

International Trade Committee

Oral evidence: Trade and the Commonwealth: developing countries, HC 667vi

Wednesday 20 June 2018

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Members present: Angus Brendan MacNeil (Chair); Mr Ranil Jayawardena; Mr Chris Leslie; Julia Lopez.

Questions 324 - 353

Witnesses

I: Professor Tony Heron, Professor of International Political Economy, University of York, and Dr Brendan Vickers, Economic Adviser in the Trade, Oceans, and Natural Resources Directorate, Commonwealth Secretariat.

Examination of witnesses

Witnesses: Professor Tony Heron and Dr Brendan Vickers.

Q324 **Chair:** Good morning, panel. Can I ask you please to introduce yourself, name, rank and serial number, for the record? Always useful.

Professor Heron: I am Professor Tony Heron. I work at the University of York. I teach and research in political economy, trade and development.

Dr Vickers: I am Brendan Vickers. I work in the Commonwealth Secretariat and the Trade, Oceans, and Natural Resources Directorate, focusing on international trade issues. It was a great pleasure also just to drop off two copies of our publications. One is the "Commonwealth Trade Review 2018", which we prepared for the Commonwealth Heads of Government Meeting, and another is some of the research we have been doing around a post-Brexit trade and development agenda. I hope you find it useful and interesting reading.

Q325 **Chair:** Absolutely, and I thank you for the commercial break at the beginning, most welcome. If you are doing work, it is good to highlight it and this is an excellent forum to highlight that.

Dr Vickers, can I first ask you how important the UK is as a trading partner for Commonwealth developing countries? What are some of the key concerns of Commonwealth countries regarding their trading relationship with the UK post-Brexit if, of course, Brexit happens, he said controversially?

Dr Vickers: There are very important and strong trade linkages between the UK and many Commonwealth countries; not all Commonwealth countries. I would say that trade between the UK and Commonwealth seems to be concentrated around seven countries. Those would be Singapore, India, South Africa, Nigeria, Malaysia, Bangladesh and Pakistan, but if you look at how the UK trades with Commonwealth countries I think you can distinguish between those Commonwealth countries that send a large share of their total world exports to the United Kingdom—and there we have around seven Commonwealth countries that send more than 10% of their total world exports—and those countries that send between 5% and 10%. If you look at the UK market, the UK is an extremely important niche market for a number of products, including your traditional usual suspects, if you like. These would be things like beef, bananas, sugar, fish, citrus, fresh vegetables, textiles and apparel products. If you go into the Caribbean particularly, the UK is an important driver of services and I think this is quite significant. If you look at tourism spend in the Caribbean, British tourists are found to spend seven times more than the average tourist in the Caribbean, so many of the Caribbean countries depend on exports of services to the UK.

I also think there are very important sensitivities for a number of Commonwealth countries. One is the sugar industry in the Caribbean. There is a crisis coming with the sugar industry given the changes that



HOUSE OF COMMONS

are taking place. A number of these countries—particularly Belize, Guyana, Jamaica; also, in the Pacific, Fiji—depend heavily on the UK market for preferential access on sugar. If you think of a country like Bangladesh, it largely exports garments and clothing and apparel products to the UK market. It sends around 10% of its total world exports to the UK and around 90% of those are in clothing and textiles.

Looking forward post-Brexit, a number of issues arise. One is the uncertainty around what the future trade policy will be for developing countries. I think there is certainty, or a degree of certainty, around least developed countries. The UK Government in its White Paper are committed to rolling over the everything-but-arms scheme, which provides, as it says, everything-but-arms market access to least developed countries. I think they have a sense of certainty, but when it comes to the non-least developed countries, in other words broader developing countries, there is some uncertainty.

The biggest question I think is: what will the UK's future tariff regime be for developing countries? If the UK's future trade regime is not as generous as the European Union's current GSP system or trade system they could face higher tariffs in the UK market, particularly for some of these sensitive products. In that environment, you would also find that higher MFN tariffs would expose smaller Caribbean, ACP, African producers to competition from third parties, more efficient suppliers in the UK market. For example, 54% of Belize's exports to the UK are in bananas. If it is a level playing field with other Central American suppliers, it could be squeezed out of the market.

Another concern I think is also around what happens to transshipment trade, and this is something that is often not fully explored or understood. A lot of the exports from ACP Commonwealth countries to the UK enter the UK via ports in The Netherlands or Belgium. How will this transshipment trade be impacted by post-Brexit trade policy shifts? How will the logistical costs of this be increased or managed? Those are some of the concerns that we are hearing from our member states.

Q326 Chair: Just to pick up on one point before I move to Ranil Jayawardena, why is there a fear that tariffs would be higher? All the mood music we hear from the Brexiteers is that they want to lower tariffs and make it easier for people to sell things into the market. What is the fear on the higher tariffs?

Dr Vickers: There is just uncertainty. Our member states have looked at some of the White Papers. We have had some regional consultations and meetings. I think there is an assumption that the starting point could be that the UK adopts the European Union's schedule of tariffs as in the WTO, but from what they have been saying, preferences matter to many of our countries, particularly in clothing and textiles, sugar producers and bananas. There has been talk about a policy of free trade. It is just what we have been hearing from our members.



Q327 **Chair:** The fear is an abandonment of the preferences that currently exist?

Dr Vickers: I think it is a fear on two sides, one arising from the uncertainty. One is that a policy of free trade could lead to preference erosion, particularly for some of these countries that are dependent on the UK market. There is also opportunity there because the United Kingdom's industrial structure is over 80% services, so not necessarily the political economy of the European Union, but on the other hand there have been some concerns around agriculture that we have heard from our member states and the concerns that they could be lobbying to increase tariffs in certain sectors. I think it is just managing the uncertainty at this point.

Q328 **Chair:** This is definitely the last point from me. As the UK entered the European Union the folklore is that the Antipodeans—from this point of the planet the Antipodeans are New Zealand and Australia—felt very abandoned by the UK entering the European Union. From what I am hearing you saying, as the UK might exit the European Union other parts of the Commonwealth might feel very abandoned by the UK as well. There could be collateral damage to that move.

Dr Vickers: We have heard those concerns. In some way countries are prioritising their trade with the United Kingdom, but they are also pursuing their own initiatives. For example, when it comes to Africa, there is a desire to maintain and deepen trade linkages with the United Kingdom, but at the same time there has also been an African/Continental free trade agreement that has been signed. We hear from Australia and New Zealand they want to deepen their ties with the United Kingdom, but they are also focusing a lot more on China and the Indo-Pacific.

In our trade review we have looked at the UK's trade with the Commonwealth and we find that that is around 10% of its world trade, but that is also the fifth lowest of all 53 countries. The UK has the fifth lowest share of intra-Commonwealth trade compared to the other 53. That is largely because the trade is focused on the European Union, the United States and to some degree China. The largest import partner in the Commonwealth for the UK is India. It takes around 21% of its exports. I guess it is not an either/or.

Chair: Fascinating stuff there. Of the 53 members of Commonwealth, the UK is the fifth lowest of intra-Commonwealth trade.

Q329 **Mr Ranil Jayawardena:** I will come to that point in a moment, but could I first deal with the point that was discussed just a moment ago about higher tariffs? Of course, higher tariffs would be bad for consumers here, bad for producers there. We have been told that the UK could adopt, as you have said, trade policies that advance closer ties among the Commonwealth. Dr Vickers, could you just outline what sorts of policies could achieve that from the more positive side of the fence?



HOUSE OF COMMONS

Dr Vickers: In terms of improving the development-friendly nature of the UK's trade?

Mr Ranil Jayawardena: Closer ties more generally, so yes, in terms of the development agenda that we would want to see as Commonwealth friends, but also the benefits to consumers and producers on both sides.

Dr Vickers: Lower tariffs would certainly be a benefit to consumers here in the United Kingdom. There are also issues around the exchange rate, I guess. Some of our member states are seeing concerns where price-sensitive goods could enter the UK market, particularly clothing, apparel and some consumer goods. I think it is very interesting that if you look at the UK's trade with least developed countries, the UK takes around 5% of trade exports from least developed countries. That is quite significant for one country to take 5% of trade. A lot of that is in consumer goods as well, so there are opportunities for supporting manufacturing and diversification in those countries.

In terms of what is happening at a pan-Commonwealth level to deepen trade and connectivity among our Commonwealth members, we had an extremely successful Commonwealth Heads of Government Meeting, and there Commonwealth Heads of Government adopted the declaration on Commonwealth connectivity, setting in place a work programme to share experiences, deepen dialogue and co-operation, and look at opportunities for pragmatic co-operation to deepen trade and investment, but it is all framed by the need and the priority for inclusive and sustainable trade.

We at the secretariat, of course, are doing some work on how the UK could improve on the EU's current system of preferences for developing countries. I think we have come up with three broad findings. Probably the starting point is to review the European Union's generalised system of preferences, the everything-but-arms, and look for room for improvement, and that is what we have been looking at.

Three things: one is simple and less restrictive rules of origin. We know that the European Union has a very complex system of proving where goods have been manufactured and originate from. The UK can do away with a lot of these line-by-line, product-specific, sector-specific, and just adopt a universal rule, almost like Australia and Canada do.

The second is to enhance commercially meaningful access to this market from service suppliers in least developed countries. That is allowed by the WTO. It is called for by the WTO, but it has not really taken advantage of the opportunity.

The third is to look at onerous non-tariff barriers and these are some of the biggest hurdles that stifle exports to both Europe and the United Kingdom, particularly in areas of comparative advantage for developing countries: beef, tropical fruits, fish products and so on. We can try to address those and make them simpler. There is probably also a role for



the UK's Aid for Trade policy here to help developing countries meet these standards. There are concerns around private standards.

Q330 Mr Ranil Jayawardena: That is really helpful because that sets out that there are opportunities as we leave the European Union for closer working with countries around the world, including in the Commonwealth. I must commend the work of the secretariat to facilitate those discussions.

Can I just then turn to the notion of working within the Commonwealth? No one is saying a return to imperial preference. No one is arguing for a case of moving from one protectionist trade bloc to a new protectionist trade bloc. What you are espousing is to have freer trade more generally and for Commonwealth countries to be able to compete in that freer market. Could I then ask you the question: should we be seeking simply a series of bilateral trade deals or would it be better to consider some sort of Commonwealth free trade framework that enables quicker deals to be done between as many parties that want to be involved?

Dr Vickers: We would certainly take our direction and guidance from what member states put forward in proposals and what they put forward on the table, but what our analysis at the secretariat shows is that having a Commonwealth-wide FTA will not be legally or practically feasible.

Mr Ranil Jayawardena: I would not say an FTA, but a framework.

Dr Vickers: Or any system of preferences, because—

Mr Ranil Jayawardena: No, I also ruled that out.

Dr Vickers: Okay. What we have looked at is more a pragmatic agenda for co-operation. This is what we adopted, the connectivity agenda. There are things that countries can do bilaterally, regionally, for example—just doing basics like improving trade logistics, improving trade facilitation, implementing the WTO's trade facilitation agreement. There are about 49 Commonwealth World Trade Organisation members; 42 of those have already ratified the trade agreement. In our research we find that if countries reduce export costs, they can significantly increase intra-Commonwealth trade. We can use the Commonwealth as the world's ultimate network of networks to connect traders and investors through the Commonwealth Enterprise and Investment Council and the Commonwealth Business Forum. We have launched an intra-Commonwealth SME network. We have launched a Commonwealth alliance of young entrepreneurs. We have a Commonwealth small states trade finance facility. There are these initiatives that are taking place.

Q331 Mr Ranil Jayawardena: My final question, Dr Vickers, is if the UK is the fourth most important export market—fourth Commonwealth behind only the US, China and Japan is my understanding—even though we are starting from a very small scale in terms of some of the figures you have set out, does that not show that if we were to strengthen our engagement and improve our engagement with Commonwealth partners,



there is huge scope for growth because we are starting from a small base, given some of the figures you have quoted?

Dr Vickers: There certainly is scope for growth. One has to see it in relative terms. We say the countries with the highest shares of intra-Commonwealth trade are the smallest ones, particularly in southern Africa. There is a 100 year-old Southern African Customs Union, which is pan-Commonwealth. When I say the UK is fifth lowest, that is because the UK is a major global trading nation, and because its trade is largely with these seven Commonwealth countries and the other Commonwealth members are relatively smaller economies there is certainly always scope for growth.

Q332 **Chair:** Before we go on to Julia Lopez, can I ask you, Professor Tony Heron, for comments on what you have heard so far? I am conscious that we have gone to one witness and we have given you an easy time.

Professor Heron: Yes. I would agree with a lot of what Brendan has said. I think in a way the issue about tariffs is the expectation that tariffs would be lower rather than higher. One of the things you have to know is that in terms of international trade law, the Commonwealth, as a bloc, is nothing more than an historical accident. Thirty-one members of the Commonwealth have populations of less than 2 million people. You have very high-income countries like Canada and Australia and you have some of the poorest countries in the world.

If one is thinking to build a development or a trade programme around the Commonwealth, in terms of international trade law, the question would be: what is the basis for discriminating in favour of that particular set of countries.

Q333 **Mr Ranil Jayawardena:** No one has necessarily mentioned discrimination in favour of those people. We are talking about liberalised trade more generally that can benefit the Commonwealth. We are not returning to imperial preference. No one was talking about that as far as I am aware.

Professor Heron: No, okay. We think about possibilities that are possible under multi-lateral trade law, that there are most favoured nation tariffs like—

Q334 **Chair:** Your wider point is that the Commonwealth effectively, for the present day, does not exist? It may get caught in a dragnet of other policies but you cannot have Commonwealth-specific?

Professor Heron: Exactly, yes. You can discriminate in favour of all developing countries under the general system of preferences. You can discriminate in favour of least developed countries, which is the 49 poorest countries, but you cannot discriminate between developing countries on any other basis other than if you can come up with some objective economic criteria. That is possible. The EU does that under GSP+ but it is legally, technically and bureaucratically very, very costly



and very, very difficult to do. One of the problems that the EU has found with the Commonwealth and with the ACP is you have a lot of very small countries with very small levels of technical and bureaucratic capacity a long way from major export markets, and trying to invest the time into negotiating individual agreements is very time consuming.

The alternative is that you extend those preferences more broadly, which I think is a better system, but you then have to remember the dangers of what Brendan is saying. You are putting into one package countries that are highly competitive with countries that are not very competitive, countries that are generally very poor but are very competitive in certain areas. The issue is that in a way you are constrained by the rules as they are. It is not impossible, but it does take an awful lot of investment in negotiating legal capacity. I think that is the other consideration that needs to be thought about.

Chair: Thank you for emphasising that point.

Q335 **Julia Lopez:** I would just like to talk a little bit more about CHOGM and the tangible outcomes that came from CHOGM. I am not quite clear from your biography how long you have been at the secretariat, but I would be interested to get your observations on immediately after the Brexit vote what kind of approaches you received from Commonwealth nations and what kind of opportunities they foresaw, whether the mood has changed over time during the negotiations on the opportunities of a Britain that is not in the EU anymore, how you worked with the Department for International Trade in advance of CHOGM, and what they are keen for you to work on now. I am afraid I am asking many questions here. After CHOGM, I would be very interested to know whether there are any specific initiatives with particular groups of Commonwealth countries, such as Singapore, Australia and New Zealand, working together on new areas of trade liberalisation such as digital and technology trade.

Dr Vickers: I have been at the secretariat for four years. I joined from the South African Ministry of Trade. We have had quite an active work programme after the referendum to look at the implications of Brexit for our member states, but it has largely been focused on identifying certainly the opportunities. That has been the main focus, but also looking at how countries could cope with some of the challenges that emerged.

We had some technical assistance requests from several member states to look at the implications of Brexit for their economies. If I recall, we did one study for India about a potential India-UK free trade agreement. We have done work for CARICOM also about a potential UK-CARICOM free trade agreement, and we also did some work for South Africa on what the implications of Brexit would be. I would not say these conversations have died down; they have become less vocal in a way. There are probably more questions than answers, but it is more a wait-and-see approach now. I think understanding the implications and also the opportunities is certainly there.



Looking at CHOGM, we worked quite closely with the Cabinet Office and the Department for International Trade ahead of CHOGM. Our 2018 trade review is funded by the UK Government through the Kickstarter programme, and we were also delighted that there were two other Kickstarter programmes, one looking at what support could be provided for least developed countries as they transition to a different income category, and also looking at some services trade restrictions, particularly one of the sectors being financial services in Africa, so opportunities there.

Some of the tangible CHOGM outcomes—and this would help to promote intra-Commonwealth trade as well—are that the UK Government provided additional support for our small states office in Geneva. This plays a vital role in providing support to our member states in Geneva. The second is that the UK has provided an envelope for the SheTrades initiative of ITC in Geneva, which tries to promote gender and trade and women's economic empowerment—so, a commitment of almost £7 million to support SheTrade's work. As a secretariat we are looking to develop a memorandum of understanding to also co-operate with ITC. There is also the adoption of the Commonwealth Connectivity Agenda, and that is linked to the declaration that has an objective of reaching a target of US\$2 trillion of trade by 2030 in terms of intra-Commonwealth trade.

Q336 **Julia Lopez:** Do you think that is realistic?

Dr Vickers: It all depends on the conditions in the global economy. In our 2015 trade review we projected \$1 trillion by 2020. In the current trade review, we have projected \$700 billion by 2020 but that is because of a massive slump in global trade. Now we are seeing a major rebound in global trade of 4% so anything is possible.

I think the big thing is that Commonwealth countries have never before worked together collectively and adopted initiatives collectively to promote intra-Commonwealth trade. Trade has just evolved organically and as a natural course of national, regional and bilateral policies. For the first time in a long time trade ministers have met. Senior trade officials are meeting next week to put together an action plan linked to the Connectivity Agenda. There are a number of initiatives that have taken place now. I guess we will have to see.

The opportunity is that Commonwealth countries are now recognising the potential. In our 2015 review we found the perfect trifecta in a way. Commonwealth countries have an advantage that allows them to trade 20% more than they do with other countries. Investment is 10% more among Commonwealth countries than with other countries, and they have a 19% cost advantage compared to other countries. There is an opportunity there and we now need to burnish that and see where it takes us.

Q337 **Julia Lopez:** Sorry, my question about smaller groups of Commonwealth countries peeling off and doing specific pieces of work; for instance,



Singapore in technology and IT.

Dr Vickers: We do not have those groups yet formally organised within the Commonwealth. We are in a process of also trying to develop ring-fenced extra budgeted resource projects, which we would link to particular projects and probably approach particular member states if they would be willing to be the champions of those projects. We have a Blue Charter, which was adopted at CHOGM, and there you have certain countries that are spearheading particular projects, but on trade issues it is still very much a pan-Commonwealth, 53-member initiative and no subgroups that have yet evolved or emerged.

Q338 **Chair:** Panel, we have received two suggestions on policy changes that the UK could implement post-Brexit: extending the number of countries eligible for the everything-but-arms scheme or introducing a new two-tier system, providing preferences for all low and upper middle-income countries, plus some non-high-income, small developing states. Any thoughts on those points, Professor Heron?

Professor Heron: I think that is probably the area that is certainly worth pursuing, because in a sense you are constrained. There is a reason why everything-but-arms covers the least developed countries, because legally that is the most straightforward form of discrimination of that. Beyond that, the levels of utilisation of GSP as a system are very low. Its effectiveness is very low. Rules of origin have been majorly constrained, but I think there is an opportunity to think about GSP+ on the basis of different economic classifications, vulnerability and size, particularly for small island developing states that in terms of income are generally in the lower to middle-income status but are highly dependent on very acute export dependence, sugar, textiles and so on. Even though in terms of income it is hard to make a case for why they should deserve preference, their level of vulnerability is quite high. So, a form of EBA-plus that could involve some sets of criteria around vulnerability, around human rights, around other metrics that were legally robust enough to withstand any kind of challenge within the WTO.

In a way, those unilateral preferences are again legally more straightforward, because if you think about the EPAs—the economic partnership agreements—the expectation, the hope, is that they can be rolled over, but they are reciprocal agreements and they would have to be negotiated. Obviously, that would rely upon the 79 countries within the ACP agreeing to that, which can get a bit messy as it has done for the EU.

Q339 **Chair:** Do you think changes need to come in the EPAs for the ACP countries?

Professor Heron: Yes. If the EU was starting again, it probably would not—I think its prospectus was far too ambitious and tried to do too many contradictory things at once, so I think yes. There is a question about whether it is best to try to establish some temporary legal



instrument that, in a sense, maintains the status quo for a given period, in which time the UK can then think about how it advances or enhances the basic structure of the EPAs. One of the issues at the moment is that take-up is very uneven. The regional configurations are not necessarily based upon the actual regional institutions within country. The Southern African Development Community's members are spread over two, if not three, separate EPA regions. You have issues around development finance in Aid for Trade. There is lots of scope for improvement. I guess the important point is that the UK would need some breathing space to be able to do that, because if rollover is technically legally possible, it becomes harder then to reform those agreements.

Q340 Chair: I have a final point for you before I move to Chris Leslie. How much muscle would the UK have as compared to the EU when it comes to these EPAs?

Professor Heron: In a way, if we look at the EPAs and the outcome of the EPAs, what you see is not a very clear demonstration of EU muscle, because in the end some of the most vulnerable and trade-dependent countries did not fall into line. Some of those that were least dependent on the EU markets—the Caribbean, for instance—were the most enthusiastic. Some that were most dependent on the EU were some of the least responsive.

It is a question of aligning a message that it is possible to build a consensus within those regions, whether that is on an ACP basis or on the basis of individual regions. With the size and capacity of DFID, I think there is a real opportunity to align the aid agenda with the trade agenda. One of the problems we had with the EPAs is that you had shared competence over development finance. The Commission wanted to put more development finance to support the EPAs, but was constrained because a lot of member states, quite rightly, wanted to spend their aid on their own priorities. There is an opportunity to do that.

I think market power and muscle is not unimportant, but I do not think it is necessarily the reason why the situation is as it is—although there are certain cases where the EU did pretty outrageous things—but overall I do not think that was the decisive factor. I think that the main issue was that basically it conflated its own, what you might call, offensive interest about promoting competitiveness and free trade with development objectives. I think there is a danger that the UK could end up doing something similar, and that is the fear. You talk about free trade and investment as good for development, but we have read in your own documentation that you are pushing this for your own interest. I think that message has got messed up, so that creates a lot of distrust and a lot of discord within and between regions.

The final point is that at the moment the level of market dependence of individual countries within the ACP is highly uneven, even within regions. Within the Pacific you have Fiji, which is very dependent on the UK and the EU, but it is almost alone in that part of the world in terms of its level



HOUSE OF COMMONS

of trade dependence. Trying to establish a free trade agreement between the UK or the EU and the Pacific is quite difficult, because you have one country that is very keen on it and a bunch of other countries saying, "What's in it for us?" That is where I think aid priorities and aligning aid in trade in some sort of coherent way is a key priority for the UK.

- Q341 **Mr Chris Leslie:** If I was to set aside the tariff issues and come back to your point earlier, Dr Vickers, about non-tariff barriers and to look at the potential there for the UK trading with developing countries on non-tariff barrier issues, I know there are lots of debates about the pros and cons for the developing country itself in that respect. What do you think the UK could do to address some of those particular issues? What are the policy opportunities? I would like to ask you both about services after Brexit, and maybe even before Brexit, because in some respects non-tariff barrier issues are outwith a lot of the customs union issues sometimes.

Dr Vickers: When we talk about non-tariff barriers and non-tariff measures, there are those that are legitimate for plant and animal and human health and there are those that become barriers, particularly for the trade in goods, which is in sensitive products for developing countries. I think there is a feeling among many ACP countries that some of these measures are unnecessarily onerous. They could even be there for protectionist purposes.

- Q342 **Mr Chris Leslie:** Sanitary and phytosanitary issues? Give a couple of examples. You mentioned tropical fruits.

Dr Vickers: A good example from the region where I come from in the world is citrus. Citrus is a major export for Swaziland and South Africa to the United Kingdom and to Europe, but there is a measure in place, an SPS measure, about citrus black spot, and I think this has been doing the rounds as an example of a protectionist measure. It is basically a harmless fungal disease that has black spots on the orange but presents no human health reasons. It is not being implemented for a public policy purpose but to protect the market for some southern European producers of citrus. I think there are some other issues around beef that could also be upheld, and also pork exports.

- Q343 **Mr Chris Leslie:** What would they be? Just go through those. With the States it is to do with hormones and things, but that is not the case in developing countries. Is that another SPS?

Dr Vickers: Yes, most of them are on the SPS issues. I think there is an opportunity there for the UK post-Brexit to have a look at what some of these measures are that are in place. Are they unnecessarily onerous? Can they rescind some of them? For example, when it comes to citrus, the UK is not a citrus producer, so the transmission of this to southern Europe is also not an issue.

- Q344 **Mr Chris Leslie:** If we did that unilaterally as the UK, how do we maintain our SPS relationship with the rest of Europe? Is there a way



through that?

Dr Vickers: In my view the ultimate deal between the European Union and the United Kingdom post-Brexit will to a large degree condition the opportunities for trade with other developing countries, particularly when it comes to plant, animal and food health standards. If the UK, for example, was going to go towards more the American model and allow in GMOs and things like that, you could not have barrier-free trade with the European Union because that would be a problem and that would also then impact the nature of the trade standards between ACP countries and the UK as well. Ultimately, I think the final EU-UK deal is going to condition the system of trade standards that will apply to trade with developing countries.

Q345 **Mr Chris Leslie:** Is that your view, Professor Heron?

Professor Heron: Yes, I think that is right. In terms of SPS, it is the question of regulatory divergence in a sense. If the UK is seeking regulatory divergence from the EU to the extent of a more liberal SPS regime—one based on the science versus precautionary principle—then potentially you could see some market liberalisation in horticulture and agriculture, but obviously that is a much bigger question.

One of the things Brendan has not touched upon, but I know he is aware of, is that a key issue for market access for farmers within the Commonwealth is often the private standards. Within horticulture and certain agricultural products, it is product specification that is laid down by the major retailers and supply chains, and often it is not so much meeting those standards; it is proving those standards as well. They are meeting a specification to get within those value chains.

In terms of trade facilitation, private sector investment and development, there are things that can be done and do not necessarily have to be dependent upon the outcome of Brexit. I think some of that work has already been done, but certainly on the back of the trade facilitation initiative within the WTO that is a space to think about. A number of the non-tariff barriers are not necessarily just public in origin. Some of them are private and, of course, they are to do with the priorities that—

Q346 **Mr Chris Leslie:** Any other particular non-tariff barriers that are not SPS-related, which are more regulatory?

Professor Heron: The obvious one that Brendan mentioned is not a tariff barrier but rules of origin, which is the key thing. Rules of origin are designed to ensure that the beneficiary of the preference is producing the goods, but it is a tricky one to get right, because if the rules are too restrictive, then what happens is there is no utilisation. The country enjoying the preference cannot satisfy—

Q347 **Mr Chris Leslie:** It is too administratively difficult?



Professor Heron: They just cannot prove it, but if they are too liberal—a good example is, say, the US's AGOA programme, which has been very successful, particularly in garments in southern Africa, which has relatively liberal rules of origin. In a number of southern African countries, it has generated a lot of investment and jobs, but very little value added because all of the raw materials are shipped generally from China. The final stage of assembly is in Lesotho, or wherever, and then it is exported to the US. It is a boon for jobs and investment, but in terms of value added and industrial upgrading, you do not get that, because there is no incentive for those higher stages of production to take place, because that is when you fall foul of the rules of origin.

It is a tricky one to get right, but absolutely I think there is certainly room for streamlining what is in place in relation to the EU. There are certain cases—Brendan mentioned one before—where the interests of member states and the technical rationale for particular rules of origin do get a bit muddled up, so that is certainly an area that a lot of developing countries talk about. It is a key constraint in terms of trade.

Dr Vickers: On services, there are not necessarily non-tariff barriers there, but it is more about regulations and non-tariff measures in a way. Probably one of the biggest issues there is around mode 4, which is the supply of a service through the temporary movement of professionals. We have seen that, for example, in the CARIFORUM EPA. The CARIFORUM EPA liberalises a number of services sectors, but there are issues around recognition of qualifications and experience on the side of the European Union, which stifles the movement of these professionals when it comes to the granting of visas, the mutual recognition of professional associations, of professions and of degrees and educational qualifications. It is probably also an area to look into going forward.

Chair: In regard to Australia and New Zealand, that was one of the first things that they pointed out. It was not the tariff; it was getting people in for more than a two-year visa. Anyway, I digress on a huge tangent.

Q348 **Julia Lopez:** I was interested in what you were saying, Professor Heron, about the potential to blend our trade and aid policies much more successfully, and I wanted to get your thoughts on how we could do that. Also talking about the rules of origin again, does technology have any impact on rules of origin in terms of an increasing ability to be able to track where goods are and whether there is any opportunity going forward that new ways of doing that will emerge?

Professor Heron: On the role of technology, yes, I think that is right. I know from other work I am doing on agriculture that there is a big push now for traceability, which is using sensor technology, low-cost technologies, drones and so on to be able to track the field where the crop is harvested, right through to shipping and ultimate supply. I am not an expert on technology, but I do sense that is an area that will help to overcome some of those problems around transshipment. It is very difficult when you have these supply chains that do not just take place at



arm's length. There are a number of multiple intermediaries that complicate this, but yes, I think that is certainly something that the Government should be taking a note of. Sorry, what was the first bit of your question?

Julia Lopez: The blending of trade and aid policies.

Professor Heron: When I was doing a lot of work on the EPAs a few years ago, at the time the big issue in the WTO Doha round was Aid for Trade. The big focus was that typically small developing countries suffered a number of supply-side constraints that had the market access but they were not able to meet it, whether it was to do with rules of origin or the non-tariff barriers or simply because they did not have the legal or technical bureaucratic capacity to penetrate overseas markets. The idea was that aid spending should be deliberately targeted at those supply-side constraints. There has been some of that, but generally the disappointment is that none of it has been bound in the same way that the trade agreements are legally bound, so they become essentially a promise, a best intention, a best endeavour.

I think if you talk to anyone in the ACP or the Commonwealth about the EPAs, the issue they will mention most is Aid for Trade—development finance that can help us make more of the opportunities afforded by greater market access, both in terms of standard issues of quotas and tariffs, but also some of the issues about public and private non-tariff barriers. I think Aid for Trade is something that can be done, and one of the things within the EU is that you have had a split competence between trade and development. I think it is important that the UK does not end up replicating that where you get a siloed approach.

The other area we have not mentioned at the moment is the most sensitive product lines for vulnerable developing countries in the Commonwealth or elsewhere in agriculture. Going back to Chris's question in terms of Brexit, whatever happens in agriculture, I think there are a lot of exciting noises coming out of DEFRA but very little said about trade. I think it is important that we think about trade and think about development, not just in terms of DIT but also with DFID and agriculture as well, because this problem of coherence is one of the big failings of the EU in development policy over the last few years.

Q349 **Julia Lopez:** How influential do you think the UK could be in this regard? Say we do have a clearer break from the EU and start to chart a more innovative trade and development policy and say we were successful in increasing our trade with developing nations and we had good, strong development outcomes, do you think that would help influence other trading blocs' policies, such that they would be more inclined to reform or not?

Dr Vickers: From where we sit in the Commonwealth Secretariat, it is important to recognise that the UK is one of the global leaders and champions and donors of Aid for Trade. I think the UK has committed



HOUSE OF COMMONS

more than £1 billion in regional and multilateral Aid for Trade initiatives and is a thought leader when it comes to a lot of these issues.

I think where the UK could, in developing its Aid for Trade policies, think more creatively is around how to support productive capacity in developing countries. Aid for Trade is not just about implementing existing agreements or negotiating existing agreements or dealing with bottlenecks in the supply chain or at the ports and the harbours. Fundamentally, for all our developing country members, it is productive capacity to trigger structural transformation, economic diversification, diversify the exports.

One way is to also start thinking about Aid for Trade around particular sectors. Targeting sectors is not always the best approach, but we have some very good examples from the Caribbean of how Aid for Trade in the Caribbean rum sector helped to get greater market access for a number of new brands in the European market. There was a 20% increase in women's employment in the rum sector in the Caribbean because of these initiatives. I think one can start looking at Aid for Trade around services. This is certainly an area of interest to the UK and is not a traditional focus around Aid for Trade, but how to facilitate greater services from developing countries.

Then also one of the underutilised areas of Aid for Trade is adjustment support. It usually supports the implementation of agreements, because the implementation of an agreement has ramifications for the domestic economy, and it helps to cushion the impact around that, around revenue planning and greater export promotion. Those are just some of the areas that we have been thinking about.

Q350 Chair: The final issue I want to come on to is gender. Obviously, we are concerned about trade disappearing down the silo, but what we are trying to do here is improve people's lives. Of course, it will come as no surprise to the panel, but half of people are usually women, and the ideas and the arguments are about how women's involvement can help trade and how trade can help women generally. We know that in quite a few countries there are cultural issues—sometimes in our own country, which the BBC is the most interesting example of. On the relationship between gender and trade and what one can do for the other, Dr Vickers, you mentioned rum and I am sure, Professor Heron, you have some examples as well. Do you want to expand on the rum one and maybe give a few greater examples that ultimately, of course, increase economic capacity once you utilise all the resources, and 50% of those resources ultimately are women?

Dr Vickers: The rum one was around the Caribbean rum sector programme. It was funded by the European Union. There is a whole impact assessment around this sector, around the Aid for Trade and the initiatives, which I would be happy to share with the Committee. Unfortunately, I do not have the finer details around that.



Chair: That is fine; written is good.

Dr Vickers: Gender and trade is extremely important at the Commonwealth Secretariat and a major area of our work. It was reflected in the recent outcomes of the Commonwealth Heads of Government Meeting where we had the Commonwealth Women's Forum, which also focused around women's empowerment. We had a major commitment from the UK Government to provide £7 million to the International Trade Centre for a Commonwealth envelope, which will help support capacity development among women traders in Commonwealth countries.

There is a Commonwealth initiative, the Commonwealth Businesswomen's Network. It has a very strong focus and footprint in Africa. I think there are chapters in almost all the Commonwealth countries, using it as a platform to link up women traders, women-headed firms, SMEs, also looking at the potential around the digital economy and digital trade, and e-commerce is so vital for connecting small businesses within the Commonwealth and with other countries.

Q351 **Chair:** How do countries and places that proactively involve women perform in comparison to perhaps their past or, as importantly or more importantly, similar countries that do not involve women as much? Is there a clear difference there?

Dr Vickers: Do you want to—

Chair: I think that is the best political sidestep I have seen.

Professor Heron: Yes, I am not sure I could answer. I am not sure I have the evidence to answer that.

Q352 **Chair:** The data is not there. My inclination is that there would be, but—

Professor Heron: In terms of project evaluation, there is certainly a lot of evidence that these schemes are effective and do work. A lot of gender-specific interventions are quite small scale. You might find a very good example that works in this village, but it is how one up-scales that. I do not think it is controversial to say this is an important and effective area of intervention.

Q353 **Chair:** You can see the differences regionally within countries perhaps, or even down to the village level?

Professor Heron: That is just the nature of many of those interventions, how they generally work, and that is just the way in which development thinking and development practices have evolved over time and shift away from infrastructure towards those kinds of interventions.

I was going to digress slightly. I think one of the important issues to underline here is that many of the product lines that we have mentioned that are particularly important for Commonwealth and ACP countries are ones in which the labour force is highly feminised. Cut flowers from Kenya, for instance, is a great example. In some of those areas you do



HOUSE OF COMMONS

see some quite interesting initiatives. I know, for instance, a few years ago DFID was investing in health clinics within the garment factories in Lesotho to ensure that women could stay healthy in work and have child-caring facilities within the factories.

There are certain things about encouraging women into work, keeping them there when they are there, and obviously education skills, upgrading, access to finance. In many of these countries, the level of female participation in the workforce is pretty high, so any damage to the preferences and incentives that these countries currently enjoy will obviously have disproportionate effects on women both in the workplace and in the community as well.

Chair: I think women, and certainly my late mother, used to argue that the participation of women in the workforce was indeed very high. In the paid workforce it was another matter altogether. Could I thank you both for coming along this morning, Professor Heron and Dr Vickers? Your commercial break, Dr Vickers, at the beginning has clearly worked. Chris Leslie is now sporting both documents that you advertised at the beginning. I also suspect that you are a rugby player with how neatly you sidestepped that second to last question there. Finally, from the Committee, thank you both for coming in. It was a real pleasure.