HOUSE OF COMMONS

International Trade Committee

Oral evidence: Trade and the Commonwealth: Developing Countries, HC 667i

Wednesday 21 March 2018

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Watch the meeting

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

Questions 1 - 90

Witnesses

I: Maximiliano Mendez-Parra, Senior Research Fellow, Overseas Development Institute; Jean Blaylock, Trade Justice Movement.

II: Matt Grady, Senior Policy Advisor, Traidcraft; Helen Dennis, Policy & Advocacy Manager, Fairtrade Foundation.

Written evidence from witnesses:

- Overseas Development Institute
- Trade Justice Movement
- Traidcraft
- Fairtrade Foundation

Examination of witnesses

Maximiliano Mendez-Parra, Senior Research Fellow, Overseas Development Institute; Jean Blaylock, Trade Justice Movement.

Q1 **Chair:** I call the witnesses this morning for our inquiry into trade with developing countries and trade with the Commonwealth in developing countries. I ask the witnesses to give their name, rank and serial number for the record. I would greatly appreciate it.

Jean Blaylock: My name is Jean Blaylock from the Trade Justice Movement, which is a network organisation of around 70 development and environment NGOs trading as fair trade groups and similar groups. I am the co-ordinator of the network.

Dr Mendez-Parra: I am Dr Maximiliano Mendez-Parra. I am a senior research fellow at the Overseas Development Institute, a research organisation that does applied policy research. I am the leader of the work on trade and trade policy analysis.

Q2 **Chair:** Thank you. It is much appreciated that you are here with us this morning. Can I kick off by asking you to provide an overview of the different arrangements under which developing countries currently trade with the UK?

Dr Mendez-Parra: Yes. Basically, developing countries trade with the UK first under a system of unilateral preferences—the so-called generalised systems of preferences under the EU, which provide unilateral preferences at different levels. The least developed countries receive full preferences, duty-free, quota-free preferences on all products. Then there are another two levels: the standard GSP, which provides some full preferences on some products and reduced tariffs on other products; and the GSP+, which provides preferences to a series of countries that meet a set of vulnerability and competitiveness criteria. They also have to fulfil a series of conventions that they have to ratify in terms of good governance, environment and so on.

In addition to that, many developing countries have signed and negotiated free trade agreements with the European Union. They are economic partnership agreements. Those are agreements with the African, Caribbean and Pacific countries. Then there are some specific developing countries that have bilateral trade agreements with the EU, such as Vietnam, for example. These are basically the origins, plus, of course, the most favoured nation access that is available to all the WTO members.

Q3 **Chair:** Jean, would you like to add to that?

Jean Blaylock: There is nothing to add factually to that. From a slightly different perspective, all developing countries are trading under a set of trade deals and arrangements that at the minute are leading to a situation where we have too much in the sense that we have jobless growth, rising inequality, inequality within countries, inequality between countries. We have a climate crisis. We have gender inequality. When we are talking about development, we need to look at how we design trade deals because we are facing all of these challenges and at the minute our trade structures are not up to the job of tackling these serious problems. Sometimes they are making them worse. In a broad sense, these are the conditions under which developing countries are trading.

Q4 **Chair:** What proportion of the UK's trade with developing countries happens under each type of these agreements? A global amount and then if you are able to break it down a little bit.

Jean Blaylock: I am probably not aware under each type. Under the general preference schemes, for developing countries it is a relatively small proportion across all the developing countries—around 2%; least developed countries, 4% of their trade is with the UK—but for some countries it is a very significant proportion.

Q5 **Chair:** It is a small amount of trade for them and it is presumably a smaller amount of trade for the UK?

Jean Blaylock: Yes.

Q6 **Chair:** Do you have any equivalent percentages for the UK?

Dr Mendez-Parra: In terms of the imports of the UK from developing countries, 25% of that trade comes under the GSP regime. Then there is around 16% that is under free trade agreements. These are the economic partnership agreements and other free trade agreements. Then there is almost 60% that is on an MFN basis. It is important to highlight that under these MFN 50% of the imports from the UK of these countries comes duty free because the MFN tariff is already zero so there is no preference to give there. This is from the UK perspective.

From the developing countries' perspective, the calculations are a bit more complicated because there is lack of data. It is very hard for some countries to identify how much they are trading with the UK with respect to other partners because they do not report some of their trade. But for countries that we have calculated, for example, Bangladesh, 9% of Bangladeshi exports go to the UK and that is mostly under the GSP regime, the Everything But Arms initiative. That is quite a sizeable number.

Q7 **Chair:** I have a final couple of points at the moment. You have given us a good breakdown there, the 25%, 16% and 60%. What is the percentage that represents of UK trade? Secondly, just to pick up on something, when you say there are no tariffs, are there no tariffs running in both directions? When we have no tariffs in the UK for less developed countries, can they tariff our goods that we are sending into their markets or do they have to leave them tariff free as well?

Dr Mendez-Parra: Under the GSP regime, this is a unilateral regime. This is only a tariff applied by the UK that gives preferences. There is no reciprocal treatment for the UK. For free trade agreements, under Article 24 of the WTO there is the requirement that the other partner gives reciprocal treatment to the UK. There are, of course, different treatments in terms of how lengthy the implementation period of the free trade agreement is with respect to the developed and the developing country partner, but clearly there is a reciprocal treatment under the free trade agreement.

Q8 **Chair:** What percentage of the UK's trade is this?

Dr Mendez-Parra: In terms of the total UK trade, I do not have the figure at this moment.

Chair: We will maybe come back to that.

Q9 **Matt Western:** You have outlined it in percentage terms, but could you elaborate more on how important the preferential access is to developing countries to the UK under the GSP?

Dr Mendez-Parra: As I mentioned, there are some specific cases; for example, the case of Bangladesh where 9% of total Bangladeshi exports come to the UK under the GSP regime. For Bangladesh, this is a significant number. Another country is Kenya. Although it is not a GSP member, it is also a developing country under an interim economic partnership agreement, where this figure is 8%. Eight per cent of Kenyan total exports come to the UK.

In general, the importance of the UK as a trade partner has decreased over time as with the importance of many other developed countries. They have seen the rise of China and the intraregional trade and intra-African trade has also been offset in that trend.

Jean Blaylock: Countries for whom it is very significant are countries with the colonial history ties to the UK, many of them quite small: Belize, Mauritius, Fiji, Gambia, Sri Lanka, Bangladesh, St Lucia. These are all countries for whom it is quite a significant part of their trade. Of course, for farmer producers involved in export chains relying on this, it is essential for their livelihoods. To lose this in a very sudden way would be very damaging for people who depend on this for their lives.

Q10 **Matt Western:** On the Kenyan example, could you detail what the primary exports are?

Dr Mendez-Parra: In the case of Kenya's trade with the UK, we are talking about beans and flowers. These are the main products that are being exported by Kenya to the UK that depend on these preferences.

Q11 **Matt Western:** From Bangladesh?

Dr Mendez-Parra: From Bangladesh it is mostly textiles.

Jean Blaylock: I do not know if you remember when the volcano erupted and all flights were blocked. There were all of these images from Nairobi airport of the exports piling up because they could not get them out. It is one of those vivid images that stays in your mind.

Q12 **Mr Ranil Jayawardena:** In terms of this preferential access and how it affects consumers in the UK, what actions do you think the Government could take to further benefit both the producers in developing countries and consumers here, and vice versa?

Jean Blaylock: We believe that we need to continue this preferential access, but we should extend it. At the moment there are complexities in the system. You have a three-level system. We offer the Everything But Arms system to least developed countries, but then many countries fall between the situation of whether they fall within the general scheme of preferences or whether they are being pressured to enter into EPAs, which we believe are not a useful approach.

Q13 **Mr Ranil Jayawardena:** With the greatest respect, that was not the question. I thought you were answering the question, which was how we can benefit the consumers here and the producers there and vice versa. Can we just stick to that?

Jean Blaylock: Okay. To be able to include more countries within the unilateral preference scheme, to extend the product range of that and to improve the access and also be able to make it easier for countries to meet the rules of origin would expand the range of products that would be available and that could be traded, which would benefit both producers there and consumers here.

Q14 **Mr Ranil Jayawardena:** What would be the quickest wins to deliver those benefits to both sides, do you think, that we could implement when we leave?

Jean Blaylock: One of the easiest things to do would be to extend the equivalent of the Everything But Arms.

Q15 **Mr Ranil Jayawardena:** That at this moment in time is the status quo, right?

Jean Blaylock: But if we extended it, then this would be a relatively easy thing to do and it would be a relatively quick thing to do.

Q16 **Mr Ranil Jayawardena:** But into what areas? What would be the quickest wins? What would deliver the best benefits to both sides?

Jean Blaylock: To extend the number of countries that would be eligible for that unilateral preference scheme.

Q17 **Mr Ranil Jayawardena:** Such as whom?

Jean Blaylock: At the minute the Everything But Arms is restricted to least developed countries. To extend that to—

Q18 **Mr Ranil Jayawardena:** How far up would you extend it, for example?

Jean Blaylock: It is an interesting discussion. You could extend it to regions in which the majority are least developed because that also has a benefit for those regions of helping to support their own regional integration rather than forcing distinctions between countries within a region. There are different proposals. I think Max has specific proposals around how you could assess vulnerability criteria. I know my colleagues who will be in the next session from Traidcraft and the Fairtrade Foundation also have slightly different proposals. The actual finer details of how to do it are important to discuss and there are variations on what would be the best way.

Q19 **Mr Ranil Jayawardena:** Thank you. Did you want to then expand on that point?

Dr Mendez-Parra: Yes. Specifically on what could be a new preferential regime and this balance of extending preferences to more countries, there is the risk that extending preferences to more countries diminishes the value of the preferences for the incumbent countries. There is the need to strike a balance between those.

We have discussed a system, a simpler system of two tiers, a general regime that will provide preferences for all low and upper middle income countries, plus some non-high income, small development states. This would provide coverage of reduced tariffs in most products, but it will reserve some products for the other regime, that is the targeted regime. In this targeted regime, there will be duty-free, quota-free access on all products to all those countries within that group I highlighted before that meet some vulnerability and competitiveness criteria. In this way, the idea is to reserve most of the market access of the preferential market access to this group to maximise the benefit to these countries.

Q20 **Chair:** There are 10 countries in the Commonwealth who are LDCs, 47 in the world in total and 36 at the WTO. What number would you say that it is expanding by roughly? Do you have a number off the top of your head?

Dr Mendez-Parra: The definition, the line, would need to be discussed because there is also a need to check the WTO compatibility of that. The targeted regime will provide the market access that all LDCs have at this moment, so all LDCs will be covered, plus the idea that other countries would also be included in this regime. In the case specifically of the Commonwealth, the 10 LDCs in the Commonwealth will be covered in the targeted regime and all the rest of the developing countries in the Commonwealth will be covered under the general regime.

Chair: We will turn now to one of our members who has been quite vocal in this area, Nigel Evans.

Q21 **Mr Nigel Evans:** You have basically covered the two-tier system that you would like to see replace the three-tier system that is currently there, which is fairly self-explanatory now. If I am a coffee grower in

Tanzania and I want to then process that coffee in Tanzania and send it to the European Union, does that come in completely tariff free, quota free and I can send as much as I like processed, ready to drink?

Dr Mendez-Parra: Currently, as Tanzania is an LDC and all products are covered under the Everything But Arms, there will not be any tariff on the processed coffee for Tanzania. Tanzania would be able, if that were the only constraint to export the processed coffee, to export to the EU under this regime.

Q22 **Mr Nigel Evans:** It begs the next question: in which way for the 10 poorest countries does the European Union operate against the interests of those countries at all? Forget the arms thing because clearly we all agree that you should not be able to trade arms. If you are the poorest country, is the European Union great news or not?

Dr Mendez-Parra: I would not be able to answer that question.

Mr Nigel Evans: Can you, Jean?

Jean Blaylock: I think the Everything But Arms scheme is good news, yes.

Q23 **Mr Nigel Evans:** I was in Bangladesh recently, a very poor country in parts. You said textiles, Maximiliano, which is roughly the major bit. There is a lot of brick production there, but none the less they are improving their wealth bit by bit and hopefully will be leaving the least developed country status within the next few years. What impact will that have on them exporting their goods into the European Union once they are not one of the 10?

Dr Mendez-Parra: Given that they are textiles, broadly what Bangladesh will need to do is apply to the GSP+ status of the GSP regime because that will continue their duty-free market access to the EU. If Bangladesh does not apply for that and that means, as I said, they need to implement and ratify a series of international conventions in terms of good governance, et cetera, Bangladesh will lose the preferential market access into the EU.

Q24 **Mr Nigel Evans:** What impact will that have on them then?

Dr Mendez-Parra: I do not have evidence of the impact.

Q25 **Mr Nigel Evans:** Jean, can you shed some light?

Jean Blaylock: I worked for a while in Guyana, which was also a country that had ceased to be, and it is not helpful to graduate from this status and then suddenly lose some of the things that you had that had helped you to develop, which is one of the reasons why extending the preference scheme and being more generous and maybe not having such a cut-off could also be of benefit.

Q26 **Mr Nigel Evans:** I am just trying to get my head round, though, if I am going from least developed country status and let’s say the European

Union do not grant us then any preferential status whatsoever, does that mean that tariffs immediately start coming on goods that did not have tariffs before?

Dr Mendez-Parra: After the transitional period—there is a three-year transitional period—if there is no change, exports from Bangladesh of textiles will start paying the current MFN tariff in the EU.

Q27 **Mr Nigel Evans:** Most favoured nation status tariffs?

Dr Mendez-Parra: Yes.

Q28 **Chair:** In common parlance, they are looking at a cliff edge?

Dr Mendez-Parra: In this specific issue of the graduation of the LDC to the non-LDC status, if there is not any additional provision, yes, they would suffer this.

Q29 **Chair:** Have any countries experienced this cliff edge as yet?

Dr Mendez-Parra: I am not aware. I do not have a recollection at this moment of anything.

Q30 **Emma Little Pengelly:** I want to ask about the economic partnership agreements. How effective do you feel that the economic partnership agreements have been for ACP countries?

Jean Blaylock: I feel that economic partnership agreements have been harmful for ACP countries. I believe that for one of the most powerful trading blocs on the planet to enter into reciprocal arrangements with some of the poorest and most vulnerable countries is not an equal status. We should not be asking for that, "We will only give you access if you open up your markets". Opening up their markets to competition from countries here who are backed by a much stronger history of market institutions and all of the power and the investment that has gone in here to economies that are at a much more vulnerable stage has been damaging to their attempts to develop diversification of their economies, to industrialise, and it is not something that I believe we should be asking for. For instance, the International Trade Union conference in Africa has called them anti-developmental and said that countries should not be ratifying them.

They have also had the effect of damaging the regional integration within areas of Africa. I also believe that it is important for trade for developing countries for them to be able to develop interregional trade. That is an important way of strengthening economies. The EPAs were, first, imposed slightly. The EU picked areas of countries to negotiate with that did not necessarily correspond to the economic groupings that African countries had. Then, because they have been controversial and resisted, if a country had a least developed country status, then it could go for the Everything But Arms and not have to enter into an EPA.

For instance, in west Africa where you have an economic grouping, you have ended up with three different statuses. You have ended up with least developed countries who can trade through Everything But Arms. You have ended up with non-LDCs who decided to sign interim EPAs with the EU, and non-LDCs who decided not to. You have three different sets of arrangements within a regional grouping that was trying to develop their own customs union and common approach to trade, which now cannot because they all have a different set of arrangements.

Q31 **Emma Little Pengelly:** I will just ask a specific question on what you have just said. The way that you have presented that it sounds almost as if this is foisted on the ACP countries. You are looking at that from a more general position and in your view it is damaging. Is there a difference of opinion in some of those countries, that some of those countries do want to be part of the EPA with the European Union? Or is that a general view that they are not liked in terms of reciprocal arrangements?

Jean Blaylock: They have been very controversial and resisted across countries. Obviously, on any economic trade, of course, just as in this country people have different opinions. Yes, there are people with different opinions and there are different choices. It could be a decision of a country that, yes, they definitely wanted an EPA, but that is not the history of how they came about. They came about because there was a challenge to the way that the European Union was providing access to the African, Caribbean and Pacific countries.

They could have decided to amend the unilateral preference scheme, but in effect they decided to go for EPAs instead. They were basically saying, "It is this or nothing". That is a false choice. It is the cliff edge that people have talked about. It was not a free choice that was being offered to countries.

Dr Mendez-Parra: To add to that, clearly the origin of the EPAs is this challenge. The way that the EPAs were organised, for example, the rules of origin that each of the EPAs adopted are not compatible to each other, so that complicates the accumulation of origin between products that are coming within developing countries. This is an additional problem as a result of the EPAs. In terms of the regional configuration, it is important to highlight that this was also a shared responsibility of the African countries, those that chose this form of configuration in the negotiation.

The other thing to add is that on the origin of the EPAs 20 years ago, the EU was a larger import partner for the ACP countries. That had an implication and it was expected that when these countries negotiated a free trade agreement with a large partner like the EU, then it would be easier for them to continue their liberalisation process, something that was recognised was needed. Now that the EU has lost share as an import partner and other partners have offset that loss, there is a risk of what is called trade diversion, where many of these countries will start importing from the EU products where the EU is not an efficient supplier. That has implications in terms of welfare for these countries. I think this is an additional impact that is happening now 20 years after they were originally conceived.

Q32 **Emma Little Pengelly:** As a follow-up on that, you have argued that the EPAs should be replicated in the short term to provide presumably an orderly transition but that the UK should start planning for a replacement model in the longer term. Do you have an idea at this stage about what that model would look like?

Dr Mendez-Parra: Yes. The idea of replicating EPAs is only for practical purposes because time is short. Going through the consultations and all the time to get the legislation in place, that would be the safest and the quickest way of avoiding the cliff edge on Brexit day. Clearly, the UK needs to think about that.

One option in the medium term is to replace these EPAs, for example, with a unilateral regime like the one I suggested, but I believe that in the long run some sort of bilateral relationship with many of these developing countries is necessary, not only for the UK but also these countries need to reform their trade. They need to reform their domestic institutions, particularly, for example, on their trade in services, something that in the EPAs is a bit scarce. I think that they are facing short term for replicating the EPAs, medium term with a preferential unilateral regime, and in the long run thinking of a bilateral relationship.

One way of doing this bilateral relationship is today in Kigali all the heads of states are signing the African Continental Free Trade Area. In the long run, as this process becomes deeper there could be a possibility of the UK eventually negotiating something with this big trade area.

Q33 **Julia Lopez:** Do you think the UK should make particular arrangements with developing countries that are members of the Commonwealth or not?

Jean Blaylock: The Commonwealth is not a trading bloc. I think it is important for the UK to have a commitment to multilateral trading and to negotiate, for instance, through the WTO structures with the G77 who operate there. There are, of course, things that can be done within the Commonwealth framework to try to test it. For instance, investor-state dispute settlement provisions—the UK has bilateral investment treaties with many countries—we believe are damaging and could be got rid of and replaced with a better approach. That is the kind of thing that maybe you could try doing within the Commonwealth structure, but as a whole it is not a body that is intended for doing trade negotiations.

Q34 **Julia Lopez:** I am aware of that, but I wonder whether you think that could form a basis for the UK's future trading strategy, using those historical relationships to form totally new partnerships.

Jean Blaylock: To me it is not an approach that I would feel had particular weight, no.

Dr Mendez-Parra: Based on the historical and cultural links and so on, there is the possibility that the UK could help and could extend some of the good practices in terms of trade to the rest of the Commonwealth countries. That would probably be quite effective.

I like the idea of the Commonwealth also serving as a model for the rest of the world. There is a role for the Commonwealth to play for the rest of the world. There are some areas where it may be easier to reach agreements that could potentially benefit the multilateral system within the Commonwealth, given these characteristics. I am strongly against any sort of hard type of prohibitions, calling it preferential regimes or free trade areas within the Commonwealth, because that may potentially create the wrong incentives for the developing countries.

There are some aspects on the soft side that clearly could be implemented, such as increasing connectivity to facilitate trade, promoting green growth through trade, and expanding trade finance. This is an area where there is a major gap in developing countries. I think on this side there is something that can be done within the Commonwealth.

Q35 **Matt Western:** The Secretary of State for International Development has said that she will develop, alongside the Department for International Trade, a bold new Brexit-ready proposition to boost trade and investment with developing countries and promote sustainable economic development and job creation. What would you like to see in such a proposition developed by the two Departments working together?

Jean Blaylock: In terms of the coherence between development objectives and trade policy, it is important to be clear from the start that there is a clear direction of flow in which the coherence has to go. The trade policy needs to be coherent with development objectives. We always have to be very clear that there should be no directing of development objectives according to trade interests. So long as that is clear, then to set objectives and plans that are supportive of the sustainable development goals, Agenda 2030, our human rights commitments, our commitments on workers' rights, and our environmental and climate commitments would be a very useful approach.

To do that it is important to do impact assessments of plans, and that is something that could be quite useful to bring the development angles into the way that trade policy is done, impact assessments of potential trade deals looking at what would be the development impact, the human rights impact, the gender impact, the environmental impact, the social impact, all of these things. For instance, I know at the minute the Department for International Trade has just done a trade policy review with India, a developing country. The only thing that they looked at was the impacts for exporters. It is a very narrow assessment and one that I find quite worrying.

For coherent policy, you need to ensure that trade is being supportive of all of our other objectives and we would need to have the evidence to assess that by doing an impact assessment at the start. Of course, I believe we also need a framework for debate and democratic discussion around that. If we have that impact assessment, then that can help have debate within Parliament and elsewhere about whether these things are fulfilling development objectives and supporting the SDGs. Those are some points to start.

Dr Mendez-Parra: In addition, I would think that the assistance to economic development would need to take a three-pronged approach, including trade, investment and aid. These three areas should be put together to contribute to the economic development and the economic transformation of developing countries. Clearly, there are countries where aid remains a primary form of assistance, but increasingly these countries require other types of assistance.

Investment is an area that has been a bit neglected, particularly because of some of the constraints now that many developing countries are associated with a lack of private sector capacity to produce and to trade. Clearly, it is where the UK in certain areas—for example, services, where the UK has a competitive advantage—can give a major contribution to the reform of the services sector, to trade more services with these countries but also to be able to invest in these countries on the provision of services. These three areas are key.

The UK has made some movements. The role of the CDC in providing finance towards the development of the private sector in many developing countries is particularly important. In terms of the economic transformation and the importance of the development of the manufacturing sector it would be good if the CDC makes more investment in manufacturing in developing countries. This would be a good way of putting this economic development strategy into a concrete action.

Q36 **Matt Western:** Do you think there are other countries that do this particularly well, ie the marrying of these two areas so that they best complement each other? Is there good practice out there we could learn from?

Dr Mendez-Parra: Yes. I think the Dutch model of aid is particularly interesting. They have developed what is called the Diamond. This was developed five years ago. They are aiming to include these three areas. They tried to identify different constraints that developing countries have to development, especially economic development, and they said, "What is the best tool to address this?" When we are talking about Aid for Trade, the Dutch Government, for example, is also one of the members of the trade markets Africa consortium together with the UK with DFID that has been quite successful in addressing trade facilitation in the region. They are also promoting private sector development through their own developing financial institutions. Of course, in this case within the EU the Netherlands is advocating having a very open stance towards trade to developing countries.

Q37 **Matt Western:** China?

Dr Mendez-Parra: I have not followed much the case of China so I would not be able to mention much about that.

Jean Blaylock: For me, I would not want to tie discussions of services and investment. These are issues that developing countries have rejected at the WTO and I would not want the UK to be trying to force countries to start negotiating in these areas.

Q38 **Chair:** To clarify, we have a genuine difference of opinion here, do we? There is the Dutch model advocated and the Dutch model not advocated here. Before I come to Catherine West, there is something you said that was quite interesting. In the first part of your answer to the questions with Matt Western you seemed to say that development should follow trade and trade not follow development.

Jean Blaylock: I said that trade should follow development. Development objectives should be setting the route and the goal and never trade interests setting development.

Q39 **Chair:** Am I detecting a philosophical difference in approach between the two on the panel here that perhaps development follows trade?

Dr Mendez-Parra: In my view, I consider that any objective you want on social development would be much easier facilitated if you reach first economic development. This is where trade plays a key role in facilitating that economic development.

Q40 **Chair:** That sounds logical. What is the counter-logical to that?

Jean Blaylock: Not that I do not think that they are very interrelated, but it can be far too easy to assume that the trade will lead to both economic and social development if you are not directly looking at that. Therefore, set development as the objective and make sure that trade is actually delivering rather than assuming that because you have increased trade you can assume that there is development.

Chair: Thank you both for those answers. I feel like Harry Truman, who was always looking for a one-handed economist because he would get two good answers on either side.

Q41 **Catherine West:** This is linked. How can the UK best support UK foreign direct investment in developing countries? What challenges are there in relation to promoting FDI in developing countries and how can these be overcome?

Jean Blaylock: As I imagine you would anticipate, the particular tool that has been included on investment in trade deals that has become particularly well known is the investor-state dispute settlement, which we feel is something that the UK should exclude from its trade policy. These are provisions that allow corporations to sue Governments outside of the national legal system for policy changes that they consider have impacted upon potential or actual profits. Anglian Water sued Argentina over water prices. Standard Chartered Bank sued Tanzania, I believe, over energy prices. Veolia sued Egypt when they introduced a minimum wage.

This kind of mechanism we believe is not something that should ever be included as a way of promoting investment, not least also because it is not shown to actually have any impact on encouraging investment. When you ask investors how they came to make the choices about where and how to invest, they are looking at things such as proximity to markets, access to skilled labour forces, access to infrastructure, and access to raw materials. In fact, many of them do not know that these investment agreements exist, yet in the last 10 or 15 years or so the number of cases being used under these systems has increased dramatically and has a very damaging effect.

I would also note that for support and investment there is a lot that the developing countries would be wanting to do to encourage investment, to develop infrastructure, to be able to offer tax breaks for strategic areas, to encourage start-ups in an area that they would like to diversify the economy into. It is also important to ensure that trade deals are not limiting those policy tools for the developing country to be able to use because sometimes that is the effect of a trade deal. It imposes a straitjacket and things that the country might want to be able to do—for instance, to require joint ventures as part of investment so that there is a transfer of skills and a build-up of knowledge; to require that countries have a local presence so that they are subject to regulation and so forth—can be outlawed by a trade deal and that is something that is very worrying.

Q42 **Catherine West:** You are saying that there are particular categories of FDI that are better than others at promoting economic growth?

Jean Blaylock: Yes.

Q43 **Catherine West:** What about you, Max?

Dr Mendez-Parra: In terms of what the UK can do, I think that they can first work towards the receptive part. Basically, that means making developing countries more attractive to investment. That means working on the infrastructure side, the labour skills side, facilitating the macroeconomic stability of these countries and working on the tax regimes and the regulatory framework of these countries. This is something that the UK can contribute to and is already contributing to and doing a very good job in many cases there.

Then there is an action where the UK can support what we would call the marketing side of these countries, working on setting up agencies to attract investment and going into promoting investment, not only from the UK, but also from any other countries. This is something that many countries lack, that capacity of reaching investors in other countries.

The third area where the UK can help is more on the UK side, trying to push British firms to invest in developing countries. Once all these areas have been covered, the UK can do it by working with British Chambers in the countries, by working with the commercial attachés in the embassies and in the High Commissions. There is some work that the FCO is already doing, trying to create stronger links between British firms and developing countries, with the aim that this can supply some of the capacity that many of these countries need.

Q44 **Chair:** Which company did you say sued Egypt for the minimum wage?

Jean Blaylock: Veolia.

Q45 **Chair:** Thank you. A couple of final questions from me. I met with the African Union, who felt the European Union and maybe others had divided Africa into areas of trade that was not natural for Africa and they felt frustrated by this. Do you recognise or share these kind of concerns?

Jean Blaylock: That is part of what I was referring to earlier around EPAs. For instance, in southern Africa, the Southern African Development Community members ended up split among different EPA areas, so the arrangements that the African countries themselves had come to were not being respected by the EU in its choice of how to arrange the negotiations.

Q46 **Chair:** That was damaging to them or at least suboptimal?

Jean Blaylock: Yes, in the sense that I was also saying that even with ECOWAS in West Africa, because of the way in which the EU has negotiated, you have splits within an original economic community. They are not able to do as much together because they have these different relationships.

Q47 **Chair:** What scope is there to relax rules of origin for developing country exporters? I believe it is one of the main barriers to exports under the unilateral preferences and the EPAs.

Dr Mendez-Parra: In terms of rules of origin, they are critical because badly-set rules of origin can make any preferential arrangement completely useless. Specifically, for example, the way that the EPAs were set, how the rules of origin were implemented in each of the EPAs makes it very complicated, what is called the cumulation of origin; that is the process within the regions to re-export. Clearly a unilateral regime will facilitate that, because that will include a single rules of origin regime for all beneficiary countries and that will allow the cumulation and establishment of value chains within the developing countries to export.

Q48 **Chair:** So they can, as often happens in Europe, export backwards and forwards across their own borders?

Dr Mendez-Parra: Exactly. The rules of origin and what is called cumulation allow input from another developing country to be counted as originary of the developing country that is making the export. That facilitates the creation of value chains in the region.

Q49 **Chair:** Just to be clear, currently the situation is that that cannot happen or that happens clumsily?

Dr Mendez-Parra: Currently under the EPAs, the situation is clearly limited and a unilateral or a single regime will allow this to happen more easily.

Chair: Thank you very much. That is a fascinating piece of evidence to end the first panel on. Can I thank you both, Jean Blaylock and Maximiliano Mendez-Parra, for your time and expertise this morning? It is greatly appreciated, thank you.

Examination of witnesses

II: Matt Grady, Senior Policy Advisor, Traidcraft; Helen Dennis, Policy & Advocacy Manager, Fairtrade Foundation.

Q50 **Chair:** When the next two witnesses have made themselves comfortable, can I ask them both—just as I asked the previous panel—name, rank and serial number, please, for the record, so we know who has said what at the end of the day, starting on my left?

Helen Dennis: My name is Helen Dennis. I work at the Fairtrade Foundation as a policy and advocacy manager.

Matt Grady: Matt Grady. I am a senior policy adviser at Traidcraft.

Q51 **Chair:** Thank you. First, Matt, how many of the countries that you import products from benefit from the preferential access under the general scheme of preferences when importing these goods to you?

Matt Grady: Did you say how many countries?

Chair: Yes.

Matt Grady: There are around 48 LDCs in Everything But Arms. There are around another 40 or so countries in the GSP and around nine countries in GSP+.

Q52 **Chair:** How is your business model and the products you sell affected by preferential access?

Matt Grady: We import from around 30 developing countries. That includes things like coffee from Tanzania, Ethiopia, Rwanda, Malawi; tea from Kenya, Uganda and India; we have dried fruits from Burkina Faso and Pakistan; homeware and handicrafts from around the world. Many of those countries that we import from would be covered by one or other tier of the GSP and that allows us to import those goods at a lower price, which allows us to stay competitive and to share those benefits with our customers.

Q53 **Mr Nigel Evans:** At a lower price, did you say?

Matt Grady: Yes. In comparison to most of the other nations, like the standard tariffs. If I take one example, if you look at something like dried apricots, the standard tariff for dried apricots will be 5.6%. We can import those from Pakistan under GSP+ at 0%, so there is no duty applied to that, so obviously that helps us in terms of competitiveness of those supply chains.

Q54 **Chair:** What sorts of volumes are you talking about in the dried-apricot market? Not that I am a great expert in the dried-apricot market at all, but I have a feeling I am about to become a bit of an expert.

Matt Grady: I do not have the exact number to hand. I could supply that.

Q55 **Chair:** Fair enough. In my ambition to have grown expertise in the dried-apricot market, I would appreciate just to have a handle on that.

To the Fairtrade Foundation now: can you tell us about the case studies you have done regarding industries that could be affected by the loss of preferential access in the UK under GSP? What did they show?

Helen Dennis: An outline: the way in which we work is by partnering with organisations, retailers, brands. When we monitor therefore the UK Fairtrade market specifically, we have globally about 75 countries that have Fairtrade certified organisations exporting to the UK and other countries. I would say that nearly all of the countries that we import Fairtrade goods from benefit from some kind of preferential arrangement. There are couple—in relation for wine, for example, a country like Argentina—where I do not think we have a preferential arrangement at the moment but apart from that, whether you are thinking about coffee, tea, or bananas, they all benefit from either 0% access as a result of EBA or the EPAs or potentially, in the case of a country like Bolivia, for example—Matt gave the example of Pakistan just now—GSP-type arrangements.

Case studies: last year, particularly in the context of all the discussions around Brexit and the potential cliff edge that developing countries might face, we did some work, which was quantitative, but also looked in a bit more detail at some particular countries. Some of those were LDCs, so it was looking at what might happen if that duty-free, quota-free offer was not rolled over, a country like Tanzania, which exports coffee to the UK, and then we also looked at a couple of countries that currently have economic partnership agreements. That includes Kenya, which for the reasons that you heard about from the previous panel is quite problematic because of the East African region not being integrated in its approach.

If you take the case of Kenya, for example, one of the reasons they felt pressurised to sign the economic partnership agreement was because of the cut-flower industry. If they had not been able to access the UK market—and indeed, the wider European market—on 0% tariffs, they would have fallen back on the GSP, because they are not currently eligible for GSP+ and would have faced tariffs of around 5%. In an industry like that, where margins are really tight, that would have essentially been very problematic for them. It would probably have meant changing sourcing decisions and importers sourcing from other countries instead of from Kenya. That was a particular example.

The numbers, when we look at them from a UK perspective, might not look massive. The estimates with Kenya, and I think this was looking at what would happen in the worst-case scenario, falling back on MFN terms, they would be subject potentially to £14.5 million in import duties but for an industry that has very tight margins, for a poorer country, these figures are quite substantial and make a massive difference to the livelihoods of many producers in those countries.

Q56 **Mr Nigel Evans:** You talked about Kenya being forced economically to sign this. It is interesting language. What is the down impact on Kenya having to sign that EPA?

Helen Dennis: I suppose because of the issues that we talked about. It was just that the options were not there for countries in that region. Kenya is in a region in East Africa, which is made up of a majority of LDCs, so the majority of those countries in the region can currently access the EU market as a result of duty-free quota-free access. Kenya, not being an LDC, was not offered that option because there wasn't an extension of unilateral preferences on the table. It was either sign this economic partnership agreement, with the problems that have been discussed in terms of liberalisation of tariffs over time, reduction in tariff income, revenue income et cetera, that was the choice that was presented. It was an either/or. When I say "forced", obviously they made their decision and they could have said no, but they made a calculation that it was better to sign that than to have nothing.

Q57 **Chair:** Before we move on, I might not know much about the dried apricots, but your chocolate, which I buy in various co-op stores in the Hebrides, is very good, so well done on that.

You mentioned cut flowers. A florist in my constituency came to me to talk about the concern with flowers—they told me that most come through a Rotterdam/Amsterdam direction and that they were worried about potential tariffs within what is the current EU when the UK leaves. Just because you mentioned the cut flowers from Kenya, is there much work being done about what that might mean if their jump-off becomes

Rotterdam/Amsterdam and then there is a re-export on to the UK? I think 84% of the flowers that we give to one another in UK are coming through Rotterdam/Amsterdam.

Helen Dennis: There are obviously lots of examples of products that are going out from Mombasa or using other trade routes that go via another EU country before they are re-exported to the UK. In the other direction, there is also an instance of cane sugar currently coming into the UK, which is then bagged and re-exported across Europe. There are examples of this. It is just an illustration of how important it is for development not just to think about the preferences in narrow terms, although that is really important, but that everything is going to be impacted by the eventual agreement between the UK and the EU 27 as well.

Chair: The break-up of the current EU, yes. Ranil Jayawardena.

Q58 **Mr Ranil Jayawardena:** Ms Dennis, isn't the fairest trade free trade?

Helen Dennis: We have just been talking about preferences and of course the preferences that the developing countries receive are relative to the access that larger wealthier countries have.

Mr Ranil Jayawardena: But isn't free trade fair trade?

Helen Dennis: I would not disagree with that, I just do not think it ever happens and I do not think we ever have a—

Q59 **Mr Ranil Jayawardena:** You would support unilateral removal of tariffs?

Helen Dennis: Overnight I would not, because the impact that that would have on poorer countries would be significant. Farmers would go out of business because they would not be able to compete with their larger exporting neighbours. There are many, many countries that subsidise their industries.

Q60 **Mr Ranil Jayawardena:** Would you be against that even if it meant that they also got that free trade access to our markets with no protection and, indeed, that they got access rather than those who currently have preferential access, more countries, more people, more producers?

Helen Dennis: There are massive power imbalances within the trading system. I do not think that is the way it works. If you look at what has happened when some poorer countries have opened up their markets, they have then been flooded with cheaper goods, whether it is from the European Union or from America in the case of Haiti, which has decimated their economies. I think we just have to do this very carefully. That is the point.

Q61 **Mr Ranil Jayawardena:** I know lots of people want to get in, so I am trying to keep the questions coming quickly. In that respect, you want there to always be some sort of protectionism?

Helen Dennis: It is about a case by case basis. It is obviously a political decision if you want to move in a particular direction or not, but it cannot just happen overnight. That is my point.

Q62 **Mr Ranil Jayawardena:** Mr Grady, you have argued that there would be benefits in extending EBA eligibility to developing countries not designated as LDCs. Could you give us an explanation of what LDC customs unions are, just for the record, because this feeds into our work, and why they are significantly beneficial, as you have said?

Matt Grady: An LDC customs union would be defined as basically if you take a customs union where the majority of the members are LDCs, you can then define that as an LDC customs union. At the moment, largely you would be looking at ECOWAS in West Africa and the East African community.

In terms of the overall proposal, a clear priority of the sustainable development goals is to increase the value-added production taking place in LDCs and then their share of the export of those goods. We have just heard the controversy around economic partnership agreements. The Government have indicated their indication to replicate those. The justification the Government have given for that is to ensure continuity, which is clearly an important element. While acknowledging flaws, one of which is the impact on regional integration, we have tried to look at other ways that you could ensure continuity of market access without having to go down the politically problematic route of replicating the economic partnership agreements. By extending Everything But Arms or duty-free, quota-free market access to LDCs and LDC customs unions, you largely solve that political problem.

Also in terms of technical barriers and so on, we have heard Max mention rules of original and cumulation. It would solve quite a lot of the technical barriers, which would allow better regional cumulation.

Q63 **Mr Ranil Jayawardena:** Would you say that taking that approach would benefit the citizens not just of developing countries but of this country, the United Kingdom, keeping prices down, reducing prices in the future?

Matt Grady: It would be a win-win, yes, in that respect.

Q64 **Julia Lopez:** You have both suggested in your written evidence that the UK should increase the level of preferential access it grants non-LDC developing countries after Brexit. That would include extending the products that are covered and particularly highlighting that the UK could include products that are not sensitive in our own domestic market, but are sensitive for the EU. It would be really helpful if you could give some examples of those products and what the impact on the UK might be if we had a unilateral preference for some of these.

Matt Grady: If you look at something like citrus fruits or bananas, you could look at yams, sweetcorn, even pasta from some countries, they are just some of the examples that you could add to the GSP where there is not really any impact on the UK because there is no competitive interest there. To put some figures on that, if you look at the tariffs for lemons, for example, there is a 6% ad valorem tariff alongside around £100 per 100 kilograms. If you remove those duties, clearly that makes those goods much more easily imported into the UK. There is a range of other ones. I will not go into all the figures on all of them, but those are some of the examples from our side.

Helen Dennis: I would just add that we are broadly supportive of the position that Matt has outlined, but I think that the work needs to be done very carefully. As I said, for some economies that are very reliant on one particular export crop, for example, a change in the tariff regime could be significant. In relation to bananas, it is not sensitive in that there is no banana production in the UK, there is elsewhere in the EU, but we have seen impacts of changes to the quota regime in some Latin American countries, for example, like Peru, Ecuador, Colombia. They are now allowed to export more bananas to the European Union than previously and that has impacted on some of the neighbouring Caribbean countries, like St Lucia, which are less competitive, where we have then seen a decline in exports. You could argue that they therefore start to look for other markets so things kind of balance out, but when we are making these tariff changes, we do need to do the impact assessments and work through that very carefully.

Q65 **Julia Lopez:** You also seem to have argued that we should extend preferences beyond this narrow group of least developed countries. If we did do that, what would be the impact on the least developed countries themselves, which are currently benefiting from tariffs?

Matt Grady: Going back to the discussion we had there around the least developed customs unions, the vast majority of the countries, it would be by preference reallocation rather than a new set of preferences, so you would not be introducing a new set of winners or losers, you would not be changing necessarily the preferences they receive, you are just changing the mechanism by which they receive them. From that perspective, it is not changing the dynamic, you are not creating new competition for LDCs, because, as I mentioned earlier, with the West African and East African countries, they are already party to the economic partnership agreements at the moment. They would be receiving the full duty-free quota-free access through the Everything But Arms, if you extended that. In that sense, the dynamic does not change.

Helen Dennis: Adding to that, I do think there is maybe an even bigger question though, which is what is the impact of potential big free trade agreements on the access that some of the LDCs have. I think of the potential impact there, because trade flows between wealthier nations are so much higher than those between the least developed countries and wealthier nations and among themselves. The question is an important one. We do need to do the impact assessments before we make any changes, but the even bigger knock-on impact would potentially come from FTAs that are not well-thought through from the outset.

Matt Grady: It is also worth pointing out, the concern comes from the perspective of the impacts on LDCs, but then there are also the potential benefits for LDCs. By drawing in other countries, you expand the group of countries that are able to benefit in terms of rules of origin and cumulation, so they could extend into value chains in a different way, so there is a benefit there as well. Just an example from our side, we are developing a new juice at the moment, which will take exotic flavours from Senegal and it will probably combine them with orange juice from Ghana. At present, because they are in different regimes, that is going to be problematic. If we want to do the processing in Senegal and we are taking the orange juice from Ghana, then we may not be able to claim originating status when importing those in, which is going to increase the cost. Obviously if you look at something like this, where there is an extension of the benefits across a wider group of countries, then it will simplify some of those problems.

Q66 **Julia Lopez:** As we are on the subject of juice, you highlighted in your own submission that some tariffs are still very high on the GSP, like on juice, which still has a tariff of 28.5%. You have suggested that tariffs under GSP should be capped at 3.5% or 3.5% lower than the MFN tariff. Why have you chosen this figure and what do you think the impact of that change would be?

Matt Grady: In a sense, the figure itself is largely symbolic. It could be 3.5%, it could be 5%, it could be 2%. The principle is really just to highlight the fact that even when you apply the standard 3.5% discount, there are still anomalies within the system whereby you have high tariffs. Clearly the UK would want to address that, I would feel, in any future scheme. The approach would largely be if the 3.5% discount leaves you with a 0% tariff, than that is fine. If it leaves you with 28%, then perhaps you could still have a cap. The Government would have to do some analysis to see what the figure would be. It is slightly beyond our capacity, but I think the principle is quite clear.

Q67 **Julia Lopez:** You also used the example of cocoa to show how processed agricultural goods can be subject to tariffs, whereas unprocessed primary products are not. What impact is this having?

Matt Grady: The thing to highlight is that the tariffs are one element of that. There are certain countries whereby obviously in different regimes they do not suffer in the same way. If you are in Everything But Arms, you are in an economic partnership agreement, then you have zero duties and so the escalation does not exist, but if you are within GSP or GSP+, then that escalation can still exist. I cannot quite find the figures now, but there are countries that export particularly to the EU, whereby the value of exports from Ivory Coast, I think it is, are something like €1.2 billion each year if you are looking at just a raw cocoa bean. If you are looking at cocoa paste, that value drops to something like €300 million. They are covered by the economic partnership agreement.

If you contrast that with a country on GSP, from memory—I would have check—I think for Nigeria, the figure is something like 266 million going to the EU. When you look at cocoa paste, that is nothing, and that is under a different regime. Clearly that does not tell us that the tariff is the only barrier there, but what we can do by contrasting a country that receives the preferential market access on both products compared to one that only receives it on the raw bean, then you can see a differentiation. Clearly we need to address other things like productive capacity, but simply identifying that the tariff may not be the problem is not a reason not to address the tariff problem, if that makes sense.

Helen Dennis: Can I just reiterate? On cocoa, for example, the biggest export, nearly all of it comes from West Africa and nearly all of it comes from Ghana and Côte d'Ivoire. Those two countries have economic partnership agreements at the moment and so they would be subject to 0% tariffs on processed, on cocoa paste et cetera. The problem comes if that EPA either is not replicated or the unilateral preferences are not extended to the EPA countries, as we have suggested, because then those countries would then fall back on the GSP, which has the tariff. At the moment, I would say the obstacles to the export of processed goods—and the same with coffee, it has obviously been talked about quite a lot—most countries have the 0% tariff on roasted coffee.

The issue is the need to develop local markets, domestic markets and regional markets for that product, because most people want to drink coffee of a higher quality that is roasted close to the consumer. That is the main obstacle, but one of the things we are doing at Fairtrade at the moment is investing in the coffee market in Kenya, the domestic coffee market. We are working with an organisation, a women-led organisation co-operative, which is now roasting its own coffee, but it is for domestic consumption primarily in Nairobi. We will see how that goes. Let's do what we can with tariffs, but it is important to recognise that there are some other obstacles that are maybe bigger.

Q68 **Mr Nigel Evans:** Can I come in, Julia, on that? Why is it then that the Germans make far more money out of coffee than the Africans?

Helen Dennis: At the moment, that is the trade route, if you like. It is that the green beans are exported often to processors in Germany. If you are looking at the value chain, yes, a lot of the money, the profit, is essentially tied up there. Part of our role as Fairtrade is to say we want to see more profit going to the producers rather than necessarily sitting with the processors, or let's look at how we can move the processing as well, so that developing countries can benefit from that activity. At the moment, a lot of it is to do with transport links. A lot of the countries that we are talking about, they just cannot roast and get it to the consumer within the timeframe that would be required to sustain the quality.

Q69 **Chair:** Before I go to Matt Western, you mentioned making orange juice, I think it was in Senegal, but using Ghana as well and their current rules would not let you do that. If the UK were to change the rules, is the UK a big enough market to go for that or do we need the entire EU to change the rules to have a big enough market?

Matt Grady: I think there are countries where the UK is a significant influence.

Q70 **Chair:** To support a new juice factory, would the UK be good enough for that, big enough?

Matt Grady: For us, because we import directly, we would not necessarily try to ship through Europe in that situation.

Q71 **Chair:** That venture could go along just with the UK market rules?

Matt Grady: It could be, yes. That is not to say that we would not want to see the UK try to use its influence at the EU while it is currently a member. We would like the EU to do some of these improvements as well.

Q72 **Chair:** Clearly you would prefer to have a market of 500 million rather than a potential market of 60 million.

Matt Grady: Yes.

Q73 **Chair:** The question is would 60 million be enough?

Matt Grady: Yes. I think we touched on this earlier, but you are looking at some of the value of preferences more generally. Some of the countries that import into the UK just now, the UK is like a high percentage of the overall export to the EU and the UK takes a high percentage of some of those, so even as an independent trading company or as a member, we still would have an influence.

Chair: We always like to have something healthy in the morning. Matt Western.

Q74 **Matt Western:** Can I just come in on the previous point with Ms Dennis about coffee, as a serial coffee drinker myself, as I am sure many of us are? You were talking about the freshness and so on and how the consumer wants a very fresh product, but with modern packaging and vacuuming sealing and everything, it seems like it is eminently possible for the producers to be able to deliver themselves.

Helen Dennis: That is the hope at the moment, but there are a number of steps in terms of infrastructure. But with improvements to transport, infrastructure, packaging, as you said, over time we hope that that situation would change. Of course it also requires a big investment into the roasting facilities et cetera, because that is costly, but it is something that we could obviously think about in terms of aid for trade and how we focus on particular sectors and value chains.

Q75 **Matt Western:** Yes, because it could be significant in terms of the economic uplift, could it not?

Helen Dennis: Yes.

Q76 **Matt Western:** I just want to come on to the economic partnership agreements and to ask you both how should the UK be approaching its relationships with those countries with whom it currently it has an EPA post-Brexit?

Matt Grady: From our perspective, there needs to be a differentiated approach. We have heard already there are countries that have indicated that they are happy with their economic partnership agreement and that they want to go ahead and replicate that. It is not for us to tell them that is a bad idea, but we can expect them to want to renegotiate the terms. We have already heard from South Africa in terms of the economic partnership agreement that they want to revisit the terms. We have heard that from Chile on FTAs as well, just as another example. But there are countries, we have heard already, that have resisted the economic partnership agreements with the EU and will see Brexit as an opportunity to resist them with the UK as well.

Q77 **Emma Little Pengelly:** Are there any particular measures that the UK could adopt in relation to its trade with Commonwealth developing countries? I know you have mentioned some in terms of transition, but anything specifically that could help that partnership?

Matt Grady: When you look at tariff measures, it is difficult to do something for the Commonwealth and then retain alignment with WTO rules. One option I suppose would be that if the UK were to improve its preference scheme, then it could also encourage the other developed economies like Canada, Australia and New Zealand within the Commonwealth to adopt the same rules and therefore Commonwealth developing countries. This would apply to all developing countries, but it would cut across the Commonwealth developing countries. They could all be adhering to one set of rules. I could see that helping value chains across the Commonwealth.

Beyond that, it is slightly more difficult. I think the Foundation has put together some proposals around fair trade for the Commonwealth.

Helen Dennis: Just to reiterate the point, we do not see the Commonwealth as a place for developing a new trading bloc or even for setting specific targets around intra-Commonwealth trade per se, but there is a network there, there are relationships that can be leveraged. From our perspective, we have done a bit of mapping across Commonwealth countries. We have about 1 million Fairtrade workers and producers in Commonwealth countries. We have about a third of Fairtrade certified organisations in Commonwealth countries and then there are big markets, not just in the UK, but also Australia, New Zealand and Canada for Fairtrade produce. We have been looking at that and saying, "What could we do with that grouping?" particularly with the themes that are on the agenda for CHOGM, which is very much forward-looking, the future, looking at the opportunities for young people and also has these themes, as well as prosperity, sustainability and fairness as well.

Because we know that there is going to be a focus on trade this year and indeed a trade communique that Heads of State will sign off on, one of the things we have been saying is: "Isn't this an opportunity to also think about ethical and sustainable trade and how countries across the Commonwealth might be able to work together to look at how to increase standards, tackle common challenges like modern slavery, which we know is on the agenda?" Australia, for example, has been learning from the UK's experience with the Modern Slavery Act in developing its own legislation. There are ways in which Commonwealth countries can use their history and their networks and this opportunity particularly with CHOGM and then in the following two years to say, "What kind of trade can we promote? How can we work together to see the development outcomes accentuated?"

Q78 **Emma Little Pengelly:** We have heard some evidence today that perhaps looking to the Commonwealth in relation to this area may not be the best place to go, but a 2015 report by the Commonwealth Trade Review found that, on average, trade between Commonwealth states was 19% cheaper than between Commonwealth and non-Commonwealth states, because of factors like shared language, similar legal systems, presumably some shared history or historical links in terms of trading. That seems to indicate that already, within a reasonably common regime of Commonwealth and outside of Commonwealth countries with the UK and the EU, there do appear to be those links and that strength. In terms of this inquiry, it is about looking—if we could do everything for everybody, that would be great—first to where our best options are in terms of development and addressing perhaps some of the issues that you have indicated. From that point of view, given that there already seems to be some easier working within the Commonwealth countries, is that not something to be built on?

Helen Dennis: I am not so familiar with the details of that report. Some of that trade is going to be between the wealthier Commonwealth nations, so trade between the UK and Canada, for example. Yes, if that is the case. I would not say we have a quantitative experience ourselves of saying that trade from Kenya is cheaper than trade from Côte d'Ivoire, but if that is the case, I would expect that almost to happen naturally in any case, because those partners that we are working with would recognise the value of trading within the Commonwealth and with those countries and they would see it in monetary terms.

Q79 **Julia Lopez:** I want to ask you about the impact of China in some of the countries that you have been working in. It has not been mentioned at all today. Does that have an impact on how you approach trading issues going forward, because there is going to be such a significant influence?

Does it, in your view, reduce the relative impact of things that we try to do in terms of developing particular trading structures and ways of working, governance structures and so on?

Helen Dennis: The one thing I would say—I do not know this in a huge amount of detail, but from some of the conversations that I have had with colleagues about the impact of China—is that it has been less about trade policy and it has been more about how we can engage, because as Fairtrade, we work not just with co-operatives, but also in hired-labour settings, which means plantations and mills. The experience has been that it is maybe harder to engage on some of the issues around labour standards and so on and to even get in the door to have those conversations about Fairtrade certification with those that are now Chinese-owned.

I suppose by definition it is also about having, for us, a developed fair trade market and a desire for ethical produce within the country. For us, it is easier to work maybe with UK-owned plantations or mills, because they see the consumer market in the UK and they know how important fair trade is.

Q80 **Julia Lopez:** On that note, is there any sense of a developing market in China itself for Fairtrade produce and more ethically produced produce?

Helen Dennis: In China, I do not know. We do have Fairtrade contracts in Taiwan and there are discussions about developing Fairtrade markets in some middle-income countries like Brazil and India.

Matt Grady: From our perspective, we do not have any trade links into China. We try to work directly with co-operatives and source directly from small and medium enterprises, which are vastly predominantly local people, so there is not really the Chinese influence, if you like, within that.

Q81 **Chair:** Matt, you were saying that the WTO would not allow preference of developing Commonwealth countries over general Commonwealth countries. I mischievously attempt to ask this: is the WTO telling us what to do? Do we need to take back control from the WTO?

Matt Grady: Like other speakers, we have been very supportive of the rules-based system. You could work with Commonwealth countries to give them a greater voice in influencing those rules, give them a seat at the table.

Chair: A sensible answer to a mischievous question. Nigel Evans.

Mr Nigel Evans: I do apologise for the Chair's mischievous question.

Chair: He is a gentleman. It is the Chair's prerogative.

Q82 **Mr Nigel Evans:** When Britain leaves the European Union, let's say we roll over—grandfather—all these same agreements that the European Union have with all these developing countries. It would be really useful if you could tell us what our ability would be to do something different to the European Union that would assist some of the poor countries around the world? If you could send us some examples of that, that would be really useful.

You have mentioned cut flowers and I see that it is a seasonal tariff—it is sometimes 5%, and other times it could go as high as 30%. We would love to know what developing countries are impacted by that. Clearly they go, as you say, via Holland at the moment, so that would have to be part of our agreement with the European Union to ensure that we get the tariff-free—

Chair: Flowers?

Mr Nigel Evans: Tariff-free on everything is clearly what the Government is seeking to do, but should we fall short of that, then it would be quite interesting to see what your views would be on what sort of tariff arrangements we would have with the European Union on goods that come from Africa into other EU countries, into the United Kingdom via Rotterdam, in fact. I would love you to do something on that.

Does the UK dump any product into developing countries that impacts on their producing those goods? I would expect that it is mostly agriculture—it is unlikely to be textiles. Does that happen at the moment because of over-production in the United Kingdom? Are we dumping anything on developing countries?

Matt Grady: I would need to check our dataset to tell you. My instinct is that, from a UK perspective, it is not a significant problem. I think we have seen it more from European producers with things like frozen chicken being dumped into South Africa, for example, and competing with South African chicken. In terms of just the UK sectors, I would need to double-check and get back to you.

Helen Dennis: Same here.

Q83 **Mr Nigel Evans:** Finally, as far as Fairtrade is concerned, Julia mentioned China. As I understand it, it is not just China—other countries are mopping up whole swathes of developing countries, buying up land, farming it themselves. They are the owners. Is it part of your remit to see that Fairtrade is fair trade for African owners as opposed to British owners or Chinese owners, or the Middle East owners, who are mopping up whole swathes of developing countries?

Helen Dennis: Part of the Fairtrade model is the premium that is paid to the producers and the workers themselves. That is absolutely critical. It is money that is controlled, democratically decided upon by committees, so it will be done differently in a small producer setting as it is in a hired-labour setting. In a hired-labour setting, it will be workers rather than necessarily the producers themselves who will come together and form a committee and decide how that additional money that comes to them via the Fairtrade system is spent. But I think the challenge is right. It is important for us always to be thinking about whether or not the model that we are promoting is directly impacting on the people who need it most. That is obviously an ongoing conversation and we review our standards on a regular basis.

Q84 **Mr Nigel Evans:** Finally, is there anything that the United Kingdom could do prior to us leaving the European Union, which is a movable date, from what I can see, but either—

Chair: Sometime in the next 200 or 300 years, I think.

Mr Nigel Evans: —March next year or the end of 2020? Is there anything that we could do as a country to boost our trade with developing countries?

Matt Grady: We heard from Jean earlier on about the inclusion of ISDS within existing agreements. The UK is party to 105 bilateral investment treaties. We have autonomy over those at the moment, so we can do what we want with those, irrespective of our membership of the EU, so we could look to revisit those and remove ISDS from those treaties. That would be one thing.

The other thing, if you look at something like the USA with AGOA, there is a much higher preference utilisation within that scheme than there is with some of the EU schemes. There are measures that we could take to drive utilisation. For example, the UK could introduce trade resource centres in developing countries, which would help to educate local producers on the availability of preferences in the first place and how to utilise them and to link into supply chains, so there is some of that more technical help that could take place. In terms of the rules-based things we are much more limited, but we could do more on aid for trade in terms of building productive capacity.

You mentioned there the challenge of foreign ownership of land. One of the things that we do in our programmes is try to help increase the ownership of productive capacity among women and small and medium enterprises. The UK could support that work through DFID.

I mentioned briefly the Commonwealth. There is also work that the UK could do in terms of helping countries to have a seat at the table in terms of setting rules. If you look at things like some of the global standards, developing countries are often rule-takers and therefore that is a barrier to them being able to meet those standards, so you could, first, have a seat at the table to help set those rules, and, secondly, help with the capacity to meet those international standards and be able export more. Those are some things you could do now.

Q85 **Mr Nigel Evans:** Would you dare to enter the genetically-modified area as well?

Matt Grady: Personally, I would not like to be experimented on, no.

Q86 **Mr Nigel Evans:** As you know, there are some parts of Africa that genetically modify some of the products simply because they would not be able to produce them any other way, which then prohibits them coming into the European Union. Do you take a view on that?

Matt Grady: As an organisation, we do not have that kind of level of scientific background. One of the things we would say is that there has to be clear separation for those producers and farmers who rely on organic methods and they rely on no cross-contamination with seeds and things like that. There would need to be clear boundaries and there needs to be clear labelling so that consumers in the UK know what it is that they are buying. That is one of the challenges around some of the trade deals and moves to limit that labelling. There are clear boundaries around those kind of things, but I would not proffer an opinion on whether it is good or bad.

Mr Nigel Evans: Helen, do you want the final word?

Helen Dennis: To follow on from that, not to get into a really thorny conversation about regulatory alignment too much, but you do have to see that question from the perspective of a small producer. At the moment they know what the EU standards are and when they ship their goods, they are certifying against particular standards that impact the whole market. If there was in the future a great divergence and they were having to essentially meet different standards for the UK as for the rest of the European market, that does place an additional burden on those exporters. It is just something to throw into the mix on that point.

Q87 **Chair:** I am wondering if you had another final question, Mr Evans. Can I add three final questions? The potential of foreign ownership could be covered in these countries by maybe an exponential land tax; there are methods to deal with that.

The seasonal flower tariff is my real question. I presume that is there to protect flower growers within the UK and the European Union, so there could be domestic political pushback on that. Would you recognise that as happening?

Matt Grady: Yes.

Q88 **Chair:** Yes. My final point is on this idea of fair trade that we are seeing coming in with consumers around, as I mentioned, your wonderful free trade chocolate in the Co-ops of the Outer Hebrides—I have not seen the dried apricots as much—how many other companies are doing this free trade? How many other markets has this sort of idea taken off in?

Helen Dennis: Fair trade? I do not have the exact number, but it is more than 20.

Q89 **Chair:** It is 20 out of the 200 nations of the world?

Helen Dennis: Of course. I would say in terms of where there are developed markets, it is probably where you would expect in terms of the wealthier countries where this has really taken off as a concept, as a movement, so a lot of the other European countries, Germany, France, Holland, some of the Scandinavian countries and then I mentioned

Canada, Australia, New Zealand, so it is a lot of the wealthier nations, where that idea of ethical consumerism has kind of entered the consciousness. People want to know where their products have come from.

Q90 **Chair:** The final question: you think that genuinely brings benefits to people in developing countries, the behaviour of these consumers in 20 countries?

Helen Dennis: No doubt, yes. In the short term, there is direct benefit from the Fairtrade premium and the minimum price. Last year the whole total Fairtrade system meant that £32.3 million was going directly to producers and having an impact, so they can invest it in healthcare, education, but also in the productivity of their business. Obviously in the general scheme of things that still seems like small fry, but it is impacting on the lives of many thousands of people around the world. In the longer term, obviously our intention is not just to have those kind of short-term impacts, but also to demonstrate that fairer trade is possible, that we can trade in a way that delivers profit for the companies that operate commercially while also paying people decently and operating to decent labour and environmental standards.

Chair: Thank you.

Mr Nigel Evans: I think there is a niche market for chocolate-covered dried apricots in the Outer Hebrides. It is not a big market, but—

Chair: I was going to say, Helen, that was a lovely optimistic note to end it on, but that is a lovelier note of greater optimism, hopefully, and perhaps a marketing idea for you both to come together that has been brought up today at the Committee for International Trade. Can I thank you both very much? Please feel free to use the idea of chocolate and dried apricots. There is no commission on that. We thank you for coming here and sharing your expertise with us this morning.