

Welsh Affairs Committee

Oral evidence: [Brexit and trade: implications for Wales](#), HC 176

Thursday 17 September 2020

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Members present: Stephen Crabb (Chair); Simon Baynes; Geraint Davies; Ruth Jones; Ben Lake; Beth Winter.

Questions 35 - 69

Witnesses

I: Professor Patrick Minford, Professor of Applied Economics, Cardiff Business School; Dr Ludivine Petetin, Senior Lecturer in Law, Cardiff University; Professor Sangeeta Khorana, Professor of International Trade, Bournemouth University; and Professor Nicholas Perdikis, Professor in International Business Economy, Aberystwyth University.



Examination of Witnesses

Witnesses: Professor Patrick Minford, Dr Ludivine Petetin, Professor Sangeeta Khorana and Professor Nicholas Perdikis.

Q35 **Chair:** Good morning and welcome to Committee Room 5 in the House of Commons for this session of the Welsh Affairs Committee, part of our ongoing inquiry into the implications for Wales of post-Brexit trade arrangements. We are grateful this morning to be joined by another panel of prominent experts, this time a panel of academics—a mixture of economics and trade policy experts—who are helping us with our inquiry. We are joined by Professor Patrick Minford, Dr Ludivine Petetin, Professor Sangeeta Khorana and Professor Nicholas Perdikis.

Before we get into our lines of questioning, perhaps I could ask the panel to introduce themselves very briefly, to say what you do and the particular field of expertise that you have been working in.

Professor Minford: Good morning. I am professor of economics at Cardiff University. I work on the economy and trade. I emphasise that I am not an expert on the Welsh economy, but I have come to talk about those more general issues.

Dr Petetin: I am Ludivine Petetin. I am a senior lecturer in law at the school of law and politics at Cardiff University and at the Wales Governance Centre. I usually research on trade, agricultural products and food.

Professor Khorana: Good morning, everyone. I am Sangeeta Khorana. I am professor of economics at Bournemouth University and my area of expertise is the design of trade agreements.

Professor Perdikis: Good morning. I am professor of international business at Aberystwyth. My main areas are trade and trade policy. A couple of years ago I was a Welsh Assembly fellow and I wrote a report, along with Sangeeta, on the implications of Brexit for the Welsh economy.

Q36 **Chair:** Thank you very much. Can the panellists, in broad and general terms, give us their assessment of where we are currently with the trade negotiations and what are the realistic trade options facing the UK as we approach the end of the transition period?

Professor Minford: We are at the stage in the negotiations where there is quite a lot of dispute and both sides are pushing their agenda pretty hard. Therefore, there is a lot of noise. My assessment is that it is in the interests of both sides to have an agreement, and the EU particularly will not want tariffs levied under a no-deal world trade agreement basis, so I think there will ultimately be an agreement. That will be, in my opinion, good for trade because it will keep down the barriers between the UK and the EU, and it will enable the UK to strike free trade agreements with



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non-EU countries, which is important to get the gains from trade from the Brexit process.

Dr Petetin: I agree that a deal between the EU and the UK would be preferable for both economies, but, of course, what we have seen over the last couple of weeks, with the Internal Market Bill, is that some sections of the European Parliament have been very clear that, if the withdrawal agreement is not respected by the UK, they will not sign off on any future trade deal. That is something to consider; there may be a deal but the European Parliament, or even some of the member states, may not be willing to sign off on it, due to what has happened with the Internal Market Bill and the withdrawal agreement.

Q37 **Chair:** If I were to press you to say whether, on balance, you think there will be a deal, are you more or less optimistic that that deal will happen at this point?

Dr Petetin: I think that both sides want it, so I hope there will be a deal. It is in the interests of both entities to have a deal and to lower trade barriers, in particular non-tariff barriers, because what we are focusing on mostly is what we hear about, which is a lot of tariffs. What we also need to focus on is non-tariff barriers, checks, inspections, et cetera.

Q38 **Chair:** Professor Khorana, do you agree with the previous two panellists that the logical direction that both the EU and the UK are moving in is inevitably towards some kind of agreement, albeit with a bit of rocky travelling on the way?

Professor Khorana: Yes, I agree with the views of Dr Petetin and Professor Minford. In my opinion, a sudden exit is unlikely. It will not be an abrupt exit, but at the moment we clearly see that there is lack of progress on where we should have been in the negotiations, and time is not on our side. The deal has to be done—an agreement has to be reached—as early as possible, preferably before 15 October for it to be implemented from 1 January.

However, if the UK and the EU do not reach a deal, it will be trade on WTO terms and there will be tariffs and quotas, and that is something both partners will not like. In my opinion, a deal is highly likely, although it may be, again, a case of taking it to the wire and then agreeing.

Q39 **Chair:** Is it really as binary as that? It is either the deal or no deal. If we run up against the wire, as you say, is there a prospect for some interim agreements that tide over the negotiations to another phase? Do you think that is at all likely, or is it simply on/off, deal or no deal?

Professor Khorana: It is not that binary. I agree with you, Mr Crabb. There are several options for the future deal between the UK and the EU. One is that they could include an implementation phase as part of the future relationship treaty; that will be the time when the new treaty comes into force. Secondly, there could be a new transition period, which could begin on 31 December and would mean that they will have to strike



an entirely new deal. Another option is that they could create an implementation period to prepare for no agreement. There are different options.

Q40 **Chair:** Professor Perdikis, do you concur?

Professor Perdikis: I concur with Professor Sangeeta's view on the possibilities of transition periods, sectoral agreements and things like that to tide us over whatever barriers might exist on 31 December. I certainly agree with that. By and large, I agree with Professor Minford and the other speaker that a deal is more likely than no deal. The shape of that is going to be an interesting feature.

Certainly for Wales, no deal would be far more harmful than it would be for the rest of the UK. We send about 67% of our exports to the EU, so for us as an exporting nation, and manufacturers in particular, it is more essential that we have a deal than no deal. But, like the other speakers—Sangeeta is right—if it came up to the wire, I am sure, given the mutual benefits for both the UK and the EU, that something would be done to tide us over.

I am not optimistic that something could be found quickly, but I am sure something would happen, yes. If we found something to do for Northern Ireland at the last minute, I am sure we could do something for that as well.

Q41 **Chair:** Could I pick up on one thing you said? It is about Wales being affected more than the rest of the UK, and this is a question I want to put to you, Professor Perdikis, and all of the panel. To what extent are Welsh economic interests aligned with UK economic interests as a whole in terms of whatever the future trade model is with the EU? If something is more or less good for the UK, is it also the case that it is more or less good for Wales in broadly the same measure, or do our economic interests diverge to such an extent that there is a particular trade deal that Wales needs to protect its economic interests?

Professor Perdikis: My view is that a trade deal for the UK is important for Wales because the bulk of Wales's trade is with the rest of the UK, so it has to be good for the UK to be good for Wales. But there are certain areas or sectors where you would hope that there would be something, not preference necessarily. If we had a free trade deal with the EU, it would affect all UK and Welsh industries equally. The problem, if there is no deal, is that it is going to impact more on certain sectors in Wales than it would perhaps for the rest of the UK. That is all I was saying.

Professor Minford: Wales's interests are pretty much the same as the UK's. The trade possibilities of free trade with the rest of the world and the effect of that on prices is pretty much the same in Wales as it is in the UK. Free trade agreements with the rest of the world will lower prices and lower protection for food and manufacturing industries, across the UK and also in Wales. That will give a benefit to Welsh consumers and create



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more competition for Welsh food and manufacturing industries. That is also true of the UK generally.

The main difference with Wales is that there is a bigger proportion of production in Wales devoted to food and manufacturing than there is in the UK on average. Obviously, there are differences, but the essential gains and the broad effects are the same; it is simply that the Welsh economy structure is a bit more tilted towards those two industries that are currently protected by the customs union.

Professor Khorana: If we look at trade detail, we can see that the total value of Welsh exports to the EU is greater than for exports to the non-EU, so having a deal for Wales is very important because the Welsh economy is more reliant on the EU than it is on the UK. That is what data tells us if we look closely at it; hence, it is really important from the perspective of Wales that there is some kind of a deal. As a proportion of output, there are three sectors of the Welsh economy that are heavily dependent on the EU.

Dr Petetin: I agree. As Sangeeta said, two thirds of Welsh exports are being sent to the EU, which is quite a huge amount, while only a fifth goes to North America. There is a huge interest for the Welsh economy to have a trade deal. As was said, there is of course a huge difference between the UK economy, which is mostly service based, and the Welsh economy, which relies mostly on goods and manufacturing.

Q42 **Ben Lake:** I add my thanks to the panel for joining us this morning.

I would like to ask for a little more about the impact of a no-deal outcome on the Welsh economy. I think all the panellists agree that it would be in everybody's interests that a deal is struck, but should there be a no-deal outcome at the end of this year, could you outline a little more about the sectoral impacts and how the Welsh economy will be impacted particularly? Which sectors do you think would be especially impacted?

Professor Khorana: The main sectors that would be heavily impacted as a result of no deal would be, first, agricultural exports—beef and lamb. In manufactured goods, it would be the machinery and transport equipment sector, which is very important. It will be heavily negatively impacted because it is heavily reliant on EU trade, either directly or indirectly as part of the supply chain. To some extent, services would also be impacted because manufacturing services are nearly 63% of total services exported to the EU by Wales.

Those, roughly, would be the three main sectors. I would break it down to agriculture, manufacturing and services.

Professor Minford: It is important to realise that there are price effects. A lot of people look at these industries in terms of volume effects, but I think the main effects will be price effects and the introduction of much more competition to the industries that are being talked about here as



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important for Wales. I do not think competition is bad for these industries. It will induce greater productivity growth and greater emphasis on raising value added, and moving away from unskilled labour-intensive activities towards skilled labour activities, which is not a bad outcome for the Welsh economy. Of course, the other thing to remember is that it is good for consumers—and Welsh consumers, like consumers anywhere else, benefit from lower prices.

I do not think no deal is a tragic outcome. There will still be free trade deals with the rest of the world that will introduce free trade more generally in the Welsh economy and the UK economy. That is going to be beneficial to the economy and can lead to beneficial reactions from Welsh producers, as well as beneficial consequences for Welsh consumers.

One needs to see it in those terms and not in terms of volumes, because I do not think the volumes will be much affected, to be quite frank. Once competition happens and prices fall, producers still have an interest in producing. In terms of the EU, if there is no deal, there will be tariffs, of course, but EU consumers will find that they face prices from UK producers that are lower because the competition in the UK market will be greater, and EU consumers will have to pay the tariffs in order to get supplies from UK and Welsh producers.

The other point to remember is that, besides tariff barriers, people talk a lot about non-tariff barriers, but given that all our products—of course, in Wales as well—conform completely to EU standards, there is no real basis on which there can be discrimination and non-tariff barriers against Welsh or UK producers. Of course, if there was that discrimination, it would lead to huge retaliation by the UK because it would mean that there would be no mutual agreements on standards, which is a complete no-no in terms of trade and would be illegal under WTO rules. We have to remember that the no-deal outcome would still be regulated by WTO rules, which are pretty strong on non-discrimination.

Dr Petetin: No deal would mean that products that the UK exports to the EU will be hit by tariffs, potentially huge tariffs, depending on which product we are looking at, and EU products coming into the UK will be hit by EU tariffs. That could mean that the prices we pay as consumers will increase as a result, because at the moment there are no tariffs placed on any products coming in from the EU. The first issue is the tariffs aspect.

The other aspect to consider is what will happen at the border, or at the multiple borders we have. There will be more checks and inspections at the border, more paperwork and more certification and licences for companies to export or import, depending on which side of the border they are. That will result in increased prices because it will take longer for products to travel, just because of the paperwork, which means that, with agricultural products and perishable products in particular, more products could be spoiled. Live animals could be more distressed. That would have



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to be taken into account and we would have to focus on how long it would take for products to cross the border between the UK and the rest of the EU. There would be a domino effect on the rest of the chain, and that needs to be considered.

Another aspect to consider is that in the UK global tariff, which was published by the Government earlier this year, there are some differences from what is currently in place for the EU common external tariff. The aim of the Government was clearly to simplify, have less red tape and reduce administrative burdens. What is important to look at is that there will be more products that are tariff free coming into the UK, which is positive for consumers and for foreign products coming in, so that is good. That is the positive aspect, I guess.

However, the future agricultural tariffs that are proposed are slightly lower on average than what currently exists, so that could put farmers across the UK, and in Wales in particular, at risk, with more products coming into the UK.

Professor Khorana: Right now, WTO tariffs are quite low; on industrial products, they are roughly around 2% or 3%, but on cars they would be around 10%, and that is what is relevant for the Welsh economy.

Agriculture is also very important for the Welsh economy, and there the tariffs are anywhere between 20% and 40%. Trade in services would also suffer if nothing is agreed in advance, so there are tariff implications. As previous speakers have alluded to non-tariff barriers, I draw attention to one technical point. We would have regulatory checks at the border. Yes, perishable goods would be wasted, but because of the regulatory regime of the EU, if Wales were to export beef meat—beef or lamb—it would be subject to 100% vet checks, which would be against the interests of the producers. Non-tariff barriers and tariff barriers would have a very major impact. The figures that I have given were, essentially, in terms of total value of trade and not in terms of volume.

Professor Perdakis: People have said most of the things I would say. There might well be some positive price effects, as Professor Minford says. The big issue is the time period in which structural change to the Welsh economy can occur and whether, in fact, people have the right skills to move from one sector to another. We probably need to do a lot more work on that.

To use a very trite example, I imagine we would have to reskill a lot of the people who live around here in mid-Wales and grow sheep to do something else if we were to lose the sheep market in Europe, or the beef market, or whatever it might be. Structural shifts need to be dealt with through some sort of policy to provide people with the right skills for the growing industries.



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I am a bit concerned that a no-deal exit would have major structural implications for the Welsh economy. I am not sure how resilient the Welsh economy is at the moment to be able to absorb those shocks.

Q43 Ben Lake: You mentioned in answer to one of the Chair's questions that sectoral agreements might be an option or a possibility, if I understood you correctly. If that is the case and we are facing a no-deal situation, for the sake of clarity, which would be the sectors that are, in your opinion, most in need of a sectoral agreement?

Professor Perdikis: I am concerned about the local. I suppose the agriculture thing would be badly impacted and, therefore, would need some sort of agreement. I am not optimistic. The EU does not like sectoral agreements; it is fighting against what it has with Switzerland at the moment. Apart from, "We'll allow your aircraft to fly into our country and ours to fly into yours," I cannot see much happening in that direction. I am very pessimistic about that.

Q44 Ben Lake: Professor Minford, you mentioned in an answer to one of the Chair's questions that not only would an agreement with the EU be in everybody's best interests, but it might also be needed, if I understood correctly, if we are to fully realise some of the gains of Brexit. Could you elaborate a little bit on what you meant?

Professor Minford: Let me clarify. I do not think no deal is a complete tragedy. The point is that we would still make free trade agreements with the rest of the world, and those are very important. Most of our trade goes to the rest of the world and not to the EU. I know in Wales it may not be quite the same, but in the UK a bit over 40% of our trade is with the EU and the other slightly under 60% is with the rest of the world.

If we carry out free trade agreements with the rest of the world, it will mean that products from the rest of the world will come here and we will have greater access to the rest of the world in terms of our outputs, and that will integrate us much more into the world economy than our current integration in the EU economy. I think that will bring down prices quite decisively, and that will still go ahead under no deal.

Then there is the question of tariffs with the EU. We and the EU will be in a new context in the way we price our products; we will be integrated in the world market and they will be competing in our market with the rest of the world. That is a big new factor that will, I think, benefit the UK economy and the Welsh economy.

If I may comment on non-tariff barriers and costs at the border, I mentioned earlier that WTO rules prevent discrimination against you if you obey their standards. That will stop an awful lot of the border disruptions that people have talked about. In terms of inspections at the border, there is another set of WTO rules about seamless borders, which often are ignored but say that border inspections must only take place when absolutely necessary and most cargos should go through without



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inspection in order to facilitate logistical transparency and ease of movement.

World Bank figures on logistics show that almost all countries obey the WTO rules on rapid port transfer. Only about 3% of the traffic going through ports is actually inspected by customs inspectors in practice because of those rules. I think one can exaggerate substantially the costs and disruption at ports due to inspections, because of those rules. I think that no deal is not as bad as it is painted. In fact, I think there will still be the main gains from our free trade agreements with the rest of the world.

As I mentioned earlier, people emphasise effects on volumes. Volumes will not be too much affected because, under the new competitive arrangements, there will still be an incentive to produce and to sell to other countries, simply at new prices. A lot of the worries that people have that the volumes of output in Wales will be badly affected are misplaced.

The last point is that the Welsh labour market, like the UK labour market generally, is very flexible. It has shown that it can bring unemployment down sharply in the face of quite big shocks, like the financial crisis, due to its flexibility, so I am quite optimistic about the labour market in the context of the sorts of shocks that we are talking about, which are mainly price shocks.

Dr Petetin: A huge exception to that is anything that is food related, so it is anything that would fall under the SPS agreements—the sanitary and phytosanitary agreements—because of the pests and diseases that can be carried by food or animals. As I said, and Sangeeta said, at the moment if any third country exports food of animal origin or if a live animal is imported into the EU, it will have to go through a border inspection post. That is currently what is happening, so you can easily check.

One of the first things that France and the EU did after Brexit was to build a border inspection post in Calais. There used not to be one, but they expect to be doing checks on animals and animal products under a future trade agreement. What we have not mentioned—maybe it is too obvious to say—is that the relationship between the EU and the UK at the moment is frictionless, but whatever the agreement looks like, there will be more friction, and therefore there will be checks, there will be inspections and some sectors of the economy will be more impacted than others. That is very clear, from what has happened in Calais and all the other border inspection posts across France and the rest of the EU that trades with the UK.

Q45 **Ruth Jones:** Thanks to the panel for coming today to give us your expert opinions. Can I ask a supplementary following on from Ben's questions? Professor Minford said that the majority of UK goods are exported to the rest of the world, not the EU. Can the other three in the panel give me an idea of how much Welsh exports are, and what percentage goes to the



EU and to the rest of the world?

Professor Khorana: If we look at trade data, in percentage terms, Welsh goods exports to the EU account for just over 60% of the total exports. This has been growing year on year. In 2014, it was 59% and now it is nearly two thirds—just under two thirds. Those are really big values. The remainder goes to the rest of the world, and the US is a very important partner.

Dr Petetin: I agree. Most agricultural exports from Wales go to the EU, so that is something to bear in mind.

Q46 **Ruth Jones:** I am going to move on to customs arrangements and border checks. Obviously, this is making us think very hard at the moment about Welsh exports and how we export. Considering ports and airports, what does the panel think about how increased border checks could affect the flow of goods from Wales to other countries? Do we have enough processes, structures and infrastructure in place at the moment to minimise disruption?

Professor Perdikis: Dr Petetin has already outlined the sorts of problems with border checks, particularly for agriculture, food products and things like that. I am not sure whether we have the right infrastructure in Wales.

I came across something and I have been trying to find it in the last couple of days, but I cannot seem to find it. I remember seeing something about Holyhead; they thought there was plenty of land around there for lorry parks so that we could sort that out. Fishguard, I should imagine, is another matter. Those of us who have crossed to Ireland from Fishguard know how narrow the road is there, and all the rest of it.

Apart from that anecdotal bit, I cannot say very much about it. As far as Cardiff airport is concerned, there seems to be plenty of land nearby to store things, but who knows? I suppose very little comes in by air, but I do not have those statistics. Other panel members might have more idea than I do on that.

Dr Petetin: As I mentioned a few minutes ago, what I say relates only to the trade of live animals and products of animal origin. Here I am thinking about the Irish and Welsh border.

There is a lot of beef coming into the UK via Wales, and one of the issues is that we do not have a border control post in Wales, whether at a port or any of our airports. Border control posts across the UK are mostly everywhere but Wales, and that means that, if we do not have the infrastructure to check what is coming into the UK, it will potentially have an impact on our food safety. If we are talking about live animals as well, they could bring other diseases into the UK. That infrastructure is currently missing. Whether there has been discussion in the Welsh Government and the UK Government about building it, I am unsure.



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Professor Khorana: At the moment, under the current arrangements with the EU, we have a seamless arrangement, so there is free flow of goods between different ports, between the EU and the UK.

We must bear in mind that 11% of total UK trade by volume is handled through Welsh ports, so obviously a lot of concern has been raised with regards to the Welsh ports, especially Holyhead and Fishguard. The concerns are threefold, so I will break them up that way.

One is that there would be reintroduction of border controls and checks, and that would increase the amount of paperwork that goes with them. The second is that it could lead to delay, especially in Holyhead and Fishguard, which are two ports that have grown phenomenally post-1993. Holyhead might be particularly impacted because it is the second largest port in the UK for roll-on, roll-off. It is the port for trading products with Dublin as well; it is in that corridor.

The third concern is potential disruptions to supply chains. Right now, our manufacturing industry is geared to just-in-time supply chains. That is a major concern of the manufacturing sector. Those are the three concerns I would like to highlight.

You asked about preparedness. I have been talking to quite a few logistics providers, and they have explicitly expressed concern about the lack of infrastructure. This lack of infrastructure is in terms of preparedness—technological preparedness—because the software is not ready yet and it might not be ready until the end of December. Secondly, we do not have adequate, trained manpower to be able to comply and make sure that all the customs checks that are done are in order. Thirdly, we may have space constraints, especially at Fishguard, as Professor Perdikis mentioned.

There are those concerns, and I completely see where they are coming from. However, I read a couple of days ago that the Government have launched a special £700 million fund for technology. Having said that, the physical constraint that we have, which is that of space, cannot be managed, no matter what we do. To give you an example, off the top of my head, 400 units can be cleared from a ferry in an hour. Each one is roughly 16 metres, so if there were 400 of 16 metres in one hour, you can imagine the kind of traffic jams we are going to have on the A55.

I am happy to come in again, but those are my initial thoughts.

Ruth Jones: Thank you. It is helpful to have practical examples.

Professor Minford: Everyone knows there will now be a border, but the EU already has borders with a lot of countries with which it does not have any deals or free trade agreements. As I said before, the border arrangements are subject to WTO rules on seamlessness. Listening to my colleagues on the panel, you would think there weren't any rules about



this, that any country could disrupt the whole thing and say, “We’re going to inspect everything.” But then they would be in violation of WTO rules.

One of the things to note in EU trade, because it is no different from anybody else, is that there is pretty much seamlessness at the border. The Swiss border is, of course, subject to various sectoral deals, as Professor Perdakis said, but it has virtually no costs of transition at all at the border with the EU. As far as we know, generally speaking, that is true of EU trade with the rest of the world because they obey the rules. The EU are sticklers for obeying international law, as we know.

Perhaps I can go to animals, on which my colleagues majored quite heavily in their replies. There are such things as standards and veterinary inspections inside all countries. WTO rules say that you should pre-notify shipments and subject them to repeat procedures, which assume that standards have been verified by people in those countries—veterinary experts and so forth.

While there is going to be change, and while the changes are going on there will no doubt be some disruption, we should not exaggerate how we will all behave at the border in violation of WTO rules on all these products. We often forget that trade is a repeat process and most trade is pre-notified by computer communication to port authorities. At most of our major ports—for example, Bristol, which I visited—there is an awful lot of trade with non-EU countries that has to be dealt with through inspection, in principle.

Most of the car imports from the rest of the world—the non-EU—come through Bristol, and they are hardly inspected because they are repeat transactions that are pre-notified to the port authority before they arrive. When they arrive, they are not inspected. As I mentioned, 97% of trade is not inspected in practice, because it is pre-notified and it is a repeat transaction that has been verified in the past by various sorts of off-border inspection and so on, or even border inspection.

We can get ourselves into a big lather over all this because it is a change, but there are rules for dealing with it. When we have a border with the EU, it will not be a lawless zone where anybody in the EU can hold everything up at their own whim.

Q47 Ruth Jones: In relation to SMEs, regardless of what Professor Minford says, there will be different arrangements. Dr Petetin, how do you see the different increased customs procedures and checks affecting SMEs directly?

Dr Petetin: It will be more difficult for SMEs than it will be for big companies to deal with the changes that we are discussing. Even if we are talking about pre-notification, et cetera, it is something that no UK business currently has to deal with in the EU. That is going to be a huge change, and it will impact SMEs more than bigger businesses, simply because of the lack of resources in terms of funds, staff, et cetera.



It will also have an impact on supply chains. Okay, there will be new opportunities to explore what is outside the EU—I agree with that—but it will be difficult for small SMEs to find new ways to trade and to create new supply chains, both at the moment and in the future, because we are still unclear about what future trade agreements will look like.

It is difficult for businesses to think, “Okay, what can we do? What are the rules?” We do not know. Everyone is talking about the future US trade deal or even rolled-over agreements like the one with Japan. But even with the rolled-over agreement with Japan, there are still all the underpinnings and the rules to look at; what is going to happen, for instance, to agrifood products is still unclear. It is the uncertainty, and it is still happening. Is there going to be a deal or not? We are three months and a bit away, and the uncertainty is going to hit smaller businesses harder than bigger businesses that have the resources, the funds and the staff to cope with the changes, and constantly to be looking at the Government website to see what they are supposed to do next. It is something to consider, and the Welsh economy is mostly made up of SMEs.

Ruth Jones: That is helpful. Chair, do I have time for one more question or do you want to carry on to another subject?

Chair: Sure, Ruth. Ask another question.

Q48 **Ruth Jones:** I want to ask the panel this in general. We have outlined some of the current restrictions in terms of physical space and things. What additional processes and infrastructure do you think are required at Welsh ports, bearing in mind that at the moment they are not heavily customised or regulated? In the event of the UK trading with the EU on WTO terms, what additional infrastructure and processes would be needed? Could I go to Professor Perdakis first?

Professor Perdakis: Dr Petetin can probably answer that better than me because of the detail she has on it, but I imagine we will need, as she and maybe Professor Khorana mentioned, some sort of extra customs arrangements to deal with the checks on food and animals.

I agree with Professor Minford that a lot of trade—whether it is 97% I do not know; I take his figures on trust, of course—goes through virtually on the nod. That is the case. But when you move to a new system, there are all the administrative things that you have to put in place. They might be one-off to begin with, but there would also be ongoing costs involved in keeping the infrastructure in place. The costs will be there, and they will be more substantial than Professor Minford says.

In the dim and distant past, I carried cargos from one place to another in a previous job, and I can tell you that port officials were difficult to deal with all over the world. Maybe things have moved on these days.

Ruth Jones: Thank you for your practical application.



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Dr Petetin: I repeat what I said on the previous question. As Sangeeta said, it is about resources in terms of staff to deal with the additional obligations they will have to comply with, as well as the infrastructure at the border control post, which I mentioned, for anything in relation to animals and animal products coming from Ireland and potentially, depending on what the UK wants to do more generally, worldwide. That is something to consider.

Professor Khorana: I will start with something positive this time. I was speaking to someone from the Welsh Ports Group, and they looked at all the changes that are coming as a very important opportunity for Welsh ports because they thought that it would allow them to move aspects of production or processing back to the UK.

Let me now go back and address the question of what would be required to be done at the ports. The only solution is getting the right technology in place. We already have the fund that came earlier this month, but, from what I understand, I do not think it will be fully functional by the time we exit. We have no current arrangement with the EU.

That takes me back to the first question, and my first response, when I said that we might actually go in for some kind of implementation-period deal. We may agree a deal but then say we need some more time to implement and get the border technology and the solutions in place. Technology can be managed, but, having said that, the constraint that we face in terms of physical space is something beyond our control.

Professor Minford: I think it is mainly a software problem, because of what I said: mostly, these products go through uninspected. Obviously, there is the moment when all these things are introduced, which is going to be different and there is going to be a certain amount of confusion, and particularly SMEs will find it difficult to make the transition because they do not have as many resources as the big companies, but this will be going on for an awfully long time. We have agreed to do Brexit. Some of my colleagues do not seem to want it to happen, but we have to agree that it is going to happen now and, hopefully, it will happen with a deal, in which case both sides will have an interest in making these things go smoothly.

In the case of no deal, of course, that will not be the case, and there might be some efforts by some Governments to be disruptive, but, as I said, those efforts would be pretty illegal. The main thing, because of a lack of inspection, is going to be the software that enables all the pre-notification. I am no expert on customs software, but I understand from HMRC that they reckon the software will all be in place. There is a new system, which they think will cope, and there are back-up systems that can be brought online if the new system does not work. My understanding from HMRC, who are in charge of the software, is that it is going to be there. My colleagues may know better, but that is the



information I am hearing from HMRC. That is going to be the main problem.

- Q49 **Geraint Davies:** I want to ask a question about the impact of no deal—obviously, we do not have a deal and the negotiations have to be ended by October—on both manufacturing and agriculture immediately in January, particularly on food supplies. We have just heard from Patrick Minford that software is already in place or coming into place, but, with no deal, isn't it the case that, given that Wales has 60% of its exports to the EU, we are likely to have very sudden disruption of both agriculture and manufactured products in January?

Professor Khorana: If it were to be an abrupt exit, I agree that would be the case. There would be massive implications for supply chains because they would be disrupted. We should have had enough time to get ready for that eventuality, but if we do not have that kind of time, I am afraid we will end up with major supply chain disruptions, and there could be an impact on perishable foods and on the manufacturing sector, because, as I mentioned, we are heavily reliant on just-in-time supply chains.

In the long and medium term, there would be a negative impact on gross domestic product as well. The UK Government's modelling exercise and impact assessments, and the ones we did for the Welsh economy, definitely show there will be a downward revision of gross domestic product. That, together with the coronavirus impact, is not going to be a very good situation for Wales to face.

- Q50 **Geraint Davies:** The EU says it wants to keep its standards and not be undercut by environmental and other standards, and that is one of the blocks on the issue. Given that we already adopt EU standards, would it be easier simply to adopt those as minimum standards and maybe have different standards elsewhere?

Professor Khorana: I have been following all the newspapers and reports that have been published on the issue, and my understanding is that the Government do not have it in mind to lower those standards at all. As far as I understand it, labour standards, human rights and food standards are definitely going to be protected. Remember that the EU standards are more than the minimum standards of the WTO, so for the UK to do trade with other countries will not be a problem, and we are on EU standards and regulations anyway.

- Q51 **Geraint Davies:** All the same, if there is no deal, the impact on food, in particular lamb exports, would, in your view, be quite significant, as would the impact on food supplies to Britain. Is that correct?

Professor Khorana: Yes, the export of meat would be impacted. Dr Petetin alluded to the special veterinary checks at the borders, and those would kick in. At this point in time, we do not have those checks because there are special arrangements in place. They would kick in and, as a result, Welsh farmers and meat producers would suffer. Given that ports



would be congested—this is what we find from reading all the literature and information coming out in the public domain—there could be food shortages because of congestion at ports. It is really important that port handling capacity is increased immediately.

Q52 Geraint Davies: Dr Petetin, if there was no deal, what would be the impact on food supplies and food exports from Wales? We have heard some glib replies about how the computer software would sort it out, but given that we would need new checks, what would be the impact on food supplies, exports and food availability in Britain?

Dr Petetin: In terms of the food supply, if there was a really abrupt change, let's say from 31 December to 1 January—although it is not as simple as that—because of the just-in-time supply chain that the world works under, which Sangeeta mentioned, we could have some food shortages, a bit like we did during Covid-19 right at the beginning, simply because all of a sudden all the paperwork and all the inspections would be coming in. The problem is that agrifood products are often perishable. If you think about all the fruit and veg that we import from Spain or the Netherlands, some of them cannot stay stuck in a truck somewhere for days—I am going to the extreme a little. That is something to consider. That is why it would be best to have a deal.

One of your questions was in relation to EU standards and UK standards at the moment. Of course, at the moment they are the same in terms of agri-environmental standards, but that could change for both the UK and the EU in the future. This is the whole issue where the EU would like a level playing field between the UK and the EU, and the UK would more or less like to do its own thing.

Q53 Geraint Davies: We have heard about the WTO, and of course the WTO found against the EU in relation to hormone-impregnated beef and chlorinated chicken, but the EU held its ground because it is big enough to do so. Now that we are Brexited, particularly if we face no deal, do you think the pressure of the United States, if we have a deal with them, to have hormone-impregnated beef and chlorinated chicken will be irresistible? Basically, we will not be able to resist the pressure to have those products in our market, and that in turn will threaten our relationship with EU exports.

Dr Petetin: For growth hormones, it is slightly different from chlorinated chicken and all the rest. The EU lost its case against the US in relation to growth hormones and has to make concessions to the US on a daily basis, in terms of its trade, to compensate the US for the loss of trade with the EU because it cannot export beef grown with hormones.

The issue for the UK after the transition period will be to know what kind of standard it wants—whether it wants to go for a more risk-based approach, which is more like the US, or whether it wants to go more for a precautionary approach, which is more like the EU approach on standards. That is where you have a clash, where the EU is usually more



precautionary; if there is scientific uncertainty, we say, "No, let's take a step back."

The UK may want to carry forward the ban on growth hormones. If it wanted to go more for a risk-based approach, a more US approach, it could decide both to let in beef with growth hormones and to rear cattle with growth hormones, potentially. But that will depend on—

Q54 Geraint Davies: That would consolidate it. What I am getting at is that if we have no deal with the EU, and the US says, "We want growth hormones or nothing," and we agree to that, it will prejudice any future opportunity for a deal with Europe, won't it?

Dr Petetin: It will be more difficult because you will have standards. However, the standards that the UK produces at—for instance, its beef, lamb or whatever—can be different from the standards for what comes into the UK. If the beef or the lamb is reared to European standards, it can still be exported to the EU without any problems.

Q55 Geraint Davies: I am sorry to interrupt, but I want to be sure I have understood you correctly. If a lot of American hormone-impregnated beef, which may give rise to premature puberty in children and the like, arrives in Northern Ireland, is the EU going to be happy with that? It will just traipse across the border into the EU via southern Ireland and there won't be any repercussions. Is that right?

Dr Petetin: Here we are dealing with the Northern Ireland protocol, and I have to say that I am not an expert on that. Of course, a huge issue for the EU is what comes into Northern Ireland and what would then be allowed into the Republic of Ireland and into GB, as opposed to the UK. That is slightly different.

Q56 Geraint Davies: Professor Minford, if there is no deal, will there be food shortages in Britain in January?

Professor Minford: I will give you another glib answer, Geraint, since you don't like my answers very much. I don't think there will be food shortages. If there is no deal, it does not mean there will be lawlessness. I mentioned earlier that there are WTO rules. There are also economic interests. My colleagues on the panel mentioned Spain, which exports to us an awful lot of agricultural products. They are not going to want them to rot on the docks and not get through to consumers. They are part of the EU, and there are a lot of EU exporters who have a strong interest in law and order and the imposition of WTO rules, so that ports are not clogged up illegally against the seamlessness requirements of WTO rules.

Effectively, my colleagues and you are saying that the EU will be so neglectful of their own economic interests that, in the case of no deal, they will simply go ahead and blockade things and stop stuff getting through. That would be hugely against their economic interests.



At the very beginning of this session—I don't think you had arrived—we talked about no deal and Professor Perdakis rightly pointed out that there are all sorts of possible transitional arrangements that would occur if there were no deal. It is not a binary thing, and I think my colleagues on the panel all agree that it is not a binary thing. There would not be complete lawlessness and everything going to hell in a handcart, which is what is now coming out of this discussion, quite implausibly, if I may say so, and rather encouraged by you.

Q57 Geraint Davies: There has been evidence to the House of Commons EFRA Committee from the British Retail Consortium that they think there is a massive risk of food shortages—80% of our fresh products in Britain—from no deal, and that that risk is much greater than we faced from food shortages from Covid.

Secondly, we have heard evidence that the EU knows they have more trade within the EU between the EU27 than between the EU and Britain, and they are concerned about the undercutting of standards. There is a real risk, a perceived risk, certainly by industry, of food shortages that you seem to be brushing aside.

Professor Minford: I am not brushing it aside, but you have to remember that British industry was generally against Brexit and has always had an interest in pushing up these dangers. On the British Retail Consortium, we have seen huge structural changes going on, with a lot of stuff coming in through online ordering and through distribution channels that have avoided a lot of the shortages that they feared would occur. There is a lot of substitution in the economy that all this discussion is ignoring, as well as the economic interests of the Governments involved.

Obviously, nobody knows exactly what is going to happen, so it is perfectly free for any industrial vested interest to get up and say that doom and gloom threatens if things they do not like happen. It is quite clear that the CBI has been strongly against Brexit from the very start and has never lost an opportunity to try to push the idea that we should not do it properly and should go to as soft a Brexit as possible. It is all part of a pattern. I accept that there are these views expressed by British industrialists, but they have a strong vested interest.

Chair: Professor Minford, I am sorry to cut you off. In the interests of good timekeeping, perhaps we could keep the discussion moving forward. We have had a lot on the record already from panellists about no deal and some of those arguments, so could I appeal to you, Geraint, to push forward with some of your questions or bring them to a close?

Q58 Geraint Davies: Fair enough. Fair point. Patrick Minford, you said in a previous hearing that the car industry is, essentially, going to suffer from Brexit. Would you accept now that there will be chronically fewer car exports to Europe, in particular from Japanese manufacturers, and that no deal in particular would be a hammer blow to companies like Airbus? I know you said they have a vested interest, but that vested interest is in



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making profitable industry and employing people. If you call that a vested interest, I agree, but would you agree with your previous statement that this is going to be bad for manufacturing?

Professor Minford: I didn't say that, actually. I didn't say it was bad for manufacturing. I said that we would face more competition, that prices would fall, and I reiterated that earlier in this session. I said earlier that prices are going to fall due to greater competition, due to opening up our trade to the rest of the world, so that world prices would prevail in the UK, including in Wales, and would lead to improvements in welfare for consumers, with lower prices, and a huge incentive for industries to raise productivity, which, of course, they have done in the past very substantially due to the pressures of competition from globalisation. I think it will be more of the same and good for the economy. I am just reiterating what I said earlier.

Geraint Davies: Fair enough. Can I turn to Professor Perdikis?

Chair: A final question, please, Geraint.

Q59 **Geraint Davies:** In the event that we have no deal, what would it mean for our negotiating strength in delivering other deals? In other words, when we are talking with other countries who know we are up against the wall and desperate for a deal with them because we do not have one with the EU, would that mean that the terms on which we get those deals will be undermined?

Professor Perdikis: I should imagine it depends on who you are dealing with and what your cards are. I do not think you can say that we would be in a weaker or a stronger position; it just depends on who you are going to be dealing with.

The UK trades more with the outside world than with the EU, but through the EU it has very many free trade agreements. As long as we can roll those over and maintain them, that is fine, and if we can come up with some deals with other countries, or in fact improve on the ones we have—à la Japan—we should be able to carry out successful trade negotiations. Countries will want to trade with us, as we will want to trade with others. I have always felt, and have never made a secret of it, that our strength within the EU was more than it would be on our own, but, as Patrick says, we are leaving, and we have to accept that. It is no good fighting wars and battles that are bygone.

What we need to do, I think—perhaps this moves to later questions—is consider what sort of economy we are going to have in the UK and Wales, and where we are going to go with that, because the traditional industries, as they are now, manufacturing and whatever, might well find themselves in difficulties trading with the rest of the world. There is an element of protection, as Patrick says, from being in the EU. Coming out and having more competition might well lead to productivity improvements, although we have all been suffering from low productivity



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and that has been a feature throughout most of the major economies in the world. We do not really know why that is the case. There are issues.

That was a rambling answer to your very precise question, and I am sorry for that.

Q60 Geraint Davies: Professor Minford said it is good for consumers but difficult for producers, so we will have to cut our costs, which would include wage costs, but at the same time increase productivity. Wouldn't international companies just move their production to somewhere with cheaper labour than Britain in the face of all the tariffs? It sounds like a nightmare. I know we are Brexiting, but that doesn't mean it is going to be very pleasant, does it?

Professor Perdikis: I am sure that multinational companies that come to Wales to service the EU, if there is no deal and there are problems, they are not going to do it here; they are going to shift. We have already seen some of that, although people are not saying it. For Wales, Airbus might well remove their wing manufacturing and take it down to Toulouse. Why on earth would you carry out the sort of production system you have at the moment? Who knows? A lot remains to be seen. I will leave it at that, since we are short of time.

Chair: Thank you very much.

Q61 Beth Winter: Thank you, panellists, for giving us your time this morning. You have already spoken about some of the areas I was going to cover, so I will probably be reasonably brief.

I want to focus on the role of the devolved Governments, and I have two questions. First, what role do you feel the devolved Administrations should have in trade negotiations? We have talked about agriculture and animal welfare standards, and we have a lot of devolved policy in relation to the environment. It would be fair to say that the Welsh Government and others do not feel they have been properly included in trade negotiations. I would like your comments on that and how we should be involved moving forward.

Professor Minford: Fundamentally, the power of trade, general standards and the regulations for the single UK market are a national responsibility. But, of course, all the devolved Governments have interests in that and, as I understand it, they contribute to the discussion of how the national Government go about their affairs. I do not think the devolved Governments can technically veto any trade agreement on the grounds that they do not want to go along with it, but, on the other hand, I would expect the national Government to consult and take account of the views of the devolved Governments.

Professor Perdikis: My view would be similar. I hope that central Government would take cognisance of the views of the devolved Administrations because there are differences in interests, as we have seen, in agriculture, manufacturing and the impact that different trade



deals might have on different parts of the UK. I hope there would be cognisance and respect for those views. If we have devolved Administrations that are supposed to represent the interests of their region, certainly one would hope that their views would be included.

Dr Petetin: I concur. The problem is that it has been very sporadic. Discussions between the Department for International Trade and the devolveds have been sporadic. The devolveds should be included more regularly in development and in talks. There should be more regular consultations and roundtables for the devolveds to feed into ongoing and future negotiations, so that their interests are reflected in future trade deals.

Professor Khorana: The commitments that will be undertaken by the UK as a whole will have to be implemented by the devolved Administrations. That is what makes it really important to have exchange of views and to take on board their priority sectors.

I draw your attention to Canada, which is not exactly the UK political structure—you have the federal and the states there. It is the same for the US. When Canada was negotiating the trade agreement with the EU, the states were very actively involved. It was precisely for this reason that they were involved: Canada understood very clearly that the commitments it would make as a country would have implications in different provinces. Hence, they were involved. To facilitate the roll-out and the implementation of any agreement, federal structures generally consult states and provinces. It is a similar story in the US as well.

Q62 **Beth Winter:** I do not want to miss the opportunity to ask about the Internal Market Bill that is currently going through Parliament. There are grave concerns about the implications of the Bill in terms of our ability to get a deal. As you will have seen in the press, there are lots of concerns about breaching international law, a race to the bottom on standards and undermining the devolution arrangements. I would welcome your comments and views on the Bill at this stage, if possible.

Dr Petetin: The US in particular has been quite vocal. Joe Biden, the Chair of the House of Representatives and multiple Congress members have come forward to say that, if the Good Friday agreement was breached, there would not be a future trade deal with the UK. That is something to bear in mind, because one of the principles of international law is good faith. This is also built into the withdrawal agreement—I believe it is article 5. There is an issue of good faith, and if it is perceived as such by other countries, if the EU and the US perceive it like that, it will have repercussions for future trade deals that the UK wants to sign with other countries.

On the impact of the Internal Market Bill on devolution, there is a clear centralisation of powers. The Bill allows central Government to say that, if one part of the UK has lower standards than other parts of the UK, the other parts with higher standards will not be able to prevent those



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products with lower standards from coming in. The issue we have, which is something to bear in mind, is that Wales has historically, with the Well-being of Future Generations (Wales) Act and the Environment (Wales) Act, wanted higher standards. It wants to push for more, and other countries worldwide are looking at what it is doing. The problem with the way the Internal Market Bill is currently structured is that, even if Wales wanted to raise standards, it would still have to let products from other parts of the UK into its market.

What am I getting at? Sticking to what I know best, the consequences for agri-environment are that there could be a lowest common denominator and a race to the bottom. That is what will happen if there were competitive disadvantages between different parts of the UK, if one goes very high and the others either remain the same or deregulate. We have an issue about what we want in agri-environmental standards.

This could feed into future trade deals in terms of what level of standards we want. However, and more positively, one way out of the potential race to the bottom, as portrayed in the Internal Market Bill, is to work on common frameworks. The Bill creates a structure for the common frameworks that the four Governments have been working on. If we had a common framework that would raise the bar, obviously it would be the standard or standards for a specific sector across the UK and would mean that all four nations would have to abide by those standards. It is an incentive to agree common frameworks between the four nations to raise the bar and raise their standards, and that would feed into the Internal Market Bill, or the Internal Market Act when we have it.

Professor Perdikis: I do not think I have much to add. The key tool, as far as standards are concerned, is consumer awareness, and what consumers want. As long as it is clear to consumers that there are certain products that are of different standards, and that is stated clearly, it is up to consumers to make that sort of choice.

Having said that, yes, it could lead into trade agreements. I am going to leave it there because I want to think something through, if you don't mind.

Professor Khorana: Going back to your question on the Internal Market Bill, I would like to answer it from the perspective of trade negotiations. The Bill has charged up the negotiating atmosphere, and it has become very volatile because hostility has come in between the EU and the UK. The negotiating atmosphere has been dampened, and talks really have not progressed.

Why did that happen? Trust has been broken in this case. Trust is fundamental in any negotiation, and obviously trade agreements are no exception. The breakdown of trust between the EU and the UK is a major problem that we face; it is having an impact on progression and on timing, and, as already alluded to, it has had an impact on the UK-US proposed trade deal as well, where the US wants the Good Friday



agreement to be honoured. Most importantly, I think it might send a very wrong signal to other countries that the UK is trying to do a deal with. You cannot just break trust.

Professor Minford: I think this is all part of the negotiation, to be quite honest. I do not think the Internal Market Bill is illegal. It says that we have interests in the particular way in which the Northern Ireland protocol is carried out, and we are quite worried that the EU may carry it out in a way that is quite intrusive. If that were to happen, we would pass the internal market law and that would go to some sort of arbitration tribunal in terms of the withdrawal agreement.

It is much more like a marker being put up, it seems to me, by the UK Government that we expect a fair interpretation of the withdrawal agreement in our trade agreement procedures. I do not think it is more than negotiating. We talked earlier in the session about the noise in the negotiations. I think this is part of the noise, essentially.

Q63 **Simon Baynes:** Thank you to all the panellists for joining us and for your excellent contributions.

I would like to switch the discussion to the trade negotiations and agreements with countries, or blocs of countries, other than the EU and the US, and in particular look at the Japan-UK trade agreement that has been agreed. I was pleased to see that there is much stronger protection in that for Welsh produce, in particular lamb, with geographic indications now meaning that native Welsh lamb can be advertised on labels alongside other such products from Wales. That is a very encouraging development.

I would like to ask the panel how they see negotiations developing with other countries and for any particular comments that they might have. Also can I throw this into the mix? We have been talking about the UK Internal Market Bill. There are different interpretations of that. Professor Minford said that negotiations always create a lot of noise. The tradition in Europe is to take it down to the last moment. We saw that in their internal negotiations, for instance, over the Covid recovery package, which were taken right down to the last minute. That is the nature of international negotiations.

I would have thought that the UK Internal Market Bill facilitates the ability of the UK to come to satisfactory agreements, but that is really a minor point. My main point is to seek the views of the panel on the non-US and non-EU trade negotiations and the implications of the agreement already drawn up with Japan.

Professor Minford: That is a very good point. The main emphasis in my mind is on negotiations with non-EU countries because of the way that enables our industries to penetrate new markets, which are often faster growing, and brings the benefits of world competition to the UK market. We are traditionally a free trade nation and it has been very unusual in



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our history to have the huge protection of two of our major industries that the EU has, in a way, foisted on us.

Through free trade agreements, we have the opportunity to open up our markets to the best produce in the world, bring down prices for the benefit of our consumers and create competition in those great industries of ours so that they can perform better and open up opportunities for the rest of the economy that has been unprotected, through lower prices and greater availability of resources. Those are all benefits of free trade agreements with the rest of the world. The sooner we get on with them, the better.

Dr Petetin: A key aspect for agriculture and the environment is the level of standards we want to see reflected in the negotiations. There is a discussion to be had on what the UK wants in its agrifood environment standards, and I would include in that animal welfare standards, and how it wants them to be reflected in future negotiations. The UK is one of the countries in the world that most protects animal welfare. That is not the case in many other countries. Therefore, what we want the UK to look like, and how we want the UK to be portrayed and sell its products across the world, is key in future and ongoing trade negotiations.

Q64 **Simon Baynes:** With regard to the trade agreements or potential trade agreements with non-EU and non-US countries, the recent UK-Japan trade deal in particular gives us some concrete evidence of the ability of the UK to negotiate and maintain standards. A key point for all of us as Members of Parliament, and on which we have rightly been contacted on a regular basis by constituents and other organisations, is the importance of the maintenance of standards. I think there is absolute agreement, across parties, that this is vital. Certainly, speaking as a Welsh Conservative member of the Committee, we have gone out of our way to emphasise the importance of standards. I would be very interested in your comments on how you see other trade deals developing.

Dr Petetin: The worries and the concerns that you have mentioned from your constituents come from the fact, for instance, that there is nothing in the Agriculture Bill or in the Trade Bill to reflect the fact that standards will be maintained. That is where the issue is coming from.

The issue is how much pressure can be put on the UK in terms of trade-offs. If we want, for instance, UK services to be easily exported to other countries, will there be a trade-off in terms of standards for agriculture and environment? It could happen, and that is one of the worries. I am not saying that it will happen, but constituents will think, "Well, services versus agrifood products under the standards we currently have." If standards are maintained, it will reflect what British consumers want and the values that feed into the standards we currently have.

Professor Perdikis: You have to welcome the Japanese-UK trade deal and the extra benefits that might bring to Wales, in particular with lamb. I am not sure if there is anything in there on beef, but beef's not beef



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when it gets to Japan. One welcomes all these things; they are very positive, and I hope they go forward and give us the benefits we all hope for.

There are a lot of issues surrounding standards. When people talk about standards, they are not talking about manufacturing standards as such; they are talking mainly about food standards. I hope that we will maintain our standards and that we will have the strength to do so as a nation. That is very important.

Certainly, one would want to see more and wider free trade agreements with the rest of the world. Hopefully, there will be some consistency in the trade agreements we have with the rest of the world, in that we have things like standard ways of looking at dispute settlement and all the rest of it, so that we do not have some sort of spaghetti bowl of rules, regulations and different tariffs that make things far more complicated than they are already.

Professor Khorana: I look at the trade deal with Japan as a very important stepping stone to getting into the CPTPP. There are 11 countries in it, and this could be just the stepping stone for the UK, so it is a really important deal from the perspective of the UK and Wales, because it opens the door to trade negotiations with other countries that are partners in that deal. Politically, it is really important. It is good.

When it comes to the economic aspects, from the perspective of Welsh business, it is going to provide increased market access to Japan. As we know, in market access for agriculture, especially Welsh lamb, tariffs have gone down on agricultural products, food and drink, and that is where I think it will be very useful for the Welsh economy. I am also aware that tariffs will go down on car parts, which will again be useful for the Welsh economy.

Finally, the Japan deal allows the UK up to 70 GIs on special products, and in those there are 15 Welsh iconic products. It will be the first time that we have a deal of this kind that protects Welsh GIs, and 15 is a good number. That will be immensely beneficial for Welsh food and drink as well because they will have lower tariffs. Trade with Japan is only 2% of total UK trade; however, this deal will be very important, both politically and from the economic aspect that I have just highlighted.

Simon Baynes: Thank you, panel, for your excellent answers.

Q65 **Chair:** Can I go back to Dr Petetin's earlier answer regarding the Internal Market Bill? Unless I heard incorrectly, I think one of your criticisms of the current Internal Market Bill that is going through the House of Commons is the way you said it prevents Wales from having higher standards.

Correct me if I am wrong, please, but isn't the way the Bill treats the internal market for the UK actually identical to the principles of the way



the EU governs the internal market for the whole of the EU? For example, Britain has a track record of implementing EU standards diligently, and at times adding to those standards, gold-plating the regulations and creating higher standards. It does not stop us doing that. We cannot block other countries of the EU trading with us, so we cannot use those standards as a barrier to trade, but there is nothing preventing us from having higher standards.

Those same principles—unless I have misunderstood—are replicated in the Internal Market Bill. There wouldn't be anything stopping Welsh Government legislating, and they have the powers to legislate in some of the sectors that we have been talking about today. Help us understand that a bit more, Dr Petetin.

Dr Petetin: Sure. There are multiple differences between the structure of the Internal Market Bill and the way the EU internal market works.

One thing I want to say—it was perhaps my fault that I said it would not be allowed—is that, yes, Wales would be allowed to have higher standards. But, practically, we need to think about how difficult it would be for Wales to maintain higher standards when it could be competing against the bigger and more economically dominant England—the sheer size of England. Most of the trade that Wales does is within the UK, with England. What would be the economic purpose for Wales to raise its standards and place its industry at a disadvantage when that is not the case in other parts of the UK?

Another important difference between the Internal Market Bill and the EU internal market is the exceptions that exist within the EU market, and, of course, its structure. The EU is based on the principle of subsidiarity, which enables either a member state or even a region to feed directly into and be listened to in future policy making and raising standards. That is the first difference that we do not necessarily have. It goes back to one of the questions that we discussed before; the devolveds are not really feeding into what central Government want in future trade deals.

There are clear exceptions within the European treaties for member states to raise their standards and say, "No, actually we want higher standards in terms of environment, and to be able to say, no, we don't want your products coming in if they are not at those standards." There are very limited ways for one part of the UK to restrict trade within the Internal Market Bill. There is no exception generally on agri-environment standards, apart from schedule 1, which relates to pests and disease in a plant or animals or something like that. Then trade in one part of the UK could be restricted. That is the issue: there is not a basis for—

Q66 **Chair:** I am sorry to interrupt your answer, Dr Petetin, as it is very helpful, but, to be absolutely clear, are you saying that Welsh Government should have greater powers, either through the Internal Market Bill or through some other way, to restrict products from England, which, as you say is a much larger, competitive nation on its border? Is



that what you are saying?

Dr Petetin: I think the solution is to raise the bar with common frameworks, as I previously mentioned. Common frameworks will deal with specific policies and specific sectors and, therefore, there is an incentive for the four Administrations to agree on common frameworks because those common frameworks are part of the Internal Market Bill.

As I said before, the Internal Market Bill is the overall structure, and then the common frameworks are on specific policies. The way to raise the bar and keep the standards that we want, whether that is animal welfare or whatever we want, is to agree on common frameworks to raise the bar. This is what should be done: to get the four Administrations to work together to agree on those standards, as reflected in agreed, or potentially agreed, common frameworks.

Q67 **Simon Baynes:** Do you not see that the UK Internal Market Bill actually facilitates that process of interrelationship between the four nations and therefore maintaining high standards?

Dr Petetin: As I mentioned before, I think it centralises powers, whether in relation to standards or in relation to subsidies, but that is not my area. As I said, within the EU you have principles, you have exceptions that enable regions or member states to deviate from the internal market and to feed productively into the EU. What has happened historically with the EU and the way agri-environment standards have been raised in the EU is that, potentially, one country says it wants higher standards. That is then agreed by the whole of the EU, and the standards of all the EU countries then follow the example set by that one member state. Thank you for the question.

Chair: Geraint Davies, you signalled that you want to ask a very brief supplementary on the internal market.

Q68 **Geraint Davies:** I do, if I may, so that we are clear. My understanding, if we can get clarification from Dr Petetin, is that, for example, Wales wants to ban nine single-use plastics and England only wants to ban three. If the internal market goes ahead, we will only ban three. Under EU law, under your deviation example, we would have been able to ban nine. Similarly for food products: we will not be able to label any differences that we do not like coming in from England. That is correct, isn't it?

Dr Petetin: As I said, you could ban nine types of single-use plastic or whatever it is. You could definitely do that in Wales and there is no problem—the Bill does not prevent Wales from doing that—but because of the Internal Market Bill, if England only bans three, it still means that it can produce or send its plastics to Wales if it wants to.

Q69 **Chair:** I am going to bring the session to a close in a moment. I have a final question for Professor Minford, if I may. Recently, you wrote an article that seemed to be criticising the direction of UK Government trade policy. In your article—I do not pretend to have understood it all—you



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talk about the difference between the gravity theory of trade and classical economic theory. You seemed to be suggesting that part of the problem with the way that our trade negotiations have been going is an attachment to an incorrect theory of trade.

What concerns you most? Is it that, as your article seemed to be suggesting, there is an incorrect understanding of what grows international trade at the heart of UK Government trade policy making, or is it just that there is a lack of belief and optimism within Whitehall, within the institutions that feed their advice into Whitehall, about Brexit because of a basic political judgment that they do not like Brexit and they believe Brexit was wrong?

Professor Minford: My point is that, in fact, the modelling being done by Whitehall, which is really different from that of the Government themselves, but has been put out in the name of Government—the Treasury published it on the Government website—has assessed Brexit in a very negative way, due to what I regard as a wrong model of trade. That is the point I make in the article. The Government obviously should not be endorsing the modelling view that has come out of the civil service because it fundamentally undermines what they are trying to do, which is free trade through the free trade agreements that we have been discussing, which are beneficial, according to a proper trade model, in my opinion, and the one that fits UK trade facts.

The UK trade facts are pretty unambiguous in rejecting the gravity-based model that has been used in Whitehall basically to say that Brexit would damage the economy. Unfortunately, the Government are in a situation where their own civil service has produced modelling and, supposedly, results that suggest that the policies they are following for free trade on Brexit are actually damaging to the economy. My article says that the Government really ought to straighten that out, get their modelling right and get the civil service on side in terms of its modelling, in line with the UK trade facts and enthusiastically proceed with those policies, not on the basis of economic damage limitation but on the basis that they will actually improve the functioning of the economy in the way that I have tried to explain in this Committee.

Chair: Thank you very much. That is useful. Huge thanks to all our panellists this morning. It has been a really useful session. I have certainly learned a lot. We are very grateful to you for the time that you have spent with the Committee. Thank you, as ever, to my fellow members of the Committee for making it a really worthwhile session. Have a great day, everybody.