

Scottish Affairs Committee

Oral evidence: [Scotland and Brexit: trade and foreign investment](#), HC 903

Tuesday 23 October 2018

Ordered by the House of Commons to be published on 23 October 2018.

[Watch the meeting](#)

Members present: Pete Wishart (Chair); David Duguid; Kirstene Hair; John Lamont; Danielle Rowley; Tommy Sheppard; Ross Thomson.

Questions 375 - 424

Witnesses

[I](#): Aarti Shankar, Senior Researcher, Open Europe, Maddy Thimont Jack, Researcher, Institute for Government, Dr Kirsty Hughes, Director, Scottish Centre on European Relations, and Dr Michael Gasiorek, UK Trade Policy Observatory.

Written evidence from witnesses:

- [Scottish Centre on European Relations](#)

Examination of witnesses

Witnesses: Aarti Shankar, Maddy Thimont Jack, Dr Kirsty Hughes and Dr Michael Gasiorek.

Q375 **Chair:** Thank you ever so much for attending the Scottish Affairs Committee's inquiry into Scotland, Brexit and trade.

For the record, please say who you are, who you represent and anything by way of a short introductory statement. As is traditional, we will go from left to right, which will be your good self, sir.

Dr Gasiorek: Good morning. Thank you for inviting me. My name is Michael Gasiorek. I am a member of the UK Trade Policy Observatory. I note in my letter of invitation I am down as the Director of the UK Trade Policy Observatory. Thank you very much for promoting me, but I am not the Director.

Chair: Anything we can do to help your career.

Dr Gasiorek: At the UKTPO, as I expect members may be aware, we have been doing a lot of work on Brexit and Brexit-related issues, so I am delighted to be here to contribute to the evidence to this Committee.

With regard to priorities, challenges and opportunities, the only thing I would say is that it seems to me that Brexit brings many more challenges than it does opportunities and that is where Government's priorities should lie.

Dr Hughes: I am Kirsty Hughes. I am Director of the Scottish Centre on European Relations, a think tank that has been in existence since March 2017. We have been covering Brexit from both the Scottish and UK dimensions, and also looking at the views of the EU 27.

There are obviously very high levels of uncertainty about deals—whether there will be one, whether they will pass, what that will tell us, if anything much, about future relationships—so it is quite hard in that context to give advice because we are all in the midst of that uncertainty. Until there is some sort of future EU-UK relationship, assuming Brexit does go ahead, that also makes it quite hard to say what any future trade relationship with EU and non-EEA countries ideally should be.

Finally, it is fairly obvious that if and when the UK leaves the EU, it will lose bargaining power in any future trade relationships, compared with being in the EU.

Aarti Shankar: I am Aarti Shankar. I am a senior policy analyst at the think tank Open Europe. We currently focus very heavily on Brexit. Our priorities right now are looking at trade policies, the UK's potential economic relationship with the EU and what a global Britain would look like, and what the UK's trade policies beyond the EU should be in future.



HOUSE OF COMMONS

We are also looking at domestic elements, such as what a future UK immigration system might look like.

By way of an opening statement, I would simply say that it is very important to recognise that Brexit is going to be a process rather than an event. When we are talking about future trading opportunities for the UK, therefore, we have to adopt a longer-term perspective.

Maddy Thimont Jack: Hello and thanks very much for inviting me today. My name is Maddy Thimont Jack: I am a researcher at the Institute for Government. We are an independent, non-partisan think tank. We do not take policy positions but instead look at the frameworks in which policy needs to operate. A lot of what I will say today is going to be drawing on a report that I was lead author of in April, "Devolution after Brexit: Managing the environment, agriculture and fisheries", and also a publication we published last May, called "Taking back control of trade policy". That publication looked at the framework within which trade policy needs to take place in the UK and the sorts of tools the Government need to have at their disposal to be able to make the most of trading opportunities.

I would agree with what the rest of the panel has said. Obviously, we are in the midst of negotiations and it is quite difficult right now to know what the future relationship with the EU will look like, and that is going to have an impact on the sorts of ways in which the UK can take advantage of trading opportunities after Brexit.

Q376 **Chair:** Thank you. Let's get right down to the nuts and bolts of what this inquiry is all about. Maybe all of you could tell us how you think the Scottish Government should be involved in trade deals post-Brexit, and what the role of the devolved Administrations should be when it comes to arranging, shaping up and designing them. Can we start with you, Dr Hughes?

Dr Hughes: If Brexit goes ahead, we may well end up in a situation where we are indefinitely in a customs union and that means there will be very little that can be done in terms of future trade policy. Even in that context, there will presumably be some committees for discussion where the UK can express its views. In terms of existing structures, you would certainly want something that gave Scottish politicians, the Government, Holyrood and officials greater input and greater consultation.

In terms of future trade deals, to repeat what I have already said briefly, the future EU-UK trade deal is going to be key here and if it is not a customs union and regulatory alignment but is something more like a Canada-style free-trade deal, that is still going to be absolutely fundamental. At the moment, we see the Scottish Government and Parliament not having a great say in any of that. I have a lot of sympathy with elements of the Scottish Government's proposals on trade policy and having a greater say in future, but whether there is a consultation and, if



so, what sort, versus having a veto, is an open question. Again, I have a lot of sympathy for a Belgian or Canadian-style role but that would be quite a big, broad constitutional change, which, if Brexit goes ahead, I think is probably needed because it is a huge change. The UK has to get a trade policy, and Brexit changes how Scotland contributes to that in the context of devolved powers and of the UK common frameworks, which may overrule another level. Do trade decisions overrule common frameworks decisions? Do those decisions overrule devolved decisions, or if that is not to happen, how do you stop it happening?

Q377 **Chair:** In the trade White Paper, the Secretary of State said that he is open to a role of consultation with the Scottish Government and Scottish Parliament, but I think he is also very clear that that was as long as there was no dissent from the UK negotiating position. Would that be a fair and proper way to proceed?

Dr Hughes: I don't think that would be a fair and proper way to proceed. There needs to be some elements of consent there if Brexit is not to actually weaken the devolution settlement.

Dr Gasiorrek: I am by no means a constitutional expert whatsoever, so bear that in mind in relation to my comments here.

Whether or not the devolved Administration should have a veto or not strikes me as being quite a tricky issue. On the one hand, it does seem perfectly reasonable to argue that it is really important to consult as widely as possible, to input into the formulation of trade policy, to input into the working out of offensive, defensive and strategic interests and so on, but it is quite a big step to go from that to having a veto.

Q378 **Chair:** I don't think anybody is saying veto. We are just examining the sort of role that Scotland would have in terms of developing trade policy.

Dr Gasiorrek: I would argue that there should be a strong element of consultation, that the devolved Administrations should certainly be involved in the formulation of trade policy. I would argue that they should be at—or near—the table when it comes to negotiations. Negotiations should be built on consensus and trust, as with all negotiations, but I would not go as far as to say that if, for example, there was an element in some putative future free trade agreement—for example on fisheries—which the Scottish Government was not happy with, that that would give them the right of veto; in other words, the ability to block such a deal. That would seem to me to be going further than, for example, the Canadian model. In the Canadian model, the provinces had no formal role in the trade negotiations but, for example, in the CETA negotiations they were brought in as part of the consultation process. That seems to me to be a sensible way forward.

Q379 **Chair:** Thank you. We did meet with the Canadians when we were in Brussels. The Committee was interested—we will use that word; we won't



use the word “impressed”—by the arrangement they had when it came to the CETA deal. Is that a model that you think the UK may be able to follow and adopt?

Maddy Thimont Jack: Yes. It is something that we looked at in our report, “Devolution after Brexit”. We spoke with the Canadians and the Australians, as well. Definitely, the model for the CETA negotiations is something that the UK should look at, particularly for areas that are going to impact on devolved policy areas. With CETA there was a big question around procurement, which was something that would impact the provinces, so it was really important that they were nearby so that the negotiators could go and debrief and confirm that the provincial governments would be able to deliver and take advantage of the agreed deal.

To take a step back, from my perspective one of the key reasons that it is really important to include the devolved Governments in the negotiation process, or at least in heavy consultation, is that new trade deals are going to cover devolved areas and some of the most contentious, or potentially the most contentious areas—agriculture for example. Agriculture is a devolved policy area and there are quite strong interests in Wales, Scotland and Northern Ireland around it.

There is also the question around whether the UK is going to go out and strike new trade deals. You want to be able to make the most of those deals, and engaging both business and the devolved Governments in this is really important, to make sure that the devolved Governments can support their businesses to take advantage of new trade deals.

If I might add a little bit more on the detail of the structure of how to consult, there is something that I think may be somewhat overlooked. There is a lot of criticism of the Joint Ministerial Committee system, and I appreciate that. It has been described as a talking shop and it is said that there is not enough of a commitment to joint decision making. However, the way the UK formulates an approach to trade within Europe at the moment is through the JMC on Europe and that is the one committee that meets most regularly—it meets ahead of Council meetings—and it will be quite a shame if you lose that forum. One of our strong recommendations is to set up a JMC on international trade.

There are criticisms of the JMC structure but I think that the Prime Minister and both First Ministers have committed to review the system. The minimum should be at least establishing a JMC on international trade so that there is at least a forum where the devolved Governments know they will be able to have that conversation with UK Ministers.

Q380 **Chair:** The Lords EU Committee has said that the JMC Sub-Committee focusing on the EU has not fulfilled its terms of reference, with meetings not being treated with respect or organised effectively. Is that what you would recognise as the current situation?



Maddy Thimont Jack: Yes, I think the Joint Ministerial Committee (EU Negotiations) did not meet for 10 months last year and that has been really problematic. This year, I think they have tried to up the number of meetings, but the Brexit process has shown the state of the relations, particularly of Scotland but also Wales, with the UK Government. You could see Brexit as an opportunity to try to reset those relations, undertake a proper review of the JMC system and think about the dispute resolution mechanisms. The fact that the UK Government can decide whether there is a dispute seems problematic to me. You need to think about giving a bit more of a voice to Scotland and Wales and also about properly resourcing a JMC secretariat so you can have a mechanism to agree timetables for meetings, to agree agendas for meetings—rather than all of it coming from the UK Government. To have it as more of a consultation with the devolved Governments.

Q381 **Chair:** We will maybe come back to some of these issues later on in this session.

We want to hear from Ms Shankar. Where do you think Scotland should fit in when it comes to negotiating trade arrangements?

Aarti Shankar: I would also caveat my comments with the fact that I am not a constitutional expert. Open Europe in particular has not at present looked in detail at devolution and how that plays into Brexit negotiations, but I would pick up on something that Maddy has said. This is a very similar question as to business stakeholder engagement, I think. Simply agreeing and signing free trade agreements is not enough to deliver economic benefits for the UK. There is very clearly a high priority to engage in stronger consultation with the devolved Administrations. Only once the considerations and offensive interests of businesses in devolved Administrations have been taken into account can the UK really deliver a trade policy that is effective—one where businesses can use the preferences that are open to them under new FTAs that the UK signs, with whichever market we are talking about. A role for strong consultation seems eminently sensible.

Q382 **Tommy Sheppard:** Ms Thimont Jack, you went into an area that I wanted to ask about anyway, but I want to put it in more general context.

In terms of the JMC Sub-Committee that you are proposing, could you tell us a little about the terms of reference and how the process of a JMC Sub-Committee would relate to the process of the UK negotiating international trade agreements? What would be the limitations of its involvement?

Before you answer that, however, can I ask a more general question of everyone, because I am conscious I have a great deal of expertise in front of me this morning?

Every time we talk about the Scottish Government having an involvement



in trade agreements, there seems to be reluctance from the UK Government to get into a discussion about it, because they characterise it as Scotland wanting some sort of veto on the UK, or to interfere or to disrupt, or whatever. They see it in terms of Scotland having an impact on the entire UK rather than the Scottish Government wishing to protect a specific Scottish interest, where that might exist. I am wondering if you have any examples or knowledge of how a sub-national Government, a sub-state Government, can be involved in the process of trade negotiations and their implementation in a way that protects a specific sub-national or regional interest and that does not necessarily contradict a state policy. For example, would it be possible to have a trade agreement with the US on the import of agricultural goods that says when it comes to Scotland, you had better talk to the Scottish Government about that, but it would have no impact on the rest of the UK?

Chair: Who do you want to answer that one?

Tommy Sheppard: Perhaps we could start with the sub-committee.

Maddy Thimont Jack: Yes, I am happy to do that. I think there are two ways that I would envisage the sub-committee working. First, to take a bit of a step back, before the UK Government strides out to strike new trade deals, it does need to have a quite clear trade strategy that will feed into the different deals or the different countries they might prioritise once we have left the EU. That may be when a sub-committee would first come into play. It is about consulting with Scottish Ministers, Welsh Ministers and, when there is an Executive in Northern Ireland, Northern Irish Ministers, as to what their main interests are. It is about understanding the priorities and, as you said, protecting Scottish interests within the UK's strategy for trade. Maybe the next step is if the UK Government has said, "We're going to look at striking a trade deal with this particular country, or in this market," you would then have a consultation with the devolved Ministers ahead of agreeing a mandate and, again, have a bit more input throughout the process. Then during negotiations, coming back, debriefing and having those conversations. You pointed to the European Negotiations Sub-Committee and that has been one of the problems with that—there has not been enough close consultation. During the 10-month hiatus when the JMC did not sit, Article 50 was triggered. Quite a lot happened in the negotiations with the EU, and UK Ministers did not come back and have a forum in which to debrief Ministers in the devolved Governments.

Alongside maybe a JMC on international trade, we are quite interested in the idea of setting up more specialist sub-committees on specific policy areas—fisheries has been mentioned, which is obviously an area that the Scottish Government have a huge interest in—and having forums where specific Ministers with expertise in or knowledge of those areas can come together and discuss how international negotiations might impact on those policy areas, would be quite useful. Again, because of common



frameworks needing to be set up in some of these areas, it would also support the managing of and co-operation around those areas.

I want to caveat that by saying we do need a reformed JMC process. If you do end up relying quite heavily on this mechanism, that review of how the JMC works becomes much more urgent.

Q383 Tommy Sheppard: Let's just be clear. Are you saying that its purpose is essentially consultative rather than executive?

Maddy Thimont Jack: I would see it as more consultative, although something that we think should be considered is, within the terms of reference, it having more of a commitment to joint decision making. I do appreciate that, for the devolved Governments, it is seen as quite a talking shop and they do not feel their views are being heard. I think that there does need to be a stronger commitment from the UK Government to say, "We will listen to what you have to say," and, alongside that, having more systematic meetings of the plenary and having the Prime Minister and the First Ministers meet, would also be quite useful to support that, particularly as trade policy might become quite a flagship area of the UK Government. Global Britain after Brexit—that is quite big; it has become quite a big rationale. It is about having layers, I guess, of meetings and officials having those relationships, and also officials at a lower level underneath the JMC, meeting to discuss these issues.

Dr Hughes: I cannot give you details. I am not an expert on the detail of sub-states and trade policy. However, I think we do not have to be quite so scared of this idea of requiring consent and not just consultation. I certainly think it would be worth looking further at these different models. You say you have already talked to the Canadians. It may have raised a lot of eyebrows when the Walloon Parliament held up the Canadian trade deal but in the end CETA went through. So, what are the choices and what do these different models entail?

This also very much touches on the debate that is going on at the moment about degrees of differentiation. We have seen, despite the commitment to a Northern Ireland backstop, a number of political parties and politicians saying, "No, we want a homogenous UK. We don't want a border in the Irish Sea," and the Scottish Government's proposal to keep Scotland in the single market was already rejected. Yet to some extent that contradicts the other statement that there is going to be devolved powers bonanza or that more powers will be devolved post-Brexit. If you look also at American states, you have different regulatory set-ups in different states. How that allowance for differentiation feeds into an overall negotiating mandate is something I think would be worth exploring further, as opposed to just sitting at extremes on homogeneity versus total differentiation.

Dr Gasiorek: Can I also make an attempt at answering the question? It is important to distinguish between the formulation of trade strategy and



trade policy, and how you go from there to negotiate particular agreements with countries or groupings of countries. In an ideal world, what you would want would be a widespread consultative procedure where you consult with stakeholders, interest groups, devolved Administrations, businesses, and so on, in formulating your trade strategy and what you want from trade policy. You would get consensus around that, build coalitions around it, and then you feed that into the particular trade agreement that you are trying to negotiate and sign.

It seems to me to be hard to imagine that negotiations could take place with different parties within a nation state—for example, talking to the Scottish Government about some issues, the Welsh Government about some issues, and the UK Government, or the English Parliament, to do with other issues. That seems to be a hard way to conduct a negotiation. It seems to me to that you need a single negotiating team, which is built from the coalition that has been built up in the country. Unfortunately, we do not currently have that. We are jumping. We do not have a tradition of trade policy. We do not have a trade strategy, as other panellists have already mentioned. I concur with that. We have not evolved any consensus of what we want from future trade policy, yet we are clearly already in consultations—we cannot formally call them negotiations—with the United States, with Canada, with Australia, on future agreements, without this process of building up a consensus in the country of what we want out of those negotiations.

Q384 Tommy Sheppard: Is there any reason why a UK-wide trade agreement with a third party country could not take into account the fact that within the United Kingdom, different legislatures and different conditions and standards that affect that overall agreement may apply in certain areas? Is there any reason why that differentiation could not be built into a UK-wide trade agreement?

Dr Gasiorek: Without thinking through a specific example of what you mean by differentiation, it is a hard question to answer.

Part of the problem with the current negotiations with the EU is precisely that issue, that the EU does not want any differentiation and does not want goods to enter Northern Ireland using some different standards and then enter the EU. The same thing could be true within the UK. You would not want standards of some sort to be applied to Scotland, but then the goods, for example, or the service, could be shipped to the UK if it does not meet those standards.

Q385 Tommy Sheppard: A very simple example: health policy within the UK is devolved. The Scottish Government is responsible for health policy and for public health. If it devises a policy that has an impact, say on nutrition policy, then that might affect the type of food that we wish to import to Scotland. Could a UK-wide trade agreement be flexible enough to allow those conditions to pertain in Scotland?



Dr Gasiorek: With difficulty, I think.

Q386 **Tommy Sheppard:** Ms Shankar, we have not heard from you.

Aarti Shankar: I agree it would be difficult. Another question would be what enforcement mechanism would we need to make sure that the special arrangement was only applicable to the particular devolved Administration in question. I am finding it hard to think through the example that you offered, but surely it raises the question. If, for instance, we are talking about importing a particular good into Scotland with particular nutritional requirement information on the labelling—which is allowed into Scotland but not allowed into the other devolved Administrations—how do we police the internal market to ensure that the rule only operates in Scotland? Given what we are currently talking about—the Irish backstop was mentioned—the UK Government has shown that it is very averse to what it would describe as internal borders or disruption within its internal market, or any friction within its internal market. It would appear to me that that would be very difficult both to negotiate and to enforce and police.

Dr Gasiorek: Can I add to that? There is also a question here of what the optimal way is of achieving the desired policy. Suppose you want the health services in Scotland to only use food of a particular nutritional standard—Scotland can set that standard. It does not mean that goods that do not meet the standard could not be imported into Scotland; it just means that your hospitals and your care services are only allowed to use food that meets a certain standard that is set by the Scottish Government.

Chair: We will hear from Ms Hughes and then we will move on, if that is all right, Tommy.

Dr Hughes: I think it does depend very much on the nature of the product or service. I remember an interesting lecture by a Canadian academic at Holyrood about a year ago about the ways in which the US internal market was not always as integrated as the EU's internal market. One example was that different states apparently have different standards for lifts, where you would have thought economies of scale might be quite important. It may be easier to monitor standards for lifts without having borders, because they are big construction projects to some extent, but I agree with colleagues that otherwise it is a question of all the things that we have discussed around potential Northern Ireland differentiation—whether there is an actual border and customs checks, or there is some differentiation and that becomes in effect more of a bureaucratic process, as you see with Liechtenstein, where you basically have dual certification. Some people might find that problematic and others would find that perfectly acceptable.

Q387 **John Lamont:** Before I ask my principal question, I want to follow up on some of the themes that you have been developing so far this morning.



HOUSE OF COMMONS

Most of you have spoken about joint decision making between the different parts of the different devolved Governments within the UK, and the need to find consensus and consent. I think of the hypothetical situation where you get a disruptive force within the process—one of the Governments deciding not to play ball, deciding not to engage in that process, the UK clearly needing to forge relationships with other countries as we leave the European Union, but that devolved Government effectively blocking the process. Bearing in mind the decision of Scots back in 2014 to remain part of the UK, surely it is right that the UK Government ultimately have to make a decision about the interests of the UK as a whole, obviously bearing in mind the views of the different component parts of that kingdom, and that ultimately the decision making should fall back on the UK Government and it is not a matter of some component part having some sort of veto. Ultimately, that is what joint decision making means, is it not?

Maddy Thimont Jack: I do think that is probably why I have been wary of discussing consent. This is why I think commitments to joint decision making are very important. Obviously, at the moment, the relationship, particularly between the Scottish Government and the UK Government has broken down quite significantly. It is a very challenging question. It is difficult to say. In a sense, I agree. This is how the devolution settlements are set up: inherently, at the end of the day, Westminster can legislate for the devolved Parliaments, as happened with the EU (Withdrawal) Act, where they legislated anyway, without the consent. However, particularly around issues like trade, maybe there needs to be a bit more of an open conversation between the Scottish and UK Governments. This returns to my reasons for why I feel consultation with the devolved Administrations is very important. This is something that maybe the Scottish and Welsh Governments should also recognise—that having that conversation, engaging with the UK Government, will at least enable them to set out what they want from the process. It would need both sides to play ball, as it were, to be able to try to deliver a trade policy or an approach to trade that would work for the whole of the UK. But yes, it is quite tricky. People discuss veto, but I think it would be very challenging to give one part of the UK a veto over a whole trade deal, for example.

Q388 John Lamont: So ultimately it would be a UK Government decision—yes consult, yes engage, but ultimately it is a decision of the UK Government.

Maddy Thimont Jack: In the current constitution, that is how it would work. Basically, if you wanted to change that, then you would have to have a proper look at how the UK constitution works and you would have to make some quite big changes to how those relationships work. That is almost another separate issue. Maybe that does need to be looked at. It is a good thing to be looking at, at the moment. Brexit has raised a lot of these questions. It would constitute quite a significant constitutional change.



Q389 **John Lamont:** I think it is important in terms of the language you are using about consent and joint decision making, what that means in practice.

Maddy Thimont Jack: Sorry, yes. That is why I try to avoid using “consent”. It is about commitment to joint decision making. It is about extensive consultation. In this scenario, obviously there are areas where legislative consent is required but, as we have seen with the EU (Withdrawal) Act, ultimately parliamentary sovereignty, Westminster, can legislate.

Q390 **Chair:** Before we move on, I think the language issue is important, using words like “veto”—I know Dr Gasiorek raised that. What we are talking about is anything between veto and imposition. We have this range. Then there is collective agreement, and there is consent. If we are looking at this particular range between the UK just deciding on behalf of all the devolved Administrations, “That is how it is going to be”—we have seen that in relation to some of the common frameworks that they have decided will be imposed—what would be the ideal place in the spectrum, from agreeing with consent and, at the other end of the scale, possible veto? How do we resolve all these things to do with language?

Maddy Thimont Jack: My preferred language is “extensive consultation and commitment to joint decision making”. Maybe that is a bit of a cop out, I’m afraid.

Q391 **Chair:** Almost a politician’s answer.

Maddy Thimont Jack: Yes, I know. That is a bit of cop out, I guess. Maybe another member of the panel will be able to answer it better than I can. Let’s see what other people have to say.

Dr Gasiorek: I am quite happy with the phrase “extensive consultation”. It is hard to go beyond that. If you went down the route of shifting it to being able to block or veto—whatever term one uses—then you enter quite difficult territory. Arguably, one of the many reasons we are in a mess with the Brexit negotiations is precisely because Government currently do not have a clear mandate and are worried about veto or agreement not being passed, being acceptable to different parts of either the party or Parliament, and that is precisely that sort of veto role that is undermining the whole negotiation process. Do we really want to have that for our future negotiations with third countries? Not obviously.

Dr Hughes: I disagree strongly on that last point. That is called democracy and getting a majority in the House of Commons.

What concerns me about your question and about the discussion is, first, I do not think consent should just be dismissed as a terrible thing, a disruptive thing. What also should not be dismissed—it is not a very live discussion currently, but we do not have a federal system in the UK. We do not have a written constitution. It is perfectly plausible, however, that



we could go to a federal system with a written constitution at some point. If you did have a federal system, you might have a senate and an upper House and you would not have a 100% unanimity requirement, but you might need a majority to take certain foreign policy or international decisions, or whatever. There are different ways of looking at these things.

Q392 John Lamont: We do not have a federal structure in this country. We have to wrestle with these issues as the structure stands today and there are some proposals to make some changes in terms of how we are going to progress after we leave the European Union. Your position appears to be that the Scottish Government could potentially have some sort of veto over UK trade agreements.

Dr Hughes: If Brexit goes ahead, there is a very strong argument for having a major look at our constitutional settlement but I accept that we do not currently have a federal settlement. I believe there is certainly a case for looking at, for instance, the Belgian system, and you would have to look at the checks and balances and what happened if you got to the sort of stalemate you are describing. At the moment, we obviously are in a position where the civil convention is a convention that can be overruled. From the point of view of some people in Scotland, the devolution settlement is resting on shakier ground than some had hoped and that is whether we are looking at additional domestic policies or at trade policies. It is a matter of what consent looks like, how many areas it covers, when it can operate and exactly how you get through blockages. All those things would have to be looked at. What we have seen in the last couple of years at least, as I think other members of the panel agree, is that consultation has not worked effectively, so the answer is either consultation that is more effective or more powers to the Scottish Government and/or the Scottish Parliament.

Q393 John Lamont: Moving the discussion on, how should the UK prioritise trade opportunities outside of the EU after we leave the European Union? A question to you all.

Dr Gasiorek: It is a very big question, very broad. It raises several issues. Imagine we were not leaving the EU. You might still want to ask that question: how should we maximise our export opportunities in countries outside the EU? Behind that question, in a sense, I think there is a sentiment of how does leaving the EU change the way we should think about the way we strategise our export opportunities. Here I would distinguish between the short run and the long run.

In the short run, we know that whatever form Brexit takes, if it takes place—and there is still some “if” there, I guess, but let’s say it does take place—we know that Brexit will lead to a negative impact on the UK economy across different sectors and industries, and so on. In the short run, you might want to think about trying to maximise opportunities that minimise the damage that is being done or that is likely to happen to



existing industries. There, what policy should ideally be doing is thinking about which of the industry sectors are most vulnerable to Brexit, where else might they be able to export, where is demand growing for those sectors. There are various things that could be done in trying to identify and prioritise sectors.

In the longer run, and depending on what the ultimate deal with the EU is, which is clearly still uncertain, if we get the situation where the UK is capable of signing its own free trade agreements, where we are no longer part of the EU customs union—and that is still very much in the air, in my opinion, but if we do get to that situation—then it will be about creating a trade strategy, and then on the back of that trade strategy, thinking about what are our key interests, in which industries and why, what is our view on particular sectors and on the long-run development of the economy, and then trying to identify the key markets.

More specifically, trading opportunities depend on the size of the market. You are not going to have very big trading opportunities by exporting to St Kitts, probably. You might have bigger opportunities by exporting to the United States. The size of the market matters. The distance to the market matters. The size of the trade barriers matters. In terms of identifying export opportunities, it is important to think across different sectors about where the major barriers are, in which markets, and is it feasible that we could think about reducing those barriers: do we think the barriers are negotiable and that the other party might be interested in negotiating with us over those issues? If so, there may be scope for export opportunities. A lot has been made about the possibility of a future UK-US free trade agreement. Clearly, the US is a major export partner for the UK so there is scope, potentially, for increasing trade. There are still tariffs on trade, there are still non-tariff barriers to trade, but we also know that negotiating a free trade agreement with America is likely to be difficult. The US is likely to have a number of demands that may not be particularly palatable to the UK side and therefore that should inform the extent to which we want to negotiate such an agreement.

Aarti Shankar: Picking up on that, I agree completely that in order to maximise the potential benefits of future free trade agreements, the first-base starting point for the UK should be defining its trade strategy. What are its defensive and offensive interests? What are the industries that it wants to promote? What are the industries that it wants to protect? Domestically, where are winners and losers going to be?

Going beyond that, another interesting thing is to analyse the UK's export performance as it currently stands and identify where it is doing well and what are the trade policy instruments that it is using that might be boosting exports. Open Europe has tried to have a look at these things and we came up with a gravity model framework that tried to identify how UK exports ought to be performing in key non-EU markets. We then looked at the relationship between the potential UK performance



according to basic gravity models, and actual performance. As Dr Gasoriek was saying, you expect countries to trade more with countries that are geographically closer, countries that are economically larger, and countries with which you have cultural and historical ties, shared language, common law systems. We input that into our model, came up with figures of how UK exports should be performing and compared those figures with how UK exports are actually performing in key non-EU markets. The relationship between the two of those gave us an idea of where the UK was underperforming, for lack of a better word, compared with its potential in economic and geographical terms, and where the UK was overperforming. Our model suggested that currently UK exports to Canada and India are below what you might expect if you think purely in gravity model terms, and similarly, with China, in services. UK exports to the US, Japan and China in goods were far beyond what a gravity model might expect the UK was doing.

The reason why we thought that was quite an interesting way of looking at things is that these overperformance countries—the US, China and Japan—are countries with which we do not have FTAs right now via our membership of the EU, so clearly there are other factors at play here; there are other methods by which you can boost export performance. It is useful to look at that when trying to understand how the UK should maximise its access to these non-EU markets.

Chair: Thanks. A couple of supplementary questions. I know you will probably come in on the back of this, Dr Hughes. There is a big panel today and I know you all want to respond to the questions but we have lots of things to get through if we can.

Q394 **Kirstene Hair:** This is a follow-up to that question, to Ms Shankar. Do you believe that the revenues that we lose from being outside the EU will be made up by the other opportunities that we will have globally once we leave the EU?

Aarti Shankar: No, I don't think this is a question of offsetting loss or costs from Brexit. I would caveat that first by saying this depends hugely on what our future agreement is with the EU. Clearly if we have a highly economically integrated relationship with the EU, à la Norway, where we are in the EU single market and in a customs union with the EU—then the costs from Brexit will be much more minimal than if we have a loose economic arrangement and we have a more simple free trade agreement with the EU.

I would say, however, that the EU is currently, and will remain, I believe, one of our most important trading partners, simply as a matter of geography. At least for the moment, the way in which supply chains have been set up means that our regional environment and our relationship with the EU is very, very important. It is unlikely, in my opinion, that striking new trade agreements with the US, India and China is going to



offset the costs of Brexit. That does not mean that they should not be looked at.

Certainly if we are thinking about the opportunities that arise from Brexit if we leave the customs union, one of the opportunities will be having an independent trade policy and being able to strike our own free trade agreements as per our offensive and defensive interests.

Q395 Kirstene Hair: It goes contrary to the reports by Open Europe.

A separate point, open to the whole panel, is around Scotland's food and drink industries specifically, which obviously rely very heavily on the protected geographical indicators. In my constituency, there are Arbroath Smokies and, more widely in Scotland, Scotch whisky. Do you believe these are so valuable to Scotland's economy that the UK Government should seek to retain them in future trade negotiations?

Chair: Dr Hughes, you could maybe shoehorn a response in.

Dr Hughes: The simple answer to that is yes, certainly, they should be protected. We may be coming to this later but, if you look at some of the advice the Government have given for a no deal situation on such things as geographical indicators, I think it is very limited and inadequate. Obviously, we hope we do not get to no deal and we hope for a situation where the Government will protect such things and not trade them off in any way.

In a sense, I agree that illustrates a wider issue. Some of the studies—such as by the National Institute of Economic and Social Research—have not suggested that trade elsewhere can offset the losses from trading with the EU in the future under a free trade agreement or under a WTO deal. In leaving the EU, unless it is a customs union, single market, we are going to be putting up barriers, including especially non-tariff barriers. Some of those non-tariff barriers will be insurmountable and some of them will be surmountable, but it will take more time and it will take more assistance.

Should the priority be Australia or should the priority be, especially, for instance, the services sector? That seems to me to be neglected a lot in this sort of conversation because, whether you look at a customs union, or free trade or Chequers or anything else, it is focusing on the goods sector. How can we help smaller and larger—especially in many cases smaller—firms get over some of the new barriers and bureaucratic requirements they will face?

Also, we have not mentioned yet the existing EU trade deals: about 40 trade deals with 60 countries, as you know. Should that be prioritised? What will our bargaining power be in that and which of those should be prioritised, trying to replicate them as well as we can?



I have one last point, because again it has not come up much today. Obviously a lot of the trade within the EU and our trade with the EU—there is a broader discussion about cross-border supply chains, just-in-time production—is intra-industry trade and a lot of trade is intra-firm trade. We are leaving a single market, and so what we are doing in much more geographically distant markets will be very different and, by definition, will not replace the sort of integrated structures we have today.

Q396 Ross Thomson: My question is to Ms Shankar. You are right that Europe will remain an important trading partner. Sometimes I do get frustrated in the debate. Often we talk about trade with the EU or trade with non-EU countries as if it is a choice between the two, and it is not. It is going to be a trading relationship with the EU—changing that relationship now that we are able to sign our own trade deals and have our own independent trade policy.

You mentioned the key markets, one of them being Japan, which I found interesting given that there is already a significant investment relationship between Scotland and Japan. It is already worth over £1.1 billion and over 5,000 Scots are employed by Japanese companies. There are about 24 Japanese manufacturing companies based in Scotland. Therefore, with what Prime Minister Abe has been saying around TPP—the Trans-Pacific Partnership—do you see an opportunity to, rather than work on a bilateral deal with Japan, fill the void that the US has left? I would say that potentially one of the quick wins, post-Brexit, is establishing that relationship with the TPP?

Aarti Shankar: There is an opportunity. Clearly, the countries that are a part of the TPP negotiations suggest there is an opportunity for the UK to be part of that agreement. Whether it is the same as filling the role of the US, or indeed offsetting any costs from leaving the EU, I think is in question.

You pointed to something. You said it is not a question about a trading relationship with the EU or a trading relationship with non-EU countries. I agree with that. However, there is going to be interdependency there, so clearly, if we have a very integrated agreement with the EU in which we align on regulations with the EU and goods, that necessarily creates barriers in trade with countries that are part of the TPP and countries such as the US. There is going to be a trade-off here that the UK does have to strike. If it is a question of joining the TPP and seeking all the benefits that that could possibly offer, I would suggest that erects trade barriers with our closest partner the EU.

Q397 Ross Thomson: Out of interest, therefore, in terms of alignment on goods as proposed in Chequers with a common rulebook, do you share the view—I would certainly say that that does put barriers to potential trade agreements, whether that is the TPP or anywhere else in the world?



Aarti Shankar: I would say it does not rule them out.

Q398 **Ross Thomson:** It makes it more difficult.

Aarti Shankar: It does challenge the idea of a completely independent trade policy. That said, clearly for the UK it is not going to be possible to align with all of the different international markets that there are. If it is a question of aligning on goods regulations in order to get frictionless access to our biggest market, and our most important goods market, the EU, that might be a cost that the UK should consider bearing in order to maintain the supply chains and the frictionless access that we do have.

Dr Gasiorek: I want to come in on that, and I agree very much with what Aarti has just said. The more closely we align with EU single market regulations, the harder it will be for us to join something like the CPTPP, which is quite a different regulatory regime. It is not obvious that joining the CPTPP would necessarily be that easy for the UK.

I also want to pick up on something that Kirsty said, which I also agree we have not said very much about. In terms of future opportunities, as I said earlier, let's not forget that we also need to minimise existing losses. Part of that means that we should be prioritising some of the existing free trade agreements that we are party to as a member of the EU but we will no longer be party to once we leave the EU.

Q399 **Chair:** That is exactly what we are coming on to. Those are the sorts of questions I was going to ask. When the UK Government says they intend to provide a technical replication of the conditions that currently exist with the EU—and this is the grandfathering idea that somehow the UK will just adopt all the existing free trade arrangements that are in place with the European Union—are we going to be able to do this by March 2019?

Dr Gasiorek: No.

Q400 **Chair:** Okay, so what do we do? Tell us what we do.

Dr Gasiorek: Part of the difficulty here is that, although many of the countries with which the EU has FTAs have expressed some willingness to extend existing trading arrangements, at least for the transition period. Until they know what the form of the deal is between the UK and the EU, it is hard for them to commit to rolling over the existing agreements on a long-term basis. It is quite clear that some of the countries would wish to renegotiate some of the elements of those FTAs, were they to negotiate a long-term arrangement with the UK, so it is not as if there is going to be a simple rolling over.

The best that we could achieve by March 2019 is an agreement from these countries that they continue to treat us in the same way, but they are under no obligation to do so. Just because the EU has said that the EU would be comfortable if those countries chose to do so, that is not the



HOUSE OF COMMONS

same thing as those countries necessarily agreeing to do so. Whether they choose to do so or not will probably depend on what is agreed between the UK and the EU, so it is hard to answer the question but, certainly, those agreements will not simply be rolled over by March 2019.

Dr Hughes: I agree with that. Obviously there is the question of transition but there is no obligation on those countries to go along with the EU footnote in the draft withdrawal agreement and we have seen that already in other aspects of WTO rectification, renegotiation, and access to public procurement deals and so on. You would not expect other countries to just sit there and say, "We will carry on as usual," when the UK has changed its position.

Absolutely, I agree on the point that they will also want to know what the UK-EU future relationship looks like, and that could be quite tricky in terms of timing and sequencing.

Q401 **Chair:** Mr Thomson mentioned Japan. Has Japan not already indicated that it will be looking for this as an opportunity to renegotiate the trade arrangement with the UK in its favour? That was something that Dr Hopewell from the University of Edinburgh warned us about. Is this going to be an opportunity for all these third-party nations to say, "This is an opportunity for us," and we will renegotiate in their favour? Is that something that concerns you, Ms Thimont Jack?

Maddy Thimont Jack: If you are looking at a no deal exit next March, in that scenario I think for third countries it would be quite clear that the UK will be keen to either rollover these deals or at least have these deals in place as soon as possible. In particular, that may be seen as an opportune time to try to extract some more concessions from the UK in these agreements.

I want to echo exactly what has already been said. The relationship between the UK and the EU is still a massive unknown, but that will have quite a strong impact on the sort of relationships third countries will envisage that they will have with the UK after we leave.

Also, even if we do not leave with no deal and we have longer to try to rollover these deals, 21 months is still not a very long time—so time is an issue across a lot of these areas.

Q402 **Chair:** Thank you. Mr Gasiorek?

Dr Gasiorek: I want to add a couple more points to this discussion. Even if countries were willing to rollover those agreements, it is likely to be necessary to involve the EU in some of those negotiations if we want to maintain existing levels of access—both to those countries and to the EU market. In particular, that concerns the issue of rules of origin and the diagonal accumulation of rules of origin.



If we want to maintain existing access—which the Government have said is what they are planning for and that is what they will achieve—that can only be achieved if all parties, the third party, be it Korea or Canada, the EU and the UK, agree to diagonal accumulation of rules of origin, and that is not necessarily going to be easy to achieve.

The second issue is that some of these agreements, such as with Korea and Canada, have these most favoured nation clauses and services. That may constrain what the UK can negotiate with the EU bilaterally.

Chair: That is very helpful to point that out. Thank you for that.

Q403 **John Lamont:** You have dealt with most of the question I was going to ask, but I will ask one that is slightly different. What are your views on the efforts of the UK and Scottish Governments to promote Scottish produce abroad? We have heard evidence from a number of businesses and organisations that they think it is a good thing that Scotland has two Governments promoting it overseas. Do you agree with me that that is a positive thing—that we can label our produce with the Scottish label and also with the British label, and how that helps position us in terms of accessing overseas markets?

Dr Gasiorek: I personally don't have very much to say. In answer to the earlier question about geographical indicators, my answer would have been, yes, I think this can be helpful in promoting exports.

Maddy Thimont Jack: I will jump in and say that this chimes with something we heard. The IfG hosted an event talking to representatives of business organisations. One of the things they said was that a big positive from Brexit was establishing the Department for International Trade and that there had been more effort to try to promote British businesses abroad, so I think that chimes with what I have heard. I can say, definitely, if you also have the Scottish Government doing the same thing that would be a positive.

Dr Hughes: You obviously raise a controversial issue there in the sense that if you are saying that Scottish products benefit from having both a Scottish and a British label, that may depend on both the product and the market. There may certainly be products where you want to emphasise the Scottish-specific nature of it, and obviously that is something that has been under considerable debate recently.

Q404 **Chair:** Thank you. Can I move on briefly to immigration and education? I think it was Open Europe—Ms Shankar—who said that Brexit presents an opportunity for the UK to liberalise some restrictions on movement of people, particularly students. India has already raised this issue that in any free trade agreement it would be seeking to put student numbers into that. Could you tell us what your thoughts are on that?

Aarti Shankar: I am not entirely sure what is specifically being referred to but I can certainly approach that issue. The first thing that I would say



is that international trade agreements can include provisions on labour mobility. That is not necessarily strictly controversial in and of itself, but they tend to be limited to short-term entry and stay on a temporary basis of high-skilled professionals in particular business categories, such as inter-corporate transfers.

When it says it would be looking for visa liberalisation, what India is talking about is a quid pro quo for entering into formal negotiations on an FTA and concluding those negotiations. On the one hand, it is looking for easier access for students to student visas but, equally, lower costs and easier access to visas for high-skilled professionals. That has been something that has been quite contentious. The UK Government have approached this as a standalone issue, separate from a free trade agreement with India.

For instance, I think it was a couple of years ago that the UK Government approached the idea of India signing a bilateral agreement on facilitating the return of immigrants who have overstayed in the UK. In exchange for that, India might be included in a visa liberalisation for its students to the UK. That has clearly not come about as a bilateral agreement between the two, so clearly this is a contentious issue for the UK Government.

The other thing I would say is that this is not just India. Australia has also indicated that, if it wanted to enter into an FTA with the UK, it would also be looking for visa liberalisation. Similarly, if we are thinking that the UK would leave the customs union and would have to renegotiate its agreements with EFTA countries—such as Norway and Switzerland—these are countries that currently benefit from free movement to the UK. It is likely there would be some questions about immigration to the UK or visa rights for the citizens of those countries as well in rolling over those agreements in the future.

Therefore, this is not specific to India. These questions will come up in the future. Presently, they are only addressed in international agreements as short-term stay for business professionals.

Q405 Chair: We don't know what the Government's assimilation policies are going to be. We might get some idea when those are presented soon. One of the things that they have said is that they would be quite happy to use trade arrangements to facilitate mobility. The Chequers agreement also states that similar arrangements would be offered in trade deals with non-EU countries—effectively treating non-EU and EU students the same. Is that something that you think should be pursued, Ms Thimont Jack?

Maddy Thimont Jack: As I said at the beginning, I do not want to comment on specific policies but I think it is worth flagging the fact that this is something that other countries do. As Aarti said about visa liberalisation—you used the term “migratory facilitation”—these are things that can be included in trade policies.



HOUSE OF COMMONS

There are examples of other countries that control and manage their country migration alongside having an independent trade policy. I would echo what you said, in a sense. I am hoping that this is something that the Government will shed some light on when they publish the migration White Paper. That is something that should be covered in terms of how they are going to approach this issue related to the trade agreement.

Q406 Chair: I am interested in the views of Dr Hughes because you have been following the very keen discussion we have had in Scotland about post-study work schemes and issues around attracting students worldwide to the Scottish university sector. Is this something that might assist us if we are able to attract? The other thing I would throw in is that a lot of the discussion and debate around Brexit was based on immigration—it seemed to dominate most of the discussion and discourse. How does that fit in with this idea that we will be taking back control of our borders and, all of a sudden, we find that they might be opening up for further international students coming to this country?

Dr Hughes: I think generally there are a lot of contradictions here. The result of Brexit will be to reduce trade with our biggest trading partner. The aim of the UK Government is to reduce migration. Then, in terms of the outline that we got from Sajid Javid a few weeks ago, the aim was to encourage skilled migration but not unskilled or at least not necessarily unskilled, in fact more low pay. Therefore, you cannot be both a global Britain and on the other hand restrict migration in that way. There has been plenty of evidence of the damage that that may do to the Scottish economy.

Obviously, exceptions could help. The university sector is among many sectors worried about the impact on them but I think, even if you create channels for students and so forth, there is already an impact. You have already seen universities and researchers say they cannot retain talent or they are not attracting talent. It is about the overall atmosphere and not only the policies. Obviously, at the same time, the idea of devolving some of the migration policies to Scotland has also been rejected.

I think the Government have given themselves some wriggle room with this but it is still very problematic. It is not going to help negotiate a close EU-UK future relationship if the UK will not give better conditions to the EU than it might give to other future trade partners, although it has left itself a bit of wriggle room there.

Chair: I am grateful. We are going to move on now.

Q407 Ross Thomson: Given that the UK will now be able to set its own independent trade policy, what principles do you think should underpin such a policy?

Dr Gasiorek: Another very broad question. To the extent that the UK can have an independent trade policy—which as several of us have said is still not entirely clear but let's imagine we are in a world where that is the



case—I think there is clearly a danger that the Government wish to demonstrate that they are capable of pursuing an independent trade policy and will try to strike trade agreements quickly with countries, not on a short-term basis but relatively quickly without thinking through exactly what they want from that trade policy.

Therefore, as several of us have already said, it is quite important that we think about how we evolve a trade strategy for the UK Government. That is difficult. That takes time. As I have mentioned several times now, that takes consensus building. It means liaising with stakeholders, liaising with interest groups, and liaising with devolved Administrations to work out what the offensive and defensive interests are: what is our policy with regard to tariffs in particular sectors? What is our policy on things like Government procurement, intellectual property rights, and all those non-tariff measures?

As to the guiding principles of a trade policy, ultimately, what you are trying to achieve is high rates of economic growth in the economy—it is an economic objective—while taking into account what might be loosely described as the equity or social concerns within the country. You might choose to say, for example, that the fishing industry is an industry that you particularly wish to protect. You recognise that that may be costly to the economy but you think it is sufficiently important to the UK or the Scottish economies and so on. Those are the decisions that have to be taken and they take time to build up.

It is not something that can easily be done, even by a super smart civil servant sitting in an office and writing down what should be the priorities. It is about liaising with stakeholders and building consensus. That is part of the element of trade policy. The other part that I think needs to be thought through is: who is going to be engaged in determining that trade policy? Who is responsible for trade policy? We touched upon that earlier as well. What would be the role of Parliament in such a trade policy formulation and so on? These are very big issues.

Chair: Anybody else?

Maddy Thimont Jack: I am happy to jump in on that as well. I do not think you would be surprised to hear that I completely agree with a lot of what Michael has just said. Definitely, the first step is to think about a trade strategy and also think about how you will engage stakeholders in that process.

From my perspective, there is quite a lot of learning that can be done from what has happened so far in the first stage of our negotiations with the EU. There have not been these sorts of formal structures to engage with businesses so far, so that may be something that needs to be set up for the next phase of negotiations.



When we are talking about the future relationship, learn from what has happened so far—think about how you are going to inform Parliament more, get Parliament more on side, but also think about how you are going to engage with businesses and also the devolved Administrations.

There are a couple of other practical points that I think are very useful to have in place and that the UK Government should be seriously considering. As I said at the beginning, a lot of this is drawing on a report that we published last year. First, looking at what other countries do, both the US and Australia have an independent body that is responsible for economic analysis. They conduct economic analysis of tariffs, international trade and also of the competitiveness of a future trade deal. It is quite an important side of what negotiating a trade deal is. Having an independent body to do that can also help the Government with some of the trade-offs that we have talked about when having to conduct deals.

That is one thing. Then also think about how it will work inside Government: who will be responsible for managing this? We have now set up the Department for International Trade, but the implementation of trade deals cuts across a lot of different Departments, and different Departments have different expertise on different policy areas. Who is going to co-ordinate that and how do you draw on that expertise across Government? That is something that should also be thought about in quite a lot of detail.

Q408 Ross Thomson: In terms of the principles behind an independent trade policy, understandably there has been talk from the Secretary of State on ensuring trade liberalisation across the world—freer, fairer trade. I know we have talked about some of the new and exciting markets that are out there, post-Brexit, but we have not talked so much about some of the developing world markets where we can use trade to support some of the world's poorest, so whether that is on tariffs and ensuring the same level of access for them as we do, for example, the EU, beefing up our emerging markets' capacity. Even recently, the Government appointed their first Trade Commissioner for Africa. In terms of principles behind independent trade policy, do you think that that is something we sometimes overlook?

Maddy Thimont Jack: I am not sure if another panellist might be better suited to answer that question.

Dr Hughes: I can comment briefly on that. Obviously, yes, if you are talking about principles, there should certainly, hopefully, be some principles about developing countries—helping to assist those countries in growing and coming out of poverty and so on. As you know, the EU has everything but arms trade deals and system of preferences and so forth. I suppose the UK would want to look at whether it is going to immediately replicate those and whether there is something it can do better.



Obviously, there are wider questions there about co-ordinating development policies. EU policy attempts to co-ordinate both EU spending and member state spending and not in particular countries, in Africa or elsewhere, have everybody going off in an uncoordinated way, so you would hope that there would still be a lot of dialogue around that.

Looking at developing countries and having standards and principles—that is human rights as well. It can be very hard to enforce those sorts of clauses in trade deals, but the EU has done that and I think that would be important. Then there is the whole general issue of regulatory standards, going from the race to the top rather than the race to the bottom, and what we have already discussed about whether you essentially try to mirror EU standards or not. They are all key principles.

Dr Gasiorek: To follow up on that, it is also important to recognise that trade policy is about domestic policy as much as anything. In formulating a trade policy strategy, one of the principles should be thinking about how the Government see the long-term evolution of the economy. Where are we trying to get to? That might be to do with specific sectors. It might be to do with specific areas of activity and so on. How can trade policy be used to support that, as opposed to thinking it is something completely separate and independent?

Then the same thing applies in terms of working with developing countries. Trade policy is clearly one of the tools the Government could use to assist developing countries, in terms of promoting their exports and growth within their economies. That should be tied in with everything else that is being done in those countries that the Government can do in those countries, or the other policies that possibly may be even more important. It is not as if our development policy should be framed around our trade policy. Our trade policy is a way of supporting our development policy.

Q409 **Kirstene Hair:** Do you think that the UK should seek to reduce its WTO tariffs as part of its post-Brexit trade policy regime? That is open to anyone who wishes to contribute.

Dr Gasiorek: Do you mean unilaterally?

Kirstene Hair: Yes.

Dr Gasiorek: To decide to just reduce our tariffs?

Kirstene Hair: Yes. What impact might that have on various sectors—for example, the agriculture or food and drink sector? What kind of effects might that have?

Chair: We are thinking of comments by the founder of Wetherspoons, Mr Martin, who suggested that we could simply abolish all tariffs coming into the UK and this would somehow give us the cheap food options and be a boon to consumers. Is that a view that you would share?



Dr Gasiorrek: If you abolished all tariffs, clearly, that would lower prices in the UK. That would lower prices for UK consumers. It would also impact very negatively on certain sectors of production, notably in agriculture and so on. To my mind, engaging unilaterally in such a policy is not a good policy option. We are entering a world where we might have the ability to engage in negotiations. If you just choose to liberalise your tariffs unilaterally, you are giving away one of the things that you might be able to negotiate with future trading partners over in order to get better access to their markets—be this in goods or services.

Aarti Shankar: To add to that, I agree completely that when people talk about unilateral liberalisation they are often talking about benefits to consumer prices. Research tends to suggest that that is possible from unilateral liberalisation. The benefits might be marginal.

I would say that most of the circumstances in which people discuss possible unilateral liberalisation is under a no deal Brexit. It is not necessarily the policy that the UK should pursue, but it might be that under a no deal Brexit this is one of the levers that the Government will look at.

The other thing I would add is that unilateral liberalisation does not necessarily mean completely eliminating all your MFN tariff rates. It could mean lowering these. Again, this may be an instrument that the Government will look at, in the event of a no deal Brexit, to try to offset some of the cost in consumer prices. Whether or not they should is a completely different thing. As Michael says, this will necessarily have impacts on domestic producers—particularly highly exposed sectors, like manufacturing and agriculture. It will be up to the UK Government to decide whether the detriment to those sectors from high import competition now is worth the benefits for consumers and consumer prices.

Dr Gasiorrek: To do that would be triggering a particular policy tool, lowering tariffs, without a context of, “What is our trade strategy?” First, you need to know what the trade strategy is and then you decide how you want to move forward.

Q410 **Danielle Rowley:** You touched briefly on standards earlier. We have heard in this inquiry from different sectors—most notably the Scottish food and drink sector—about the importance of high standards. With that in mind, and looking at Scottish food and drink especially and the reputation of the high standard that we have, do you think that the UK’s post-Brexit trade deals should maintain the EU’s regulatory standards on goods? That is open to anyone.

Aarti Shankar: I am happy to give it a go. Again, I think this depends on the relationship that we are seeking with the EU. If we are seeking—as per Chequers or a Norway-style agreement—a highly integrated economic relationship with the EU, one that tries to eliminate any costs or lays out



HOUSE OF COMMONS

borders, I think it is the case that we would have to adopt EU regulations on goods.

If you look at the relationship that Norway and Switzerland have, that is the sort of exchange that is made. When we talk about regulatory standards, some have suggested that there are downsides to doing that, to aligning with the EU once we are no longer an EU member. It would have an impact on whether we can operate a fully independent trade policy. If the UK Government intended to exercise or go on a deregulatory drive that would no longer be an option that is available to them, if we agree to align with the EU in these areas.

I would say a couple of things. The first is that the EU—as I was saying before—is our most important trading market. In goods we are highly reliant on trade with the EU. About half of our exports go to the EU. About 60% of our exports to the EU are in goods. We are also deeply integrated into EU manufacturing supply chains in goods. This is clearly a very important market for us and, if we were not as integrated in those supply chains, I would suggest that it would not be open for UK manufacturers to suddenly diversify into other supply chains, such as NAFTA or ASEAN. It would not be cost-effective for the UK to do that, so clearly our relationship with the EU in goods is a little different and there are economic benefits to aligning in regulations there.

I would also say that I don't think that there is political or public appetite to move away from those regulations, particularly on food standards.

Dr Hughes: At one level it would be easy just to say yes, and obviously, if you are exporting to those markets, you have to meet their regulatory standards unless you have done a trade deal that allows for a certain degree of mutual recognition. Of course, once we leave the EU, we are not going to be part of those very complex and time-consuming processes by which the EU gets to such standards. This is one of the reasons I have been quite critical of the concept of a so-called soft Brexit—of staying in the EU single market and customs union—because over time it would be bound to be the case that some of those decisions will not necessarily be in the UK's interests.

Equally, if you are going to carry on exporting to the EU, it is still going to be our major trading partner and you are going to have to meet regulatory standards to export there, so are you going to have dual production lines or dual outputs and lose the benefits of economies of scale? It is problematic either way.

Along with many politicians, the EU has so far rejected Chequers. Even if there was an alignment, I think that will not give us completely frictionless borders because the EU has said, "You cannot be in the single market unless you are fully in the single market". Therefore, in general, yes, but with those caveats.



HOUSE OF COMMONS

Q411 **Chair:** I am grateful. Services make up 80% of the UK economy. It has been presented to us, and we have heard in some of our evidence, that diversion from European regulations may give opportunities to our services sectors. We have also heard that this may provide a number of challenges and risks. Do any of you have a particular view on this at all? I think you may have, Ms Shankar. I will come to you.

Aarti Shankar: Services is not a particular area of expertise of mine but there are a couple of things that I would say. Much is made of the fact that the UK economy is heavily services based—80% of our economy is in services—but when we are thinking about our relationship with the EU that is not necessarily the case. Just over one third of our services exports actually go to the EU. While it is the most developed international integration of services market that exists, it is still not a fully developed single market.

While the UK's specialisation in high-tech manufactured goods is heavily reliant on access to the single market, that is not necessarily the case for the UK's specialisation in services. It is already the second greatest exporter of services. For instance, London is expected to remain a global financial hub, post-Brexit, even if we do not have the same passporting access that we do now. Therefore, I think the treatment of services slightly differently in our relationship with the EU, and perhaps less integrated, is a sensible approach.

As was raised earlier, there is also the question that, if we do accept a highly integrated agreement in services where we are essentially rule takers, that might not necessarily be palatable to our service industries, which are extremely important for our economy, as you suggest. Equally, in areas like financial services, is it good for financial stability if we are simply a rule taker from the EU in this area?

Dr Hughes: I would disagree with that because, as we know, including services in trade deals is much harder than including goods. One of the ironies of Brexit is that the UK has a surplus in its services with trade with the EU, so we are highly competitive in that. If you look at some of the National Institute of Economic and Social Affairs estimates, those suggest that under a free trade or WTO deal, UK-EU services trade could fall by 60% or 61%, and then there is the obvious point that many goods and services are a package and cannot be separated out.

My point about the democratic deficit of being a rule taker was not one to say that, therefore, there are strong advantages in trying to go off around the world and create deals only in services.

Q412 **Chair:** We met representatives of the Scottish service sector last week in Edinburgh. They presented a pretty chilling picture if there is a no deal situation, where even the dealing of some services may fall foul of regulation and potentially be illegal. Is that something that you recognise and is that something that we should be concerned about? Mr Gasiorek,



do you have a view?

Dr Gasiolek: I have no idea of the extent to which that is true or not. I am not a services or financial services expert but, clearly, there is a lot of concern among several of the service industries—notably financial services—about the negative impact that Brexit may have on their ability to continue their current lines of business and, on those, should we be concerned? Yes, we should be concerned.

There was also a question earlier about the extent to which this gives us the opportunity to change our regulations as part of our independent trade policy. What worries me about some of that debate is that it is important to remember that regulations are there—hopefully and typically—for good reason. Changing regulations simply to try to become more competitive is probably a really bad principle.

In financial services we have regulations for prudential reasons, to manage the risk that is there. We saw what happened with the financial crisis when the sector wasn't carefully managed, so one has to be very careful in making the argument, "Oh, this gives us the opportunity to deregulate and to become more competitive". That is not the principle upon which regulations should be set.

Q413 **Christine Jardine:** Thank you very much. We have been talking about the UK Government proposing to align on goods but not on services. Two things concern me about that. First, what do we do in situations where goods and services are intermingled and you have an agreement for one and not for the other? Also, my constituency is in the UK's second biggest area for financial services and there is concern about this agreement. Do you think that it can work if goods and services are intermingled, and is the EU likely to allow that situation?

Dr Gasiolek: It depends a lot on industry to industry or sector to sector. Where it is particularly problematic is, for example, there are certain manufacturing industries where the services that you supply with the product that you are selling are important. This might be engineering services. It might be follow-up sales services and so on. Unless you have some agreement on the mobility of workers, on mutual recognition of professional qualifications and so on—and then you have this intermingling of services and goods, which, therefore, may cause a problem for both the services sector and the goods sector—that is a real concern. Therefore, it means that there are certain service industries where we need to think carefully about the linkage between those industries, the relevant manufacturing sectors, and are they being dealt with in the agreement?

There are other services that might be supplied, like financial and banking services—it might be loans to banks and other things—which possibly matter less. They might matter for the financial services industry as an industry in itself, in terms of its ability to trade with the EU or



HOUSE OF COMMONS

cross-market, but it might matter less in terms of its ability to provide services to the local firm. Except that, of course, if it is being impacted upon negatively in a more generic sense, that may raise its costs and may raise the costs for the goods producing firms.

Q414 Christine Jardine: A lot has been said over the past two years about opportunities allegedly to open up a trading policy and to trade more, but this seems to me to also be an issue of protecting the relationship we have with the European Union in terms of trade. Goods are being protected, but what I am concerned about for my constituency, and for the financial sector, is that the future of services trade with the EU does not appear to be being protected. Is that fair to say?

Dr Gasiorek: I have a lot of sympathy with that position. In order to resolve the Irish border issue, the Government need to resolve the problem of goods trade. There are two issues to do with goods trade. It is customs and it is regulations. The Government are trying to work their way around that. You do not need a border to deal with services trade.

Therefore, to my mind, what the Chequers agreement essentially did was to say, "Look, we do care about services a bit. We do recognise they are important quite a lot, but actually what we are going to try to go for is some form of enhanced equivalent with the European Union", which the EU has already said it is not going to accept. Therefore, effectively, I think the debate has moved away from services—as I think Kirsty said earlier—and the focus has been very much on how we solve the problem of goods to the detriment of thinking about an important part of our economy and an important part of what we trade.

Q415 Christine Jardine: Would it not just be easier for everyone to stay in the customs union?

Dr Gasiorek: Yes, but that would not solve the issue for financial services because you are not staying in the single market.

Christine Jardine: Therefore, we should do both.

Dr Gasiorek: It is a separate issue.

Q416 Christine Jardine: Both would solve it. Thank you.

Dr Hughes: Yes. I think I agree with that and will the EU allow this? The EU is obviously very alert to the possibility of services being integrated with goods and the UK potentially undercutting in some way, if it allows goods in and there has not been clear agreement on where services come into that.

Also, we have not talked yet about the fact that some firms have already triggered contingency plans to move some parts of their operations or staff elsewhere in the EU. The CBI issued very alarming figures in the last few days: 80% of firms have already cut back on investment in the face of Brexit and more contingency plans are likely to be triggered in the next



HOUSE OF COMMONS

one to two months, so we are already changing the structure of our economy.

I do find it quite extraordinary that there hasn't been more concern and more debate about services. I do not think the Government have been focused on that because the only way to solve the services conundrum would be to stay in the single market, but obviously you would then have to have free movement and then, "Why are you leaving the EU in the first place?" It is quite extraordinary when it is such a large proportion of our economy.

Aarti Shankar: I want to come in on one point. I agree that the proposal that the UK has put forward clearly offers a different level of integration in goods than it does in services. I personally think that that responds somewhat to the trade profile that we have with the EU.

One of the things that I do want to push back on, though, is the EU's concern that, if we align on goods and attempt to get frictionless access to the EU market in goods but without services, we could potentially undercut the EU in services and offer cheaper goods. I would push back on that argument a little bit.

If you look at UK exports and goods to the EU, about 21% of the value of those exports comes from services inputs from British companies. Another 13% or something comes from services inputs from foreign companies. If you look at what those inputs are, as Michael said, traditionally they are in engineering, accounting and design. These are the services areas that are not regulated at the EU level at present. They are largely regulated at the national level.

When the EU says it would be possible for the UK to deregulate and, therefore, undercut the EU, I think that is not necessarily the case. The UK does have the potential at this moment in time to deregulate in those areas, to offer different national regulations because these are not largely regulated at the EU level.

Also, it is worth looking at what relationships the EU has with neighbouring countries. For Switzerland, for instance, it does have a very highly integrated relationship in goods. I think a report from the OECD suggested that this was essentially approaching the single market in goods, but Switzerland does not have that in services. It does have the free movement of people, so there are clearly political tradeoffs that have to be taken into account if the UK does want to achieve a single market in goods. That it is completely economically impossible, I think should be challenged.

Q417 **Christine Jardine:** It still does not answer my question about our financial services sector and how it is going to be affected by this agreement, and services in general. We are such a serviced-based economy. For goods to have been given priority and for there to be no



agreement about services still seems to me a bit short-sighted or at least strange and I find it difficult to marry that up with wanting to get the best for the economy.

Dr Gasiorek: It is unlikely that there will be no agreement on services. One has to hope that there will be some agreement on services, but it does look like it is going to give many services sectors more limited access to the EU than they currently do. That will potentially have a negative impact on the sectors in the regions that are highly dependent on those sectors, yes.

Q418 **Chair:** Michel Barnier has made it particularly clear that there will be no special arrangement when it comes to services. Regardless of what Ms Shankar says about the pillars of the single market, it seems abundantly clear that the EU is not going to allow anything that might seem to compromise any of the four pillars or give any advantage to the UK.

Aarti Shankar: It is very fair to say that that is the political position of the EU, and it is a legitimate one. It does not want to separate its four freedoms. If the UK Government do want to push their Chequers proposal further, they will have to develop elements of what they are proposing. Equally, they should point to areas where the EU has differentiated its four freedoms. I think the UK can point to agreements with Switzerland, with Turkey and with Ukraine, where the EU's four freedoms are not completely indivisible. That is a point that the UK Government could make.

Dr Hughes: Very briefly on that, I picked up the phrase in Brussels almost two years ago in asking whether there could be a Canada-plus agreement. The first answer I got was yes, because they thought I was talking about security. When they realised I was talking about services the answer was, "No, Canada is dry". I know two years on we are talking about Canada-plus-plus-plus but I think the basic point still stands.

One brief comment on Chequers: if you read the detailed White Paper, it is quite extraordinary. It is a kind of Heath Robinsonian attempt to mimic and follow a vast amount of EU regulatory structures, sometimes in the same way as other third countries, sometimes asking for preferential treatment compared with other third countries. It does not add up. It is not going to be successful in terms of—as we have been discussing—the four freedoms and the EU's attitude to that. We know there isn't going to be financial passporting, so no, I think the impact on services risks being particularly strong and has been particularly neglected.

Q419 **Chair:** We will move on. We only have a couple of questions left for you.

Dr Hughes: I am sorry. I am going to have to go.

Chair: All right. Thank you.



Dr Hughes: I am very sorry but I committed before this Committee to a talk in Perth tonight. If I don't catch my plane I am afraid I will miss that.

Chair: All I can say is enjoy Perth. I am sure you will. Thank you anyway.

Q420 **John Lamont:** How useful have the UK Government's no deal notices been in terms of preparing for a no deal? What more could be done to help business prepare for that outcome?

Dr Gasiorek: I have not read all the notices. I have looked at some of them. They strike me as being a small step forward. They provide some information and they are quite variable as well, so some are more detailed and more informative than others.

I was thinking about this in preparation. For example, on mutual recognition, let me read from the notice on mutual recognition. The UK Government's advice is: "UK businesses exporting non-harmonised goods to the EU market will need to consider the national requirements of the first EU country they export to." How helpful is that? It is not hugely helpful. It is telling the businesses that the way you currently export those non-harmonised goods that you currently are allowed to do, you won't be allowed to in future and you need to contact the country in question to work out what you need to do in the future. I do not think that is hugely helpful. Others indeed are much more helpful.

What else could the Government do? They could presumably offer much more detailed written advice than they are currently doing. They could also offer various services that provide real-time advice to firms and companies. This could be through setting up a unit, a body, an organisation as part of the civil service where companies can ring in, ask advice and say, "Look, this is what I currently export. These are my issues. Can you tell me what the situation might be in the future?" as opposed simply to a brief three pages that indicate some information.

I am not sure if the Committee is familiar but in Ireland there is something called InterTradeIreland, which is where companies can apply for a €2,000 or £2,000 grant—an interesting exchange rate there, by the way—or a voucher worth £2,000. Once they are given that voucher there is a list of accredited companies that they can contact to ask for advice about specific issues, things that they are concerned with arising from Brexit. It might be border issues. It might be non-border issues. It might be access to export markets and so on. It might be because you are importing from an EU country, but it is trying to get real-time advice from real experts.

I understand the Dutch Government were so impressed by this voucher scheme that they set up a very similar scheme for their firms. I fail to understand why the UK Government are not offering similar sorts of real



support to firms and businesses, as to the challenges that they may face in not that many months' time.

While the notices are quite useful to some degree, in my assessment they are generally a very small step forward. I have not spoken to businesses themselves, so I have not had direct reactions from businesses. It is just my reading.

Maddy Thimont Jack: I will quickly jump in, if I may. I have also not read the technical notices myself but I have colleagues who have read all 105 of them. That was quite an impressive endeavour. I am not going to lie. They have compiled a long and extensive analysis of them. I know that our general consensus at IfG is that it is positive to show that the Government do have a plan in no deal, so there are things that they are thinking about and they have thought through some of these issues, but there is a gap between implementing it and the fact that if we are facing a no deal exit there really isn't much time.

I think, of all 105 notices, only one said that no further action would be required. That was on blocking of online content. I think 83 of them said that more engagement from the Government was necessary, so whether that is that the Government need to give more information or the Government will be contacting businesses directly. Around half of them said that new systems or processes would need to be in place. Quite a number of those are IT systems that the Government would need to have in place, for example, replacing the EU's trade and control and expert system that manages the import and export of live animals and also animal products.

If we are facing no deal, the scale of the task ahead of the Government is quite extensive and I think the time issue is quite a big one. Also, the fact that quite a number of the notices show that there are quite a lot of pressures on business, so some of it is what the Government need to do, but quite an extensive number of them do put pressures on business in terms of filling out new customs declarations, changing food labels, things like that, which the businesses need to do.

Also, to quickly mention, I think Jon Thompson, the Permanent Secretary of HMRC, said that from HMRC records around 145,000 businesses trade with the EU and they will need to start filling out new customs declarations. I think there are around 100,000 businesses that are much smaller and are not registered, so the Government do not know who they are to actually tell them about some of this information. That is where a real risk might be of those sorts of businesses falling through the gaps.

Aarti Shankar: I would agree with both those statements. The other thing that I would add is it does vary depending on the notice that we are talking about. The Government's notice on that was very useful to businesses. Businesses were very keen on the idea that the Government would introduce a postponed accounting system. That means that that



HOUSE OF COMMONS

does not have to be declared at the border. That alleviates a lot of businesses' cashflow concerns that they were going to have in the event of no deal. That would be applied to both EU and non-EU imports.

That was very beneficial for businesses to hear, but having spoken to businesses their key concerns remain quite simple questions: when do they have to submit a customs declaration? What are the tariffs going to be for the UK? I think the Government have left open the question that they will determine their tariff regime under a no deal exit, but they have not said what that would be. There are very key questions that businesses have that are still to be answered. There was no notice of citizens' rights, so there are still questions out there for businesses. They are very simple questions but they do need an answer soon.

Dr Gasiorek: Can I add to that?

Chair: Very quickly because we are running out of time.

Dr Gasiorek: To the extent that these notices are useful—they are useful for firms and businesses that are starting to prepare. One of the things that has come out from the numerous surveys that CBI has done, that various industry organisations have done, is that many firms—particularly the smaller and medium-sized firms—are not yet doing any preparation for this. That is an issue that I think the Government need to address.

One of the ways of addressing it is to change the incentives, to try to encourage these firms to engage in preparation. One way of doing that is precisely, for example, by some sort of voucher scheme, by having some sort of help desk, by providing more real-time information, which is currently not being done.

Q421 **Chair:** That is a good point to make and we have here that 67% of Scottish firms have not done any preparation.

Dr Gasiorek: That is worrying.

Chair: That is according to the Scottish Chamber of Commerce, and I think you are quite right. We will just leave that there.

Q422 **Danielle Rowley:** Finally, at some of the sessions we have talked about the Scottish and UK Governments' trade promotion campaign. We have had somewhat mixed reports of how they are co-ordinating. Do you have any thoughts about how they are co-ordinating and, post-Brexit, if they could do anything to work together better?

Dr Gasiorek: The honest answer is no, I have nothing to say on that. I don't know about the details of either of the trade promotion campaigns, and it is not something I have particularly thought about, sorry.

Aarti Shankar: Unfortunately, I will have to echo that. One thing that I would say is that, very clearly, what has been noted is that in recent years the UK as a country has lagged behind its competitors in the EU in



HOUSE OF COMMONS

trade promotion. I think it is part of the reason why Germany is a much better exporter than the UK, for instance. Part of the challenge for the UK, post-Brexit, especially if it leaves the customs union, will be rethinking its trade promotion policy but, beyond that, I apologise that I do not have specific comments.

Q423 **Chair:** Ms Thimont Jack will certainly know all about the GREAT campaign.

Maddy Thimont Jack: I am afraid I am not sure if I am going to be much more enlightening. I would echo precisely what Aarti said. Obviously, after we leave, the importance of trade promotion is really important. One of the things that we talked about in taking back control of trade policy is how DIT should work with other Departments that have relationships with businesses, to help engage businesses and promote new deals with them, and also to discuss where their priorities are. That is something that should also be echoed with the devolved Administrations as well.

This is a slightly maybe uninformed view, but I think that it would make sense to have some kind of co-ordination or at least discussion between the Governments around the priorities of Scottish businesses. Scotland is part of the UK, so the UK Government should be promoting Scottish businesses alongside English, Welsh and Northern Irish businesses.

Q424 **Chair:** I am grateful. Thank you all ever so much. It is a pity Ms Hughes wasn't here to answer that question. We would have liked to have heard from her on that, but never mind.

There were a couple of things. Mr Gasiorek, I think you mentioned this InterTradeIreland, which we were all trying to listen very attentively to. We have not received any evidence on that. If there is anything that you have that would be helpful to the Committee, please forward that. We would be very keen to have it.

Dr Gasiorek: I will send whatever I do have. I may also have a reference to the Dutch scheme, which I will also send.

Chair: That would be really helpful. Again, to our other two witnesses, if there is anything further that you feel that you could usefully add to this inquiry, please send it on to the Committee. Thank you very much for your attendance and your assistance today.