK since the referendum, particularly from the big US tech giants.

Looking at the investment picture, reducing any barriers to investment will be a key part of that working group. I note that for investment, the key figures are that 26% of UK outward investment goes to the US. Of incoming investment to the UK, 26%—the same figure—comes from the US. That is a hugely important flow.

In terms of what we actively do, I mentioned that in our network in the States, we have 15 offices. I think I have visited five or six of the different centres. My colleagues the Secretary of State and the Under-Secretary of State for International Trade, my hon. Friend the Member for Beverley and Holderness, have also visited. He was over in the States just a couple of weeks ago, visiting Boston and Miami. Actually, it has been quite good: suddenly we have four Trade Ministers, compared with the past, when we had only one. You will know, Mr Chairman, that typically trade and investment was covered by one Lords Minister for the whole of the Government. Having four Trade Ministers means that you can cover a lot more ground. We were able to visit places that have not seen a UK Trade Minister for decades in some cases.

There is a lot of key tech investment coming into the country from Utah. I was able to meet US tech investors in Salt Lake City. We were able to go to Denver. There are big investors in the UK there, including the Anschutz Corporation, which owns a lot of things in the UK, including the O2 centre and the Thames Clippers. We were able to go to Seattle and talk to investors and some of the big US tech companies there. We went to San



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Francisco, Los Angeles and San Diego. We went to the life sciences sector. There is a massive amount of life sciences investment going both ways.

The key things that the US likes about the UK will prevail after Brexit. They like our free-market approach. They like our strong universities, our competitive tax rates and our research and development tax credits—all these things that make a country attractive for inward investment. They are flourishing since the Brexit vote, and will do after Brexit.

Q382 Mr Jayawardena: Am I right in my understanding that we have actually seen more foreign direct investment in the past year than ever before?

Greg Hands: We have had a record year for the number of projects announced, which is the international indicator of foreign direct investment. It is not an ideal figure, because a \$500 investment is in theory the same as a \$500 million investment on that basis, but that is the internationally accepted norm in this space. In the year after the referendum, the UK had a record year, in terms of the number of foreign direct investment projects announced in this country.

Q383 Mr Fysh: To come back to the numbers, what can you say to us that will give us confidence that the Government are going to get their act together to come up with proper studies to guide their negotiations of these things? I come at it from a different point of view from Mr Leslie, but I am probably similarly dissatisfied with the lack of actual background working available in the impact assessments that we have seen in private. We are unable to make any sort of judgment at all about what the basis for those assessments was.

Just to go back to the 0.2%, we heard evidence last week from the High Commissioner to Australia. He was saying that when they signed their US FTA, they effectively vastly underestimated what impact it would have on their economy. I note that 0.2% of GDP over the next 15 years of growth in the UK economy works out at just under £5 billion of GDP. In the US insurance sector alone, they write more than a trillion dollars of insurance business every year. We currently export about £52 billion of services to the US, so we actually do not need much growth, just in the services area, to outdo that £5 billion. When we went to the US, interlocutors that we met said how keen they were to do a services agreement. It would seem to me that £5 billion over 15 years is clearly an underestimate of what is possible. What confidence can you give us that those doing the forecasting in Government have any idea of what they are doing?

Greg Hands: That is a very good question. There is a difference between arriving at some kind of a number based on a negotiated agreement that we have not yet started to negotiate, and not doing any preparatory work on where we might seek to make changes and gains for UK trade. We are doing a huge amount of work, in terms of understanding the benefits that trade liberalisation can bring different sectors in the UK. On the number of people working in our trade policy group since the referendum, we started with around 50 people, and we now have more than 450 people working on all kinds of different questions, particularly on sector analysis: which



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sectors in the UK are likely to benefit most from trade liberalisation, not just with the US but right the way across the board?

I do not mean to stray into trade relations beyond the US, but the US trade and investment working group is only one of 14 trade working groups that we have set up. We are talking with our major partners. Canada, Mexico, the Andean Community, Israel, Turkey, Norway, India, China, Korea, Japan, Vietnam, Singapore, Australia and New Zealand are the other 13 trade working groups. We are doing a huge amount of work to understand those sectors as well.

You will be aware—I am going to pick one specific example—that financial services has not always been well featured in free trade agreements. We obviously have a very strong interest in breaking down barriers to UK financial services. I am pleased that you took evidence from TheCityUK as to what they would like to do. That is exactly one of the sectors that we are engaging with on a constant basis.

By the way, this is not just about future trade agreements. We are also very active in breaking down trade barriers today. For example, the insurance sector, which faces all kinds of barriers in India, can also face barriers in quite small jurisdictions, such as Taiwan. The Secretary of State and I engage on a regular basis through what we call our jetcos—our joint economic and trade committees—with major and medium-sized trading partners. We are not waiting for free trade agreements; we are actually removing and reducing trade barriers on a day-to-day basis with those talks.

There is a huge amount of work going on. I would not want anybody to think that the fact I am not putting a specific number on what a UK-US FTA might look like means that there is not a huge amount of work under way, because there is.

Q384 Julia Lopez: I know no one wants me to rake up Mr Leslie's line of questioning again, but I shall. It was not that long ago that we were very involved in the TTIP negotiations. I recall that at the time of that debate a lot of very optimistic and attractive figures were talked of, in terms of the benefit per family in the UK of the TTIP deal. My assumption is that a bilateral US-UK trade deal would be much better than what would have been negotiated under TTIP, because we would be looking at services and probably agriculture as well. I just wonder what analysis has been done of how we can build on the TTIP work that has already been undertaken, to make it even better for consumers and households in our country.

Greg Hands: That is a good question. Let me say a couple of things. Of course TTIP—although, if I recall correctly, it was not finalised—was an agreement that had crystallised, and you could say with a good degree of certainty what was in there and what was not in there. If I am not mistaken, a TTIP impact assessment was even published. I may be wrong about that—it was well before my time in trade policy—but whatever figures were attached to that impact assessment would have been based on whatever was actually in the agreement. That goes back to my point



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about it being very difficult to put a number on something that has not yet been negotiated, let alone agreed.

However, TTIP was interesting, because there was a concerted attempt to put financial services in that agreement, and I think there will be lessons and pointers there for the UK as to how we can get financial services into our future trade agreements, not just with the United States but beyond. Clearly, there will be lessons to be learned, both from successful free trade agreement negotiations and, ultimately, unsuccessful ones.

Q385 Mr Leslie: You do realise, Minister, that when you or the Prime Minister say the draft TTIP arrangement and CETA referenced financial services, it is in the most cursory and derisory way, because they actually explicitly forbid the establishment of doing business within those different territories without a licence. Unless you get rights for UK financial services firms to gain licences to trade within the United States, they will not be able to penetrate those markets. You understand that.

Greg Hands: Yes, I do understand, Mr Leslie. Having worked in both UK and US financial services I expect I understand it quite well.

Q386 Mr Leslie: So you will know in that case that as we found when we spoke to trade representatives in Washington, at a federal level, versus the UK, a financial services deal is nothing much more than a piece of paper unless you have state-by-state local rights, insurance regulation permissions, banking licence rights granted within Utah, Arizona, California, New York—all those different states. You will know that a deal with the federal Government would be insufficient for our purposes.

Greg Hands: He will definitely know, Mr Chairman, that that situation is not static in the United States. If I could take him back to when I worked in US financial services in 1991, in that year you could not, if you were banking with Citibank in New York, take out money from a Citibank Washington DC ATM. What has happened in the US over the last—whatever that is—27 years: the idea that that has been static is wrong.

Of course he is right that there are challenges to financial services on a federal and state-by-state basis and that will vary according to your particular type of financial service, whether it be banking or insurance and so on; but crucially the UK has probably got the best relationship between the financial regulators, which is incredibly important when talking about trade in financial services. That relationship between the US and UK financial regulators—you will hear this said by both sides—is the best in the world, and the US has got most confidence in the UK system of financial regulation, over and above what it would have with others in the EU 27. If you have a very good relationship and trust in each other's systems, and trust in the robustness of each other's systems and regulatory environments, you can do a huge amount.

Of course he is right that we would need to make sure, in the financial services element of any UK-US trade agreement, that those provisions permeate down as far as possible into the US market; but that is what you would do, Mr Chairman, with any free trade agreement, of course, where



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your offensive ask is going to go down as far into the market as possible. It is the same for procurement.

Q387 **Mr Leslie:** Excellent. I am really glad to hear, Minister, that you are saying that as you prepare to have those bilateral discussions between the UK and who you bring along to that trade negotiation, and who you would like to see on the US side come to that negotiation, you want to not just see USTR on the federal level but you want to see people on the other side of the table who can do that deal at a state level, as well as the regulators. You want them around the table.

Greg Hands: I am not saying that. What I am saying is that we would want the provisions of any market access for the UK in the United States to permeate down as far as possible.

Q388 **Mr Leslie:** As far as they do in the UK.

Greg Hands: I am not making any comment about who should be at the negotiating table.

Q389 **Chair:** Should it be reciprocal? This is what a lot of people worry about in the United Kingdom—that a deal we sign with the federal Government of the United States is meaningless when it comes to the states, so it has to be reciprocal access. Is that a principle that you would agree on? It has to be, as Mr Leslie said, Arizona, Utah, New York and California—the whole gamut.

Greg Hands: Again, Mr Chairman, this is a negotiation that has not started yet.

Q390 **Chair:** Surely, Minister, you have to have a principle in place where you look at reciprocal access. You can't go towards the trade negotiations, surely, and not look for reciprocity. You cannot go round with a piece of paper from the federal Government of the United States and say "We have a trade deal in our time" when it actually is meaningless for people from the United Kingdom going to trade in the United States, whereas we have just given full access to the United States into the UK market. That cannot be. That principle surely has to be alive in the DIT.

Greg Hands: With respect, Mr Chairman, what we will try to do is obviously to get as much market access as possible for UK financial services—

Q391 **Chair:** "Reciprocal" and "as possible" are two different things, Minister.

Greg Hands: No, I am saying that what we are talking about is maximum market access. That is the important thing and there will be different ways we can achieve that. We need to make sure that the market access that is agreed is actually the market access that in practice would prevail on the ground, but that can happen, Mr Chairman, in any trade negotiation.

Q392 **Chair:** "Reciprocal", "maximum" and "best possible" are not the same things.

Q393 **Mr Leslie:** To clarify, or perhaps to word it in a different way, the



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Chairman's point is really important, because, Minister, you're not saying—are you?—that we would open the doors completely for US financial services to take all our activities within the UK, but we would be happy for them only partially to let us in. The principle is that if we grant access to American firms for financial services purposes in the UK, the same degree of reach—of access—should be achieved for the UK. It is a really important point; I don't want you just to skirt around it. As a principle, that is important.

Greg Hands: I am not skirting around it. A trade agreement will cover a broad number of areas, because it must, to qualify under the WTO rules.

Q394 **Chair:** We know that, but a simple principle at the beginning—?

Greg Hands: Could you allow me to answer Mr Leslie's question? The answer is that we will seek as much access as we can for our financial services and our financial products. The precise format that would take, and I might add, Mr Chairman, that is one of the reasons why we're having—I mentioned earlier that the scoping talks are a lot about understanding each other's systems.

Now, in financial services we have—thankfully—a very good and deep understanding of US systems, but a lot of what these scoping talks are about is precisely these kinds of questions. What is organised and what is done on a national or federal basis, or on a regional basis, etc., and in our case, on a national basis—all these things. And here it is crucial to understand how financial services are delivered in the United States. But we will be seeking as good access as we can get, because it is a trade negotiation.

Q395 **Matt Western:** I will just give a small example, Minister. When we were in the US and talking to various representatives, we heard from Atkins, one of our infrastructure and support services companies. They were saying that the problems in the US are not just federal, as has been described, but of course to get access to the state market they have to set up an office in every state. So the barriers to entry are very costly and I guess that it is that kind of thinking that we are asking to be considered in this.

Greg Hands: Absolutely. Of course that is—

Matt Western: It is about balance of access.

Greg Hands: Exactly. That is very much part of our thinking. Part of our thinking is also to make sure we have got all the facts and all the information about market access barriers as they currently exist in the United States. Of course that is part of our thinking.

By the way, we work very, very closely with companies like Atkins in actually removing current barriers—whether they are on a federal, state, local or municipal basis—as and when they occur in the United States. That is why we have our 15 offices across the United States, not all concentrated in Washington or New York. It is to understand, on a regional and local basis, what barriers there are to UK firms.



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I might also add that becoming members of the Government procurement agreement—the WTO GPA—will also be an important part of this. Again, I would hope that Opposition Members will support the UK becoming a stand-alone member of the GPA and not vote against that aspect of the Trade Bill, which I must say I was disappointed about on Second Reading of the Trade Bill earlier this year.

Q396 Chair: Minister, I am surprised in a way that principles—fundamental principles—don't seem to be understood in the Department. I mean, the principle of reciprocal access would seem to me just fundamental. When we met Steve Verheul, who is the Canadian lead on the North American Free Trade Agreement negotiations, he said that Canada was prepared to walk away on a principle—that if the Americans demanded 25% content, it wasn't happening. He said that if they demanded 1% content in NAFTA, it was not going to happen. This was a principle that was going to be unacceptable to Canadians; it wasn't in a similar trade agreement anywhere else in the world.

It just appears to me from what you've said that the principle of reciprocal access has not really been thought about in the Department for International Trade and is not taken as almost a given. I always expected the Americans to push for advantage, but this looks as if we are already conceding advantage before the negotiations have actually begun.

Greg Hands: I disagree. For a start, trade agreements do not always have 100% reciprocal access. The most important thing to concentrate on is getting the best access for UK goods and services. Trade agreements do not always have directly 100% reciprocal access. I will give you an example. Yesterday I met the Paraguayan Trade Minister. He told me something that I did not know before, which was that in the Mercosur agreement, Paraguay actually has more favourable treatment for its car parts in terms of rules of origin than the other members of Mercosur do.

Q397 Chair: Its car parks?

Greg Hands: The car parts that it produces. They only have to be, I think, 40% Paraguayan. The Brazilians' and the Argentines' have to be 60%. That is done because Paraguay is seen as a smaller country and the rules of origins would be tougher on Paraguay if it were a higher percentage. I am just using that as an example, Chair. The most important thing is for us to get the best access.

Q398 Chair: But your approach is not to be Paraguay; it is to be worse than Paraguay. Paraguay has entered in and got itself a better deal than the big fish, but you are conceding that we might not get it as good as the big fish, because we might just get the federal level, and not the state level.

Greg Hands: I haven't at all. What I have said is that we want the best access. I have not in any way conceded that we would have worse access to US markets than American companies would have to our markets. I am saying that the objective of any negotiation and any FTA would be the best possible access for our goods and services.



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Chair: But isn't the "best possible" for the Government almost that you have crashed the Rolls-Royce and you go down the second-hand car market looking for the best possible second-hand car? This is not good enough. You need to be looking for the same on both sides.

Q399 **Mr Leslie:** Maybe the Minister is unintentionally tripping into a hole here. I want to give you the chance to scrabble out of it before you dig any deeper. On some interpretations it sounds as though, because you are using the phrase "best access", on the principle of reciprocity you would not accept an American deal that would give the Americans better access to the UK than the UK would have with the US. We would make sure, in any US deal, that we would have the same or better access, but not worse access than the Americans have to us.

Greg Hands: Again, you would have to look at the totality of the deal. These are deals that we have not even started to negotiate yet. Ultimately, it would be a judgment on the totality of the deal.

Q400 **Mr Fysh:** Very quickly, I just wanted to ask a little more about the insurance market in the context of what the Chair was just saying about a Rolls-Royce. I think he was implying that we are leaving the EU, which is a Rolls-Royce, and choosing to do something else, which is not a Rolls-Royce. Are you aware that we currently sell about £1.7 billion of insurance products to the EU, but we sell £2.1 billion in the US? What do you think the potential scope might be were we to get good access to the US, and get market share in the more than \$1 trillion a year insurance premium market in the US?

Greg Hands: Mr Fysh, you have made the point very strongly yourself. I was not aware of that specific number, but I think that that is a very good point, and I will feed that in. I am sure that our teams are aware. I think insurance will be one of our key UK services to market as we go forward.

Q401 **Catherine West:** Further to the question of the Rolls-Royce versus the second-hand model, given your background professionally in financial services, how do you feel about the passporting door closing, which seems to be what Mrs May said on Friday?

Greg Hands: I have nothing to add to what the Prime Minister said about it.

Chair: Very wise, probably.

Q402 **Catherine West:** You have no regrets? It just feels as though, with all due respect to this morning's session, on certain elements of our relationship with the US it is very early days, and all a bit uncertain, yet we are closing the door on passporting. In terms of GDP—I am not saying that it is necessarily felt in every household in the country—stopping passporting is a very big issue. Particularly as a London MP, it is obviously something that people talk to me about. It just feels as though we are perhaps closing one door before we have even started thinking about how we will open the next one.



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Greg Hands: I am also a London MP with a lot of constituents who work in financial services. What we have said is that we are seeking the financial services to be in the free trade agreement that we are going to be negotiating with the European Union. We fully recognise the importance of financial services and financial services trade with the European Union, as they should, and in most cases do, recognise the importance of access to London and access to financial markets in the UK.

Q403 **Catherine West:** It is not the same as passporting, which is a right of the club, I think you will find.

Greg Hands: But if one is not able to help set the rules of the club—by having a free trade agreement we would be able to help set the rules and make sure that those rules work for the UK as well as for the EU.

Q404 **Emma Little Pengelly:** I just want to clarify in relation to the discussion about this reciprocal deal. My understanding about the trade deal, particularly with the US, is that it should be about focusing on what our strengths are and they will be focusing on what their strengths are, and it is about a more nuanced negotiation between those two. The US may want, for example, American Florida Oranges as a priority for them to get into our market, but we will have our own set of issues and priorities—that is what I touched on earlier—and those two issues could be bartered or negotiated off against each other. A simply reciprocal orange export-import deal would be absolutely pointless for the UK. In that sense, does the Department have that nuanced approach of looking at where we are strong and where they are strong, and making sure that although it may not be reciprocal we get as much out of a trade deal as the US would get out of a trade deal and it is balanced in that way?

Greg Hands: You are absolutely right. We wouldn't sign a deal if we didn't think it was to the benefit of the United Kingdom. Of course we are looking across different sectors. I mentioned some sectors earlier. The US is also looking at some sectors and we have discussed some of those, not in a negotiation but in a kind of getting to know what might be the possibilities. You can see in terms of the readout from the second trade investment working group that there are four specific areas, and it is all about maximising benefit to the UK economy, the UK consumer and UK exporters.

Q405 **Emma Little Pengelly:** Are you undertaking work with the devolved regions and the various trade bodies and organisations to make sure that you know what the regional priorities are? I know there will be variations about what we in Northern Ireland will want to export into the US, which may be different from the overall UK priorities.

Greg Hands: Yes, we are. We have got good relations with devolved Administrations and also, where applicable, UK agencies that work in each of the four nations. That feeds quite strongly into the work that we are doing.

Scotch whisky—I pick that almost at random, Mr Chairman; I am not suggesting that you have a special interest here. The Scotch Whisky



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Association is a body that I speak to quite often, and the Secretary of State speaks to it even more often than I do. There is also Irish whiskey, but also, thinking beyond the more obvious ones, Northern Ireland is, for example, a massive exporter to the US and a huge part of that is in pharmaceuticals. Understanding how we can do more with the US to boost pharmaceutical exports is also a key ask across the UK regions.

Q406 Chair: Thank you, Minister. A final question. Given that you mentioned the Government procurement agreement earlier, what progress has been made at the WTO in relation to the UK's accession to that?

Greg Hands: I think we are on track in terms of where we will be with that. We obviously have to pass our Trade Bill—which I urge you to vote in favour of, Mr Chairman. We will then bring forward how we will join the GPA as the UK on a stand-alone basis in due course, as laid out in the Trade Bill.

Chair: Thank you very much, Minister. I understand your impatience and that of the Department for International Trade to get the Trade Bill back on the Floor of the House. I am sure the Commons authorities will recognise that from the Committee this morning.

Thank you very much for your attendance this morning. We have all enjoyed it. We have certainly exchanged ideas and information, and we look forward hopefully to seeing you again some day. We wish you well in your continued role.

Greg Hands: I seem to be coming here quite often.

Chair: The more, the merrier.