

International Trade Committee

Oral evidence: Trade and the Commonwealth: Australia and New Zealand, HC 521

Wednesday 9 January 2019

Ordered by the House of Commons to be published on 9 January 2019.

[Watch the meeting](#)

Members present: Angus Brendan MacNeil (Chair); Mr Nigel Evans; Mr Marcus Fysh; Sir Mark Hendrick; Mr Ranil Jayawardena; Mr Chris Leslie; Emma Little Pengelly; Julia Lopez; Faisal Rashid; Catherine West; Matt Western.

Questions 90 - 184

Witnesses

[I](#): Sarah Dickson, Director of International, Scotch Whiskey Association, Simon Robinson, Chairman, Wines of Great Britain Ltd, and Simon Stannard, International Affairs Director, Wine and Spirit Trade Association.

[II](#): William Bain, Policy Advisor, Europe and International, British Retail Consortium, Douglas Lippoldt, Chief Trade Economist, HSBC, and Michael Nower, Durham University.

Examination of witnesses

Witnesses: Sarah Dickson, Simon Robinson and Simon Stannard.

Q90 **Chair:** Good morning. I welcome the panel to the International Trade Committee and our inquiry into trade in the Commonwealth, looking specifically at Australia and New Zealand. Can I ask the panel to introduce themselves—name, rank and serial number—for the record?

Simon Robinson: I am Simon Robinson, chairman of Wines of Great Britain. Perhaps I should also declare an interest, as chairman of Hattingley Valley Wines, as we do export to Australia.

Sarah Dickson: I am Sarah Dickson, the international director at the Scotch Whisky Association.

Simon Stannard: I am Simon Stannard. I am the EU and international affairs director at the Wine and Spirit Trade Association.

Q91 **Chair:** Thank you all. Just to kick off, could you each briefly outline the current volume of trade that your members have with both Australia and New Zealand, and how significant trade with these countries is to your industry?

Simon Robinson: We are a very small industry at the moment, but we are expanding very rapidly. The trade we have with New Zealand is probably almost zero. I am not aware of any of our members that are exporting to New Zealand at the moment, but I would not necessarily know. For trade with Australia, we have two members who I think trade regularly, but again there are small numbers at the moment—we are talking about perhaps thousands of bottles, not even millions. The way the industry as a whole is expanding, I would expect that to increase quite rapidly over the next 20 years.

Sarah Dickson: Scotch whisky is everywhere, as you probably all know, and it does quite well in Australia. In fact, we are seeing a slight uptick. We do not have the 2018 figures from HMRC yet, but from July 2017 to June 2018 it was £114 million of direct exports. That does not include anybody who is hubbing via Singapore or elsewhere to get to Australia. For New Zealand it is smaller. It was £7.9 million in shipment value in 2017, which again was a slight uptick over that 12-month period. It was £8.3 million, so we are seeing an increase in consumption of Scotch whisky in both markets.

Q92 **Chair:** Just a minor point: how much might any estimates be of what might be hubbing elsewhere, through Singapore as you suggested?

Sarah Dickson: We don't know because they are commercial decisions by the companies as to how they move their goods around. That is why we use HMRC data, because that is the direct shipment. There is independent consumption data showing that probably there is a bit more,



HOUSE OF COMMONS

but it would be hard for us as an association to be very accurate with that.

Q93 **Chair:** Thank you. Simon?

Simon Stannard: Our focus is very much on imports rather than exports. Australia is the largest exporter of wine to the UK; it is No. 1. Of the 850 million or so litres of wine that the UK imports, approximately 20% of that comes from Australia. New Zealand is a little bit smaller; about 7% in volume terms. It is about 30% for the two countries for all the wine consumed in the UK. It is worth about £2 billion in sales out of total sales of £11 billion.

Q94 **Mr Jayawardena:** I should say that Mr Robinson is a near neighbour to my constituency and it has been a pleasure to visit Hattingley Valley. I think that it could be a very good Select Committee visit, actually.

Chair: Shameless, Mr Jayawardena.

Mr Jayawardena: Could I ask all of you about business engagement from the Government, which I think is very important going forward? Have all of your organisations engaged with the consultations that the Department has run regarding future FTAs? How effective do you judge those consultations and the wider engagement that the Department has had?

Simon Robinson: We certainly engage with any of the ones that we know are going on. We have found that some of the consultations have passed us by through lack of knowledge, but we certainly do as far as we possibly can. As for the results, I think that it is too early to say. We have only really started doing it as an organisation within the last year to 18 months maximum, and the wheels of Government seem to be engaged somewhere else at the moment.

Sarah Dickson: Yes, we do reply to consultations and we did for Australia and New Zealand. We also do so to their Parliaments. Their Parliaments ask us and we feed in that way as well. Generally, DIT is helpful to deal with as a Department. It understands market access and looks to help us. I have a comment that is similar to Simon's: we do not know the next steps. We have put in our views but it is not entirely clear to us what now happens and how that might be taken forward, the overall shape of how trade policy might fit together, how the FTA negotiation will be run, and so on. It is understandable that that is not completely clear, but it is harder to say whether that is good or not until we know what it looks like and then can see it in practice.

There has also been an amount of churn in DIT. I recognise the point that knowing who to speak to and how to keep up can be a bit tricky as well. That would be it overall, I think.

Simon Robinson: Perhaps I could just add one thing. The engagement from Government with my organisation and our industry has expanded



HOUSE OF COMMONS

substantially over the last year or so. I find that they try very hard to be helpful, but we are clearly in an engagement at the start of quite a long journey.

Q95 Mr Jayawardena: Before we go on to Mr Stannard, can I ask the two of you, in respect of what you have just said, is it that DIT does not have the right people? From what you have just said, is it true that it has been recruiting the right people but we are perhaps still not there yet?

Simon Robinson: No, I don't think so. It has been trying very hard to help us promote the industry and its people, particularly in the US, for example, have been excellent.

Sarah Dickson: Part of the problem is that I do not necessarily know the answer. They have been recruiting people to be the trade negotiators and I don't think, unless I am missing it, that they have announced who will lead the Australia negotiation and how that will fit together yet.

Q96 Mr Jayawardena: You are confident in the quality of the people that DIT has been recruiting?

Sarah Dickson: I would say that some of them have more experience than others and some of them have more of a background in trade than others, but sometimes not having the background in trade adds a different value. Again, it is a little bit about pros and cons.

Q97 Mr Jayawardena: Mr Stannard?

Simon Stannard: It is always difficult being third because everyone has answered all the questions. I share Simon and Sarah's comments. We have had plenty of engagement with DIT. Some of the issues are that officials are quite sensitive about the extent to which they can be open about the sorts of discussions that could be had, given the sensitivities around the discussions with the EU about the terms of withdrawal and what can be said about future agreements. I think that there are some sensitivities there, but as the future becomes clearer I think that they can be more positive.

We have also had very good engagement with Governments outside the UK. We have probably had as much contact with Australian Ministers as we have with UK Ministers and with other Governments. I think that there has been plenty of engagement.

Q98 Matt Western: Following on from that, what do you see as the benefits of future UK free trade agreements with New Zealand and Australia, not just in terms of the benefits but what you would like to see them achieve? Perhaps we will start with you, Mr Stannard.

Simon Stannard: Obviously the advantage of any free trade agreement is that you have free and open access to others' markets and a reduction of tariffs. While the tariffs on wine coming into the EU, and then the UK in the future, are relatively small—it is about 10p a bottle on still wine and about 20p a bottle on sparkling wine—it is still a nuisance tariff that



HOUSE OF COMMONS

clearly costs in terms of administration and costs importers. We would like to see the tariffs removed.

We would also like to see a new relationship for mutual recognition of standards. In a system where we have seen, as members of the EU, very much a system built around meeting the standards set by the EU, there is an opportunity as we look to the future to move away from that and, rather than look to replicate standards, look to recognise each other's production standards as offering equivalent protection terms. This is something that is advocated by the World Wine Trade Group, which is a group of all the major wine producers outside of EU production. It is something that the WSTA is keen for the UK to join once we have left the EU.

Q99 Sir Mark Hendrick: You talked about mutual recognition of standards rather than adhering to EU standards. What would be the material benefit of that? I mean in terms of quality, rather than financially. Why would you want to do that? Why not just stick with standards that we know work, which are EU standards?

Simon Stannard: As the EU standards have been developed, they have been very much focused on the standards required for production of wine in the EU. There are differences in production methods due to different climatic conditions around the world. There are certain conditions in Australia that are different from the EU that may require slightly different production methods.

Q100 Sir Mark Hendrick: For example?

Simon Stannard: They are not hugely different. There are certain additives that are used in Australia to different levels than are used in the EU, but they are not substantially different. There are slight differences on both sides. The EU-Australia wine agreement allows certain practices to be permitted for EU wines going into Australia that are not necessarily permitted in Australia, and the converse for Australian wines coming into the EU. It is not just a question of the Australians having different standards; we believe they offer equivalent levels of consumer protection while at the same time ensuring that there is a vibrant industry.

Q101 Sir Mark Hendrick: I want to ask about mobility of people and service provision. Do you see much scope within an agreement for people either with specialist skills or no particular skills moving between the UK and Australia and New Zealand or in the other direction as well?

Simon Robinson: For us, probably the No. 1 issue, not just with the Australia free trade agreement but with Brexit, is to have the ability to import labour. At just about every level we already get quite a lot of Australians and New Zealanders who come over on the shorter term visas and will work in the wineries—occasionally in the vineyards but mostly in the wineries. That is a very welcome ability for us because they have a lot of skills that we do not necessarily have in the UK, or that are in short supply in the UK. Particularly as the industry grows, we are going to need



HOUSE OF COMMONS

a much larger workforce, which we are working on, but the ability to bring in expertise is pretty important.

The other thing to bear in mind is that their seasons are at the opposite end of ours, so we can second people out just for a vintage—or vice versa, they can second them into the southern hemisphere—in a way that does not impact on our harvest. That is a really useful ability.

Q102 Sir Mark Hendrick: Do you see it as compensating for the effects of Brexit to some extent?

Simon Robinson: I am not sure about that because I think that the people we bring from Europe are different. They tend to be seasonal workers who are lower skilled; they are still more skilled than people might anticipate, but harvest pickers and people who are pruning vines, and things like that. That is simply not available among the UK workforce at the moment. Again, we are working through it.

Q103 Sir Mark Hendrick: Is it a pay issue?

Simon Robinson: No, it is not. It is about trying to find people who, first, are prepared to do it in the UK and, secondly, have any skills at all. It is not surprising, because until very recently we had no history of growing vines in this country. There are no second sons or daughters who can come through and do the sort of work that we need.

Q104 Mr Evans: Can I just add one thing on that? I was in an Italian vineyard last year—

Chair: As you do.

Mr Evans: —one of many I visited this year, and I asked the lady who owned it, “How many people are you employing to pick the grapes?” She said about 15. I said, “Are they all from around the Valpolicella area?” She said, “Not at all; they are all Romanian. Italians don’t want to pick grapes.”

Simon Robinson: There you go. Most of ours are Romanian at Hattingley.

Q105 Sir Mark Hendrick: To follow up on whisky, is there an issue with whisky and the skills and movement of labour?

Sarah Dickson: It is not something that members raise very often because, broadly, Scotch whisky is made by Scottish people in rural Scottish communities.

Chair: Who are very skilled.

Sarah Dickson: It is very skilled work and it is great employment for rural people in Scotland. Where they do have employment it might be in visitor centres or cafés and so on, but it is not one of the issues that they knock on our door regularly to talk about.

Q106 Sir Mark Hendrick: Is it an issue in the wider industry?



HOUSE OF COMMONS

Simon Stannard: We have Australian companies that have their European headquarters in the UK and, although there is some movement of people, it is not a major concern for them as we move forward.

Q107 **Chair:** In some earlier work that we have done, we heard evidence from some, talking about Australia and New Zealand trade relationships, that one of the quickest and best things the Government could do would be to increase the visa period from two to five years. Is there any feeling of that from the panel here?

Simon Robinson: We would welcome a longer visa period because the shortages of skilled workers, particularly in the vineyards, is severe. It would be fantastic if we could attract people from Australia to come and work in vineyards. We are not doing that at the moment. It may be to do with the weather, which we cannot do much about.

Chair: Of course, that is in the gift of the Home Office at present and there is nothing else required.

Q108 **Julia Lopez:** Have you been following the EU's negotiations on free trade agreements with New Zealand and Australia? If so, what are your observations and should we be taking any tips from how the EU has been negotiating with Australia and New Zealand?

Sarah Dickson: Yes, because that is how we have done trade for the past 40 years. We are still following closely what the EU is doing. From the perspective of the owner of a geographical indication, it would be really interesting to know how the EU and Australia are able to deal with that issue. Australia currently does not have an EU-like GI system, but the EU is very offensive when it does trade agreements about making sure GIs are protected. If that leads the way on how they might protect named products from defined areas, it would be really interesting to see the wider implications of that. There isn't detail on that yet. They are still at the early stages of those conversations, but it would be very interesting from our perspective.

Q109 **Julia Lopez:** You do not currently detect any change of approach from the EU over GIs? When Nigel and I were in Chile that was something that was discussed there with their association agreement; that Chile would very much like to update it but has not been able to because the EU is very strong on things like geographical indications.

Sarah Dickson: We as an association have heard nothing that suggests that the EU has changed its position on GIs and that it would do something different with Australia. There are different ways of doing it, but overall the principles remain the same. We are such a successful product and people do try to copy us and pretend that they are us. All over the world, including in Australia, we do litigation to protect against things that are passing off as Scotch and stop that happening. Having systems that help us do that, where the Government have responsibility to support us, is very important.



HOUSE OF COMMONS

It goes back to the earlier question about what we would want from an FTA. One thing we would want is that the UK Government do argue for that legal recognition, the legal protection for our product, as well as the sorts of things that Simon mentioned, such as tariff reduction, tax discrimination removed and other non-tariff barriers such as labelling and so on. It is important.

Simon Stannard: There is already a fair amount of recognition of protections for wine because of the EU-Australia wine agreement. In terms of volume, about 90% of the EU-Australia wine agreement is just a list of names, which are the EU's and Australia's, and they have agreed to recognise that.

If I was a representative of Australian wine growers and we talked about European protections, they would probably start to twitch a little because there are a number of protections, particularly for European wines, that I think that the Australians would see as a little bit protectionist, where certain countries have monopolised the use of a grape variety so you cannot describe that wine if it was grown in Australia and then sent back to the EU. There are some issues over that, but I very much share Sarah's point that the key is to get the major recognised GIs protected in the future.

Simon Robinson: We would agree with that, although for some reason there doesn't seem to be a lot of passing off of English wine yet. I am sure it will come.

Q110 **Chair:** What are the benefits or challenges of the recent EU-Japan agreement, just briefly? It is a tangent I am taking here, but what benefits or challenges has that given, particularly to the Scotch Whisky Association?

Sarah Dickson: We sell there quite easily. There is zero tariff already. There are not really difficulties, so the FTA does not—

Q111 **Chair:** There have been no changes because of the zero tariff?

Sarah Dickson: There is nothing that immediately springs to mind. I will check it and I will write back to you on that in case I have missed something.

Q112 **Chair:** Does anybody else want to comment on that?

Simon Stannard: It benefits us at the moment in Japan. White spirits do not have the same advantage as brown spirits, so it will remove what is an annual derogation to have a zero tariff for white spirits. The FTA with Japan will remove that, which gives them certainty for gin and vodka exports to Japan.

Chair: Isle of Harris gin can move to the benefit of the Japan market.

Q113 **Mr Evans:** I have also visited some wineries in Australia, as you do. I went down to Margaret River and went to the Leeuwin estate there. Since



the Brexit vote there does seem to be a greater interest now in the potential for Australia. I was in the Schubert winery just outside Wellington in New Zealand as well. Do you believe that there is now going to be a big push from both those countries to sell more wine into the United Kingdom?

Simon Stannard: I think that there will be a continued push. Australia and New Zealand have both been very successful. Looking back over sales data for the last 10 years, volumes from Australia are relatively constant but we have seen a significant increase in volumes from New Zealand. It has gone up about 50%, reflecting that theirs is a growing industry as well. Among our members there is far more excitement from new world producers about the opportunities that Brexit might present. Most of the concerns come from European producers.

Q114 **Mr Evans:** On this irritable tariff that is relatively small, do you believe that any FTAs between Australia, New Zealand and the UK should centre around the abolition of all the tariffs?

Simon Stannard: We would like to see the tariffs removed. While they are relatively small per bottle, for the majority of wine that we get from Australia, which is very much at the value end of the market, 10p on a bottle can make quite a significant difference, so we would very much like to see that removed.

Q115 **Mr Evans:** That is at the lower end, isn't it? We are not talking about Penfolds Grange selling for hundreds of dollars. We are talking about three bottles for—

Simon Stannard: The average-priced bottle of wine in the UK is about £5.60 or £5.70. Of the 300 million bottles of wine that we import, I suspect that 95% will be at the value end. There is only a limited production of Grange, so it is very much at the premium—

Mr Evans: I have never tasted it, but I am sure it is very nice.

Simon Stannard: I believe so.

Q116 **Mr Evans:** If we can get rid of the tariffs that is one thing, but I want to go on to the non-tariff side, to the barriers. Do you think that there are undue barriers put in currently by the European Union that we could get rid of in any FTA and could you describe what some of those non-tariff barriers are?

Simon Stannard: Certainly, there is a distinction between the treatment that can happen to European wines compared with wines coming from outside the EU. For example, it is possible to take a wine from one member state in the European Union and then turn it into a sparkling wine in another member state and still describe that as a sparkling wine. If you were to do that for a wine from Australia, you would not be allowed to describe that product as wine. There is no reason why that should be the case. They are both made from grapes, they have both



HOUSE OF COMMONS

been sparkled in a different country from that of production, but the EU rules prohibit that. That is a classic non-tariff barrier.

Q117 **Sir Mark Hendrick:** What about sulphites?

Simon Stannard: The levels of sulphites in Australian and New Zealand wine are roughly the same as European rules. I do not think there is a big push to see those reduced. Most producers are looking to get down to using any additives at the lowest possible levels they can. It is funny, the European rules are set very much on maximum limits. The rest of the winemaking world will often use the concept of good manufacturing practice, which is to keep your use of additives down to the very minimum that is required rather than to keep within a maximum level. There is a slight difference of philosophy on how they approach the addition of products to wine.

Q118 **Mr Evans:** Can I ask about the shipping? Clearly that is a problem, although there are substantial imports coming in from Australia and New Zealand and the quality seems to be incredibly good. Is there something imposed by the European Union that means that the shipping of this wine has to come bulk and then get bottled within the European Union? Is there something about that?

Simon Stannard: There is nothing in European rules that is encouraging that; it just makes good economic and environmental sense. You can get about twice the volume of wine in a shipping container if you ship in bulk compared to shipping in bottle. That is one of the main reasons. You save over 100 grams of carbon by shipping in bulk and bottling in the UK. From a UK perspective, the fact that 80% of Australian wine is shipped in bulk to the UK and bottled in the UK makes a significant difference to UK jobs and the contribution to the UK economy because we are adding value here and then re-exporting. About a quarter of the Australian wine that comes into the UK is sent to the rest of Europe and to Norway, eastern Europe and into the Ukraine and Russia. There is a significant part of the UK business and the UK economy that benefits from being able to ship in bulk.

Q119 **Sir Mark Hendrick:** Is that threatened by a no-deal Brexit?

Simon Stannard: It is made more complicated because at the moment the tariff on bulk wine coming into the EU is lower than it is for bottled wine. Once it is in and into the EU, it can freely circulate, even once it is bottled.

Q120 **Sir Mark Hendrick:** No, I mean jobs in the UK.

Simon Stannard: Businesses are looking very seriously at their business model that currently has the UK as a hub for their bottling operations to see what it is going to be like post Brexit and whether or not they may be forced to move their bottling plants from the UK. We will have to see.

Q121 **Mr Evans:** What is the differential on the tax between bottled and not



HOUSE OF COMMONS

bottled?

Simon Stannard: It is not very much. It is between €9 and €11 per hectolitre for bulk and between €13 and €15 for bottled. It is more the bureaucracy. If we move to a post-Brexit situation where we have to cross a customs border, it is more about the bureaucracy, the cost of administering the scheme, rather than the substantive cost per bottle.

Q122 **Mr Evans:** On WTO rules, if the wine came in bulk into the United Kingdom and we went on to WTO rules on a WTO deal, what would be the tariff on wine coming from Australia into the UK and then being shipped to the European Union?

Simon Stannard: If we did that, the rate would be as it is at the moment, so €9 or €10 per 100 litres, and then being shipped to the UK we would have to pay the bottled rate, which would be €13 to €15. I think that you would be able to claim processing relief for goods that are coming in and then leaving. We have not quite worked out the detail yet because, of course, we do not quite know.

Q123 **Mr Evans:** But you don't think it is not going to be seismic as far as any tariff on WTO rules or on some form of deal?

Simon Stannard: No, I think that the costs on individual products will not be significant. The question of bureaucracy burden and the issues over shipping and the actual movement of product, certainly in the short term, is the main concern rather than the cost of any tariffs.

Chair: That was a lovely tour around the world in 80 vineyards. We will move to Faisal Rashid.

Q124 **Faisal Rashid:** Sarah, I have a question for you. In your written evidence you raised the issue of domestic taxation and the alcohol availability in Australia. How significant are these issues? Is there any future trade agreement that can address those issues?

Sarah Dickson: A domestic tax issue that we would hope that the FTA would look at is the different way that locally produced brandy—all brandy but it is predominantly from Australia—is taxed at a lower level than imported spirits such as whisky, gin and so on. Non-discrimination across distilled spirits is a WTO principle that we have litigated in many countries in the world, and we would hope that an FTA would make sure that all distilled spirits were taxed at the same rate. Excise tax is very high. Usually that is not something that you can—

Faisal Rashid: On the imported?

Sarah Dickson: Excise tax generally is very high. It is on an inflationary six-monthly escalator, so that is not usually something that you can tackle in an FTA. Talking about fairly taxing an industry is an important topic for market access reasons, but I do not think it would form part of an FTA.

Q125 **Faisal Rashid:** Do you experience similar problems in New Zealand?



HOUSE OF COMMONS

Sarah Dickson: Not that I know of. I can check on that one for you, but in my note it does not have anything on internal taxes being a big issue. I will check that.

Q126 **Faisal Rashid:** There is nothing more we can do in the future FTAs in order to address that?

Sarah Dickson: One thing that I think is really important for us is market access work rather than pinning everything on an FTA is absolutely what we want the Government to be doing. A lot of these things you can talk about and you can resolve, particularly the non-tariff barriers, without agreeing an FTA. Whether it be labelling requirements or whatever the non-tariff barrier might be, you can do that without doing an FTA. Usually, tariffs fall into FTA territory and they are harder to do outside the FTA, but we hope that the conversations would continue even if an FTA takes longer.

Simon Robinson: Can I make one observation? To the extent that excise duties across the board are value related, which in the wine case in Australia I believe they are because the UK's exports tend to be at the higher value end, we suffer proportionately greater increases in taxation there. They are not proving to be a problem at the moment, but as exports increase, as I expect them to, they might do in the future. To the extent that you can get excise duties at fixed amounts, that would be better.

Simon Stannard: From an importer's perspective, as Sarah said, excise duties usually fall outside of FTAs, but in terms of mood, the decision by the Chancellor to single out wine for an increase in duty from 1 February this year, while freezing duties on beer and spirits, has certainly been seen as quite provocative by our wine-producing partners. It is seen very much as favouring domestic product over imported products.

Q127 **Faisal Rashid:** Is that how it is happening in Australia as well?

Sarah Dickson: The excise in Australia is on an inflationary escalator, so it just goes up by inflation on a six-monthly basis.

To answer the point on New Zealand tax, there are some levies, which in an FTA you would remove. When you arrive at port there is a biosecurity risk screening levy, this kind of thing, which if you have agreed that your products are safe you should not have to be charging fees for. There is an entry transaction fee as well. In an FTA you could eliminate some of these non-tariff costs that apply to importers and then add to the price and the cost in the country.

Q128 **Faisal Rashid:** Simon, you just mentioned the 1% levy by the Chancellor from 1 February. Why do you think that the Government have done that? Why have they singled out the wine industry?

Simon Stannard: Our view is that wine is seen very much as an imported product and, therefore, there is more to be gained by being



HOUSE OF COMMONS

seen to be favouring domestic producers. Our view is that it is unfair to target wine. There are significant UK jobs that depend on the wine market, particularly the bottling jobs that I mentioned earlier. Our view is that you should treat all products equally when you come to review any increase in taxation. We were very disappointed and we know that it has gone down very badly in Australia. It is setting the mood for future trade relations that one of Australia's major agricultural exports is seen to being treated unfairly by the UK.

Q129 Faisal Rashid: How does that impact your industry? Is there a possibility of increase in the cost of wine as well?

Simon Stannard: It will certainly put pressure on. It is 7p plus VAT, so it is about 10p that will go on a bottle of wine. When we are talking about the value end, where margins are quite small per case, that is enough to wipe your margins out as a business, even though it is a relatively small increase in taxation.

Q130 Matt Western: I would like to go back to a point from a little earlier, Mr Stannard, when you were talking about these hubs, these businesses where there is wine brought in, it gets bottled and so on. It is news to me. I was naively thinking that somehow these bottles were being done at Margaret River or wherever else Mr Evans has been. What proportion of the 300 million bottles of wine that you said in your evidence earlier is coming in in bulk?

Simon Stannard: Last year 240 million litres of wine was imported from Australia and about 80% of that was imported in bulk.

Q131 Matt Western: How many jobs does that represent in the UK through the existing hubs that you represent through your members?

Simon Stannard: It is quite tricky. We think that there are about 180,000 jobs that are linked to the UK wine industry as a whole. If you pro rata that, the Australian industry represents 20% to 25% by volume. If you pro rata those jobs—I am not suggesting those are entirely down to the hubs where the bottling takes place. There is a bottling plant in Avonmouth in Bristol, which is the largest wine-only bottling plant in Europe and can bottle over 1 million bottles a day. The company that runs that employs 500 people in the UK. That is not the only bottling plant in the UK. There are four or five other sites that bottle quite significant volumes.

Sarah Dickson: It does go both ways. About 16% of the Scotch that goes to Australia is in bulk.

Q132 Matt Western: Great, that is the sort of ratio I had assumed it would be for wine as well. It is almost the polar opposite, really.

Sarah Dickson: It is because single malt whisky is so popular in Australia and New Zealand because they are developed markets and that has to be bottled in Scotland.



HOUSE OF COMMONS

Q133 **Matt Western:** Can I go back to the point, Mr Stannard? Other than Bristol, where else and are there any existing hubs in Europe?

Simon Stannard: There are existing hubs in Europe, but in the UK there is a major bottling plant in Bristol. There are significant bottling plants along the Manchester to Liverpool canal. Often they use the canal as a route to bring products in. There are bottling plants in Norfolk. They are probably the largest sites, but I can certainly provide more information and perhaps a breakdown.

Q134 **Matt Western:** That would be useful to know. Can I come on to Mr Robinson? In your written evidence, you called for mutual recognition on labelling standards. What do you see as the barriers to mutual recognition of standards currently and what changes would you like to see?

Simon Robinson: At present we do not see any barriers. Having said that, we rely on our importers to advise us on what needs to be done. At the moment, we do not seem to need to do anything, but we would not want there to be too much flexibility in the future for people to start fiddling around with standards. In other words, it is solidifying where we are at the moment.

Q135 **Faisal Rashid:** Moving on to global opportunities, will there be any benefits for your industry of the UK joining CPTPP? Are there any drawbacks?

Sarah Dickson: We think that CPTPP is great because when you hear economists talk about where growth will come in the world, the kinds of countries that are in the CPTPP are the countries that will grow. We do well in developed markets and that is great, but where the growth will come is in the sorts of countries that are members of CPTPP.

What is interesting in the Australia-New Zealand context is that they are members of it. The sequencing of this and how the UK will do that is something that we are not quite clear about what has come out of the consultation. It could be that the UK should go for CPTPP first and then do its market-specific stuff with Australia and New Zealand second, but there are different ways you can manage that. CPTPP does have all sorts of interesting south-east Asian markets and so on, where our exports could do better and there are probably more complex barriers and issues to tackle.

CPTPP, though, does not fix everything. It is a framework that then lets you do market-specific deals. We are not underestimating the length of time that would take and the complexity of it, but if you look at export growth you look at those kinds of countries.

Q136 **Faisal Rashid:** Is there any downside of CPTPP for your industry; anything you can think of?



HOUSE OF COMMONS

Sarah Dickson: Not immediately, because the market-specific stuff you would then have to do with each of the countries. It is a good space to be in as a framework to be able to do that and be part of a group that is talking about reducing tariffs and non-tariff barriers.

Q137 **Faisal Rashid:** Moving on to the EU-Australia agreement, what does that bring to the UK at this point in time? Do you want that to continue applying to the UK as it is?

Simon Stannard: Is this the EU-Australia wine agreement?

Faisal Rashid: Yes, the EU-Australia wine agreement.

Simon Stannard: Yes, we are very keen for that to be rolled over. In fact, it needs to be because there are certain provisions in the EU-Australia wine agreement that allow some flexibility and some variance from the basic European rules. For example, on labelling, Australian wine is allowed to label to a decimal point of alcoholic strength, whereas coming into the EU the basic EU rules only provide for wine to give its strength in either whole or half degrees. Potentially, without rolling over that agreement, some of the wine that is currently exported to the UK would have to be relabelled. Similarly, there is a little bit of mutual recognition of wine-making practices, so potentially some of the wine-making practices that the agreement provides for will not be provided for if we do not roll it over. We are very keen to see that rolled over so that it is in force as soon as we have left the EU. I understand that it has been set in train. It is just a question of whether it is going to be ready in time.

Q138 **Faisal Rashid:** Are there any improvements that can be made to that agreement?

Simon Stannard: I think so. I suppose it is a question of whether, if the UK embarked on a bilateral relationship with the EU on wine, we would want to open it up to see something perhaps to include wines and spirits. We are quite keen to see something like a wine and spirits chapter developed that is along the lines that is in the CPTPP provision that could be used, not just for EU or Australia but could be used for other future arrangements. If there is something that the industry can get behind, both as importers and exporters, hopefully it will make trade negotiators' lives a lot easier. They do not have to worry about the technical detail and they can worry about things like tariffs when it is seen in the bigger picture of the global agreement.

Sarah Dickson: I agree. The wines and spirits annex in CPTPP is really worth looking at for an industry like ours across the alcohol and beverage space because it does have regulatory best practice and that suits companies; they want similar standards.

Q139 **Catherine West:** Could you define the World Wine Trade Group? Is it something that the UK should seek to join?



HOUSE OF COMMONS

Simon Stannard: Brexit has thrown up a number of issues and the World Wine Trade Group is one. It is an unusual body. It is a joint Government and industry group and it is made up of the major wine-producing countries: New Zealand, Australia, Argentina, Chile, the US, Canada, Georgia, South Africa and Uruguay. It is all of the major wine-producing countries and it was formed 20 years ago.

One of the first things that was agreed among those countries was the concept of mutual recognition of winemaking practices and also, as a means of further facilitating trade, it was to recognise the competent authorities in the wine-producing countries as competent to sign off certificates and those certificates would be recognised in the importing countries. It makes the shipment of goods between those countries easier. The concept of mutual recognition is one that we support and similarly there is some guidance on labels.

It meets twice a year. The WSTA has been an industry observer on this group for the last three years. It is a very unusual forum where you get industry and Government meeting in the same room, or meeting in separate rooms and then coming together every now and again to meet together. But as a means of addressing some of the issues between those countries, because it meets twice a year it resolves any issues quite quickly and it is an opportunity to air those and to raise concerns for trade outside of that trading bloc.

We are very keen for the UK to join. It cannot at the moment as a member of the EU but we have made several submissions to the Government stressing the importance of that and we are very much hoping that there will be a spring meeting of the WWTG. It usually meets in the spring in Brussels. We are very much hoping to host in London this year.

Q140 Catherine West: Is there a public health element to that? We know there are problems with alcohol as well as being a good thing. For example, is the advice on pregnancy and drinking and all that sort of thing covered under that wine group?

Simon Stannard: Primarily it is a trade group, but obviously those issues do crop up. The next stage in the development of the World Wine Trade Group is to look at some of the issues that go purely beyond the trade aspects. They do have some framework on labelling and we might see that expanded to include coming up with a generic warning system, perhaps standardising the pregnancy logo that you see on bottles, but those discussions are very much in the early stages at the moment.

Q141 Catherine West: On fair trade, lots of people want to buy wine that you know that the farmers are getting a good price for, and that there are not middlemen in between getting all the money. Is there provision within that group or is that not something that is—



HOUSE OF COMMONS

Simon Stannard: It is not something the group has addressed at the moment.

Q142 **Catherine West:** We did a trip to Canada and looked at labour rights and so on. In NAFTA a lot of that was not settled early on and the feeling of some of the Democrats was that had that been settled early on, they might not have got into some of the hot water later with TTIP, by having it a bit more upfront to begin with. But I am not sure whether the wine group is the kind of forum that would discuss that sort of thing.

Simon Stannard: I am not sure.

Simon Robinson: It is the workforce in the vineyards that is more of an issue there rather than the farmers per se and the vineyard owners.

Q143 **Catherine West:** It depends which country you are interested in. In South Africa there might be farms we want to support.

Simon Robinson: In South Africa it might be different, but even there I would think it is more that the vineyard owners are likely to be less worried about fair trade.

Q144 **Mr Evans:** I know that they are seen as a form of protectionism as far as the home market is concerned for whisky and indeed for the French markets on champagne particularly. How do you see that evolving in any sort of FTA between the United Kingdom and Australia and New Zealand?

Sarah Dickson: I would like to start with Scotch. In 2014 we registered Scotch as a certification trademark in Australia, so they do have IP protection. What we like about a GI system and why it gives us extra value is that the Government play a role in enforcing the fact that something cannot pretend to be from Scotland when it is not and call itself whisky. They will help in that enforcement process. It means you are bound to win in a court when you take it forward. It is protecting but it is protecting consumers as well because, as a consumer, you do not want to be sold something at a premium price when it is not a premium product from where you think it is because they stuck a load of tartan or a picture of Alan Don and a castle or something on it when they should not. There is quite a strong consumer protection element; knowing that you are paying a premium for a premium product that comes from the place that it says it comes from.

Usually it is a conversation that Governments can have to make sure that does not happen. The EU conversation with Australia might be clear about how their process will go forward but we do currently litigate in Australia using the certification trademark and we have cases ongoing at the moment. But what we would like to see is that the Government also have an enforcement responsibility in that.

Q145 **Mr Evans:** On the wine side?

Simon Stannard: On the wine side, the terms of our future agreement with Australia on protections will very much depend on the terms of our



HOUSE OF COMMONS

relationship with the EU and what we continue. The Government's proposals at the moment would suggest that there is no obligation on the UK to recognise any of the European protections for wine. But it will very much depend on that because certainly the contentious issues for the Australian market at the moment are nothing to do with wines that are produced in the UK or any UK products; it is some of the European designations that are causing them problems.

Q146 Sir Mark Hendrick: Have the Government said anything explicitly on that?

Simon Stannard: As I understand it, the commitment is to roll over all of the UK protections and then there is no firm commitment as far as European designations at the moment. It is a bit vague.

Sarah Dickson: It is vague. It is probably better to say it is vague because we have not seen the statutory instrument that would then set out the GIs.

Q147 Sir Mark Hendrick: If we have European standards now, like with most of the agreements we are looking forward to, there would be a roll-over of existing standards, which were basically European standards.

Sarah Dickson: Yes. Our understanding is that in rolling over all EU legislation you roll it all over and then if you want to change it you do, but that is our understanding. Our understanding is that all EU GIs are protected until the UK decides to change that or do something different. There has not been any formal announcement on changing that or doing something different.

Q148 Mr Evans: Do you see it as a sort of a moving thing; that if Australia wanted to sell some of its Mumm production, which is a variant of champagne, into the UK they would just label it differently?

Simon Stannard: There are no arguments coming from the Australian producers to change the way they label their products. In fact, they would like some further protection to some extent. If it were possible in the future to sparkle an Australian still wine in the UK, they would very much like to call that an Australian wine.

Q149 Sir Mark Hendrick: But would they call it Australian champagne then?

Simon Stannard: They would not want to call it Australian champagne. They know that we are not going to see Margaret River champagne on the market in the UK, nor do they want to do that, but they are very keen to see the origin of where the grape was grown to define the origin of the product, which is not necessarily the case at the moment.

Simon Robinson: We would echo that. We would very much want to make sure that anything that was described as English wine in this country was grown, produced, made in this country and not from imported juice, which is currently sometimes called British wine. That



HOUSE OF COMMONS

does worry us and we would like to see GIs that protected us from British wine being produced in that way in the future.

Q150 **Matt Western:** To come back to Mr Stannard on my earlier question, could you give me an idea of what proportion of the 300 million bottles a year is less than 13% strength? I assume that the majority of it would be. Secondly, what proportion is exported on from these bottling plants to Europe?

Simon Stannard: Starting with the latter point, over the last 12 months we saw the equivalent of 320 million bottles imported into the UK and we saw about 75% of that sold. Some may be in storage, but one might assume that between 20% and 25% of shipments that come in bulk would be exported or sent from the UK to Europe and other countries.

Q151 **Matt Western:** It is 25% of the total that is sold on from the UK?

Simon Stannard: Roughly 20% to 25%.

Q152 **Matt Western:** What was the 75%?

Simon Stannard: Sorry, of the volume imported, 75% reflects the volume in sales. You can assume that there is a 25% difference in the same period between what has come into the country and what has been sold, so one can assume that difference has probably been sent out of the UK rather than being in the store. As for the strength, I do not know but I can find out.

Chair: Thank you. We will look forward to that information. Panel, we thank you very much for your time this morning. It was very illuminating and interesting. Thank you all for your contribution to our inquiry.

Examination of witnesses

Witnesses: William Bain, Douglas Lippoldt and Michael Nower.

Q153 **Chair:** This is our second panel this morning on the trade between the UK and Australia and New Zealand, as part of a look at trade and the Commonwealth. Can I ask the new panel to introduce themselves please, starting on my left?

Michael Nower: I am Michael Nower. I am a researcher in international trade at Durham University

Douglas Lippoldt: I am Doug Lippoldt. I am the chief trade economist at HSBC Global Research.

Chair: It is good to see you again.

Douglas Lippoldt: Yes, likewise.



William Bain: I am William Bain, the Brexit and international trade policy advisor for the British Retail Consortium.

Q154 **Chair:** It is very good to see you again, Mr Bain, from your days in this parish—you are very well known to many Members. Mr Lippoldt, can you give a brief overview of the economic importance of UK trade to both Australia and New Zealand and how it has changed over recent years? I might be straining things by asking you to take us back to the early 1970s, when I was in nappies.

Douglas Lippoldt: Certainly. Historically, of course, there was a much greater dependence between the UK and Australia and New Zealand. In 1950 the UK accounted for something like two-fifths of Australian exports and something like two-thirds of New Zealand's exports. Now of course, with globalisation and liberalisation through the GATT and the WTO, we have had opening globally and the proportion of Australian and New Zealand trade with the UK has diminished. The UK absorbs about 1% of Australian exports, excluding gold, and about less than 3% of New Zealand's exports. It is of course quite important in certain sectors; we heard the discussion on wine previously and we also have meats coming in quite substantial volumes. The fact that the UK's share of the export volumes from Australia and New Zealand has declined is not to diminish the importance of this.

We have also had the growth in the service sector trade, to the point where 50% of the bilateral trade flows are accounted for by services. The UK is an important source of tourists for the antipodean trade partners, for example, but also financial services and education services are provided from the UK; there are healthy academic exchanges, as my colleague may be able to say in a moment.

It is important to note that there is a healthy alignment in business culture. There is familiarity and ties through mutual investment, and in both directions there are substantial investment flows. The UK is an important source of investment for both Australia and New Zealand and top-five supplier and a destination for outward bound Australian and New Zealand investment. This is important to note going forward because if the UK is engaged more deeply globally directly in trade liberalisation, Australia and New Zealand trade partnerships could provide an interesting platform.

The Pacific basin is among the fastest growing areas of the world, especially the emerging markets. We heard earlier some references to the emerging markets in the CPTPP. Ties between Australia and New Zealand and the UK could provide an important point of leverage for businesses in the UK in accessing those Pacific basin markets that are growing at a much more dynamic pace than some of the local markets in western Europe.

Q155 **Chair:** Michael Nower, do you have anything to add to that?



Michael Nower: No, not so far. I know you said services were 50% but it is more than that, particularly for Australia and much less so for New Zealand. Trade between the UK and New Zealand is primarily goods-focused, whereas trade between the UK and Australia is both goods and services but leaning more towards services. That is increasing as a proportion as time has moved on.

Chair: Thanks for the distinction there.

Q156 **Matt Western:** Mr Lippoldt, thanks for sending us the links to the various research documents. You were talking about figures just a moment ago and said “excluding gold”, but I did not pick up that gold seems to be a significant import to the UK. What proportion of the gold do we take?

Douglas Lippoldt: It varies by year but it is something like another percent of Australian goods.

Q157 **Matt Western:** It doubles the exports?

William Bain: Yes, for goods, it would double the goods.

Q158 **Matt Western:** Interesting. Mr Bain, how important are the Australian and New Zealand markets to your members and what sort of growth do you see from those markets in any future FTA?

William Bain: They are reasonably important. The key products that are imported are wines from both jurisdictions. From Australia the second biggest one is nuts, principally almonds. From New Zealand apples are in second place. Things like the tariff-rate quotas are very important for imports of produce such as New Zealand lamb as well. The UK takes a lot of that—the lion’s share of the EU quota.

Much depends on what the nature of the relationship is between the UK and the EU and also whether the UK’s FTAs with Australia and New Zealand are effectively seeking to roll over or replicate what goes into the EU agreements. Those may be done during any transition period if the withdrawal agreement were ratified. A lot of what the shape and growth prospects for UK retail from FTAs with New Zealand and Australia will depend on what happens in that period. If there were some changes to tariff-rate quotas, potentially there is the ability for more agricultural produce, principally meats, to be imported into the UK. But if the UK is linked very strongly with the common external tariff, there would be joint management of tariff-rate quotas. This is all still inextricably linked to the nature of the relationship that the EU and the UK will have on trade if the withdrawal agreement is ratified.

Q159 **Matt Western:** Where would the growth in exports be?

William Bain: On the export side, you are possibly looking at pharmaceuticals and chemicals for Australia. Obviously we are representing the retail industry, but for New Zealand there would also be some scope perhaps for vehicles and the automotive sector as well.



Q160 Catherine West: One of the things that your industry is struggling with at the moment is the question of packaging. Due to this being a very faraway market, are there any added worries about different groups within the industry? For perishable things there is the impact of the plastics, because sooner or later plastics is going to become a cost issue for the industry. Is there anything that is coming out at the moment that is best practice or any research about how that cost for the industry could be mitigated?

William Bain: It is interesting to look at what the early days of the EU negotiations with Australia and New Zealand have brought up. Labelling could include having an adhesive label that can be applied to the product that does not require the product to be completely relabelled. That would be an important trade facilitation if the UK market were going to be opened up to more agricultural produce from Australia and New Zealand. That would be one way of mitigating costs. We have not heard anything from our members about other packaging issues that would be a particular concern at this stage.

Q161 Faisal Rashid: Douglas, what are the benefits of any future FTAs with Australia and New Zealand and do you see any potential drawbacks in them?

Douglas Lippoldt: In looking at this, we were generally positively inclined toward a future FTA. Reduction of duties, which would be likely to be included, would help to level the playing field and provide increased access. A greater benefit will come from steps toward addressing non-tariff barriers and we have a couple of challenges here. The EU has in place already various arrangements with Australia and New Zealand. We heard earlier about the EU-Australia wine agreement and there is an EU-New Zealand veterinary agreement that also facilitates trade. For regulatory testing and compliance, there are mutual recognition agreements in various areas that facilitate trade.

My point is that there is a fair amount of liberalisation. Even though there is no FTA between the EU and Australia and New Zealand yet, there is a fair amount of liberalisation that is advanced. They have mutually negotiated down tariffs in the WTO process and the GATT process before that. They have tackled non-tariff barrier costs, which can be multiples of the current tariffs, through mutual recognition agreements and these other bilateral accords. Now the UK enters the scene, you asked about FTAs, one of the first things we have to do is to roll over or at least gain the equivalent degree of access that the EU partners currently enjoy vis-à-vis Australia and New Zealand. Then we can talk about how else to broaden.

There are some other actions that can be done. For example, in investment Australia and New Zealand operate investment screening. We could be in an FTA negotiating with them to see if it is possible to raise the minimum threshold to be caught up in that screening. In other words, you could liberalise investment below a certain threshold, for example.



HOUSE OF COMMONS

There may be possibilities to go beyond what the EU currently enjoys in areas of services such as the mutual recognition of professional qualifications and acquiring national treatment for UK applicants to operate in the service sector in Australia or New Zealand. This kind of levelling of the playing field could go a way towards helping.

If I may, I have a second theme I would like to raise under this and that is the issue of scale. Distance matters in trade. There was this notion that distance is dead as an issue, that it had come out with the emergence of the internet and such. It turns out that distance still matters; it matters for goods and for services. Last year the OECD published a very interesting study looking across eight sectors and for seven of them they found that distance is highly correlated with export performance in services—proximity does matter. What I am getting at is that these two markets are quite distant from the UK and they have much smaller scale than the EU27. We have \$1.3 trillion GDP Australia, and we have \$0.2 trillion GDP New Zealand. We are trying to liberalise trade with them but the scale will not be sufficient to offset even a marginal decline in access to the EU27. Of course, the terms of any future bilateral FTA are going to be constrained between the UK, Australia and New Zealand. It will be constrained by the terms of trade negotiated finally between the UK and the EU27.

If I may, I will quickly just throw out one last number. My colleague Shanella Rajanayagam has been working with me on these papers and we were discussing this yesterday. Let's say that trade friction increases between the EU27 and the UK, and let's say exports from the UK to the EU fall 5%—it is just an illustration; I am not forecasting it. But if there is a 5% decline in the UK exports to the EU27, the UK would need to grow its exports to Australia and New Zealand together by 154% just to offset that. That just gives you a sense of the scale.

Faisal Rashid: Excellent point. This is exactly what we have been talking about all through the last few months and you put it very nicely and eloquently, I would say.

Q162 **Chair:** On the UK-America deal, I think the gain to GDP was only 0.2% and you are talking about the loss with the European Union. If there is a deal there is a 6% loss and if there is no deal it is an 8% loss. What would the gain be to GDP with a New Zealand and/or Australia agreement for the UK?

Douglas Lippoldt: The gain to GDP would be a very small percentage point gain, a net gain—

Q163 **Chair:** If America is 0.2%, I am just wondering whether it is in that order, given the size of the economy.

Douglas Lippoldt: Let me give you one benchmark we have. The EU, in preparation for its free trade agreement negotiations with Australia and New Zealand, conducted an impact study for that future FTA for the EU28 vis-à-vis Australia and New Zealand, and it found that the net gain to



HOUSE OF COMMONS

welfare for all three countries would be about \$8 billion a year. If you consider that the EU28 is roughly a \$17 trillion economy, this is a small—

Q164 **Chair:** What did you say the benefit was again?

Douglas Lippoldt: It was about \$8 billion—US dollars—annually.

William Bain: Chair, I have that impact assessment that Douglas was referring to there and it has the percentage figure, on the economic impact to the EU, Australia and New Zealand. For the EU the change in GDP would be 0.02%.

Douglas Lippoldt: But the point to note here for the UK's interest is that the UK is about 15% of European Union GDP, so scale matters. The UK would be some subset of that, some proportion, a fraction of that; that is what I am getting at. For the EU, for equivalent liberalisation, you would expect the UK's share to be in absolute terms smaller. The UK could be more ambitious perhaps, and this is in the note that we circulated yesterday. One of our positives to highlight would be the UK, having exited the common agricultural policy of the European Union, may have more flexibility in negotiating access to its market. The UK is a net food importing nation, 66 million hungry people, and having access to a more diverse food supply from competitive suppliers in Australia and New Zealand may benefit UK consumers, for example.

We heard from the English wine producers on the previous panel. It could be that there are some opportunities there to grow UK agricultural exports as well through mutual concessions negotiated in an FTA.

Q165 **Faisal Rashid:** But that all takes time. We talk about globalisation and we will have FTAs with the rest of the world, we will trade with the rest of the world, when the clear example is that even 5% reduction in the trade with the EU means that 150% increase required with Australia and New Zealand. There are logistics and the distance, but then you talk about other countries in the world as well. It is not something that can happen overnight. It will take years and years to make sure the rights and standards are also acceptable to the UK. That is a very good point made.

I want to move on to Michael. You have stated that a future FTA with Australia has the potential for a 23% increase in trade volume and 24% increase for trade with New Zealand. How do you arrive to these figures? We just mentioned that and now you are saying that there is a potential, so what happened? Did you do any modelling?

Michael Nower: Yes, these figures come out of a macroeconomic model that myself and colleagues at Durham University have developed. It is a model that takes into account trade diversion effects, so it has multiple countries in the model. We separate out tariff and non-tariff barriers, we separate out imports and exports, and then those figures there are the most ambitious type of free trade agreements. This is a free trade agreement that reduces not only tariffs but non-tariff barriers, and it also includes some liberalisation of services as well. If we have just a pure



tariff reduction agreement, the gains are much smaller—somewhere in the region of 8.3% increase in trade with Australia and 11.4% with New Zealand. New Zealand's trade with the UK is more goods-focused, so there is more scope for increases.

But with both of those agreements pure tariff reductions alone, they are somewhere, in our model, in the region of a 0.05% increase in UK GDP as a result of these free trade agreements. If we have more ambitious agreements, deeper agreements—including non-tariff reductions and including liberalisation of services, as you said, through mutual recognition of standards—the gains increase. With Australia it is about 0.13% of UK GDP as a result of its FTA agreement, and with New Zealand it is about 0.02% of GDP. But you would need very ambitious free trade agreements to get these sorts of gains.

Q166 **Faisal Rashid:** Obviously negotiations and everything will be required.

Michael Nower: Exactly.

Faisal Rashid: It is not set in stone.

Michael Nower: Yes, and these are indicative numbers and again they are very dependent on the UK's relationship with the European Union, so these numbers are for that trade alone. They do not necessarily reflect how UK trade with Australia and New Zealand will change after Brexit. That will depend on the extent to which there is trade diversion from UK trade with the EU to trade with Australia and New Zealand as well.

I want to add something to the points that were made about the impact of distance. This comes from gravity modelling, but one thing that is also very important and shown to be very important in this trade is colonial linkages, legal origin similarities, shared languages, and all of these obviously we have with Australia and New Zealand. The EU cited 8 billion, but when you divvy that out among the different countries in the EU it is likely that a larger portion of that would come to the UK because of these colonial linkages, shared language and things like that. Another important point is that distance is very important, but the impact of distance, particularly on services, has been declining over time. It is a relatively new finding. It is still important but becoming less so as the years go on.

One final point is that what is also very important is the size of the relative economies. If we assume that the majority of global growth is going to be in the Pacific region in the east Asian economies, that is something that has to be taken into account when you are weighing up the relative benefits of closeness with the EU versus the ability to strike free trade agreements with those countries. At the moment it is not likely that potential benefits for new free trade agreements could outweigh losses from the EU, but as those east Asian economies become larger, become more developed, the potential for those two to cross over does increase.

Faisal Rashid: The ideal situation would be to sustain the current



position of UK-EU trade and then explore the new markets and stuff and how that would happen. Who knows?

- Q167 **Sir Mark Hendrick:** My question is a follow-on from something earlier. Two of you have said that distance is a big issue and the point about a 5% reduction in EU trade requiring 150% on top of the Australian and UK trade situation. We are talking about trade very much in macroeconomic terms. Catherine earlier was touching on it to some extent in environmental terms as well. If you are dealing with your neighbours obviously there is a lot less carbon involved in moving this stuff around. When it comes to getting across to the other side of the globe there is a hell of a lot more carbon involved. Have any of you, between you, looked at the impact of how much extra carbon it is going to be putting into the atmosphere even if we get those desired GDP figures? How is that going to impact in environmental costs, which may at some stage in the future, if we had some better global governance, be factored in, in a financial way rather than virtually ignored?

Michael Nower: We have not modelled that at all. It is not something that we consider in our analysis.

Douglas Lippoldt: We have not modelled it separately. We have acknowledged in our research the importance of flanking policies. Trade policy is not a standalone policy; it is intimately tied up with the human capital development of an economy, the social safety net to deal with adjustment and dislocation, environmental policy, and trade negotiators are coming around to begin to deal with these issues. In the Comprehensive and Progressive Agreement for Transpacific Partnership, there is an environmental chapter that has some enforceable elements and that we will see more and more going forward. The EU as well in its agreements is insisting on pre-ratification of the Paris accord by the EU trade partners and such. This is starting to be factored in and you are quite right to highlight it as an issue.

- Q168 **Sir Mark Hendrick:** Two of you have mentioned CPTPP. If the growth there is going to be as big and as fast as people are talking about now, surely people need to be thinking about the carbon costs that are going to be involved with this. Is nobody doing it?

William Bain: That is a really good point, and one of the things that BRC members have been doing is signing up to the UN's sustainable development goals and we have a good platform of how retailers are taking tangible steps in that regard. You are right to point to the need for more clarity and more concrete commitments. I was looking at the chapters that have been published already by the Commission for the agreements that they are hoping to strike with Australia and New Zealand, and there is likely to be a sustainable development chapter and environmental issues in there. These are issues that you as policymakers could address with the Government to see if they intend that to be the case for a UK trade policy and UK trade agreements as well.



Q169 Julia Lopez: I want to pick up on something that Mr Nower was talking about on the future co-operation between the UK and New Zealand and Australia. One of the things that has come up in our discussions with policymakers from New Zealand and Australia is the potential for us to work together to penetrate some of the Asian markets, particularly the Chinese market—New Zealand struck the first FTA with China and Australia now has a very strong partnership with China—and how we could help them fulfil some of the demand, particularly for high-quality agricultural produce. Is this an area that you have examined in some of the work that you do? Do you think that this is a potential area for growth and benefit that would derive from us having a stronger trading relationship with Australia and New Zealand?

Michael Nower: It is not something that I have looked at directly, but it is very clear that as global trade does become more interconnected, it is becoming less and less so that a good is exported once and then stops. It is much more the case that goods are dotted around the world, each stage adding a little bit of value. If New Zealand can act as a hub through their free trade agreements with China as an economy, that could increase the benefits of any free trade agreements between the UK and Australia and New Zealand by quite a substantial margin, effectively as an indirect channel of gaining access to Chinese markets if, for other reasons, the UK is not able to negotiate a direct free trade agreement with China.

Douglas Lippoldt: Your point is quite valid and it underscores the importance of the investment facilitation dimension of any bilateral economic framework or partnership agreement.

One last thing I want to mention is that in negotiating trade deals with Australia and New Zealand, and also potentially with the EU27, it is important that the UK keeps in mind the notion of cumulation and rules of origin so that we are able to mix and match inputs from the most competitive suppliers in all those spaces and then sell back out. The notion of cumulation is an important one and it is one of the benefits of CPTPP that you have cumulation across 11 trade partners in the Pacific basin.

Q170 Catherine West: On the question of competition, one of the issues with the trade war with China and the US at the moment is the postal service and a lot of the retail offer from China is in tiny packages. I am not sure that the US's current position is focused on the environment, but do you have any thoughts about what is happening with all of the tiny little packages from internet shopping going to thousands of addresses every day?

There are two ways of looking at it. One is from the competition point of view, which is where Mr Trump is coming from in his wanting to protect postal services or wanting to protect American industry, and there is an argument about jobs and so on. But from an environmental point of view there are lots and lots of tiny packages with plastic, which keys into my



earlier question about packaging. Do you have any thoughts about where we are on that or whether that will become increasingly important, or do you think it is a bit of a flash in the pan?

Douglas Lippoldt: This is an active topic among trade negotiators, because facilitation of e-commerce and digital trade goes hand in hand with the ability to connect consumers with suppliers. There is some discussion among trade negotiators now about what is an appropriate level at which to have de minimis thresholds established—that is, thresholds below which customs administration and duties do not apply. The US increased its de minimis threshold to \$800 a little bit more than two years ago, so they have had this increased access that is probably accounting for some of the growing volume in packages. I have not seen a carbon assessment of this. If you have a direct-to-consumer delivery I am not sure of the carbon effect. If you remove the warehousing and third-party collection of products and then reshipping back out to the consumers, I am not sure which way the balance would go. In other words, you could have carbon savings by sending directly to the consumer, avoiding the middleman, or not—I am not sure.

Q171 **Catherine West:** I don't know whether William has a view. That does key into our own domestic production, doesn't it, because if you are not even thinking about a local provider you are bypassing a lot of products, and is that really competition? I don't know.

William Bain: Indeed. The issue of sustainable sourcing comes up really importantly with that. The other thing with packets—and we know this dealing from the no-deal preparations—is the impact of import VAT. We are waiting to see what the Government's digital system for VAT will look like, which would have impacts on packets coming from Australia and New Zealand under any FTAs as well.

Q172 **Mr Evans:** I want to touch a bit on what happens if there is a World Trade Organisation deal at the end, as opposed to an EU-UK trade deal, a withdrawal agreement deal. It seems to be a bit like the elephant in the room, whereas most people in panels before talk about the calamity of a no-deal situation. When we are talking about Australia and New Zealand, the greater the no-trade deal that we have, the more trade that we would potentially be able to do with both Australia and New Zealand. Am I getting that right?

Chair: If we have no relationship with Europe, the argument that Nigel Evans is putting forward is that they are then not constrained with other countries.

Douglas Lippoldt: Yes, I see what you are saying. The UK is a member of the WTO and in good standing. It has now made a services proposition; it has proposed a bound tariff rates schedule; it is negotiating with partners over the tariff-rate quotas that we heard about earlier. Those terms will provide a foundation in any event. The UK-EU relationship can go beyond those terms once we have exited. The issue



HOUSE OF COMMONS

will be to what extent we constrain ourselves by trading off greater access to the EU27.

Q173 **Mr Evans:** The more aligned we are to the European Union, the less we may be able to do on FTAs with Australia and New Zealand?

Douglas Lippoldt: That is right. But the critical factor, the starting point from a WTO perspective, is whether or not we are bound by the common external tariff of the EU. Are we in the customs union or not? If we are it does not preclude bilateral deals with countries further afield on other matters. It is a black and white kind of issue, if we are not constrained by it or if we are.

Q174 **Chair:** Building on what Mr Evans has said, he is talking about the lesser relationship with the European Union the freer the relationship with other countries such as New Zealand and Australia. But looking at the figures that you have given this morning, the Treasury says that in an FTA situation, in order to make a trade deal with Australia and/or New Zealand, we would need to be in an FTA situation outside the customs union, or at least outside the single market. I see some nods there so I will continue.

It is about a 6% change to UK, GDP down 6% or down 8% on the other scenario, on the deal or no-deal scenario, for an FTA to be able to happen. But the gains to GDP seem to be 0.02%—that is one of the figures I have heard, and the best figure I have heard is 0.13%, so it is about 300 times the order to go down to about 50 to 60 times the order. The trade-off—correct me if I am wrong—has to be that you would need 300 New Zealand and Australia deals in the worst scenario to make up what you have lost with the European Union, and you would need 50 to 60 for the best scenario to make it up. Is my logic following?

Douglas Lippoldt: Yes, I see what you are saying. There was a wave of modelling after the referendum. In one scenario I saw one paper looking at the free trade agreement with the rest of world and a hard Brexit and it would be very difficult to compensate even with a free trade agreement with the rest of world.

Q175 **Sir Mark Hendrick:** Douglas, there was a meeting we held some time back when you were present and you gave us some figures about what we would need to do in building up trade with the rest of the world if we had, for example, a no-deal situation with the EU. Did you not say it took something like 10 years to replace that lost trade and GDP?

Douglas Lippoldt: I was saying it can be a generational project in my view because of the scale of work required to have adequate compensatory liberalisation with the rest of the world.

Q176 **Chair:** If you want to be free to make those agreements with Australia and New Zealand and less tied to the European Union, but what I am saying is that with your losses, you are only going to gain 1/300th of what you have lost, to gaining 1/50th or 1/60th of what you have lost.



That is the gain versus the loss.

Michael Nower: That is from this one single agreement but it is very important to distinguish between a no-deal scenario versus what I believe has been termed the managed WTO scenario. It was a previous inquiry, it was the analysis of grandfathering and the impact of that, so quite a lot of the negative effects of no deal are coming through the loss of grandfathering. If you look at the bank analysis—we have done some work on this at Durham—somewhere in the region of 10% to 20% of the no-deal losses are coming through this loss of grandfathering.

Q177 **Chair:** What is the best and worst that you have modelled of GDP in the FTA area?

Michael Nower: In terms of no deal, so losing access to all of the EU markets and all of the non-EU markets with which the EU has free trade agreements, the loss in GDP in the short run could be somewhere in the region of 10% relative to—

Q178 **Mr Evans:** When you say losing access to the EU markets, what do you mean; we would not be able to sell them anything?

Michael Nower: No, the increased tariffs, non-tariff barriers, customs checks and so on, but that is an unmanaged, no grandfathering, worst-case scenario. There are a lot of policies that the UK Government can do to mitigate the effects of no deal, particularly given that we have EU legislation translated into UK law by guarantee on 31 March. It is relatively easy for the UK to treat imports from the EU the same after 31 March on a temporary basis so we would still retain the free flow of imports because that is a decision that the UK can make. Obviously there is nothing we can do on the export side of things; that is a decision entirely left to the European Union. But on the import side that remains the prerogative of the UK Government, and if they adopted that policy that again can reduce the losses from a no-deal scenario, at least temporarily, substantially to effectively a situation where we would not be likely to see a recession at all.

Q179 **Chair:** Your worst is 10%, so that would be 100 to 500 times greater than the various figures we have seen for gains within trade agreements with New Zealand and Australia.

Michael Nower: For Australia and New Zealand, but that was the short term. In the longer term we would be looking at somewhere around 6% for this scenario, but that again is assuming no grandfathering of any kind and the loosest possible relationship with the European Union. If the UK was able to negotiate a free trade agreement—I have heard there is a Canada-style free trade agreement—those losses can be reduced somewhere in the region of 4%. We have 0.15% or so from Australia and New Zealand but that is just two of the non-EU countries. We have done some modelling for if we were able to do it with all of them. It is not enough to compensate at the moment—



HOUSE OF COMMONS

Q180 **Chair:** What is the best percentage that you have?

Michael Nower: That is somewhere in region of 1% decline in UK GDP if they were able to strike a free trade agreement with every non-EU country, including retaining access to the existing ones, but that is at the current time and with the current trading arrangements. New Zealand is a very good example where they effectively redistributed the focus of their trade from the UK to other countries after they saw substantial increases in trade barriers. It is possible; it is extremely disruptive in the short run but it is possible.

Q181 **Catherine West:** No one has done it in the timeframe that has been proposed by no-deal proponents.

Michael Nower: It took New Zealand 10 to 15 years.

William Bain: We have had some good contact with the New Zealand trade representative and also from the Australian ambassador and embassy. There is all this potential in both the EU and potential UK FTAs to increase the amount of imported agrifood produce that comes into the UK. There is also the potential to decrease the tariffs. Effectively it is about 8p on a bottle of wine; that is the effect of it. But the reality is that we are not going to see a vast pivoting away by the Australia and New Zealand agrifood industries from their key focus, which is Asia Pacific and China, to the UK; it just not happening. We have heard it from the Governments directly, so the benefits are marginal. There are potential benefits for consumers but they are marginal.

Q182 **Mr Evans:** The worst-case scenario is that I would never get out of bed in the morning.

Douglas Lippoldt: One thing to note is that the CPTPP is a nearly \$10 trillion GDP area, so it is smaller than the EU27, which is an over \$14 trillion GDP area. It is more distant but it represents one of the most ambitious FTAs outside of the EU and the gains that have come from this deep liberalisation and removal of most tariffs, some regulatory alignment, some customs facilitation, gains to the members are estimated to be about 1% of GDP. This Herculean effort of deep liberalisation through an open FTA is expected to yield about 1% gain in GDP for each of the members on average. That is an average across the region.

Q183 **Chair:** Can I ask one final point about what are the benefits to services of liberalisation within an FTA? It is always something that comes up.

Douglas Lippoldt: I do not have a percentage. I don't know if you have modelled this.

Michael Nower: It was like I was saying earlier; it is the difference between the 0.05% of GDP for just a pure goods tariff agreement up to the 0.13%. A substantial portion of that is coming through in our modelling liberalisation of services.



I want to make one point on CPTPP. It is worth noting that of all of the countries that are members, of CPTPP there are only four that the EU currently does not already have an agreement or shortly an agreement is to come into force: Australia, Brunei, Malaysia and New Zealand. For all of the other countries the EU either already has some form of agreement or the agreement is shortly to come into force, as in the case of Japan and Singapore.

Q184 **Chair:** You may be hinting there that it may not be worth joining CPTPP because of that?

Michael Nower: If the UK leaves the EU it would lose access to those agreements unless they are able to grandfather them. In the case where there is no grandfathering, it is definitely worth joining to regain the access that we already have as part of the EU. In terms of the additional benefits from the countries with which the EU does not have an agreement—

Chair: If you can grandfather, is it worth joining?

Michael Nower: Yes, it is still a 0.3% GDP gain for the UK just from those countries with which the EU does not currently have—

Chair: Thank you very much. Panel, can I thank you, but we are up against time. Thank you for your time and your expertise. It was a fascinating conversation.