

International Trade Committee

Oral evidence: The impact of UK-EU arrangements on wider UK trade policy, HC 1549

Wednesday 28 November 2018

Ordered by the House of Commons to be published on 28 November 2018.

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Members present: Angus Brendan MacNeil (Chair); Mr Nigel Evans; Mr Ranil Jayawardena; Mr Chris Leslie; Julia Lopez; Faisal Rashid; Matt Western.

Questions 277 - 336

Witnesses

I: George Hollingbery MP, Minister of State for Trade Policy, Department for International Trade, and Graham Zebedee, Director for Continuity, Wider Europe and Development, Department for International Trade.

Examination of witnesses

Witnesses: George Hollingbery MP and Graham Zebedee.

Q277 **Chair:** Good morning and welcome to the International Trade Committee. Can I ask the panel to introduce themselves please, name, rank and serial number? I will start with my left, a distinguished panel this morning.

Graham Zebedee: My name is Graham Zebedee. I am a Director in the Department for International Trade, and Director for Continuity, Wider Europe Negotiations and Development.

Chair: My goodness, a speech in itself.

Graham Zebedee: I know. I know.

George Hollingbery: George Hollingbery, Minister of State for Trade Policy at the Department for International Trade.

Q278 **Chair:** Thank you both very much. Minister, can I kick off with maybe a topical point? This morning on the *Today* programme on Radio 4, your colleague, the Chancellor of the Exchequer, was on saying that Brexit would make the United Kingdom worse off—the options in front of us—economically worse off. Do you agree with the Chancellor of the Exchequer?

George Hollingbery: My view, Mr Chairman, is that the UK has negotiated a deal with the EU that offers, in my analysis—and others I know disagree with me—an excellent, excellent opportunity to move forward in this debate.

As far as I am concerned, combined with the political declaration, that produces an outcome that allows us to carry on trade with the European Union, in a not totally frictionless way but in a way that we can choose to vary if we wish to do so. It allows us to pursue an independent trade policy and, certainly, the outline painted by the political declaration is a unique offer from the EU, which is not available to any other economy in the world, and I endorse that view.

Q279 **Chair:** That is an excellent answer for a despatch box when the Member of Parliament cannot come back to you, but do you agree with the Chancellor of the Exchequer that the UK will be worse off with this Brexit deal that the Prime Minister is proposing?

George Hollingbery: My analysis is I support the deal, and you will not be surprised to hear that one of the reasons I support the deal is because I believe it presents economic opportunities that will not necessarily be immediately available otherwise.

Q280 **Chair:** You could argue many things provide economic opportunities but not quite the opportunities to be as well off as we are at the moment, so do you agree with the Chancellor of the Exchequer? Is the Chancellor of



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the Exchequer right or wrong when he says the UK will be worse off?

George Hollingbery: The Chancellor of the Exchequer is putting out the figures that the Government have come to a conclusion upon. I am a member of that Government and, therefore, I endorse what the Chancellor has said.

Q281 **Chair:** Thank you. Okay, we got that.

Minister, in October 2017, the Secretary of State said that 40 EU trade agreements would be rolled over at "one second after midnight in March 2019", presumably 29 March, and presumably he meant 11.00 pm but one second after midnight Central European Time. How likely are you to achieve that, so that these agreements will cover the UK after March 2019 in the event of a no deal situation?

George Hollingbery: Mr Chairman, Mr Leslie and I had an extensive discussion on this matter when we met last time and I will say to you now that not much has changed. We are still extremely optimistic that we will transition most of these agreements in time for a hard Brexit. I will not pretend to you that we have one on the books yet, but I can tell you that we have quite a large number that are a very, very long way progressed.

If I may, I will take the Committee through a few of the variables that the Department is trying to deal with.

Q282 **Chair:** Just before we get to that, last month the *Financial Times* reported that out of 236 EU trade-related agreements with 168 countries only 14 had been rolled over. That is based on information reportedly from a meeting of Permanent Secretaries. First, how accurate is that report and, secondly, is it possible that we can roll over 222 trade agreements a second after midnight in March 2019?

George Hollingbery: We should be clear that those are not all trade agreements. In our Department, we are responsible for transitioning around 40 existing trade deals between the EU and third party countries. There are—

Q283 **Chair:** Where are those 40 at the moment covering 68 to 76 countries, depending on how you count them? What status do they have at the moment?

George Hollingbery: I have said already to the Committee today that none of them is yet signed. I know we discussed the SACU-M deal when we were in here last time, and I am disappointed to say that we have not signed that deal but we remain just a little bit away from doing so and, interestingly, the factors that we are mostly discussing at the moment have nothing to do with trade.

The reason I want to elaborate a little on the complexity of this is to give the Committee some sort of feel as to why it is difficult to make any predictions in absolute terms.



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Just starting, if I may, from the point of view of a bilateral partner, whether a group of countries or otherwise—

Chair: All right—

George Hollingbery: Mr Chairman, you have asked me a question and I would like to answer it, if I may.

Chair: Okay, briefly.

George Hollingbery: The incentives have changed for them on a regular basis. There has been the prospect of an implementation period. There has been the prospect of a no deal, and emphasis from the UK Government on both at different times, and the re-emergence of an implementation period and then, of course, the Withdrawal Agreement. You can see that, over time, the signals and incentives have changed immeasurably.

On top of that, there are complex partners out there. If we are dealing with some of the EPAs, for example, there are multiple numbers of partners to satisfy on any particular issue, and those issues can reflect internal political issues within those groups. The transitioning of a trade deal can exacerbate or at least emphasise some of those political differences, and that can get in the way as well.

Some of our partners have a lack of resource in free trade negotiation capability. Indeed, in one partner the fact that they were having local elections meant they had nobody available to work on free trade negotiations with us. Some may not wish to incentivise us to move to a no deal scenario. You can see how that can work.

Some—and this is actually quite a large number, particularly in the groups—have upcoming elections, which make collective agreement very tricky. As soon as the election is called it is difficult for the administration to come to any particular agreement. Some have ratification issues. In some there are asymmetries, as we talked about when we were in here last time about motivations for change or status.

In some—and I don't think it is any great puzzle as to which ones I am talking about—it is difficult to imagine how you could enter into an agreement to transition a deal if you did not have agreement with the EU.

I just wish to paint a picture of why these are not straightforward. I do believe that at some stage—and we all know what is coming up and none of us knows what might happen after that, of course—it will become more or less apparent to partners whether or not there is going to be a deal or not. At the moment at which there is reasonable certainty out there among the countries that we are having these discussions with, then I think we will see a swift movement to resolve an implementation of a transition deal, and that is even with some of our most difficult buyers.



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I do not pretend to you that this is easy. I do not pretend to you that it has not been hard work. I do not pretend to you that every now and then it has been quite disappointing that schedules have not been met, but I do believe we have made tremendous progress on a great many of these and that a great many of them will end up in a transition status. I do not guarantee that all of them will be absolutely on time. There are the ratification issues to worry about, but we are making very good progress and what I can tell you now is that endless effort is going into making this happen.

In the SACU-M situation alone, there have been nine rounds of discussions and negotiations. That is despite the fact that we have agreement on the vast majority of issues.

Q284 **Chair:** Thank you. A long answer and the complexities are huge. The statement “a second after midnight” seemed wildly optimistic. The statement that was uttered in October 2017 by the Secretary of State.

George Hollingbery: What I can say is that he had the intention in mind, and was trying to emphasise the fact that we were going to transition these deals. I absolutely agree with him. It is imperative that we do so for our businesses, for our customers, for certainty and for investment decisions. For all sorts of extremely obvious and very real reasons, transitioning these deals is very important to us.

We can quibble if we like over something he said two years ago. The imperative here is that we should attempt to make this happen. We should put every effort into making this happen and that is what the Department is doing.

Chair: Thank you.

Q285 **Julia Lopez:** When we were in South Korea recently—you alluded to ratification issues—they suggested to us that it would require several months to be able to pass through the Korean Parliament, because it needs to be ratified by them as well. How many of these countries have similar timescale issues when it comes to the rolling over of their current agreements with us?

George Hollingbery: Across the piece there are differing ratification schedules, some of which are absolutely hard and fast, some of which look like they are but are not necessarily, and some of which definitely are not.

We are building—and I would not mind if Graham just confirms this—the ability to provisionally ratify in these agreements as we write them up, so that, if provisional application is possible in a partner country, that will be written into the agreement. Indeed, for us there are ratification issues. As the time approaches that becomes more tricky for us and we are examining all potential issues for that.



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I cannot give you a particularly hard and concrete answer because, particularly, for example, in South Korea, it depends who you talk to as to how flexible this system might be. On that basis, it is difficult to be absolutely sure exactly where countries sit but it is certainly a complexity.

Q286 Julia Lopez: Similarly, when we were in Japan and South Korea, when we had discussions with businesses and embassy staff out there, they were very much still working on the proposals within the Government's White Paper. In the event that the Withdrawal Agreement is voted down in a couple of weeks' time, how quickly are those discussions able to move on to other scenarios? Have you discussed within the Department how quickly to put new options to those partners that we have been talking to in other countries about the likely scenarios that might come to pass?

George Hollingbery: I am interpreting what you have said as saying that we have been basically negotiating with partners on the basis that there will be an implementation period.

Julia Lopez: Yes.

George Hollingbery: Well, the focus some months ago changed to emphasising to key partners in our discussions that no deal was a real possibility. That is where our effort has focused for the last several months, so there should be no doubt in post, and there should be no doubt in our bilateral partners' minds that no deal is a real possibility.

Where that remains sceptically received, as I have already said today, events over the next three or four weeks may prove pivotal in their understanding about where we may or may not go. I would then expect there to be a loosening of any reluctance because, clearly, it is very much in their interest and our interest—but very much in their interest—for those bilateral trade flows to keep moving. To do that, we will have to have an agreement in place. They know that and we know that.

I have already outlined some of the reasons we may not be able to move some of these forward quickly. A lot of that has had to do with uncertainty as to outcome. As that crystallises and certainty comes forwards—however unwelcome that might be—then I think we will see an alignment of the stars.

Q287 Julia Lopez: In the event that some of these agreements are not rolled over in time, do we have emergency measures in place to be able to cover trade on legal terms?

George Hollingbery: I will let Graham talk to that, but my impression is that if it is not ready in time it is not ready in time.

Graham Zebedee: That is right. We need to have a regional trade agreement in place with another country. If we don't then we should be applying MFN terms or WTO rules for trade with that country. In terms of



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imports we have more power over that. In respect of what the other country does then that is their decision, absent any agreement.

Chair: Of course, if we are to remove tariffs on imports that loses our trade leverage to go and negotiate with another country. Why are they going to give us anything when we have unilaterally given them everything? Chris Leslie.

Q288 **Mr Chris Leslie:** You are a reasonable man, Minister, and—

George Hollingbery: That is really dangerous.

Q289 **Mr Chris Leslie:** No, I think you are sort of asking the Committee, “Be reasonable, understand how difficult it all is. It has turned out a bit trickier than we thought”. The problem is that your boss, the Secretary of State, does not quite see it in those terms. He is very focused. He has made a very specific promise. The whole of the Department, therefore, seems to have been shaped around achieving the rollover of these 40 trade deals in time for Brexit.

Can you give us in plain, unvarnished terms—a bit like the Chancellor on the radio this morning—what the consequences are of not rolling over these 40? My understanding is it is another third of our trade. If 40% of our trade is with the EU there is another 30% that goes with these other 40 countries. Is that your understanding?

George Hollingbery: If I remember rightly—I saw a statistic this morning and Graham will correct me if I am wrong—I think it was that 30% of the EU’s trade is under terms allowed by these FTAs. That will not necessarily be the same for the UK of course, so I cannot give you an exact amount. If you apportion it across in strict percentages then, fine, 30% of trade. I doubt very much that it is quite that high, so Graham—

Graham Zebedee: About 12% of UK trade is with countries covered by these agreements.

Q290 **Mr Chris Leslie:** Just in my mind’s eye, as well as having to worry about our trading continuity—and you admitted earlier, even in the Prime Minister’s deal it is not totally frictionless with the EU, with those 27 countries—we also have to worry about a potentially catastrophic set of relationships with that additional 40 countries because, where we are heading, so far we do not have any rollover of that. So we add on that extra 12% to worry about.

George Hollingbery: Mr Leslie, I think you just said that the Secretary of State had made a huge mistake by trying to get the Department to focus on the no deal eventuality.

Q291 **Mr Chris Leslie:** By promising he could when it was clearly a lot harder.

George Hollingbery: No. If I quote you correctly, you said that the Secretary of State had made the mistake of focusing the whole Department on no deal for trade agreement continuity purposes. I



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suggest to you that the point you are now making is that he did not make a mistake at all.

The whole point here is that we need a trade policy for our new relationship, in any which way we care to look. We are leaving the European Union and, therefore, we need an independent trade policy, so we need to resource that. At the same time, if we are to have an eye to the economics of this, we need to resource and we need to work very hard on ensuring that, if there is a hard Brexit on 29 March, with no agreement with the European Union, we have done as much as we possibly can to protect the trade flows that are privileged by those terms.

Q292 **Mr Chris Leslie:** My question was whether we should worry about that extra 12% but your response—

George Hollingbery: By definition, yes.

Q293 **Mr Chris Leslie:** Okay. Thank you. Your response is that, “Oh, it was okay for the Secretary of State to be focused on rolling over in those circumstances”. Well, of course, if we were going for a no deal Brexit, in those circumstances we would want to retain whatever trade arrangements we have.

But I suppose his mistake—the foolishness—was promising absolutely by one second after midnight we will achieve that. That promise is not going to be fulfilled, is it?

George Hollingbery: The Secretary of State is neither mistaken nor foolish. My experience of the Secretary of State is that he is deeply committed to this agenda. He has a very deep understanding of it, and, if his intention was to try to make sure that one minute past the absolute hour we had these 40 in place, he was absolutely right.

Mr Chris Leslie: There is a difference between the—

George Hollingbery: As it has turned out, it is complex and difficult with all sorts of different incentivisation— and for all the reasons I have outlined to the Committee today—yes, that is the case.

Q294 **Mr Chris Leslie:** This is my point about your reasonableness. I think you are a reasonable man, Minister, but you can understand, from my point of view, for those of us who were warning that that was a foolish promise to have made, because of the predicted difficulty that some of us foresaw, you would understand why today we would be a little bit frustrated—if not angry—at the fact that, having said this is an unrealistic objective, it is now turning out to be an unrealistic objective, we have every right to be angry about that, don’t we?

George Hollingbery: If I can—

Mr Chris Leslie: Do we have a right to be angry about it?

George Hollingbery: What you are making here is a political point and no more.



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Mr Chris Leslie: No, it is not.

George Hollingbery: If there was an actual consequence to those remarks that were made and where we have ended up today, which had changed the pattern of what we wanted to do and, therefore, threatened the transition of these deals in any way, shape or form, it might matter. Otherwise, it is just a political observation that somebody made a comment.

The fact is that, whether somebody made a comment or not about when and how, all the resource that has been required as necessary can be afforded by the UK Government and budgeted to us by the Treasury. All the strategy that is required to make these deals go through as best we can has been applied in the right place at the right time. There is no practical outcome to this and, therefore, all you are making is a political observation and a political point. To which point, I do not know how it benefits the Committee.

Q295 **Mr Chris Leslie:** I would say that the whole of your Department has been constructed under the leadership of an individual who was suffering from the delusion that he was going to achieve, quite simply and straightforwardly without much particular difficulty, at one second after midnight the rolling over of 40 trade deals. That in turn created a Department that was not sufficiently resourced, not based in reality, not based in any way in achieving a goal. When you set a goal, Minister, do you think it needs to be realistic, achievable, deliverable, serious in that way? Do you think that is how goals should be set?

George Hollingbery: I do absolutely think that is how they should be set.

Mr Chris Leslie: This was not realistic.

George Hollingbery: I do think that is absolutely how they should be set, and I believe that is the goal we still have and still share. I believe the Committee itself has endorsed that approach to continuity: that we should seek to transition all of the 40 or so trade arrangements that the EU currently has.

I will defend the Secretary of State to the hilt. He is a great expert in trade policy. He has been extraordinarily productive around the world, creating discussions at the highest levels in partner Governments about transitioning arrangements and, indeed, about future arrangements.

I still believe that the point you make is political and has no practical consequence to the conduct of the Department, which has had the right resource in the right place at the right time to deliver these deals. That it is complex and difficult. That some of them may not happen by 29 March, is nothing to do with the Secretary of State's statement two years ago and everything to do with the circumstance we face.

Q296 **Chair:** Thank you for the character reference for the Secretary of State



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there.

To get on to the hard brass tacks of this: just taking it back to the Chancellor's worries this morning, what is the hit to GDP if these are not rolled over? What does your Department estimate that to be?

George Hollingbery: We had this conversation last time and, in fact, I have had it with officials this morning because it was raised last time. What is the impact of losing the effect of these deals? The answer is: we do not have a particular impact. We did not have it last time and we still do not have it now.

Q297 **Chair:** Does anybody in the Department have an impact assessment of what the loss of these 40 deals would be?

George Hollingbery: No, for the simple reason, Mr Chairman, that they are all important.

Q298 **Chair:** I can let you know, and perhaps you should talk to the Durham University Business School who gave evidence to this Committee saying the impact would be 1.1% in the short term and 2.7% in the longer term. Do these figures ring true in any way in the Department for International Trade?

George Hollingbery: Graham, do those figures sound roughly right to you?

Graham Zebedee: No. I am not saying they are wrong. I am just saying—

Q299 **Chair:** There is no hit to GDP from not rolling over these 40 deals?

Graham Zebedee: I am not saying that. I am saying that the figures—

Chair: Is there a hit to GDP?

Graham Zebedee: —do not ring any bells.

Chair: Which figures ring bells? Do you have figures that ring bells?

Graham Zebedee: No, as the Minister was saying, that is not an assessment that we have done.

Q300 **Chair:** If you do not agree with Durham's assessment, what is your assessment?

George Hollingbery: The point here, Mr Chairman—

Chair: The point is, is there a hit to GDP? We want to know.

George Hollingbery: Will there be a hit to GDP? Of course there will be a hit to GDP. If we are not trading on the same preferential terms with partners who represent 12% of trade, therefore, there are likely to be hits on the amount on trade so, yes, it is going to hit GDP. I don't think any rational person could conclude otherwise.



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Mr Leslie looks puzzled about what I said about why they are not necessary. I said—and let me tell him why I am saying this—first of all, I think that if we spend vast amounts of time, energy and money on doing impact assessments, we will get some idea about which deals produce more economic impact than others. We already know that. We know what the biggest deals are that are used by businesses because we have spoken extensively to businesses about which deals are important to them, which ones they rely on for what they do. We have granular information about which of these deals are most important.

Q301 **Chair:** Which are the top three?

George Hollingbery: Then we have to overlay on top of that when we are making our decisions about which countries to prioritise, assuming we prioritise any.

Chair: So which are the top three?

George Hollingbery: Assuming we prioritise any, we have to have some reasonable prospect of the other side talking to us, that it can be ratified in time that they have all the stars, which I have already talked about today.

Chair: Do we have a top three?

George Hollingbery: All I am saying to you—

Chair: Will you answer the question?

George Hollingbery: —if I may just complete the sentence, is that we believe that we have to prioritise all the deals. We put in the most effort where it is most productive to put in that effort and where we are likely to get the best results.

I cannot see that having formal impact assessments for each of these free trade agreements, some of which are provisionally applied, some of which are not yet applied, some of which are EPAs, all of which were assessed by the European Union and economic data given when they were originally ratified by the European Union, would actually tell us anything that we cannot learn and haven't learned through other channels. I think it would be a waste of time, resource and effort.

If you can tell me exactly what we would do with these economic impact assessments, I would be interested to know.

Chair: Prioritise your top three, perhaps. Maybe it is worth an email to Durham University.

Anyway, Nigel Evans has promised me a short question before I go to Matt Western.

Q302 **Mr Nigel Evans:** How confident are you that, at the end of the process, we will have rolled over the agreements that are currently there between the EU and a number of other countries?



George Hollingbery: So back to the same question. The honest answer, Mr Evans, is that I cannot give you any absolute number. There are lots that are reasonably well progressed. In fact, more than reasonably well progressed, are very close to final initialling or even signature in some cases. There are some where we have made very, very substantial progress, and that includes some of our largest trading partners. There are some, frankly, where we have not made very much progress for all sorts of reasons. In terms of absolute numbers, I am not here to make a prediction today but I understand why you would like to know.

Q303 **Chair:** There are two obvious numbers. There is zero and 40. It would be good to know which one it is closer to.

George Hollingbery: Forty. It is closer.

Q304 **Matt Western:** I am following up the point by Mr Leslie, which I am not sure that this is political. I think it is actually just about scrutiny. You will understand that the Secretary of State did make those points a year ago and he is also on record saying that leaving the EU would be the easiest thing in human history. Do you agree with him on that?

George Hollingbery: I am simply not going to engage. It is nothing other than a political question. Mr Western can paint it up all he likes as a question about scrutiny.

The Committee is entirely capable of coming to its own conclusions. It has done in various reports and, whatever the Secretary of State might have said a couple of years ago, and the intervening events and developments, all that matters is that DIT has been properly run. I am convinced that it has. That it has had the right resource in the right places. I am convinced that it has. That we have engaged actively with partners. I am absolutely convinced that we have. That we have prioritised deals in a pragmatic, sensible, data-led way by consulting with businesses, and I am absolutely sure we have done that too.

If any of those things had been affected by two year-old utterances it might matter. They have not, so they don't.

Q305 **Matt Western:** Minister, the concern is—I understand the challenges on the surface anyway that you face, and this is simply about holding people to account—if the Secretary of State has made certain statements to this Committee, all we are trying to do is establish whether they were robust and hold water or they don't. You describe him as someone who has a huge amount of experience and ability in this field, yet he seems to have deceived us with his statement in October last year and he seems to have a record for this. That is why we are asking these questions.

George Hollingbery: All I can say is that I refer the Honourable gentleman to the answer I gave a moment ago. If the Committee wishes to write to the Secretary of State and ask him the same question, I am sure it is capable of doing that. As far as I am concerned, the only thing that matters here is: did the Secretary of State negotiate the right



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amount of funding for the Department to do what it is supposed to do, and was that funding applied to action what was required to transition free trade agreements from the EU context to the UK context? The answer is yes.

Is it complex to deal with that? Yes. Will we get them all in time? We will not. Will we get the majority? I believe we will. I think I have now said most of these things a number of time and I am very happy to leave it there.

Chair: The Secretary of State will be here next week, barring of course the usual hazard of Government resignations.

Q306 **Mr Ranil Jayawardena:** The President of the United States said two days ago that the US would have to look very carefully at whether the UK would be able to agree a trade deal, due to the UK/EU arrangements that would tie us into EU rules. Do you agree?

George Hollingbery: What the American President says is a matter for the American President. His ambassador today has said, quite clearly and candidly, that the UK is at the top of the list for any future trade agreement. As far as we are concerned, the Withdrawal Agreement and the political declaration make it clear that we will be able to set our own independent trade policy, that we will be able to set our own tariff rates in respect of various goods if the Withdrawal Agreement and the political declaration and the future relationship go through. In which case, I am convinced that we will be able to negotiate with the United States in the way we will negotiate in any circumstance, as an independent country with its own WTO membership.

Q307 **Mr Ranil Jayawardena:** That would not be possible if we were to remain in the backstop customs union?

George Hollingbery: The backstop has other issues around it, which make that more complex. That is certainly true.

Q308 **Mr Ranil Jayawardena:** The President of the Board of Trade told this Committee almost a year ago that some countries have said they would prefer to move directly on to a new FTA with the UK, but we have made it very clear that this is an ambition for another day. When will that other day be?

George Hollingbery: As you know, Mr Chairman, we have four FTAs that we have consulted upon. I do not propose to go into all the details of that. That may be for our next discussion.

The scope of ambition in those four is varied, of course, although this is a little like the process of trying to raise a certain amount of money for a new business ranging between a number and another number. The reason a lot of those deals do not get financed is because the amount of work, energy, lawyers' fees and accountants' fees to do that is exactly the same for a small one as a big one, and much the same applies to free



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trade deals. There is a certain amount of inviolable time, effort and cost that goes into any size deal.

There is no doubt that a deal with New Zealand revolves around less GDP, less trade flows, but it does not mean it does not have the same variety. It does not mean it doesn't have the same complexity. The point I am trying to make here is that doing full scale free trade agreements is a resource-consuming task and that we would expect that we will not have the necessary capacity to do any new free trade agreements outwith those four for some time. I cannot give you an exact estimate as to how long that will be.

That will depend on how long it takes to negotiate those free trade agreements and, indeed, resourcing within the Department. Should we achieve an increase in resourcing because we can convince others that new free trade agreements are a good idea and more of them, we can probably do more.

Q309 Mr Ranil Jayawardena: In respect of your earlier answers around this overall piece of rolling over existing deals, what dependencies, if any, are there on a future relationship with the European Union in order for us to roll over trade deals? Are we able to do this on our own terms, regardless of what our relationship is with Europe, or are depending on Europe in order to make this happen?

George Hollingbery: No, we are not depending on Europe to make this happen. There are issues within some of the free trade deals that we seek to transition into UK forms that will require some co-operation from Europe—that is true—or at least discussions that need to be had, but we are not controlled by the European Union, certainly, in a no deal scenario. In a deal scenario, we will be able to accommodate those free trade deals quite happily.

In the backstop arrangement I do not think it is any great secret that the incentives change. There is a degree of complexity in there, which—I will be quite plain with the Committee—I have not yet finally got my head around from a legal point of view about the common external tariff. That is to be bottomed out, but the situation will be different and there will be different incentives if the backstop comes in.

I should emphasise to the Committee—which you will know already but this is a matter of public record and, therefore, I think I should say it—that neither the Government nor the EU expects the backstop will need to be used and, if it is used, that it will last for terribly long. Indeed, there are incentives to ensure that that is not the case and there is an appeal mechanism, which means that if it is no longer required a party can appeal to the regulatory body to take it away.

It is in the backstop that there might be a complication. I do not believe that we will hit the backstop and I believe that, if we do, it will be time



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limited, but the Withdrawal Agreement accommodates and allows the transition of these deals.

I should emphasise—I do apologise—it is very key to understand that during the implementation period we will have the same arrangements because the EU will write to third party countries to state that we should still be considered to be party to those agreements. That will require a letter to be sent back acknowledging that. Those are sections in the FTAs that have been signed by those third parties or groups of countries, but you will all well know that, during the implementation period, nothing apparently from the outside looks like it has changed.

Q310 Mr Nigel Evans: If we were an independent sovereign state, which is clearly why people voted Brexit in the first place, so if we were a country like Australia and we wanted to do a trade deal with the United States of America, there would not be a problem that you and I could see, I suspect. With the Prime Minister's current deal that she is trying to sell to Parliament, what would be the constraints between the United Kingdom doing a full FTA with the United States of America? What sort of things would we be constrained by that would not constrain Australia?

George Hollingbery: The first thing to say is that, under the circumstances of a future economic partnership agreed, as per the Withdrawal Agreement and the political declaration, the UK will be an independent sovereign state. It will have decided to use some of that sovereignty to negotiate with the EU a very deep, comprehensive free trade deal. Some of that sovereignty will impact in certain areas, depending on what it is that we wish to trade with the United States in terms of details of the agreement we reach with them.

The necessary trade with the EU is that, if we choose to come out of the alignment we have said we will have in certain sectors by our election, there is a penalty to be paid in terms of frictionless access to Europe, which can be traded with the United States. To my view, this is an exact use of independent sovereign state trading its sovereignty in full cognisance of the consequences and, therefore, setting up deals that work for it in whatever context it finds itself.

I cannot see why anybody would think that this is not a good use of the trading of sovereignty. That is one of the reasons why I think the deal as it sits allows us to sit as an independent sovereign state and make those trading bargains with ourselves and our partners in a way that suits us rather than a whole bunch of other people at the same time.

Q311 Mr Nigel Evans: I don't want to frighten you but I think you have been incredibly frank.

George Hollingbery: That does frighten me.

Q312 Mr Nigel Evans: I thought it might. I understand trading some of the sovereignty with the European Union, which clearly will impact on any FTA we would do with the United States of America. Perhaps that is what



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worries President Trump. What sort of things, which you currently know that the Prime Minister is trying to sell to Parliament on 11 December, would constrain us from trading with the United States of America?

George Hollingbery: This is why I am not scared of what I have said. It is entirely up to the UK in that circumstance, as a sovereign nation, to decide what is important to it in its relationship with the United States and what is important in its relationship with the European Union. It will make that decision independently on its own.

Q313 **Mr Nigel Evans:** Minister, I understand that but I think you are getting the thrust of what I am saying wrong. I am not disagreeing with you. I actually agree that that is what the Prime Minister wants to do. I just want to know, because we know the deal that she wants to do with the European Union, so what goods can we not import from the USA into the UK because of the deal that we are doing with the European Union? What sort of goods can we not import?

George Hollingbery: That will depend entirely on how much we align with the European Union, and it is set out in the Withdrawal Agreement.

Q314 **Mr Nigel Evans:** It is set out now?

George Hollingbery: It is set out in the Withdrawal Agreement that it is up to us to choose how aligned we want to be.

Q315 **Mr Nigel Evans:** It is quite clear how aligned we are being with the European Union, so what sort of goods can we not import from America that clearly President Trumps says could jeopardise a trade deal between the USA and the UK?

George Hollingbery: I think he was talking about the backstop situation and I can only repeat what I have just said. The Withdrawal Agreement, to my mind, is clear about this. It says that we will be able to choose where we choose to align with the European Union on goods anyway, and if we decide not to align we take the consequence of losing the sorts of free access that we currently have or are negotiating in full with the European Union, and trade that with somebody else for something else.

There is nothing specific that I have in mind that we have agreed, because at the moment we do not have an agreement so how can there be anything?

Q316 **Mr Nigel Evans:** If the Prime Minister's deal goes through on 11 December—and let's be fair we are getting towards the period when people do believe in miracles—if that does go through, let's suspend belief for a second and assume this deal goes through on 11 December, we will be aligned on goods with the European Union. I can think of one straight off but I don't want to answer for the Minister. It is chlorinated chicken. We would not be able to import chlorinated chicken because we will be aligned in goods with the European Union. Are there any other things, apart from chlorinated chicken?



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George Hollingbery: I am not going to repeat myself again. On chlorinated chicken, which is a canard—sorry.

Chair: Brexit has reduced us to this.

George Hollingbery: We seem to have plumbed the depths here a little. Because we think it is the right thing, we have agreed that we will accord with the phytosanitary standards and regulatory standards, particularly in agricultural products. The reason we do that—and I can assure you that this is reflected around the world wherever I go, and I think I said this to the Committee last time I was here as well; maybe it was a different inquiry but I think it was here—is that Brand Britain is about quality. It is about safety. It is about very, very high standards of production.

It is difficult to underestimate how important this can be in certain markets, particularly in China where there is a lack of trust in a lot of food and otherwise. That brand quality extends not just to China but also to many other parts of the world. To align on those sorts of standards seems to me just good rational sense. Whether that makes it impossible for the US to export to us chicken that has been produced under American standards is a matter for the Trading Standards Institute to look at, at that time, and find out where they are.

If you want to emphasise that one particular issue, fine. I still stick by my point that I have made a number of times already.

Q317 **Mr Nigel Evans:** That is fair enough. I can see I am getting nowhere with this. Anything that jeopardises a free trade deal with the United States of America is totally unacceptable and does not make us a sovereign state. That is my own view on that.

Moving on, can I ask about developing countries? You might find this somewhat easier. Trade with developing countries is important to them. We have the 13 billion international development budget to assist but trade is much, much better, clearly, for some of these poorer countries. How high on the agenda of your Department are the developing countries? We have our own report coming out tomorrow, which talks about the importance of trade with these developing countries.

George Hollingbery: Just for certainty, Mr Chairman, I want to make clear to Mr Evans that I did not struggle with the last question. He may not agree with me but to my mind it was not a struggle.

Chair: Can you answer the substantive point?

George Hollingbery: The simple answer to your question, as I have already said to the Committee to some laughter, which I found—I do not want to overegg this—slightly odd, that we do prioritise all of these agreements because they are all important to us for different reasons, and this is one of the spectrums to which I was referring.

You could rationally say that, if you are going to invest time and energy and prioritise according to the top three and GDP and the impact



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assessment, you would not touch the EPAs. These are not economically consequential to us. But they are incredibly consequential to us. We have a very clear role in trade to promote development and rationally, no, but emotionally and according to Government policy these are very, very important to us. I think I came and gave evidence on these to the Committee.

I am extremely keen that we transition these deals. With EESA, for example, we are talking about the Seychelles, Madagascar, Mauritius and the Comoros. Nobody is going to put them at the very top of a list of transitioning agreements, but what that deal from the EU to those developing countries does for them is very important, so it is high on my list of ones that I want to transition and, indeed, the Department does.

Mr Nigel Evans: See, it was easier.

Q318 **Faisal Rashid:** Thank you, Minister, for coming. Very, very quickly. When you talk about rolling over deals for 40 countries, I am trying to understand that there is no EU/UK trade deal at the moment or any FTA agreed. How practical is it that these 40 countries will agree to roll over existing agreements without even looking at how UK/EU trade will be in the future? They might have agreed on some terms but would that change in the future, depending on what we agree with the EU in the future by the end of 2020?

George Hollingbery: We will need these agreements in place from exit day, whenever that may be. It is either 29 March or it is the end of the implementation period. That is our rationale. During the implementation period I think, as the Committee knows well—and I think we have already discussed today—an exchange of letters will take place between the EU and FTA partners to say the UK should be considered to be part of the future trade agreement that we will put in place. Thereafter, we have to have our own deals.

Now I think what you are asking me is: what are the incentives on the 40 potential partners and groups to do a deal now, rather than in the future or will they want to change them if the relationship changes?

Faisal Rashid: Yes.

George Hollingbery: Okay. Plainly, as has been more than evident from our discussions today, 29 March is very much in our mind because then they have to be in place otherwise the trade has to happen on WTO rules. That is the most important to us.

Do I think that at the end of the implementation period, and if an implementation period is clearly going to be in place there will be an appetite among partners to change the terms of their deal? It depends on which ones we are talking about and it depends what we agreed beforehand for the no deal transition. I would imagine that almost every country out there that could do a free trade deal with us, and indeed ones that do have a free trade deal with us, would want to look at the terms of



the free trade agreements they have made with us over time. I would not expect that to be any less among transition deals more than anything else.

Again, it comes down to how much capacity we have to engage in those discussions but we have ambitions to have deep and free trade deals wherever possible, with whichever partner wishes to do one with us, and all partners who approach us in that regard will be considered, of course. I don't know if that helps.

Q319 Matt Western: Minister, just talking about tariff rate quotas for a minute, I understand that 20 countries have objected to us splitting tariff rate quotas. In establishing a separate UK goods schedule at the World Trade Organisation, how likely are we to face a similar problem in establishing tariff rate quotas in EU trade agreements that we wish to roll over?

George Hollingbery: If Mr Western is drawing a comparison between the two issues, there is none. It is perfectly rational and reasonable for partners in the WTO to raise objections to the laying of schedules, and it has depended upon the calculation by which tariff rate quotas have been arrived at. There is no read across between those objections and our status at WTO, because I think, as the Committee well knows, it is quite possible to trade on uncertified schedules.

If you are taking a read across and saying, "Are there not issues on TRQs also rolling over existing FTAs that the EU has with third parties?" the answer is: there are certainly conversations to be had and we have been having those conversations. We have reached some amicable conclusions with some. We are continuing discussion with others.

I think there is not much point in saying a lot more, save to say this: I think you used a figure of 20 WTO and I want to be absolutely clear that I do not contradict that number. I am not answering on the basis that that is the number.

Matt Western: I might just clarify—

George Hollingbery: Clearly, Graham will know. On the fine detail of this I think it is probably better to talk to the official.

Graham Zebedee: The issue on TRQs is different than the WTO to that within EU free trade agreements, in that the EU is not decreasing its in-bound TRQs and, therefore, what the UK would be offering to a country is on top of what they are already getting, if that makes sense. Whereas, in the WTO it is about dividing the existing EU 28 pie between the EU 27 and the UK. It is a gain for our FTA partners.

George Hollingbery: Therefore, it is less contentious and it has proved to be less contentious.

Q320 Julia Lopez: You suggested that you have no specific priority list on the



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rollovers, but you said that businesses are telling you that some agreements are more important than others that you roll over. You also said that with some agreements you have had very little progress. In others it seems to be relatively straightforward. Some of the newly minted deals, like that with Japan and CETA, are they some of the easier negotiations or some of the harder, and would you agree that they are probably some of the more important deals?

George Hollingbery: There are two ways of looking at that. The first is that under Canada there is trading and there has been a reasonable amount of trade being built up, and so there is some contingent loss there if they cannot get on that. Of course, Japan is not yet approved and, therefore, not being traded under. Therefore, we are talking about opportunity cost.

One of the reasons why economic impact assessments would be so pointless and financially so expensive and so difficult to do, is you would have to think about the opportunity cost if those deals are not yet in place. I am not going to comment absolutely on which of those, either of them; both of them have different incentives because one is the future and one is now. All I can say is that the larger the country the more trade that flows and the more companies are likely to be trading under those preferences. I think that is a reasonably obvious and straightforward conclusion for anyone to reach. Therefore, we will likely have had more representations about those deals.

I have said already today that, even among some of our larger partners, we have made very, very good progress. There are one or two—as I have already said and I will repeat again—where it is less easy.

Q321 **Julia Lopez:** You cannot go into specifics as to which of those countries—

George Hollingbery: I am afraid not at the moment. Can I be clear to the Committee, Mr Chairman? It is not my preferred option not to share detail with this Committee. I would love to be able to tell you about where we are with each and every one of these deals, but there are very real reads across between these deals, about what has or has not been given, what might or might not happen, and it simply would not help the UK's case if I gave too much detail at the moment. I take that as my starting point. As and when we are in a position to be able to share more I will certainly do so.

Q322 **Julia Lopez:** The EU's agreements with Turkey and the EFTA countries, like Switzerland and Norway, entail close alignment with EU rules and tariffs. How can the UK roll over these agreements if we are to be outside both the single market and the customs union, as the Government say they intend?

George Hollingbery: Switzerland is a particular case in point. It is not a member of the EEA. It has its own set of bilateral agreements and, therefore, it has rather more flexibility in what it might do. Liechtenstein, similarly, has three or four—I forget exactly how many—bilateral



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agreements with Switzerland. Trade flows from Liechtenstein perhaps not to the same scale as they are with Switzerland, but take that as you like. That should point you towards at least reaching some conclusion.

The EEA EFTA states, plainly that is more of a challenge. I think it would be remiss of me not to point out that there is another country with who the European Union shares a customs union, namely, Turkey. If we don't reach a deal with the European Union then that will also be a challenge.

Q323 Mr Chris Leslie: The problem is, Minister, that whereas the Prime Minister promised we would also have a trade agreement by exit day when we embarked down this course, it turns out we are only going to get the Withdrawal Agreement.

George Hollingbery: No, I think you mistake. Exit day in the legislation has always been either 29 March or it is the end of the implementation period. It is entirely possible, if we agree a deal, we will have the deal by exit day. That is what I am saying. Do we leave the European Union—

Q324 Mr Chris Leslie: To be fair, on your track record as a Department, and the Government's track record on securing deals, we can already hold you to account on your performance on getting deals by the time you have said you will get them. Plainly, you cannot do that; quite plainly.

If we know that we have the divorce terms buttoned down but our future relationship with the EU is still a splay of potential different scenarios, these other countries, Switzerland, Turkey, Japan, potentially, Israel, Mexico, it would be reasonable of them to hang back to wait to see what happens, wouldn't it? To see what happens with our relationship with the EU. This is the question, really, that Mr Rashid was asking you.

George Hollingbery: All I can say is that the Committee is able to assess the rational incentives that motivate those countries as I am.

Q325 Mr Chris Leslie: If I cannot hold you to account, necessarily, on the promises that were made on embarking on this, because you say that is a political point, and if you are not prepared to say to the Committee—because I would quite like to go through each one of these countries—how you are doing on Singapore, and you are not going to—

George Hollingbery: I would quite like to too but I cannot.

Mr Chris Leslie: —you would quite like to too; then all I can really do is get your intention. Is it your intention that we will have a trade deal with Singapore by 29 March next year?

George Hollingbery: It is our intention—as I have made endlessly clear to the Committee today—that we will have all of them in place on 29 March. Whether that is deliverable is another matter. Will we continue to negotiate with these partners if we leave the EU on 29 March without a deal? Yes, I am sure we will.

Q326 Mr Chris Leslie: If I am a services company trading with Switzerland, so



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5% of Britain's services exports go to Switzerland, I cannot be sure I will be able to do that. Sure that I will be able to do that after 29 March, am I? Just to be clear to these companies.

George Hollingbery: The gentleman will know that the Department has issued technical notices across all Government Departments. Technical notices have been issued advising what to do in the event of no deal. It makes it quite plain. We have a notice out there that says, "There is a genuine possibility that you will need to look to trade on WTO terms".

Q327 **Mr Chris Leslie:** How do you think your Department is doing on a marks out of 10 basis? From when you joined the Department, give us a sense of is it 10 out of 10? Do you think you are achieving what your goals are? Give us your marks out of 10 for the Department.

George Hollingbery: No Minister coming into a Committee of this sort would ever mark their own homework. That is for others to do and that is one of the things that you do.

Mr Chris Leslie: That is what I am asking you because you are a reasonable man.

George Hollingbery: You can keep on saying that as many times as you like. It is one of the functions of this Committee to hold this Department to account and tell us what we are doing right and what we are doing wrong. If the Committee can advise us on how we could pursue our trade agreement continuity programme better, where we need more resource, what mistakes we are making, where we should put more effort in, I am delighted to hear from you. That is exactly what you are here to do.

As to how we are doing, my belief as a new observer—I don't have a lot of reference points to go on—I think the teams with whom I work are very dedicated to what they do. I believe we have a comprehensive and sensible approach to trade agreement continuity. That is as difficult to transition some of these deals with absolute certainty by 29 March. It is not something that is in the control of many of those teams with whom I work, and I understand why they face the difficulties they face.

Any Minister should always admit their Department can do things better, and I am absolutely convinced we can. If you want to produce advice to us as to how we can do that I would be delighted to take it on board.

Chair: We might well take up your offer to run the Department for International Trade in the fullness of time. We might need to.

Q328 **Matt Western:** Minister, just on the point you were saying about giving you direction or giving you a suggestion as to where you might be going wrong or where you are failing. It is our understanding that the trade missions and the embassies are actually having budget cuts in their capacity and resource. Is that your understanding? If that is so, why is that being allowed to happen and how are we going to achieve these deals when we are cutting back the resource at the coalface?



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George Hollingbery: You will know, Mr Chairman, that the Department was allocated some more money for its network in the Budget. That helped very much in accommodating the commitments that had been handed to the Department by its predecessor Department before its formation. We were very pleased to get that money from Treasury, which will allow us to maintain our network, particularly in Europe, in a way which hitherto did not seem possible.

As far as I am concerned, our Department could always do with more resource overseas. There is a lot of work to do out there and a lot of opportunities. We have nine new Her Majesty's trade commissioners in place—new ambassadorial-level roles—who are there to create regional trade plans. I think all of them are now in place. If not all, nearly all and agreed by the Department.

That creates a new strategic overlay on how we use our assets out in the field. Of course, in many posts we do not just have access to DIT staff but to DfID staff and to FCO staff as well and all of their contacts.

In my relatively limited travel in the last five months—which does amount to 13 countries now—I have yet to find a mission that I did not think worked well, did not understand trade and was not doing a good job for promoting British business out there.

Q329 **Matt Western:** I can understand that all our civil servants are incredibly professional and trying to do their very best, but my question was: they are reporting a reduction in resource and budget. I have heard a figure quoted of 30%. Is that a figure you understand or you could verify?

George Hollingbery: No. I do apologise.

Q330 **Matt Western:** Perhaps that could be verified and we can check by individual embassy. But how are we going to achieve what you are clearly trying to set out? I understand the challenges but you are saying that you are not currently on track to get to those 40 agreements. We are just trying to establish what is behind this, and I am saying that we are hearing reports that the embassies are having budgets cut.

George Hollingbery: There are two issues here. First, are budgets being cut? At the DIT level there has been some rationalisation, not wide and deep but there has been some and we are putting resource into where we think it is most needed and most used. That is either to create export opportunities for British business or it is inward direct investment or it is to help us negotiate the free trade deals that we are doing at the moment, and indeed to deal with business as a whole across all posts.

To conflate that with: this is a reason why we are not getting these free trade deals is just fundamentally incorrect. We have the resource in post that we need. We have the relationships we need with those countries with whom we are trying to transition an FTA. It is not a matter of how many staff we throw at this. It is not a matter of how many staff we



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throw at it in London or in post. We have enormous levels of contact with all of these countries.

As I have already illustrated, we have had nine rounds of discussion simply with SACU-M to discuss their particular issues and similar levels of negotiation where there is enthusiasm on the other side—and that is the key issue—with other partners. It is not that we don't have the resource. It is just that, as I laid out quite extensively—and I do apologise for that—when we started, there are a lot of complexities about this, so many moving parts. It would not matter, frankly, how many staff we threw at it, a lot of these issues would not go away. A lot of them are political.

Q331 Chair: We are coming to the end of this first session. On Northern Ireland: if the UK finds itself with Northern Ireland remaining in the ambit of the European Union, which business in Northern Ireland incidentally welcomes and business in Northern Ireland has woken up. I spoke to some of them yesterday. They are very keen that they have a single market and customs union and that total sweet spot and don't take the hit of Brexit. The Chancellor noted it this morning.

When we come to the trade agreement where does the situation in Northern Ireland complicate any negotiations or discussion you might have with other countries, because you are not going to be able to deliver the UK as an entirety as it is at the moment. You are going to be delivering GB only. In what form has this been given, Minister?

George Hollingbery: It is only in the backstop, correct? I am here to be educated as well but my belief is this is only an issue in the backstop. I will be absolutely honest with you. I have not had a conversation about this with any bilateral partner at all.

Q332 Chair: Final question. Under the withdrawal agreement, Article 129, the EU will notify third-country parties to EU trade agreements that the UK is to be treated during the transition period as if it were still a member state for the purpose of those agreements. What evidence is there that the other countries will accept that situation?

George Hollingbery: The answer is quite a good deal of it, but I will let Graham answer.

Graham Zebedee: There are a number of countries who have made public statements in support of that approach explicitly.

Q333 Chair: What is the number of countries that have done that?

Graham Zebedee: Australia, Brazil, Canada, Chile, Egypt, ESA countries, Iceland, Israel, Lichtenstein, Morocco, New Zealand, Norway, Panama, Peru, Singapore, South Africa, SACU, Switzerland and Ukraine. I think there might be 19.

Q334 Chair: They are happy to accept that. The ones that have not made any comment?



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Graham Zebedee: Those are the ones who have been content to say so publicly. We have discussed it with all of them. Others have been privately comfortable with it but wanted to see the detail of the actual text of the EU's notification before saying anything to us explicitly.

Q335 **Chair:** If there is a transition period achieved, if any deal is accepted at some point, the UK should still be benefiting for those 21 months or 21 years, or whatever the transition turns out to be, from the majority of those 40 deals?

Graham Zebedee: That is the intention.

Q336 **Chair:** Is that the intention of third parties? That is one thing. You have to remember in trade there is another side of the table.

Graham Zebedee: All the indications that we have had from countries, where there is an existing EU free trade agreement, are that they are happy with this intention from the Commission to issue that notification to the effect the UK should continue to be considered party to the agreements during the implementation period. When they see the actual texts from the Commission, they will make at that point a final judgment. We will encourage them to see it as an acceptable basis for continuing to consider the UK in that light.

Chair: There was a mention of happiness in your answer and, on that point, I will stop this first panel.