HOUSE OF COMMONS

Welsh Affairs Committee

Oral evidence: Brexit, trade and customs: implications for Wales, HC 1444

Tuesday 5 February 2019

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Watch the meeting

Members present: David T. C. Davies (Chair); Tonia Antoniazzi; Guto Bebb; Chris Davies; Geraint Davies; Susan Elan Jones; Ben Lake; Liz Saville Roberts.

Questions 83 - 134

Witnesses

I: Dr Kristen Hopewell, Senior Lecturer in International Political Economy, University of Edinburgh, Maddy Thimont Jack, Researcher, Institute for Government, and Professor Leonard Alan Winters, Professor of Economics and Director of the UK Trade Policy Observatory, University of Sussex.

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Examination of witnesses

Witnesses: Dr Kristen Hopewell, Maddy Thimont Jack and Professor Leonard Alan Winters.

Q83 **Chair:** I wish a very good afternoon to Dr Hopewell, Professor Winters and Ms Thimont Jack. Thank you very much for coming along. By way of introduction, obviously we are the Welsh Affairs Select Committee so we are interested in Brexit and Wales. I appreciate that you have come to give us impartial advice from the perspective of people who have worked in trade negotiations for a long time. Some of us, including myself, are extremely enthusiastically either for or against Brexit and this may come out in some of the questions, but please do not feel that we are in any way taking out our enthusiasms on you personally because we are not at all. We are just here to get as much information as we can about this.

Can I kick off by asking what principles all of you think should underpin any new UK trade policy? How dependent are these principles on the type of Brexit that we end up with?

Maddy Thimont Jack: To explain a little bit about the perspective I am coming from, I am Maddy Thimont Jack and I am a researcher at the Institute for Government. The Institute for Government does not take policy positions. We are interested in how Government can work more effectively and the processes involved in achieving that.

In terms of what principles should underpin UK trade policy, what I might do is veer off the question a little bit and let my fellow witnesses answer more specifically on that. We published a report in May 2017 looking at the governance of trade policy. Some of the things that we think are really important, for example, are that we have not had to manage our own trade policy since we joined the EU and one of the big challenges going forward will be making some of the trade-offs necessary when going into trade negotiations. Previously, the UK Government could potentially hide behind French farmers when talking about agriculture, for example, whereas once the UK is outside of the EU it will have to make those decisions itself. What I think is really important to start off is that the UK Government need to have a very clear strategy about what their priorities are when going into trade negotiations.

One of the things that I think would really enhance that is establishing an independent body. The US has something called the International Trade Commission, which does independent economic analysis on tariffs, international trade and things like that. I think that that is one of the starting points for the UK Government when going into trade negotiations. They need to think about ensuring they have independent analysis to inform making some of those trade-offs.

One of the other things to talk about in terms of the principles is—I have just completely lost my train of thought, I am afraid, sorry.

Q84 **Chair:** I do think that the report you came out with on the potential models post-Brexit was very, very good. I do not think that was the May 2017 one, but it was—

Maddy Thimont Jack: Yes, the options. A colleague of mine would probably talk better to that. Sorry, what I was going to say, to return to your question about the nature of Brexit, is that that is key to this. Depending on where we end up with the future relationship, that is going to impact what the UK can do in terms of negotiating new trade deals, but other countries are also going to be watching to see where the UK ends up.

Q85 **Chair:** Perhaps I could throw out a supplementary, then, for Professor Winters. To some extent, all this would depend on whether we are out of the customs union because for as long as we are following customs union rules this is all rather irrelevant, is it not? Perhaps I could throw that at you along with the original question.

Professor Winters: Okay. Again, let me explain where I come from. I am Director of the UK Trade Policy Observatory, which is an interdisciplinary group that we established in Sussex after the referendum. We have 40 years of experience of working on trade policy and we, like the Institute for Government, intend to be objective and non-partisan and I guess also speak truth to silliness, shall we say.

On the general question about the principles, first we have to remember that trade policy is basically an extension of domestic policy. It needs to match up. If you have a domestic policy that is rather rabidly market oriented, you need a trade policy that goes with it. If you have a domestic policy that wants to pay a lot of attention to the effects on place in particular and on income distribution, while we want trade policy to generate some economic efficiency you have to temper it with some of those other objectives.

That requires two other elements to achieve it. One is a great deal of national coherence about it, national conversation with the third sector, with Opposition parties, and with devolved Administrations. The second is—I apologise and come back to this—a really hard-headed dose of realism: what is achievable, because you are negotiating with somebody else, and what effects the policies that you are pursuing will have on particular people.

We are not really doing that at the moment. We are setting the EU relationship as a particular independent piece of policy, at the moment being determined entirely in a political debate around a withdrawal agreement with just about no attention paid to trade policy at all. It will go where it will go and we will have to accommodate where it turns out.

You are exactly right that if we remain in a customs union—not the customs union but a customs union—with the European Union, either directly because we seek that or indirectly through the backstop or even de facto through the facilitated customs arrangement, which I am distressed to see has not died completely yet, you will not be able to have very much influence, if any at all, on your trade policy as far as goods is concerned, so tariffs, quotas and so on.

If you cannot have any discretion over your trade policy on goods, you will not get to negotiate trade agreements on services. It has never been done. There is not a single comprehensive services-only trade agreement in the WTO. There are 151 services agreements or agreements with services in them; 150 of them are intimately connected with a goods agreement. There is one that is not. It is the European Economic Association. It is Norway-plus, which we know goes with the deepest of deep goods arrangements, so it cannot be done. Korea and Russia are apparently discussing a services-only trade arrangement. That is a first.

We really do have to be hard-headed about it. If we do something that constrains all of our policy, all of our discretion on goods, a customs union, or declaring that all tariffs should come down to zero, we will find it extraordinarily difficult to negotiate trade agreements with anybody else.

Dr Hopewell: I agree with the comments that have been made and I would just add an international perspective on some of these issues.

In keeping with the theme of hard-headed realism, I think it is important to recognise that in leaving the EU, the UK will be going from being part of one of the world's largest trading blocs, one of the largest economic blocs in the world. The EU has an immense amount of leverage in international trade negotiations, so the UK will really be going from being a major power in international trade negotiations to becoming something of a middle power. Although it would be regaining its independent trade policy and its right to negotiate its own trade agreements, it will be losing a significant amount of leverage in those negotiations and its ability to secure a beneficial or favourable deal. Trade negotiations are technical negotiations but they are also heavily shaped by power, the power of states. They say in international trade negotiations the strong do what they will and the weak do what they must. Certainly, in leaving the EU, the UK is giving up a lot of its leverage to negotiate favourable trade agreements.

This is also a time in the international trading system when there is a lot of volatility. This is the era of President Trump, where the US, the biggest power in the trading system, is increasingly resorting to a raw use of power to try to strong-arm weaker countries into making one-way concessions to the US. Increasingly, there is a threat to the WTO, the multilateral trading system, and this is the environment that the UK will be operating in.

Q86 **Guto Bebb:** Thank you for that. Obviously, the point you have just made in terms of the power issue is one that I find interesting. I am just going to follow up on that before I go on to the second question, Mr Chairman, if that is okay.

I used to be the chair of the all-party parliamentary group on TTIP, which was an interesting if wasteful three years of my life. On that issue, it was highlighted to me on several occasions—and this is one of the reasons why I backed remain in the referendum—that what we would concede to a market of 500 million is very different from what we would concede to a market of 62 million. The question I have on this power relationship that you touched upon is: to what extent does that come into play in terms of the efforts to roll over some of the trade deals that the European Union has with other countries? I will then come on to my second question, but my concern is that some of those easy-to-achieve trade deals, as promised by our International Trade Secretary, have not been forthcoming. Is that again because of the fact that the concessions made to the EU are not necessarily the concessions that those countries want to make to the United Kingdom?

Dr Hopewell: The UK currently is a party to over 40 trade agreements with over 70 countries as part of the EU. Come Brexit day, if it leaves with no deal, it will no longer be able to benefit from those trade agreements. This is a significant issue, which covers about 15% of the UK's trade. All of a sudden losing preferential access to those markets could have very negative consequences for the UK's exports.

The Government have been seeking to negotiate to replicate those trade agreements, but from what I understand now, of those 40-plus agreements, only about three have actually been negotiated. Those are with relatively small markets, countries like Chile, the Faroe Islands, southern and eastern Africa. As you can imagine, these are small markets. It is a relatively small fraction of Britain's trade under these free trade agreements, so this is quite a significant issue.

Certain countries, like Japan for instance, have indicated that they are not willing to just roll over the existing agreement. As you said exactly, they are going to demand greater concessions from the UK as a smaller market. Japan specifically said it was looking for greater concessions on labour mobility, access for its workers to work here in the UK, relaxing UK visa restrictions, and more aggressive liberalisation on the auto trade as well.

Professor Winters: I agree entirely with Kristen. What we are hearing is that the larger trading partners want, essentially, to design trade agreements with Britain if not from scratch more or less from scratch, first so that they are more attuned to the more recent trade agreements that they have signed. I have heard that Japan is interested in negotiating with Britain from the base of CPTPP rather than EU-Japan on the grounds that that is essentially a more recent piece of negotiation that they have undertaken. Even the style of trade agreement that is available might encounter some difficulties. We have also heard that Korea thinks that there is something to be talked about rather than just easily rolled over.

The statement that these things would just fall into place like that never was realistic. If I am honest, if they had asked us—we have been doing it for 40 years—we would have said it just does not work like that. It is important to remember that Britain is in an extraordinarily weak position. It is not just that we are sixth in the pecking order of size now. That is the long-run situation. We are desperate to sign trade agreements for the short run. We are desperate for political reasons. We are ripe for the picking. When we tried to join the Government Procurement Agreement in the World Trade Organisation, do you remember who objected? Moldova. Moldova had us over a barrel. They just said in the World Trade Organisation, "We are not going to let it go through unless you have a serious conversation with us". We are very, very vulnerable at the moment, so any country that has a trade department that has some trade negotiators in it has already worked out that now is the time to flex the muscles.

Q87 **Guto Bebb:** Just rolling on to my second question, given that rolling over the 40 trade deals was seen as a priority, and clearly that is not going to be as easy as anticipated, what do you as a panel think we should be prioritising in terms of trying to achieve new trade deals if we do leave the European Union on 29 March?

Maddy Thimont Jack: When we looked at this a couple of years ago, the main message was to not get distracted by trying to strike trade deals with the big players in the world. Given that we will not have much experience at all as trade negotiators, it is important to try to focus on smaller economies that might be more willing to enter into negotiations with us. For example, we suggested focusing on Australia and New Zealand. These are countries that are smaller. They have a track record of striking deep and meaningful trade deals, so this might be a more sensible starting place than, say, the US.

Obviously, though, it is important to say that that would not be easy with those countries, particularly because of agriculture, because they have a very different approach to agriculture than the UK does, but it makes more sense to, as I say, start smaller and work your way up. I would also defer to my fellow panellists to maybe expand more on that, given their expertise.

Q88 **Liz Saville Roberts:** The discussion has been very general, which is also very interesting. We are the Welsh Affairs Select Committee. I anticipate that you have probably prepared some of your responses in relation to the economy and the industries of Wales. It would be particularly interesting if, in your answers on the small traders—you mentioned agriculture—you could temper them in relation specifically to the Welsh condition, which obviously is very different from south-east England, for example.

Maddy Thimont Jack: Yes.

Q89 **Chair:** Okay. Would anyone else like to come in on this question from

Guto at all?

Professor Winters: To reiterate, in general one wants to start with countries that are fairly straightforward, and one needs to have in mind what negotiators refer to as offensive and defensive interests. As far as Wales is concerned, sheep meat is clearly a big defensive interest. I spent some time in Australia nearly two years ago, and I spent time in Canberra talking to people. They gave me a serious mauling over the sheep meat policies. I think that with Australia that is something to worry about; New Zealand much less so. New Zealand has a tariff-rate quota to export 225,000 tonnes of sheep meat to the European Union and does not use it all. In a sense, we can presume that our trade with New Zealand is fairly much in equilibrium at the moment.

With Australia, that is not the case. Australia's exports of sheep meat to the European Union, most of which I think come to the UK, are tightly constrained by this tariff-rate quota. They will not be interested in a trade agreement that does not relax that. Certainly, what they put to me was that it is not about the numbers but about the principle: we do not sign trade agreements that constrain agricultural exports. Australia is going to be quite difficult.

So far as other elements of the Welsh economy are concerned, integration into Europe as part of the manufacturing business is quite important. Manufacturing is a somewhat higher proportion of the Welsh economy than manufacturing in the UK in general, so that is clearly an important dimension as well.

Q90 **Guto Bebb:** I just want to follow up on that. Obviously, the advice was offered that we should be dealing with smaller potential partner nations at the outset because of the fact that we have a lack of experience and possibly we are in a weak negotiating position. Then if you highlight Australia as an option, I think that our trading relationship with Australia is about 2% of what we currently trade with the EU. Clearly, from the perspective of being a country that believes in free trade, we will be prioritising 2% of our trade as compensation for losing the EU market and access to the EU market. Is that a fair assessment of where we are at?

Dr Hopewell: I would say certainly. The issue is if you are looking at new trade deals, those new trade deals are effectively small potatoes compared with the EU market. The reality is that about half of Britain's trade is with the EU. Britain's overwhelming priority moving forward needs to be negotiating trade relations with the EU that as closely as possible replicate its existing trade relations. The EU is the world's second largest market. It is a massive consumer market. It is a single market, so it is easy to access and it is right on Britain's doorstep. The critical thing is trying to maintain that trade with the EU. By far and above, that is the No. 1 priority for the economic health of the UK.

Q91 **Chair:** I fundamentally disagree with what you and Professor Winters are saying, but that does not matter. To pick up this one point, we do more trade with the United States than we do with any country in the European Union, and we do that without a trade deal. Why is it so important that we even need to have a trade deal with the rest of the European Union? Why can't we trade with the EU on the same basis that we trade with America?

Professor Winters: Because the US is three times the size of the largest European country. The whole point about the single market essentially is that you can draw a line around it. It is a single market.

Q92 **Chair:** We are not going to stop selling, are we? We are not going to stop selling things to the European Union if we pull out without a trade deal, are we?

Professor Winters: We are certainly not going to stop selling everything to the European Union. We are certainly, I do not think anybody would disagree, going to sell less.

Q93 **Chair:** They will be selling less to us, then?

Professor Winters: Yes.

Q94 **Chair:** So we will be buying more stuff that is produced in the UK?

Professor Winters: If we have the money.

Chair: If we have to buy things, yes.

Professor Winters: Yes, it is possible but the point about international trade—

Q95 **Chair:** If we are selling less to the EU because we are unable to get our goods in there for some reason, then they will be selling less to us for the same reason. Therefore, we will have to buy more things that are made in the UK, won't we?

Professor Winters: We might but it is not given that we would buy the same amount or that the same amount of what we did buy would be as good. The point is that international trade benefits economies by increasing the size of the market, allowing more specialisation and greater economies of scale. If we restrict ourselves for some reason from selling so much into the European Union, it is not a given that British consumers would take it up in the same amount, that it would not be more expensive or that it would be the same quality.

In general, our experience is that growing international trade stimulates economic activity and, therefore, it is more than a zero-sum game. While it is certainly true we would sell more at home, it is not a pure equivalence.

Q96 **Susan Elan Jones:** On the back of that, I know it is not always easy to separate what is factually accurate from some of the scare stories, but could we be in a position where there could be a problem getting hold of foods that are relatively commonplace now in this country if this does not work out properly with the trade deals?

Professor Winters: We hear from the supermarkets that they are worried about certain things at certain times of the year. I cannot claim to be an expert on that sector. The things that you hear in the press are about the first few months and that, frankly, is not the basis on which you should be deciding trade policy. Trade policy is a long-term thing and the fact that there might be chaos, I would not measure the attractions of different approaches to Brexit by the relative amount of chaos that they create in the first few months. Government numbers, certainly every economist with one exception, say we are going to be poorer under Brexit.

Q97 **Chair:** No, they don't. They say we will not be quite as well off.

Professor Winters: Exactly.

Q98 **Chair:** That is not the same, though. You have just said—

Professor Winters: No, poorer—

Q99 **Chair:** No, I just want to pick you up on this. Do you accept, professor, that there is a difference between saying Britain will be poorer and Britain is not quite as well off?

Professor Winters: I was going to say poorer than it would have been, not poorer than now.

Q100 **Chair:** A very important qualification, isn't it?

Professor Winters: Absolutely. No, Britain will be poorer than it would have been.

Q101 **Chair:** But wealthier, nonetheless: wealthier under a hard Brexit than it is today—that is what they say, isn't it?

Professor Winters: Let us hope so, yes.

Q102 **Chair:** But that is what they say, isn't it?

Professor Winters: No, I am not sure that "they"—I don't know which "they" you have in mind.

Chair: The Treasury says that. That is what the Treasury report says.

Professor Winters: Yes.

Q103 **Chair:** You sound doubtful about that bit that you do not like, but you are very happy to—

Professor Winters: No, you are just putting words into my mouth, Chairman, that I want to think about.

Chair: No, I am not. You are giving half an answer.

Professor Winters: I certainly hope that the British economy will make up the 8% that it is predicted to lose under a no-deal Brexit. Can I guarantee that with Mr Trump, with all the other things that are going on? I don't think I can guarantee it. I think that it is likely over some years, but I certainly do not have academic work to prove that that is inevitable. We will be a bit poorer. The selection of goods is going to be somewhat more constrained. I do not think that we should believe that we will run out of tomatoes or onions forever. In the end, people will afford them and they will come in. Don't worry too much about the first three months. The issue is what is going to happen over the next 30 years.

Q104 **Guto Bebb:** Can I just clarify the stats Mr Chair alluded to, because I think that this is important? It is the case that the economic analysis by the Treasury is highlighting that we are making a political choice to be poorer than we would have been if we had not taken a decision to go for a hard Brexit.

Chair: But nonetheless still better off.

Guto Bebb: But poorer than we would have been otherwise. How often have Governments taken the view in the past that a policy aim should be to aim for something less than optimal? Is this something that happens on a regular basis in your experience?

Dr Hopewell: This would be extraordinarily rare. I think that it is also important to recognise that in many ways it is the poorest and the most vulnerable part of the British population that will be most negatively affected by this. With a no-deal Brexit, for instance, we are likely to see a significant decline in the value of the pound, a significant increase in prices, things like the price of food, for instance, and a decline in real incomes. Some people can afford to be 8% or 10% worse off than they would be without a Brexit, but for many people who are living just on the edge of the poverty line, who are struggling to get by already, to have their price of food, for instance, increase significantly will mean a great deal to people who are living in hardship.

Q105 **Chair:** You do not buy this story about cheap imports flooding in, then, from around the world? One of the criticisms has been that we are going to be flooded with cheap food imports. You do not buy that at all?

Professor Winters: Well, that depends on the trade policy.

Dr Hopewell: Yes.

Q106 **Chair:** What about this story about the shortage of workers to fill jobs? Is that a possibility as well? We are going to be short of people—that is a possibility, is it?

Professor Winters: Certainly, it is a possibility. Look, the British economy at the moment is running on lower unemployment than we have had any time since the early 1970s. We are changing the supply of labour by making it more difficult for firms to recruit people from Europe, so without a doubt some firms—

Q107 **Chair:** We are going to be short of people to fill jobs?

Professor Winters: Firms do not hold jobs open for years and years if there is no one to fill them. They shrug and say, "Perhaps we can't do that, perhaps we have to do less of this". It is not the case that 10 years from now firms will be saying, "We still have these millions of jobs that we can't fill because of Brexit". However, will the labour market show signs of labour shortage, particularly in certain skills? I think without any doubt at all. The national health service will be a case in point.

Q108 **Geraint Davies:** I just want to confirm what you are saying. My understanding of what is being said is that the EU is a big player negotiating with other big players like China or the United States or Japan. Outside that, first we will be a much smaller player and, secondly, we will have turned our back on one of the biggest markets in the world. Any other player negotiating with us will say, "First, we are not going to give you such a good deal because you are not the EU, you are much smaller and, secondly, we are going to give you a much worse deal again because you are absolutely desperate". In that situation, given that we will be desperate to get trade deals quickly as well, which is a third factor, they can hold back and say, "Okay, we want you to have chlorinated chicken", or hormone-impregnated beef or not have proper chemical controls like we have with REACH, or, "Why shouldn't we sell asbestos like we do in America?" We will be liable for all those things qualitatively and in terms of our income.

In terms of the points that have been made about the size of the economy, isn't it the case that there is this presumption that we will move from one set of trade negotiations to another seamlessly, but if there is a long protraction where we do not have lots of trade deals, subsequently they will be worse and there will be all sorts of problems in the meantime? Can you describe what that would be?

Dr Hopewell: Trade negotiations take many years. It takes a long period of time to negotiate new agreements, so it is highly likely that there will be a period of disruption in the interim before new agreements can be negotiated to try to as best as possible replicate the UK's existing agreements. During that period of disruption, supply chains will be disrupted. The UK will lose the access that it currently has in foreign markets, and it is not clear whether those markets will be able to be regained five, seven, 10 years down the road when new agreements are in place, particularly if those agreements are less favourable.

One of the issues on the immediate horizon is right now President Trump in the US is threatening, for instance, to impose 25% tariffs on autos, trucks and auto parts. This is something that will hit the UK very hard. The UK exports about $9 billion a year in autos to the US market, so this is a keen instance of that power imbalance potentially negatively affecting the UK. The EU has taken a strong stance in standing up to the US and to Trump. It is currently negotiating with the US to try to avert those tariffs, but if it is able to strike an agreement with the US, that will not apply to the UK post-Brexit. The UK will be in a position where it alone has to negotiate with the US to try to avoid these auto tariffs, and it will be in a much weaker bargaining position to try to do that. This is a looming issue on the horizon with quite significant consequences.

Q109 **Geraint Davies:** Could it be the case that there would not be tariffs on the EU because of their negotiating strengths, yet there would be solely on British cars?

Dr Hopewell: Exactly, yes.

Q110 **Liz Saville Roberts:** I would like to return to the question of the potential labour shortages and particularly your advice in relation to the situation in Wales. When we visited the Port of Holyhead last week, Chief Superintendent Nigel Harrison, who is the chair of the north Wales Brexit strategic co-ordination group, listed five concerns. The second of his concerns was the likelihood, as of now and previously, of losing particularly eastern European and European workers from the social care sector because, of course, we have an older demographic in Wales. Are there particular industry areas in relation to Wales that you could advise us upon?

Professor Winters: I am afraid I cannot say specifically to Wales. Wales's economy is a little bit different from the rest of England but it is not very different. Yes, we all have social care issues. Certainly, in terms of the building trades, east European workers are very important. I think that it would be the same in Wales as elsewhere. In those sorts of occupations, yes, I think that we can expect there to be labour shortages, and farming, for picking crops.

Q111 **Chris Davies:** Forgive me, Professor Winters, when you say you cannot speak for Wales, the title of this investigation is "Brexit, trade and customs: implications for Wales". I would have thought and I would have hoped that you would have been briefed up on the implications for Wales because the clue was in the title before you came into the meeting, but we are where we are, as the familiar saying goes.

I and probably most of my colleagues have sat on many of these panels in many committees with many different titles, and most of the academic economists are coming up with a similar flavour to what you have come up with. I feel I could probably write your evidence for you now, expecting to hear what comes out of your mouths. I have never asked this before to an academic who has been in front of us. Do you see any benefits in us leaving the EU?

Professor Winters: Yes, let me take the whole of that question. I am a specialist on international trade. I have read the report on Wales and International Trade. I have been to advise the Welsh Government. I have some feeling for the Welsh economy. I know you grow sheep on the hills. I know you have steelworks. I do not know the details like, I presume, every one of you does. It would be presumptuous of me to come and talk about your country, your industry, down to the finest level of detail.

What I do know is that subject to the limitations of the data we could find all that stuff out. I could find out what the tariff is on nearly everything that you are importing and so on. I do not think you should feel that the real key to understanding what Brexit is going to do to Wales is understanding the exact structure of the Welsh economy. It is understanding the way that international trade works and impinges on the whole of the United Kingdom, so let me try to assuage your disappointment.

Q112 **Chris Davies:** I am sorry, we are not the International Trade Committee. We are the Welsh Affairs Select Committee.

Professor Winters: You asked me to come and talk about international trade and I am talking about international trade in the context of Wales. I will give you a little lecture on sheep meat quotas. I know a lot about that; I have looked at that. The point is that most of what is going to happen to the UK is going to happen to Wales: the shortages so far as artisan trades are concerned, shortages in social care, shortages in terms of the medical profession, actually slightly worse in Wales than elsewhere. What is going to happen to the UK as a whole is going to be a large determinant of what happens in Wales.

As for writing our evidence for us, I understand exactly how you feel. You have heard it a lot. It is very strange that so many economists across the world feel the same and I cannot, to be honest, come up with a very different story.

Will there be any opportunities? Let me take that in two dimensions. I perfectly accept that you might want to have sovereignty, that the locus of decision making will shift very slightly. You might well have sectors that do well in Wales and elsewhere that do well out of Brexit. For instance, firms that specialise in logistics are doing extremely well, owning warehousing is an extremely profitable business at the moment, and so on. There will certainly be opportunities for some people.

What is it going to do to the whole economy? Every bit of my experience as an economist tells me this is seriously dangerous so far as an economy is concerned. Overall, no, it is not generating opportunities. It will generate specific opportunities in specific places. Some of those will be in Wales and that is fine, people have to make the best they can of the circumstances. It is not true to say that just because we can find one person who gains that everything is hunky-dory. Kristen talked about the people who are very close to surviving and one needs to worry about them as well.

Dr Hopewell: In answer to the question whether there are any benefits to leaving the EU, in economic terms no. We know that under any scenario the UK is going to be worse off economically than it would be if it remained a member of the EU. Strictly in economic terms, no, there are no economic benefits.

Q113 **Chair:** But better off overall, still better off than it is today?

Guto Bebb: Suboptimal. We have discussed this.

Dr Hopewell: This is a politically motivated decision, but in economic terms this is something that is going to leave us worse off than we would be otherwise. It is just a question of mitigating, trying to manage the damage, at this point.

Q114 **Chair:** Maddy, did you want to come in on that?

Maddy Thimont Jack: No, I think I will leave that.

Chair: Geraint, do you want to ask your question?

Q115 **Geraint Davies:** Yes, I do, but on the last point, because we are talking about relatively smaller, I thought that there were quite a lot of projections that said that the economy would actually contract with various Brexits, not that it would be less. It would grow less but it would contract, isn't that the case?

Professor Winters: If we have a chaotic Brexit, yes, GDP will contract for a year or two, maybe a little bit longer. I do not think there is any reason to believe that in an economy that was previously projected to grow all growth will disappear for all time, but I certainly would not want to say that there would not be some negative effects on income in the short term and we certainly will not make up any of the losses that we may have or get back on to the path.

Q116 **Geraint Davies:** Can I ask you a different question? It is the question I was meant to ask, in fact. You mentioned that possibly there would be more sovereignty. Can I put two things to you? One is that at the moment the UK has influence in the EU on its policies and then the EU in turn is a very large bloc within the WTO that can influence and has done in Davos and all the rest of it. Outside the EU, we will not be able to influence the EU; we will be a rule taker. Within the WTO, we will be a small player among 160 members, I think it is, having a say in things. How can that be consistent with sovereignty?

Secondly, we will be turning our back on the EU and instead we will have rules that are made by the council of Ministers in the WTO. There are 160 of them with equal votes rather than a proportional vote to their population, some of which are dictators. It will be administered by a commission and then enforced by a panel of unelected judges, often with rules to stop state aid and intervention in a way that would be permissible in the EU, which will not be permissible, for instance, for a Labour Government under WTO rules. How could that possibly be regarded as taking back control and increasing sovereignty?

Chair: A tricky question, Professor Winters. Do you want to try to answer it?

Professor Winters: Yes, I am happy to. I am worried that I am stealing Maddy's thunder.

Maddy Thimont Jack: No, it is fine. I am slightly biding my time for talking about how the Welsh Government can input into trade negotiations in the future, because that is the area that I am more—

Chair: We would love to hear about that, but we are going to let you disagree wildly with Geraint's question first.

Maddy Thimont Jack: That is something that maybe is more my area of expertise. I am not a trade economist. As I say, I do not have quite the same expertise in this area, so I am happy to defer.

Professor Winters: On sovereignty, the question in a sense is a definitional one. What do you mean by sovereignty? There is no doubt that the UK after Brexit will be able to take some decisions that it cannot currently take itself.

Q117 **Geraint Davies:** Like what?

Professor Winters: Certain standards, for instance, regulations.

Q118 **Geraint Davies:** But those have to be agreed, don't they?

Professor Winters: No, they haven't got to be agreed. We can have a great deal of difference from the rest of the world. The problem is it turns out to be extraordinarily expensive. This in a sense is where the definition comes from. Is sovereignty the ability to take a decision or is sovereignty the amount of influence you exercise over where you end up? If you take the question of regulations in world trade, there are three groups that will make regulations, essentially, for the world economy. The US does it already to some extent; the EU does it to a larger extent, to the US's chagrin; and China, which is making some for itself, is increasing its sphere of influence. Britain will not make regulations for the world economy. We can have regulations that are different, but it will make it more difficult for British firms to trade abroad and more difficult perhaps for us to import from elsewhere. Is that sovereignty or not? I don't know. In a sense, you pays your money and you takes your choice.

Your characterisation that we potentially lose a lot of influence because we were previously able to mobilise the European Union for things that we really cared about and we will not be able to do it in future is, I think, absolutely right. In terms of the influence over what happens within our economy, even possibly our society, we are not de facto going to gain very much more influence, but we will be able to take a lot of decisions.

Q119 **Chair:** Dr Hopewell, did you have a comment on that?

Dr Hopewell: I would echo all of that.

Q120 **Liz Saville Roberts:** This is to Ms Thimont Jack. It is to do with the fact that you have suggested in the past that one way to facilitate trade deliberations involving the devolved Administrations would be via more resources and making better use or new use of the Joint Ministerial Committee to create a sub-committee. Could you tell us more about that and what this would involve?

Maddy Thimont Jack: Yes, definitely. This is something that the IFG has recommended previously. Maybe if I take a step back, the first thing I would like to recognise is the fact that I know that the JMC is not without criticism and I think that there are some very valid criticisms of how the JMC currently works. It has been characterised as a talking shop before. There have been periods where the JMC has not met for quite a long time and essentially, unless the UK Government want to engage, it is quite challenging for the devolved Administrations to compel that engagement. That is quite a big caveat to what I am about to say.

I am happy to talk about it in a bit more detail because it is something that we have been thinking about, but essentially the Governments have committed to an intergovernmental relations review. They are looking at these problems of the JMC. There are some issues that need to be addressed within that structure just to start with.

In terms of where we got to under the JMC and international trade, my starting point anyway is the fact that although there are a lot of criticisms, the JMC on Europe is the one that has met the most often and that has been the way that previously the devolved Governments can feed into the UK Government's position in Europe. I think that there is value in having a space where the Ministers can come together to discuss the priorities in a specific area.

The reason I think that there should be a JMC on international trade is that the UK Government need to recognise—we have talked about agriculture—that there are other areas within the devolved competence that trade deals are likely to touch on. There needs to be extensive consultation with the devolved Governments during that process to ensure that they can have an input. Obviously, I recognise that there are Members of Parliament who are elected from Wales and obviously represent Welsh interests as well. That is an important part of the UK Parliament. Given that some of these areas are within the competence of the Welsh Government, I think that it is really important to ensure that that engagement takes place.

Q121 **Liz Saville Roberts:** Should this be written into legislation? How can this be brought about so that it has effect?

Maddy Thimont Jack: This is, again, something that I think should be considered quite heavily. It is not necessarily establishing every sub-committee in legislation and putting everything to do with the JMC in legislation, but within legislation saying there will be a committee, the Joint Ministerial Committee, that maybe will meet annually, as that is the plenary one with the First Ministers and the Prime Minister where they will meet annually. There are these principles by which these committees will be established. They can establish sub-committees on relevant areas. There will be a memorandum of understanding. I do not think that necessarily needs to be written into legislation but just say that there will be.

Then I think that one of the big areas that they are looking at, and I do not necessarily have all the solutions now, is about dispute resolution and the fact that it is quite challenging to get the UK Government to acknowledge that there is a dispute at certain times, so thinking through how that sort of mechanism could be written in legislation. There are aspects that would benefit from putting on a statutory footing.

Q122 **Liz Saville Roberts:** Do you have any thoughts about the possible format of dispute resolution that acknowledges that devolution means divergence? We have previously been under the overarching existence of the EU. We now no longer will be. There is a question that needs to be answered there on how best it might be done.

Maddy Thimont Jack: I am not sure as I do not think I necessarily have the end-all solution. I know that the First Minister or the Welsh Government have recommended a council of Ministers where there is a way for agreeing a way forward. I think that it is that the UK Government plus one has to agree to a position, for example. I think that was the proposal put out a couple of years ago.

One of the things that could be considered anyway is, for example, the Scottish Government have an agreement with the Scottish Parliament where they write to them to let them know ahead of JMC meetings that they are going to meet, and then they also brief them on what the conclusions are. Maybe one of the things to consider is putting on a statutory footing a reporting requirement to Parliament and then, if there is a dispute, the UK Government having to explain to Parliament why they have decided, for example—if they have—to not respond to that dispute or where that dispute has got to. Maybe there is a role for Parliament in that, but I have not necessarily fleshed out that thinking. I think that there could be quite an interesting role for Parliament.

Q123 **Liz Saville Roberts:** Would you recommend that we touch upon this as a Committee in the future?

Maddy Thimont Jack: I think that it would be a very interesting thing to explore, definitely.

Q124 **Susan Elan Jones:** Can I just add on to that? I am very sympathetic to a lot of the things that you have just said, but what I am interested in as well is when we talk about trade deliberations with the devolved Administrations, sometimes what we do not always get is the sense that devolution now is something wider. If you were looking, for instance, at London politics, the idea that in some way they are not part of anything to do with trade deliberations, the mayoralty, the growth of mayoral structures across England, also without in any way diluting the role of Welsh Government—the economic convergence, for example, with north Wales and the north-west of England—how does all that fit into this? I do not have the answer for it but I am just posing the question.

Maddy Thimont Jack: I agree with you. There is obviously a wider question about how you engage all external stakeholders in trade negotiations, and maybe the other panellists can expand further. You would also need to engage businesses. You need to engage those people who are going to take advantage of the new preferential access you get to markets. There is no point agreeing a trade deal if no one is going to take advantage of it. Representing the varying economic interests or priorities of different parts of the UK, within England as well as the devolveds, is really important, and I definitely think that engaging the regions of England would also be very important. I don't know if you have anything to add.

Dr Hopewell: I agree with that. I would echo it and say this is something that I have researched, looking at countries at the WTO. It is clear that countries that consult more deeply with their different stakeholders, whether it is industry or whether it is subnational governments, local municipal governments, civil society, other stakeholders, they tend to be much more effective in international trade negotiations. They understand their own interests in depth. They are able to interpret and analyse the effects of various trade agreement provisions on their industry or other actors. They tend to be much more effective forces in trade negotiations, so there should be a key priority to try to build those mechanisms of stakeholder consultation.

Professor Winters: Very briefly, I absolutely agree with that. Consultation is hugely important and interactions with the devolved Governments and Parliaments and Assemblies is also important, but we should not see it just in international trade terms. There is no point having a huge amount of co-ordination on positions on international trade policy if you are not willing also to have some consultation and interaction and coherence in other policy areas. Trade policy is an extension of domestic policy and, therefore, my advice to the Committee is to see this not as an isolated issue of running a trade policy, which needs to have a lot of consultation, but as a way of trying to get coherence in economic management in general.

Q125 **Guto Bebb:** Just quickly on the issue of co-operation leading to a better trade policy, which you have just touched upon, when I was involved with the APPG on TTIP, to go back to that experience, one of the key issues that was highlighted as a problem in dealing with the US was the inability of the US Government to open up local procurement markets because that is seen as a states' rights issue. For example, many states in the US have a very protectionist attitude towards international trade, which cannot be opened up by the federal government. I am happy to accept your comments. Is the US an outlier or are there other examples? The US deals with devolved institutions strongly—they deal very strongly with the state system in the US—but surely that is problematic, rather than positive, for the US's ability to do trade deals.

Professor Winters: Let me comment on that in general. The US sometimes suffers because it cannot bring the states to the international trade negotiating table. We are learning—we are going to learn in spades before long—that people are not interested in negotiating with a Government that cannot deliver. The US's inability to deliver some of the things that it gets close to agreeing in the World Trade Organisation has been a problem for partners over 30 years and, for that very reason, those partners are less willing to negotiate.

Maddy Thimont Jack: That is something that we found from talking to trade negotiators as well. You might be able to speak to this more than I can but, for example, in the CETA negotiations with the EU, the provinces in Canada were much more closely consulted on certain areas because of the fact that the EU wanted concessions on something like procurement, which was a provincial matter. Exactly, particularly in the areas where you are expecting these sorts of concessions, or not necessarily concessions but the areas that are going to be of the biggest interest to the devolved Governments, the UK Government should anyway consider having them even more closely involved in those areas and maybe having them in the room next door to consult—closer debriefings just to recognise the fact that it will matter to the devolveds quite significantly.

Having said that, obviously the US is a different constitutional set-up from the UK and that is where it is a slightly different thing. Parliamentary sovereignty, Westminster, can inherently legislate for something even if, as we found out recently with the EU withdrawal Act, consent is not given from the devolved partners.

Q126 **Guto Bebb:** What I was trying to get at is where you draw the line between very strong consultation, which protects the interest of Wales, and a situation similar to the US in which you can have a trade deal scuppered by the intransigence of some individual states. I am not saying I am taking a view one way or the other. All I was asking was: are there some better examples than others? You have touched upon Canada, but that is the point I was trying to get across.

Maddy Thimont Jack: Yes. I think that Canada is quite an interesting example.

Dr Hopewell: I would say it is a good example of very close co-ordination between the national Government and the subnational government. The federal government consults closely with provinces at all stages of trade negotiations, from the very beginning formulating the negotiating mandate, and then as the negotiations evolve the provinces are closely involved in feeding into and inputting into the Government's negotiating position.

Q127 **Guto Bebb:** On the concern that some people have about the ability of the Scottish Government or the Welsh Government to veto a trade deal, in the Canadian process the negotiating mandate is not the federal government's mandate until they have consulted with the provinces to start with—is that correct?

Dr Hopewell: I am not sure formally, but informally in practice that is the way it operates.

Q128 **Chair:** Isn't there an irony that if after Brexit we give the devolved legislatures an opt-out of any future trade deal, we would also be giving them the ability to opt out of any future hypothetical decision to go back into the European Union? We would be giving the DUP the right to block it. You could not separate one from another, could you, because re-entering the EU would effectively be a giant trade deal?

Maddy Thimont Jack: I do not think any of us are necessarily recommending giving the devolved Parliaments a veto.

Chair: No. It is a thought, though.

Professor Winters: Let me pick you up on one word that you mentioned, Chair. Parliaments and the Governments or the Administrations are different. On Parliament, even the UK Parliament, one needs to be a little bit careful about where that fits in. We should perhaps talk about that, or someone should talk about it. It is the same with the Welsh Assembly or the Scottish Parliament.

It seems to me that the real lesson is what the Australians do. I think that it is informal but they have taken me through their consultation process. It is a deeply consultative process. Therefore, the Government go into this knowing in a sense what they can plausibly offer, what they can plausibly deliver. People are very reluctant to get into any serious negotiations where you lay, as it were, your heart on the table and describe just how much you are willing to upset some of your constituencies only to have the other side pull the rug from under you because they cannot deliver their side of the bargain.

What we do understand is that consultative processes lead possibly to fewer trade deals. Governments sometimes think, "We just cannot do this because of the provinces or whoever", but they make it a more secure process. I do think that it is a very important lesson that we are going to have to learn in Britain where our politics tend to be rather non-consultative and adversarial. That does make it very difficult to go forward with a view that says, "Pretty much, this is where Britain stands".

Chair: Our set questions is going a bit pear-shaped, but I think I am back to Susan Elan Jones, if this has not already been answered.

Q129 **Susan Elan Jones:** Can I ask for your views on the Scottish Government proposal that the UK should be obliged to seek their agreement on trade deals that touch on areas of devolved competence? What do you think of that in terms of practical working? Do you think that the same should apply for Wales? Could you touch on what you see as the areas of devolved competence as well, please?

Maddy Thimont Jack: I can start with that. We have discussed already the extensive consultation question of engaging with the Scottish Government and the Welsh Government and, when there is one, the Northern Ireland Executive as well throughout the process of both agreeing a mandate at the beginning but also then throughout the process of the actual trade negotiations. In my view, that should be where it stops. For example, as I said, I do not think that there should be a veto from the Scottish Government or the Scottish Parliament against the deal that ends up.

I know that you are talking about the Scottish Government, but the thing to mention is that we have the Sewel convention where the UK Parliament does not normally legislate without the consent of the devolved Parliaments. We also have a bicameral system where we have to implement trade deals in UK law through legislation. In my view, I would assume that trade deals that touch on areas of devolved competence that might change the devolved competence in certain areas would, therefore, be subject to the Sewel convention and you would usually expect the Parliaments to give consent. That is probably the way that I envisage the devolved Governments but really the devolved Parliaments having a vote on the trade deal that comes through. That, again, is why it is so important, in my view, that the UK Government do consult extensively at the start of the process so that when the legislation comes through, the devolved Parliaments are happy to give consent because they know the Government have had input into that process.

Professor Winters: The other issue is that there needs to be information during the negotiation. You set it off with a mandate that has some measure of agreement and you hope at the end that it is going to be ratified, it is going to be approved by devolved Administrations. How can you be sure those two things meet up? You do it essentially by having some consultation. It has to recognise that there are some things that in a negotiation that one does not want to discuss very broadly, but the suggestion so far as the UK Parliament is concerned is that it may be that the International Trade Committee will be permitted to see negotiating documents under conditions of secrecy and so on, essentially to keep the negotiators informed of the way that opinion is going so there are not nasty surprises.

Dr Hopewell: I would agree with Maddy's concern about extending a veto. I think that can be potentially dangerous.

Just to give an example of how seeking the agreement of subnational governments can be effective, if there was an instance where the UK Government were poised to sign a trade deal that was going to have negative economic implications for a specific industry concentrated in Wales, then potentially the Welsh Government could use that to require the UK Government to provide some kind of compensation for that industry. For example, in the negotiation of the CETA agreement, the Canada-EU free trade agreement, that involved opening up Canada's dairy market to imports from the EU. The dairy industry in Canada is concentrated in the province of Quebec and the province, because of its role in the negotiations, was able to require the federal government to provide compensation to dairy farmers to ensure that those who were negatively affected by the trade deal were compensated. Giving subnational levels of government a concrete role in the negotiations in that way can yield real material benefits for their industry.

Q130 **Geraint Davies:** On this point, I was the trade rapporteur for the Council of Europe to the WTO. When I was there, the assistant general secretary of the WTO openly said that they do not usually allow politicians to get involved in trade negotiations because they disrupt things because they represent local communities and votes, so they keep them out of the room and they are next to useless. He then went on to say that since then he has changed his view and they are useful to sell the WTO's policies to their electorates. There is a view, and it is not a completely ridiculous view, that having a proper negotiation where one can look at the balances of costs and benefits and agree something that is rational should not be contaminated by, for example, the voters of Quebec demanding compensation and then another lot of voters and another lot of voters, because they end up not agreeing anything. I am not saying that is my view, but do you see any value in that view? Indeed, the idea that we agree with all the communities and everybody has to agree everything surely is a recipe for agreeing nothing.

Professor Winters: We need to get over that stage, don't we? The whole purpose of politics essentially is to try to be able to reach decisions that command a broad if not consensus then at least grudging agreement. The important thing about trade agreements—and I guess most agreements, and we are going to prove it to ourselves and we are proving it to ourselves at the moment—is you have to do it early on. You have to build those coalitions and keep them informed and bring them along so that it is not the nuclear option, "We won't pass this".

Q131 **Geraint Davies:** Just to be clear on this, I do agree with you certainly that Parliament at least should have scrutiny of important trade deals and, minimally, devolved Administrations should be properly consulted rather than have them decided behind closed doors. In the proposed situation with a UK-US deal, my understanding is that a lot of the detail would not actually be known until years after the trade deal has been implemented. Do you agree that that would be completely unacceptable?

Professor Winters: I would certainly think it was unacceptable. The issue with Parliament is really the following. If we go back in the history of the GATT, the General Agreement on Tariffs and Trade, in 1967 the Americans essentially disgraced themselves because the Government had negotiated an agreement and Congress unpicked it. Everybody else had given their best, given up things they really cared about. Congress came along after them and said, "Like this, won't have that, going to strike that out". Everybody else said, "We are just not going to negotiate like that".

The result has been that ever since 1967, to do trade negotiations the American Administrations need trade negotiating authority. That essentially says the Parliament, Congress, votes up or down on a deal. It does not unpick deals. The quid pro quo for that is a lot of consultation on the mandate, a lot of information as you go through. It seems to me that that is the sort of model we need in the UK. You cannot get into a position where Parliament, with 650 different interests, picks and chooses. It just does not work. But you cannot have in a democracy Parliament having no role. The idea that we slap it down on the table and you have 21 days to discover it and object is not very satisfactory. We need a more formal ratification process.

Q132 **Ben Lake:** Just quickly on something that Dr Hopewell mentioned and the instance of the CETA agreement and Quebec's dairy industry in particular, it was quite interesting to hear what you had to say. I was wondering whether perhaps an equivalent example would be the Welsh meat industry, and red meat in particular. In the event that there was a trade negotiation and a trade agreement that excluded agriculture, to what extent would the UK Government be able to offset some of these harmful consequences for the meat sector in particular—tariffs or what have you? Are they able to compensate farmers in a similar way?

Dr Hopewell: Theoretically, yes. I think that this is a political question. We talked earlier about a trade agreement with Australia or New Zealand, for example, one of these major agricultural exporters. If the UK did want to sign a trade agreement with Australia or New Zealand, they are going to push for more access to the UK's agriculture market. That probably would have negative implications for farmers in Wales as well as elsewhere in the UK. Presumably, the UK Government could offer some form of compensation to those farmers to offset the negative effects of a trade agreement. The UK economy as a whole might benefit from the trade agreement, so you could distribute some of those benefits, find some compensation to aid those who are going to be harmed by the effects of more free trade.

Q133 **Ben Lake:** In that kind of circumstance, would the Government be bound at all by WTO rules or particularly the agreement on agriculture? How far could they go? Could they, for example, pay all the tariffs on red meat instead of the farmers?

Professor Winters: The WTO rules, and also what the UK had committed to in WTO, will constrain what the Government can do. If we have at WTO bound the tariff on sheep meat at a particular level, the British Government could not, at least without offering compensation to other countries, raise the tariff above that level. Similarly, if the UK paid serious subsidies to sheep producers and they then exported, those goods could be subject to countervailing duties in the importing country. There are constraints, but there is plenty that one can do around the edges.

Q134 **Ben Lake:** We were talking about Parliament's role and I suppose the question I would have has been partly answered, but just for the sake of the record, the panel has already suggested that Parliament needs a role. Would it be a fair reflection of your views that you consider Parliament's role in terms of the ratification of any trade treaty to be one of a simple affirmative vote up and down?

Maddy Thimont Jack: In my view, first, I would completely agree with Professor Winters. I think that CRAG 2010 is just not sufficient given that we are going to be striking our own trade agreements. As a member of the EU, Parliament has more opportunity to scrutinise EU trade agreements than it would do as we leave the EU now and for scrutinising future trade agreements. That is obviously not sufficient, and I would completely agree that having 21 sitting days where Parliament can—as you say, they can say that they want to vote against but the Government can decide whether or not to schedule a debate and a vote. In theory, the Government could prevent Parliament from even blocking the ratification of an agreement if it wanted to.

I personally think that CRAG should be amended or there should be provisions within a new piece of legislation setting out the fact that the Government are obliged to schedule a debate and a vote. It would be an up or down vote on a trade agreement, so I think that is really important.

Professor Winters: I would agree with that, but with the creation of the mandate and information swapping as the process goes along.

Maddy Thimont Jack: Definitely, yes.

Dr Hopewell: The danger is that ratification alone can be reduced to little more than a rubber stamp if you are just given a yes/no vote. That early engagement of Parliament in constructing a mandate, shaping the objectives in the negotiations, is critical.

Chair: Good. Well, thank you all very much indeed for that.