HOUSE OF COMMONS

International Trade Committee

Oral evidence: The work of the Department for International Trade, HC 436

Wednesday 6 March 2019

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Watch the meeting

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

Questions 635 – 824

Witnesses

I: Dr Liam Fox MP, Secretary of State for International Trade and President of the Board of Trade; Catherine Vaughan, Director General and Chief Operating Officer, Department for International Trade; and John Alty, Director General of Trade Policy, Department for International Trade.

Examination of witnesses

Witnesses: Dr Liam Fox MP, Catherine Vaughan and John Alty.

Q635 **Chair:** Good morning. It is a great pleasure to see you here this morning, Secretary of State. Can I ask you first to introduce your team and then we will get going?

Dr Liam Fox: This is John Alty from trade policy, who is becoming a regular performer at the Committee, and Catherine Vaughan, our chief operating officer, from the MoD, who does all our money so brilliantly.

Chair: Very good—I am pleased to hear it.

Dr Liam Fox: No pressure, Catherine.

Q636 **Chair:** Secretary of State, the Prime Minister has said that if the House of Commons rejects the Withdrawal Agreement next week, it will get a vote on whether to extend Article 50. What, in your view, is the most likely outcome of the votes next week, and do you still consider the chances of a no-deal Brexit to be 60:40, as you said in August?

Dr Liam Fox: I might have a better chance of predicting the lottery numbers, Chair, than guessing what the House of Commons will do next week.

Q637 **Chair:** You did seem quite confident in August. There has been previous confidence, of course, the second after the midnight, we will—

Dr Liam Fox: It is dependent of course upon a lot of factors. I hope that the House of Commons will accept the Prime Minister's deal. We wait to see what the Attorney General does in terms of that and of course there are a number of colleagues who are concerned about the issue of the backstop. That is something that the Attorney is talking about in Brussels at the present time, but clearly, for the sake of continuity, particularly in trade, the best outcome is a deal with the European Union and a Withdrawal Agreement. If that does not happen, of course the House will be asked to vote on whether it wants to leave the European Union without an agreement.

Q638 **Chair:** What is your view on leaving the European Union without an agreement?

Dr Liam Fox: It is not as good as leaving the European Union with an agreement, which is why I will vote for it.

Q639 **Chair:** You said previously it was damaging to the economy. Do you still stand by that?

Dr Liam Fox: Leaving without a deal will clearly add more friction to the economy. I think that is almost self-evident.

Q640 **Chair:** If the deal goes nowhere and the choice is between no deal, revoking Article 50 or extending it, what is your preference of those three?

Dr Liam Fox: I will abide by collective responsibility, Chairman, and I am not going to pre-empt the discussions that we may have in the Government on that.

Q641 **Chair:** Personally, have you given any thought as to which option you will take, because you are a leading member of the Government?

Dr Liam Fox: Indeed, but unlike some of my other colleagues, I prefer to have my conversations in Cabinet rather than in the media.

Q642 **Chair:** So you are keeping no deal on the table?

Dr Liam Fox: As I say, I will make my views known if the deal does not go through. I still will campaign over the next few days to ensure that that deal does go through.

Q643 **Mr Chris Leslie:** Just to be clear, you agree with the Prime Minister about putting a vote on no deal as an option this time next week. She was right to do that.

Dr Liam Fox: If I did not agree with the Prime Minister, I would not be in the Cabinet.

Q644 **Mr Chris Leslie:** If that is the case, what you are saying is that there will be a collective decision of Government on whether to vote for no deal. That is the consequence of your previous answer.

Dr Liam Fox: I imagine it will be a collective decision.

Q645 **Mr Chris Leslie:** Does that mean that you could potentially be voting for no deal this time next week?

Dr Liam Fox: Potentially all things are possible.

Q646 **Mr Chris Leslie:** So yes is the answer to that question.

Dr Liam Fox: No—potentially all things are possible is the answer to that question.

Q647 **Mr Chris Leslie:** We have before us the Secretary of State for International Trade who potentially, in seven days' time, could be voting for a no-deal Brexit?

Dr Liam Fox: No, you have a Secretary of State who wants the House to vote for a deal, including all the members of this Committee, because he believes that that is the best way to avoid unnecessary friction in our economy.

Q648 **Mr Chris Leslie:** Did you see the comments from the head of the Northern Ireland civil service, David Sterling, in the *Financial Times* this morning, who warns, "The consequences of material business failure as a result of a 'no-deal' exit, combined with changes to everyday life and potential border frictions could well have a profound and long-lasting impact on society"? He went on to say that there are "very limited actions that could be taken to mitigate" that. Doesn't that give you pause to not, this time next week, vote for no deal?

Dr Liam Fox: That is precisely why I will vote for a deal. All those who want to avoid the consequences of no deal, and yet will vote against the deal, will be bringing those consequences about.

Q649 **Mr Chris Leslie:** Yes, I understand that you want the deal on Tuesday. We are all clear about that, you are going to vote for the deal next Tuesday, but it is possible that next Wednesday, in only seven days' time, you and the rest of the Government will be voting for a no-deal Brexit. I just want to be absolutely crystal clear. The cold facts of the matter are that that is where you could be.

Dr Liam Fox: We will want to avoid that. I am not going to be drawn on what might or might not happen when the Government's policy is not fulfilled. The Government will work for that policy. We believe that the agreement that is set out is the best way for us to leave the European Union to fulfil the wish of the electorate at the referendum, but to do so in the most orderly way possible.

Q650 **Mr Chris Leslie:** But you think it could be a responsible thing to do the subsequent day, on the Wednesday, to vote for no deal. It is a choice you are leaving open; it is not irresponsible to do that.

Dr Liam Fox: I think the responsible thing is to vote for a deal. Congratulations to Mr Leslie for being the first independent to get a seat on this Committee.

Mr Chris Leslie: Thank you. It may be my last day.

Dr Liam Fox: I am sure it will not be.

Chair: This Committee is a broad church.

Q651 **Matt Western:** Secretary of State, just to follow up on that, you describe no deal as "survivable"—I think that was the word you used. Industry and major corporate leaders are saying that no deal would be catastrophic and would be existential—that is, it would be seriously damaging to them. I am talking about major names that you will be very familiar with. Are they wrong?

Dr Liam Fox: To me "existential" means that it threatens your existence.

Matt Western: Exactly. That is exactly the meaning of the word used.

Dr Liam Fox: If the argument is that not getting a deal with the European Union would threaten the existence of the UK economy, I think that is hyperbole.

Q652 **Matt Western:** They are talking about their businesses.

Dr Liam Fox: There are issues. If we look at what, for example, the Governor of the Bank of England was saying about how no-deal preparations had been accelerated and were much better than they were before, I think that takes you well out of existential. Would it be a problem and would it be a specific problem for some industries? Yes, it could be. That is why I go back to my point, which I know is boring, but that is why I think that we should vote for a deal. That is why I think all MPs should vote for a deal and why I think MPs who say, with all due respect, "These are the terrible consequences of no deal," but consistently vote against a deal, need to understand what they may be ushering in.

Q653 **Matt Western:** But the point, just to be very clear, is that companies like Ford are talking about their businesses. They are not talking about the UK economy, because of course that will survive in some form—there will be some residual economy for sure—but they are talking about their existence as a business and they are saying it will be catastrophic for them. That is the point.

Dr Liam Fox: I completely take exception to the view that leaving the European Union without an agreement would leave us with a "residual economy" of some form. This is an economy with record employment, with half the rate of unemployment of the eurozone. This is a country that had a 20% increase in foreign direct investment last year, when continental Europe went down 73%. This is a country where we are seeing our strongest export performance of all time. The idea that leaving with no deal—which I accept is hugely suboptimal compared to getting a deal—would leave a "residual economy" of some kind does not help to encourage rational debate about this issue.

Q654 **Matt Western:** So you are not concerned about the damage to the UK car manufacturing sector.

Dr Liam Fox: I have made it very clear that I think it would be damaging to the UK economy. I think it is better to get a deal. I do not know how often I have to say this: I think a deal is better than a no deal. It is a relatively simple concept.

Q655 **Chair:** The deal of course keeps the UK in the European Union for 21 months. We hear the phrase, "Everybody wants to go to heaven, but nobody wants to die." Aren't you the type of Brexiteer who wants Brexit, but you certainly don't want it this month?

Dr Liam Fox: No, I want us to honour the result of the referendum, which I believe was—

Q656 **Chair:** By staying in the European Union for another 21 months.

Dr Liam Fox: No, to stay in the European Union would not be honouring the referendum. Chairman, if I may finish, we have to leave the European Union because we have been instructed to by the voters of the United Kingdom—the voters that we, as Parliament, gave the right to make that decision. If we are doing that, in my view we have to do that in the best way possible. We can have arguments about what the best way is. Some would argue it is best to have a deal, some would argue that it is best to have no deal, but I doubt if anyone argues that it is democratically defensible to ignore an elected plebiscite. If you can ignore one, Mr Chairman, you can ignore another, which I think might have implications for your party.

Q657 **Chair:** Can you remind us how much the Treasury said a no-deal Brexit would damage the economy by if that happens on 29 March, because this might be helpful to your argument?

Dr Liam Fox: I have argued that we should have a deal.

Q658 **Chair:** Do you know the number?

Dr Liam Fox: I believe we should have a deal because I want us to have the implementation period and the time to adjust our economy to what we—

Chair: Do you know the number that the Treasury said a no-deal Brexit would hurt the economy by?

Dr Liam Fox: There are a whole range.

Q659 **Chair:** Eight per cent. Does that ring a bell?

Dr Liam Fox: They are not predictions. They are scenario planning, which I have explained to this Committee before is not the same thing.

Chair: Does 8% ring a bell?

Dr Liam Fox: They are not predictions, Chairman.

Q660 **Chair:** Your deal then commits the UK to be leaving the customs union and the single market 21 months later, which will damage the economy by 6%. Are you clear on that with people too?

Dr Liam Fox: Again, these are not predictions; these are about scenario planning if nothing else changes in that period, if there is no agreement and if there is no mitigation.

Q661 **Chair:** On 6 January, you said, "I think no deal would damage our economy, I've been frank about that". You are not as frank about it this morning. Why not?

Dr Liam Fox: I have said that I think a no deal—

Chair: Well, what about the numbers?

Dr Liam Fox: I can look at the transcript of what I have just said. I think a no deal would inflict damage on our economy unnecessarily. That is why I think we ought to have a deal.

Q662 **Chair:** Have you any numbers for the damage, or is the damage just off the top of your head? What is the underpinning of your phrase "damage"?

Dr Liam Fox: I think it would create problems in our economy, not least for our exporters.

Chair: Do you have no numbers?

Dr Liam Fox: It would depend on what mitigations were in place. It would also depend what the future economic agreement was with the European Union itself. There are a whole range of issues. As the Treasury made—

Chair: We are looking for a number, not bluster.

Dr Liam Fox: No, as the Treasury made—

Chair: I am sorry, Secretary of State, we are looking for numbers, not bluster.

Dr Liam Fox: I am sorry, but the point is—

Chair: Secretary of State—

Dr Liam Fox: The number cannot be—

Chair: Just give us the numbers.

Dr Liam Fox: You cannot pick a number without looking at a whole range of mitigations.

Q663 **Mr Ranil Jayawardena:** We are very clear that you want a deal—indeed, many of us may want a deal also—but it is also a matter of fact that not a single member of this Committee voted for the deal that was put forward and the signs are that the deal is not being changed. Last week, the Government said that in February Departments reported being on track for just under 85% of no-deal projects. It is clearly very important that the Government completes that work. What percentage of no-deal projects in your Department are on track?

Dr Liam Fox: In terms of the range of issues that we look at—business readiness, trade agreements, trade remedies, GPA—it is a large proportion. I am not sure I could put a figure on that, given that a number of them are very complex, but I think that DIT is well advanced in that. Of course what we hope is that a lot of that preparation was unnecessary for the no-deal scenario itself. Again, on a lot of those issues it is far better for us—for example, on trade continuity—that we get that agreement with the European Union.

Q664 **Mr Ranil Jayawardena:** You have been very clear about that, but let's probe into what happens in the event of a no deal. On Sunday you said in your interview on the BBC that 52% of our trade is outside the EU and 11% of the 52% comes from the EU's FTAs, of which 5.5% is dependent on the agreement itself. You were also very coy about the progress that had been made in respect of the most important—if I can put it that bluntly—agreements that this Government is seeking to roll over. Can you assure us though that those top seven will be ready to be rolled over?

Dr Liam Fox: Switzerland, of course, which is by far the largest, has already been rolled over.

Mr Ranil Jayawardena: The top seven.

Dr Liam Fox: Of those, the next agreements would be Canada, the EEA, South Korea and the south African grouping, plus Mozambique. They are all making good progress.

Mr Ranil Jayawardena: So they will be ready?

Dr Liam Fox: The question of course is dependent on those who are on the other side. We are ready. A number of countries are still looking to say, "Should we set out our potential negotiating hand for future FTAs on the chance that there will be an agreement and we do not need to plan for no deal?" As I said at the Committee last time, a number of those agreements, although they are very advanced in terms of negotiation, may come in very late in the day.

Q665 **Mr Ranil Jayawardena:** To be clear though, you are pretty confident, I think it would be fair to say, that the British Government are ready and so we are simply relying on the third country to agree it. In the event that they do not, the figures you state say that it is a very small proportion of our trade that is covered by these agreements that need to be rolled over anyway.

Dr Liam Fox: If I can just make a correction to the number that I used for Andrew Marr, which was 5.4%, it is closer to 3.5%.

Mr Ranil Jayawardena: So it is even smaller?

Dr Liam Fox: A proportion of trade would be done under zero tariffs, so that trade would occur anyway, whether or not those agreements were made. Of the agreements that we have so far, of the 11%, Switzerland is 22%. The other agreements we already have will take us to 25% and, as I explained last time, the top agreements are themselves worth about 75%, so we could get 30 agreements and cover 25% of our trade, or we could get five or six and cover 75%. That clearly is the priority for the Department.

Mr Ranil Jayawardena: Exactly.

Dr Liam Fox: Those bigger ones are at a good stage of advancement. As I say, do not take my word for it—ask John.

John Alty: They are all in very intensive discussions. As the Secretary of State says, it depends on taking two to tango and the attitude of those countries in bringing them in as and when they see that as essential.

Q666 **Mr Ranil Jayawardena:** This is my final question, Chairman. On the 48% of our trade that is with the EU, what work have you been doing and what consideration have you been giving to using Article 24 of GATT as an alternative transitional arrangement on our way to negotiating a free trade agreement? Of course, they have said in respect to the backstop that the ambition is to negotiate a free trade agreement anyway. If the intention is there to take that in good faith, then it will also be true that Article 24 could be applied.

Dr Liam Fox: Of course both sides would have to agree, which I presume would require unanimity of the EU27.

Q667 **Mr Ranil Jayawardena:** No, it only requires the Commission, because it is the prerogative of the Commission to negotiate.

Dr Liam Fox: Indeed, but I would have thought, given the circumstances of a no deal, it would be prudent of the Commission to take cognisance of the democratic wishes of the elected Governments of Europe, but I accept that is another argument entirely. My understanding is that if we were to use Article 24, it would require the agreement of the other side and also at least a framework FTA to be in place, neither of which could be guaranteed.

Q668 **Mr Ranil Jayawardena:** But what work have you done? What consideration have you given? That was the question.

Dr Liam Fox: Of course Europe is not my Department's responsibility. That is DExEU.

Q669 **Mr Ranil Jayawardena:** What consideration have you given it though?

Dr Liam Fox: We have looked at it, but the conclusion we have come to is that it could not be depended upon as a route because of the two considerations I mentioned.

Q670 **Chair:** You just alluded to Europe not being a very centralised place and it referring to its member states, which runs counter to a lot of the Brexiteer narrative. I thought the Commission would be telling us all what was happening.

Dr Liam Fox: Mr Chairman, one of the reasons I voted to leave was the lack of consultation between the Commission and its member states—the exact debate that I was alluding to.

Chair: But you just alluded to it there.

Q671 **Matt Western:** Secretary of State, I think you would agree that you are off the pace in terms of where you wanted to be or expected to be at this stage with the negotiation of the existing free trade agreements with the EU. How is the ongoing continued uncertainty that we face impacting on your ability to properly engage with the priority new FTA partners you are seeking—that is, the US, Australia and New Zealand?

Dr Liam Fox: It doesn't, because we cannot begin the negotiations until after we have left the EU.

Q672 **Matt Western:** But you are having conversations.

Dr Liam Fox: We can have limited conversations about potential scoping, but that is as far as we can go. Under our duty of sincere co-operation, that is as far as we can go.

Q673 **Matt Western:** The conversations you have been having, say with the US, have been very limited.

Dr Liam Fox: They have been very broad, because we are not allowed to enter into what could be regarded as negotiations. It is very clear.

Q674 **Matt Western:** I understand that they are not negotiations, but you can sort of set parameters or outline considerations of what you might want to consider. The US has made it absolutely clear where they want to be.

Dr Liam Fox: We will, when we are able, be in a position where we can legally set out what we want in terms of future frameworks.

Q675 **Matt Western:** Just to move on, the *Financial Times* reported last week that if there is a no-deal Brexit the Government will set tariffs for most industrial products at zero. In that case, why would any country want to grant us concessions in a free trade agreement?

Dr Liam Fox: I certainly would not comment on any potential leak, well informed or otherwise. The Government will set out what they believe to be the correct tariffs, if in fact we get to a no-deal scenario.

Q676 **Julia Lopez:** I just wanted to ask a quick supplementary to Ranil's question. You suggested it would be DExEU that would need to deal with any Article 24 process. You referred to the idea that we would need to put forward a framework for a future free trade agreement. Is that not something that would come within your Department's remit, and if so, have you drawn up a future framework for a future FTA that you could simply put on the table on the day after a no-deal exit?

Dr Liam Fox: The relationship with Europe of course is not a simple FTA because it involves a whole other range of areas, including security, which is why it is dealt with as a separate issue and why DExEU has always taken the lead from the time of the setting up of DExEU and DIT.

Q677 **Julia Lopez:** What conversations has your Department had with those other Departments on the trade elements of a future framework?

John Alty: As the Secretary of State said, we are responsible for the trade agreements with the rest of the world, DExEU are responsible for the trade agreement and other agreements with the EU. Obviously we talk to them because what you do in one area has implications for other areas, but the Government has not begun either the negotiations with the rest of the world or the future partnership negotiations with the EU, so those are simply discussions internally at this stage.

Dr Liam Fox: If I may, it is a very pertinent question for what I think the follow-up question would be, which is that the Government will need to create an architecture for the next phase so that there is very close coordination with what is discussed in terms of the trading arrangement with Europe, because that will inform and affect the potential trading relationships outside the European Union.

Q678 **Julia Lopez:** So those conversations have not begun?

Dr Liam Fox: Those conversations are taking place about how that architecture would be constructed.

Q679 **Julia Lopez:** When did they begin?

Dr Liam Fox: There have been discussions for some time, but serious discussions about the architecture are under way at present.

Q680 **Julia Lopez:** How confident are you about how rapidly that kind of conversation could be drawn together so the day after we leave the EU without a deal we have a strategy that is coherent, in place and ready to go, to be tabled, if necessary?

Dr Liam Fox: I would say we are making good progress on that, but John might want to comment, as he is involved in some of the detail.

John Alty: Sorry, the only thing I was going to add was that obviously when the Chequers White Paper was published, that reflected a lot of cross-departmental work precisely to set out the position vis-à-vis the EU, taking account of our wider trade policy interests.

Chair: Back to Matt Western. We then need co-operation from Members, because a number of you want to come in with questions. Keep them short and sharp as a courtesy to others.

Q681 **Matt Western:** I just want to come back to the point that I was making about the US and its outlining the sort of requirements that it expects from a future trade agreement with the UK. That included comprehensive market access for US agricultural goods and removing unwanted barriers, such as those related to sanitary and phytosanitary standards, that block the export of US food and agricultural products. It had a lot of coverage in the media over the last few days, which you will be well aware of. How do you respond to that?

Dr Liam Fox: I respond to the fact that these are the same negotiating objectives that they set out for their future trading relationship with the European Union and Japan, with the exception that for the UK it does not deal with IP and it does not deal with trade surplus, which the US feels is not an issue with the UK. It is exactly what we have expected.

Q682 **Matt Western:** But as far as you are concerned, and clearly for the US, agriculture is a major bargaining chip for them. What they want is access to markets in the UK. That will be their priority, and you are okay with that.

Dr Liam Fox: It is what we expect in a negotiation. They are exactly the same negotiating objectives, bar the two that I mentioned, as the US set out in its negotiations with Japan and the EU. It is exactly what we expected to see.

Q683 **Matt Western:** Even if it will damage our agri-food sector, which Secretary of State Gove is very concerned about?

Dr Liam Fox: It is exactly what we expected to see, because it is exactly what the US has done in other trade negotiations.

Q684 **Chair:** You are quite relaxed about agriculture. Are you as relaxed about the NHS?

Dr Liam Fox: I did not make any assessment of what our position would be. I said that is exactly what we would have expected the United States to do.

Chair: Do you expect the NHS to be—

Dr Liam Fox: No, we expect the same issues to come up as have come up in these other negotiations. We will maintain the same position as we took when we were involved, for example, in the EU negotiations with the US, which is that Governments must have a reserved right to determine the regulation of their own public services. That has been a consistent position of the UK.

Q685 **Mr Nigel Evans:** Secretary of State, the American ambassador, on the *Today* programme this morning, made it absolutely clear that he would expect in any trade deal to float all the boats, and that clearly includes agriculture. He said that this morning, so what is your response to him? You can understand where he is coming from, surely.

Dr Liam Fox: I would find it very odd if an American ambassador to the United Kingdom was not reflecting the entire line of the American Government in terms of the negotiating objectives. It is a negotiation.

Q686 **Mr Nigel Evans:** Do you, rather perversely, think though that if we left without a deal with the European Union, it would be more advantageous for you in any negotiation with the United States of America to do a trade deal with them?

Dr Liam Fox: We have not yet set out our approach to what we want to do. There are a lot of phases in that and we will set out what the UK's objectives are in due course. I am not sure that it makes much difference.

Q687 **Faisal Rashid:** Just following on from that, Secretary of State, many of my constituents have been in touch to express concerns about the position of the NHS in future trade deals, particularly with the United States. They are worried, for example, that large US private healthcare companies could take over parts of the NHS and be given new powers to sue the Government to demand more NHS contracts. One of the key objectives of American trade negotiators in any future trade deal post Brexit is to secure access for American companies to do business in the

NHS. Can you guarantee that the NHS will be excluded from these future trade deals?

Dr Liam Fox: I have said almost literally until I am blue in the face that we will follow the pattern that we have set before, which is that we will insist on reservations such as we had in the Canadian treaty, CETA, that public services regulation will be exempt from the provisions of the treaty.

Q688 **Faisal Rashid:** Would you prevent the NHS from being a bargaining chip?

Dr Liam Fox: I have just said. Frankly, I don't know how to make it any clearer.

Chair: You are saying yes.

Dr Liam Fox: We would want—we will ensure—that the regulation of public services—

Chair: Can you just say yes?

Dr Liam Fox: —becomes the duty of a sovereign Government.

Chair: That is a yes.

Dr Liam Fox: Thank you, Chairman.

Q689 **Mr Marcus Fysh:** I have a brief set of quick questions. Does it matter what our tariff schedule is? Does it matter what our tariffs are set at?

Dr Liam Fox: Is this in a no-deal scenario?

Mr Marcus Fysh: Yes, in any scenario.

Dr Liam Fox: Yes, it does matter.

Q690 **Mr Marcus Fysh:** When will we be publishing the schedule of tariffs that we would apply should we leave without a Withdrawal Agreement?

Dr Liam Fox: That will be a decision primarily taken—it is of course a Treasury responsibility—when the SIs are laid.

Q691 **Mr Marcus Fysh:** Is it possible that Parliament will be asked to vote next week on not having a Withdrawal Agreement, without knowing the intention of the Government on the conditions of the tariff schedule?

Dr Liam Fox: I think it would be beneficial for us to have that information in front of us, but I am unable to make a decision on behalf of the Government, as that does not fall within my departmental responsibility.

Q692 **Mr Marcus Fysh:** Do you think that the car industry is interested in what its tariff conditions would be in a no-deal scenario?

Dr Liam Fox: I think that any manufacturing industry that was dependent on intermediate goods would want to know what the potential input costs would be and they would also want to know what the potential no-deal implications would be for their potential external-facing tariffs, which might affect their exports.

Q693 **Mr Marcus Fysh:** Do you think that they know more or less about what their tariff position would be than about whether their just-in-time supply chains will function and what the costs of customs administration would be in a no-deal scenario?

Dr Liam Fox: I am not responsible for some of those elements, but clearly in terms of input costs, it would matter to a number of businesses, including the car industry, what they would be. There would be a number of other factors, which potentially could act as mitigants, but—

Q694 **Mr Marcus Fysh:** Have the Government—

Chair: Chris Leslie, you have the floor. Order, order.

Mr Marcus Fysh: Have the Government been communicating the possibility of using the transit system to make sure that clearance doesn't have to occur at the borders themselves to the car industry, because they are concerned about those borders being shut?

Dr Liam Fox: That is an HMRC issue, but clearly there are a range of those issues that businesses will take into account and would have to have in account if it came to a no-deal scenario.

Q695 **Mr Chris Leslie:** I am just getting the sense we are being stonewalled here, Secretary of State, and almost every answer we have had is, "Oh, wait and see, not sure yet, vote for the deal on Tuesday, cannot tell you anything that is happening after." There are 560-something hours left to go. I do not know whether you realise it, but holding a gun to the head of MPs like this is not exactly a way to persuade us to trust in your particular strategy. On this question, for instance, of unilateral tariff reduction or setting what those tariffs are going to be, you really need to start telling business now what will happen in that scenario.

For example, the Freight Transport Association have expressed their concerns today about what the tariffs will be on goods that are en route at that moment—11 pm on 29 March. We are in a position where those logistics are almost now within sight. You are going to have goods and services moving across. Can you at least give an assurance to those driver—those businesses—that will be in transit what the tariffs are going to be at that particular moment in time?

Dr Liam Fox: Again, while the general decisions are being taken on that, the decision on timing of publication has not yet been reached. Again, that will be a collective decision. If I may go further than the question, my personal preference would be that we would know that information before we took a decision on a no-deal outcome. But Mr Leslie will understand that I am not in a position to be able to guarantee that that will happen, other than having my voice heard in the debate.

Q696 **Mr Chris Leslie:** I just think we are being given the run-around here. It makes me want to halt this whole process and go to a position where we can do this in a way that is safe for those who are potentially now going to be booking and ordering goods. What if goods are driving from Asia through Europe, coming through the Dover Strait? You can't just give us even any basic data about what those tariff rates are going to be at that particular time?

Dr Liam Fox: The decision to publish will be one of timing.

Q697 **Sir Mark Hendrick:** If I could move on to the Department's expenditure, your Department's 2018-19 supplementary estimate shows an increase in its capital budget of over 450% compared to the original estimate and nearly all of this is "digital, data and technology". Secretary of State, can you tell us what IT systems and software you are investing this money in?

Dr Liam Fox: Of course a great amount of what we have been doing is to upgrade our current systems to be able to deal with the changes potentially of leaving the European Union, so a lot of that has been EU-orientated activity. On what we have been doing through great.gov.uk, for example, and the related programmes that come from that, perhaps Catherine would be the one to give you the level of detail that you need.

Catherine Vaughan: All of the Department's EU exit funding was allocated through the supplementary estimates process, so everything attributed to the investment we needed to make came at that stage in the Government's financial allocations. Some of that investment is going on the simple IT kit that our growing staff numbers need, whether it is laptops or phones. We need to make sure that the new Trade Remedies Authority has the right IT infrastructure to operate. That includes things like wi-fi in buildings. Then there are a range of EU exit-related services that we need to make sure could operate on day one, so that will include things like—

Q698 **Sir Mark Hendrick:** Are these the ports?

Catherine Vaughan: The tariff application platform is one of those pieces of digital infrastructure that needs to work alongside HMRC systems to make sure that any tariffs could be properly levied, so yes, part of our expenditure does relate to that.

Q699 **Sir Mark Hendrick:** From a recent report we had, we found that the huge increase in volume on the day after Brexit cannot be handled by the current IT systems. Is that part of what this expenditure is for?

Catherine Vaughan: The responsibilities for handling how goods and tariffs are raised at the border is HMRC's responsibility. We have a responsibility to make sure that we provide the relevant tariff information into their systems. The NAO recently published a report on border readiness and on this particular system, the current assessment of readiness is an amber/green for the tariff application platform, which DIT has IT responsibility for, and an amber on the processes. There is absolutely more work to be done, but DIT has done a great deal to make sure it is prepared for that scenario.

Q700 **Sir Mark Hendrick:** Are you confident all this will be in place the day after Brexit?

Catherine Vaughan: There are significant interdependencies between what DIT needs to do and HMRC systems, but those systems are currently being tested and there are obviously still conversations being had about when those tariffs might be published and that will affect the ability to test those in advance, but preparations are in good shape from a DIT perspective.

Q701 **Sir Mark Hendrick:** The NAO report also talked about shortages in terms of manpower, not just the technology. Are you looking at those issues as well?

Catherine Vaughan: Those responsibilities do not fall to DIT.

Q702 **Sir Mark Hendrick:** But you are providing tariffs. Presumably you have to have people that can ensure that this information is in there with the HMRC systems.

Catherine Vaughan: In terms of our ability to populate the data on tariffs, yes, we have sufficient capacity to make sure that those tariffs are uploaded correctly.

Dr Liam Fox: On the initial part of Sir Mark's question about the size of the increase of the budget in relation to our total budget, there are two things I would say. The first is that this is still a growing Department and there is considerable IT cost per employee that is unavoidable when that happens.

The second of course is that we are, as a Department, in somewhat of a unique position in that we were created in the middle of a Treasury spending round and so the budget that we began with was, if you like, an estimate of a budget that a new Department would require. I think the fact that there are big revisions to that is not surprising.

Q703 **Sir Mark Hendrick:** On that point, the day-to-day budget of the Department has grown by about 10% per year since it was created and is due to increase by 13% next year. Are you saying that you expect this spending growth to continue?

Dr Liam Fox: We will of course, as we go into the spending round, like other Departments, want to look at what we project our future functions to be and what we think the necessary manpower will be. One of the areas that we will want to look at is not this particular area, but our overseas network and how we think that can be best-placed and what the appropriate size is and what the interactions with FCO and DfID would be for us to be able to maximise the generation of income abroad for the UK.

Q704 **Sir Mark Hendrick:** Last week the press reported that your Department had spent more than £100,000 on a podcast that had only been downloaded 8,000 times, costing the taxpayer around £12.70 per listen. What lessons can you learn from this and do you feel that it was worth it?

Dr Liam Fox: What I can say is that we have identified about 400,000 businesses in the UK that say they could be exporting but are not exporting, so we need to try to get the appropriate messages to them to get them into exporting, because that generates income for the UK. We use a range of media on that: print media, social media, through to podcasts. It is impossible to know at the beginning of any of those what effect they will have, but at the end of each of them, they are subjected to a review to ensure that we get value for money and lessons are constantly learned.

Q705 **Sir Mark Hendrick:** Your intentions are good, but do you feel that that was an effective use of money?

Dr Liam Fox: It depends how many of the businesses who listened to it became exporters. If all the 9,000 who listened became exporters I would say that was a successful project. If none of them did, I would question its value for money, but that will depend on the review we have and the ability we have to get data.

Q706 **Faisal Rashid:** Secretary of State, you have told us that if the Trade Remedies Authority is not legally established at the point of a no-deal Brexit, its powers can be brought in-house as a shadow function within DIT. What impact would this have on trade remedies capability and capacity?

Dr Liam Fox: None.

Q707 **Faisal Rashid:** Nothing at all?

Dr Liam Fox: The same system would be operated. It would just operate inside the Department until such time as the Trade Bill received Royal Assent. We laid down the SIs for that yesterday.

Q708 **Faisal Rashid:** And what secondary legislation would it need?

Dr Liam Fox: The secondary legislation comes under the Customs Act. It simply enables it to operate inside the Department until it is given its status as a non-departmental public body under the Trade Bill. It is a contingency measure only.

Faisal Rashid: There is no secondary legislation that needs to be—

Dr Liam Fox: Other than the ones that we laid yesterday. That will do it. Of course we want to have the Trade Bill given Royal Assent as soon as possible, but in terms of the actual functions of the TRA, they would be the same—the same people operating, the same rules, from the same place, with the same information basis.

Faisal Rashid: No impact on any functionality, capacity or capabilities, okay.

Q709 **Mr Marcus Fysh:** Just to follow on with the trade remedies, I welcome the work that your Department has been doing on that. The contingency planning around whether or not we have the Trade Bill and being able to offer trade remedies in any event is very welcome. It is quite a contrast with the way that it seems the normal tariff schedules are not being outlined in the same way, which I will grant is not your responsibility, but HMRC's. Why do you think that the Secretary of State for Business said on the radio this morning that the tariff schedule would only be announced once we knew that we were leaving without a deal on 29 March?

Dr Liam Fox: As I say, the timing will be a collective on. I have not been party to any discussions on timing that would lead me to that definite conclusion, but it is always possible that someone else knows more than I do.

Q710 **Mr Marcus Fysh:** Is it not surprising though for someone like him, who is supposed to be looking after the interests of business, to be willing to leave them in the dark over this issue right up to the wire?

Dr Liam Fox: It is a question of timing. As I say, it is a collective decision.

Q711 **Mr Marcus Fysh:** Just coming back to the question about whether any application of such a schedule would interfere with future trade negotiations, could you say a little bit about whether a temporary application of rates, for example, for a year or for two years could in fact encourage potential free trade partners to want to confirm those lower rates in a free trade agreement within such a temporary period?

Dr Liam Fox: It is a very clever attempt to ensnare me in the details of what we might or might not enact, but it is fair to say that future FTA partners would want to know whether any arrangement that was announced was a temporary or a permanent one.

Q712 **Mr Marcus Fysh:** I wonder if you could also say a little bit about whether within such a future framework, when we have our quotas for imports of certain goods without tariffs, opening quota that we would potentially have given to the EU if we had a deal with it to the rest of the world on an erga omnes basis might be an interesting and advantageous thing for us to pursue trade policy-wise.

Dr Liam Fox: It is an interesting subject, which as I mentioned in answer to your earlier question would have to be part of a wider architecture question about what was the balance between the access to the European market and what we were willing to accept in terms of the FEP and what we would want in terms of freedom for trade agreements elsewhere. As I have often said, there is a balance to be struck here and 44% of our exports still go to the European Union. We need to have good access to that very important market for the United Kingdom, but in a way that does not tie our hands to having access to other markets that might be growing more quickly.

Q713 **Mr Marcus Fysh:** Just finally, would you expect the EU to want to preserve its markets for exporting into the UK without tariffs, rather than see those markets go to some other countries without tariffs?

Dr Liam Fox: If in court, I would have said that was leading the witness, but it is undoubtedly true that the UK, as the world's fifth biggest economy, is a very big market. It is worth just saying, however, that the European Commission does not sell to the British Government. Producers sell to customers and they will look to the most advantageous market conditions.

Q714 **Chair:** Just following on from tariffs, before I move to Nigel Evans, will there be a full consultation on any tariff changes?

Dr Liam Fox: In terms of long-term tariff policy, of course there needs to be.

Q715 **Chair:** If tariffs are changed, other than following the European Union's tariff schedule, on what basis will tariffs be arrived at? Business would love to know this.

Dr Liam Fox: In the event that we have an agreement with the European Union, there will be plenty of time for us to have a full consultation about what our long-term tariff policy should be. If we leave the European Union on 29 March, for example, with no deal—at the other end of the spectrum—it will be necessary to introduce emergency tariffs.

Q716 **Chair:** You have had two and a half years to get to this point. You are telling me there is no thought of consultation and no work has been done on possible tariffs.

Dr Liam Fox: That is not at all what I said.

Q717 **Chair:** What has happened then? If we are leaving on 29 March with no deal, what is happening with the tariffs? If the work has happened, you can tell us.

Dr Liam Fox: The Government will set out what they believe to be the appropriate tariff policy, taking into account a number of factors. What would be the potential cost-input shock if we had to go to full MFN rates, for example, with the European Union? We would also have to take into account what would happen to business in terms of their exposure to unexpected competition were we to go to total liberalisation. The third element we have to take into account is loss of preferential treatment and preference erosion. Those are things that would have to be balanced.

Q718 **Chair:** This is a glaze over; what is happening with the work underneath? When you are taking things into account, who are you taking things into account with?

Dr Liam Fox: With the discussions we have across Government, with a range of businesses.

Q719 **Chair:** Only across Government, but not across business or industry about tariffs?

Dr Liam Fox: No, I said across Government with business.

Q720 **Chair:** There have been discussions with business about tariffs?

Dr Liam Fox: We understand where our businesses are and there needs to be a range of things that have to be counterbalanced by Government. Business will not have a view on preference erosion, for example, but it will have a view on what cost input would happen in terms of intermediate goods. Therefore the Government overall will have to balance a range of things. A lot of these discussions in any detail, Chairman, as you well understand, are hugely commercially sensitive and market sensitive in terms of decisions the Government may take. To pre-empt them in any detail would be quite dangerous territory.

Q721 **Chair:** I ask because it is important that there is transparency and that the UK goes forward not with the bureaucrats or the clique in Government, but on something as wide as this with full consultation. I ask about this because yesterday's *Financial Times* had the regular business meetings being cancelled, which would indicate that the channels with business are not operating as they should.

Dr Liam Fox: No, not at all. In my Department, for example, our ITAs have hundreds of conversations a day with business and will continue to do so. We continue to give the best bespoke advice we can to businesses.

What you are referring to was a particular meeting where there were a number of different businesses involved where we had leakage of the advice that was given. We can best operate in an environment where the advice we give is kept confidential—I think everyone accepts that. We will have to find the mechanisms to ensure we can give the most information that will help business, but in a way where the information is kept as confidential as we wish it to be.

Q722 **Chair:** What sort of information was leaked that annoyed you? According to the *Financial Times* businesses were infuriated by the lack of progress they had seen going on.

Dr Liam Fox: To your point, Chairman, I would say it is immaterial. The fact is that when information that is given on a confidential basis leaks, the nature of the information is less important than the leak. We will want to be assured, especially as we move forward and have to discuss quite sensitive details on future trade policy with business, that we are doing it on a confidential basis. I come from a professional background where we operated on the basis of confidentiality; I would like to think that extends further.

Q723 **Emma Little Pengelly:** In a no-deal situation where some of the tariffs were relatively high in some sectors, is it the case that the Government could look at supporting those businesses by way of payment or additional support that would not directly compensate for the tariffs but would recognise that this was an additional cost to business? This additional support could help those businesses in the short to medium term until the issue was resolved.

Dr Liam Fox: That more than pre-empts what the Government may attempt to do. In theory, the Government have a range of mechanisms to ensure that if there is any disruption to the market—by change in tariffs, change in currency value or by change in the competitive environment—they could diminish that. Those are levers that are open to any Government.

Q724 **Emma Little Pengelly:** Very quickly, obviously I am not asking you to give any detail about this, but are there discussions about looking at this on a sector-by-sector basis to assess which sectors may be more adversely impacted by tariffs and may require some additional or specialist support in the short term?

Dr Liam Fox: I think there are well-known debates in the country about which sectors may be more vulnerable to sudden competition from outside. Some industries take longer to turn around. I know agriculture is very clearly in the mind of those representing seats in Northern Ireland, as in other parts of the country like my own. There are a number of ways in which the Government will be able to mitigate any changes. Further than that, it would be imprudent for me to say.

Chair: I am going to indulge Marcus Fysh because he has promised that it is one question.

Q725 **Mr Marcus Fysh:** I apologise—I need to go to another meeting. Can I encourage you as a member of the Government to think hard about whether it is fair or even appropriate to prioritise the commercial sensitivities of business and secrecy, and I guess the procedural niceties and ambitions of the Government in terms of getting their deal through, over giving Parliament information about what the conditions of no deal would be, when we are potentially being asked to vote on it next week?

Dr Liam Fox: I am always looking to encourage it.

Q726 **Mr Nigel Evans:** It was reported on the radio this morning that Cabinet have now signed off the tariff regime post no deal. Is that correct?

Dr Liam Fox: There has been an agreement. It is always possible that there could be further changes but there has been a basic agreement, yes.

Q727 **Mr Nigel Evans:** There have been no leaks about that—who would have thought?

Dr Liam Fox: I am not sure we would be having this conversation about what was reported on the radio or in the *FT* had there been no discussions about what was actually said.

Q728 **Mr Nigel Evans:** Normally one reads on Twitter or indeed in newspapers exactly what goes on in Cabinet, so it is incredible.

Dr Liam Fox: There are days when I find it quicker to read the next day's newspapers than wait for the Cabinet minutes, which is indeed true.

Q729 **Mr Nigel Evans:** Looking at the trade defence measures, there are about 109 that you have looked at and you have decided that 43 would be maintained as part of an independent UK trade policy. Why have you decided you should carry on with those?

Dr Liam Fox: Some of the 109 were not directly applicable to the UK and some did not meet the criteria we set out for the objective passing of the test. We thought the methodology that we set out was a fair and reasonable one and I am very pleased with the reaction we have had, particularly from some of the important sectors of our economy such as steel and ceramics which very much welcomed the way the Government carried out the process, as well as the outcome of the process itself.

Q730 **Mr Nigel Evans:** Can you add a little bit more to that? You have mentioned ceramics and steel. Is it because of the relationship between European Union defence manufacturers that you decided to go down this route?

John Alty: I am just picking up the point about defence manufacturers. These are a range of industries and we look at the impact that was previously found by—

Dr Liam Fox: Defensive measures, not defence industry.

Mr Nigel Evans: I mentioned defence because I have BAE Systems in my patch as well, but there is the generality.

John Alty: Yes, which is what I was picking up. We looked at the measures and where the UK industry was significant and affected, and the measures the EU originally took were important for the UK industry, we had consultations with them and they made their case. Then we assessed it and that was what led to the result the Secretary of State just announced. Therefore it was a range of different sectors; it was not related to defence equipment particularly.

Q731 **Mr Nigel Evans:** You have mentioned ceramics as one of them. Do you therefore think some of the measures you are taking will make it more difficult to do trade deals perhaps with other countries, because of the defensive measures you are taking?

Dr Liam Fox: No, these were trade remedies put in place because we believed there was already a case of unfair trade practice by one or other countries. These are designed to take us back, if you like, to an equilibrium to ensure there is fair trade taking place. We were doing no more and no less than we had previously been doing under the European Union.

Q732 **Mr Nigel Evans:** Of those ones that you decided not to adopt, have you had representation from any businesses within the United Kingdom with deep concerns about the fact you have not given any protection there?

John Alty: Obviously we had a number of representations but I think I am correct in saying we went round this a number of times to make sure that if any business was concerned about the continuity of measures, they had ample opportunity to make those points. As the Secretary of State said, I think generally reaction to the decisions we took has been pretty positive from the businesses.

Q733 **Mr Nigel Evans:** That does not really answer my question. Have you had any representations since to say there is deep concern?

Dr Liam Fox: Yes, we have. One particular case would be Brompton, the electric bikes. Our officials actually visited them yesterday to have discussions on how we could help them. Where companies fail to meet the market threshold of 1%, if they are not more than 1% of the UK market, we think it is unreasonable to apply the trade remedies in those cases. We have to have a threshold somewhere and we think that is a reasonable level.

Q734 **Chair:** Just to clarify, what does that mean for Brompton Cycles?

Dr Liam Fox: That the trade remedy was not applied.

Q735 **Chair:** For them, so they would be left exposed.

Dr Liam Fox: We were discussing with them how we might best be able to help them, for example by increasing export help for them to be able to compete fairly.

Q736 **Chair:** How did they take this information?

Dr Liam Fox: Naturally, anyone who is not covered is disappointed. However, we had set out a very clear methodology.

Chair: I would imagine.

Q737 **Matt Western:** Just on that, Secretary of State, the interview with Will Butler-Adams was very interesting. We have Pashley Cycles in Warwickshire as well, which is a very successful local business, and other businesses coming back into production. When we have growing manufacturing sectors like that it is surprising that we seem to be willing to leave them very exposed to the market. I understand what you have just said but there are real profound concerns in the manufacturing sector that they will be very vulnerable to your negotiations.

Dr Liam Fox: We also have to ensure that we are being WTO compliant and are not providing protections to our businesses that we cannot defend on an international basis.

Q738 **Matt Western:** When we met a month ago there was persistent questioning about where we were up to in terms of the rollover of trade agreements. I think you had a sheet of paper in front of you, I highlighted the colours on it and you said, "Sadly I am colour blind so I will be unaware of the document in front of me and what it actually means in terms of the success of where we are at for the status of those agreements." It subsequently became clear that we were in very poor shape, or you were in very poor shape, in terms of the progress you were making, which was leaked to *The Sun* newspaper. It is great they actually covered it and gave it the sort of air that it needed. Was the fact it was then briefed to businesses in the afternoon that same day not discourteous to this Committee and maybe to me?

Dr Liam Fox: I do not think what was leaked was an accurate representation. What I set out was that, and I will repeat it, the trade we do under our free trade agreements as a member of the European Union is about 11% of our trade. Of that proportion about 3.5% was zero tariffed and would occur anyway. Of the remaining 7.5% to 8% we already have above 25% of that signed. We have a number of other agreements ready and we have a number of mitigation measures and contingency measures in place should some of those other countries not be ready to do so. No, I think in terms of continuity of trade we are well placed.

The one thing that, of course, is holding that back is the lack of certainty among trading partners about whether we will have a deal with the European Union, in which case they do not need to have those continuity agreements.

Q739 **Matt Western:** To be fair, Secretary of State, my question was about whether you were being discourteous about sharing that information in the afternoon with businesses when you were not prepared to share it in this forum.

Dr Liam Fox: As I said, some of the information that was leaked was not particularly accurate.

Q740 **Matt Western:** To move on, at that briefing I understand that your officials explained it was not going to be possible for the agreements with Turkey and Japan, among others, to be completed before March 2019. Can you explain how many agreements fall under that category and how much UK trade will be affected if there is a no-deal Brexit?

Dr Liam Fox: I set out in the WMS which countries would be affected, and in the statement I made to the House of Commons when I answered those questions in the House of Commons.

In the case of Turkey, of course Turkey is in a partial customs union with the European Union that sets out the dangers of being in a customs union where you have trade policy applied to you without having a voice on the issue. Apart from the elements with Turkey where it is not part of the partial customs union, on services and agriculture for example, there would be a limit to what we could do in terms of agreement. John might want to comment on where we are with those elements of it. Other than that we have to wait to see where we are with the European Union.

In terms of Japan, I do not think it has much impact on our trade because all of our trade with Japan for the last 30-odd years or more has been under WTO terms. The Japan EPA only came into existence on 1 February so all our historic trade with Japan has been on the basis of WTO trade. In fact, some of the liberalisation that would come in under the Japan EPA would not come into effect until January 2020 and some of the tariff liberalisation is six or seven years later than that.

The question for the UK is whether it would be beneficial and whether, in the event of a no deal—I repeat, yet again, that we do not want to see that, because in the event of a deal we get rollover of the EPA—our businesses would notice that they were doing business on exactly the same basis that they had been doing it for the last 30 years. Probably not. Would there be advantages in doing a bilateral agreement with Japan that went beyond the EPA? Probably.

John Alty: To clarify the 3.5% that you referred to earlier, the 3.5% is the preferences of that 11%, so it is 3.5% of our goods trade that is covered by preferences.

Q741 **Matt Western:** Thank you for that. Finally, if there is a delay to Article 50 through the votes next week, how will that affect your ability to roll over the agreements and how long would such a delay need to be in order to ensure proper rollover of all of them?

Dr Liam Fox: If there was, as has been indicated, a potentially short and one-off delay to Article 50, it would certainly make it very clear to those who are negotiating with us what the cliff edge might be in that case and provide some incentive to get their agreements done. If we end up, which I think would be the most detrimental outcome to the UK, with an Article 50 extension that in one way or another results in our not leaving the European Union, then that is a different case all together.

Q742 **Matt Western:** Given your experience over the last two years, you must have an idea of how long it would take?

Dr Liam Fox: Of course it is a question of the incentive that our trading partners have to come to that agreement. Some of our trading partners will say, "Why should we invest and to some extent show our hand of what would be our negotiating position for a future FTA in this agreement when we do not have to?" Therefore, they are waiting again—and not unreasonably, I have to say—to see whether Parliament is going to vote for a deal or not.

Q743 **Matt Western:** Lord Price was wrong?

Dr Liam Fox: I would not criticise Lord Price.

Q744 **Chair:** Picking up the point there, you said the leak that was in *The Sun* at the beginning of February was inaccurate?

Dr Liam Fox: Some of the countries mentioned are much further and much better progressed than that seemed to suggest.

Q745 **Chair:** What was leaked was a Department for International Trade slide on the state of play. Are Department for International Trade slides and the information there inaccurate?

Dr Liam Fox: They are snapshots; it depends on what day. The point I was just making to Mr Western is that these things move on, and on any one day you will get a slightly different picture from the day before or the day after.

Q746 **Chair:** The shelf-life of a Department for International Trade communication is about a day?

Dr Liam Fox: You have to understand that this is a real-time exercise that we are engaged in. Things will change from day to day and we make progress from day to day with these agreements, which is not at all unreasonable.

Q747 **Chair:** In a real-time happening, you mentioned that Switzerland was a country where there was rollover and that had been secured. However, it is not full transition, is it? There are gaps.

Dr Liam Fox: Of course there is not a single trade agreement that Switzerland has with the European Union. These are a number of agreements that have come into existence over the years. The point was to put as many of these together into a single document as possible to provide as much certainty as possible. John was involved with that, so he might want comment on any specifics.

Q748 **Chair:** Can you tell us what the gaps are, especially in the event of a no deal?

John Alty: I do not have all the details in my head just now but we set it out in the report. We put alongside the text of the agreement the explanations of where there are any differences with the EU arrangements.

Q749 **Chair:** It is not quite what the headline said though, is it?

John Alty: It is a substantial replication of the agreement.

Q750 **Chair:** It is substantial; it is not full.

Dr Liam Fox: Of course it is what we said the process would be: we would publish the text, we would publish the explanatory memorandum and we would set out where there were differences. We have published those and they are for the House to scrutinise.

Q751 **Chair:** We were told a month ago it was full. It was not full; it was substantial.

Dr Liam Fox: We set them out in detail. All Members of Parliament had an opportunity to look at them.

Q752 **Chair:** Do you think the use of the word "full" was wrong a month ago? Would "substantial" have been a better word, as Mr Alty has used this morning?

Dr Liam Fox: We have always said it was a technical replication of agreements in as far as we could do them, as far as it was possible to be able to do that.

Chair: We know there are gaps now.

Q753 **Julia Lopez:** You referenced Turkey a little earlier in response to Mr Western. You said it is a partial customs union and it does not have a voice on trade policy. As you know, one of my concerns about the backstop is the customs arrangements we would be in and the political declaration referencing that customs arrangement as the blueprint for the future relationship. In that scenario would we have a voice, for instance, on trade policy when it comes to agricultural tariffs? Would we be able to have conversations with other trade partners? As you know, Turkey has not been permitted to talk to the UK during this whole withdrawal process. How would you envisage that we would be able to have a voice on our trade policy if we were in a future customs relationship or partial customs union with the EU?

Dr Liam Fox: In a customs union we would be subjected to common external tariffs. We would be allowed to negotiate and sign, but not implement, any free trade agreements that applied to the point at which we left the European Union—that, of course, being the point which is the estimate of what the risk is of the backstop ever coming into existence.

Q754 **Julia Lopez:** Given that there is a risk of that, as has been discussed ad nauseam, does that make you concerned about the potential for our having a future independent trade policy?

Dr Liam Fox: On the backstop—without wanting to go over the whole debate again on the backstop—of course it is a point of concern, but it is weighed against what we believe the risk is of the backstop ever coming into existence for a number of other reasons, including the unwillingness of other countries to be locked into trading relationships they do not want.

Q755 **Julia Lopez:** Rather than talk about the backstop then, shall we talk about the Chequers proposals and the fact the Prime Minister envisaged that we would be in a goods-only or agricultural-only customs arrangement with the EU? Do you think that would limit our ability to have an independent trade policy?

Dr Liam Fox: At the end of the period, it would not. However, clearly if you are in a customs union you are exposed to the common external tariff. That is what it is.

Q756 **Julia Lopez:** Does that concern you, as the International Trade Secretary?

Dr Liam Fox: It does not constrain us in terms of what we can negotiate beyond that period, but clearly in that period we would have our hands tied in a way that we would not were we not to be subjected to a common external tariff.

Q757 **Julia Lopez:** It was my understanding from the Chequers policy that it is the Prime Minister's preference to have that as the future relationship, so this would not be a transitional issue.

Dr Liam Fox: I think it is worth looking at the wording of the political declaration which says, "build and improve upon" in line with the principles and objectives set out, which include an independent trade policy.

Q758 **Julia Lopez:** The Chairman requested that we receive the draft agreement text and the corresponding parliamentary report every time a rollover agreement is initialled. You said to us this is not appropriate. We wonder why, given by your own admission only, "Final legal checks, translation, and minor changes" then remain to be done?

Dr Liam Fox: Under the UK procedure Parliament has first sight of that as soon as it is signed. Parliament, as a whole, has the first ability to see that.

Q759 **Julia Lopez:** Can we, as a Committee, expect to be notified when an agreement is initialled, as requested by the Chairman?

Dr Liam Fox: There is absolutely no reason why that should not happen. In fact, I can give a guarantee that we will do that.

Q760 **Chair:** Thank you. Before I move to Faisal Rashid, yesterday there were Members of Parliament from the North Macedonian Parliament in town. North Macedonia is a small country but the UK has a huge trade surplus with it. They described the talks they had been having with the UK Government that had suddenly stalled. There had been two rounds of talks and no progress. This was also affecting Albania, Kosovo, Serbia, Montenegro, and Bosnia and Herzegovina. Where are these talks at the moment?

John Alty: A lot of those talks are being led by the Foreign Office because they are association agreements with strong political elements to them. They obviously have trade elements as well that we advise on. As far as I am aware the Foreign Office is continuing to hold and conduct those discussions with those countries. I do not have the detail of precisely where they are because we are not leading on them.

Dr Liam Fox: I am happy, if the Committee wants, to get an update from the FCO. I am not aware of why those reservations should be expressed by our Macedonian colleagues but I can certainly find out and get a response to the Committee.

Q761 **Chair:** Thank you; that would be appreciated. The Freight Transport Association are asking what countries have already confirmed they will treat the UK as an EU member state during the transition period?

Dr Liam Fox: It is a question of the EU deeming that the UK is still a party to those agreements. There is no question of—

Chair: No, which third countries have agreed and confirmed they will treat the UK as an EU member state during the transition period?

Dr Liam Fox: I am not aware from the conversations we have had with the Commission that any country has said it will not. That is entirely understandable. Why would a country want to exclude such a large market from an agreement to which it is already a party?

Q762 **Chair:** Have you had any confirmation?

Dr Liam Fox: We do not seek confirmation on that.

Q763 **Chair:** The question then arises about goods that are in transit and might arrive after 28 March to say Japan and Korea. How will the Japanese and the Koreans treat these goods if there is a transition after 28 March? Do you have any idea, given you have not sought any confirmation?

Dr Liam Fox: If there is an agreement with the European Union then Japan has already said it will roll over the Japan-EU EPA to which we are a party. We expect the automaticity of the process—

Q764 **Chair:** South Korea?

Dr Liam Fox: If there is an agreement with the European Union then again it will be covered by the EU-South Korea agreement.

Q765 **Chair:** Have the South Koreans confirmed that?

Dr Liam Fox: Yes, in fact they have.

Q766 **Chair:** When?

Dr Liam Fox: I have spoken to the South Koreans and I have visited South Korea. They made it very clear that in the event of a deal with the European Union, they would want to see an automatic rollover of the provisions of that during the IP.

Q767 **Chair:** Is this in writing or just what a fellow in South Korea said to you?

Dr Liam Fox: These are the discussions I have had with Trade Ministers, who are not just "other fellows"—they happen to be respected colleagues internationally. They have made it very clear that what they want is continuity.

Q768 **Chair:** The final question the Freight Transport Association is asking that I can indulge in this sitting this morning is what actual duty rates will apply to each item imported to the UK? Given what you have said about the Cabinet signing things off, the crucial part of the question is are there any differences to the rates currently applied under the EU's common customs tariff?

Dr Liam Fox: I cannot comment on specific tariffs, Chairman.

Q769 **Chair:** I am not asking for a specific tariff commentary. I am asking are there any changes to what you have signed off?

Dr Liam Fox: No, I cannot answer the question, which is a breach of collective responsibility.

Q770 **Chair:** There might be changes to the common customs tariff or there might not be changes? We have 24 days to go.

Dr Liam Fox: I think it is a fair assumption that there might be or there might not be, which is a fair summation.

Q771 **Chair:** The Freight Transport Association would like to know. With 24 days to go, you cannot tell them?

Dr Liam Fox: As I mentioned earlier, the timing is an issue of collective responsibility. It would be completely inappropriate for me on such a sensitive issue—the reasons for which I have explained earlier—to comment on what changes there may or may not be.

Q772 **Chair:** My final question is: when might the Freight Transport Association know of any changes between the EU's common customs tariff and the UK?

Dr Liam Fox: As I said earlier, it is a matter for collective responsibility but, as I also said earlier, my personal view is it would be helpful for MPs in making a decision about what they thought about no deal to have as much information in front of them as possible.

Chair: There will be a sharp intake of breath at the FTA.

Q773 **Catherine West:** I just to press you on this, Secretary of State: what date will the announcement be made about the tariffs? At what date is the Cabinet going to announce the levels so that there is some certainty, not just for this Committee, which is already bristling under the fact that we had to check the Swiss Government's website in order to find details of the arrangement between Switzerland and the UK, but for all the companies that have contacted us and all the trade groups that have given us evidence. It is just getting to the point where it is rude.

Dr Liam Fox: I have already explained that the procedure in the UK is that Parliament as a whole has the ability to see what agreements we make, which is why, when we have the finished text, we publish it for Parliament. There has been no attempt by any Government of any colour to change that procedure and to give information not to Parliament as a whole, so that has been established process in our country for a long time. I don't know if the Opposition may have plans to change that but, if there are, I have not heard them expressed in the House of Commons.

In terms of publication, as I have said several times—I am sorry that you were not here for that part of the discussion—this is an issue for Treasury. The Treasury will lay the SI in terms of tariffs. This is not the responsibility of DIT.

Q774 **Sir Mark Hendrick:** You can probably help me with this question. When we were in Japan a number of different players—not least our own embassy—made it clear that it is not necessarily the case that the EU agreement will be a simple rollover to a UK-Japan agreement, because there are very great differences in interests within the EU27 that are not necessarily the same as those in the UK. Also our leverage, by not being within the European Union, will be that much more diminished. How can you make such a categorical statement that you feel it will be such a straightforward rollover?

Dr Liam Fox: I think that is mistaking two things. One is that if we have an agreement with the EU and we go into an implementation period, the Government of Japan have made it clear that they would want to see the full rollover of the Japan EPA under which the UK would come.

Q775 **Sir Mark Hendrick:** What about if we don't have a deal with the EU?

Dr Liam Fox: In the case of there being no deal, as I explained earlier, the Government of Japan have expressed to us a very clear preference to move to a bilateral agreement because there are areas—for example, data movement and in particular the limitations placed by the EU on data localisation—where the UK would be more flexible. The Japanese Government, being a very service-orientated economy, can see that as a benefit. What both countries have said is that the Japan-EU EPA would be a useful basis for a future bilateral agreement.

Q776 **Sir Mark Hendrick:** It could be a starting point but then, again, zero could be a starting point. It depends how the Japanese Government want to look at it, but certainly our embassy over there were not as optimistic as you are.

Dr Liam Fox: No, I can tell you that from my direct discussions with the Japanese Government. Both Governments have said they see the EU-Japan EPA as being a sound basis for a UK-Japan future trade agreement.

Q777 **Sir Mark Hendrick:** A starting point?

Dr Liam Fox: No, they see it as a substantial basis and with good reason. The Government of Japan are very optimistic about the potential timescales of reaching agreement on that because there is such a strong reason to believe that the Japan-EU EPA would be a good basis for it. Both Prime Minister Abe and our Prime Minister have made very clear that they see that new bilateral relationship, based on that agreement, as being a priority.

Q778 **Sir Mark Hendrick:** That is positive but you would accept it is not a rollover then?

Dr Liam Fox: It is a rollover. In the case that we get an implementation period and an agreement with the EU that becomes a rollover agreement, but in terms—

Q779 **Sir Mark Hendrick:** I am talking about a no-deal scenario.

Dr Liam Fox: If there is no deal then there will be a new agreement.

Q780 **Chair:** Just to clarify, I am glad that the Committee will see agreements at initialisation. I am just looking at the Swiss agreement. It was initialled, but it was signed on 11 February and laid before Parliament on 20 February. Why the gap of nine days? Do you think the time between signing the agreement and laying it before Parliament could be shortened?

Dr Liam Fox: Yes, I would hope it would be, Chairman.

Chair: Okay. Thank you.

Q781 **Faisal Rashid:** Secretary of State, the *Financial Times* reported on 17 February that, according to Japanese officials, there have been several occasions when British negotiators have come to the table without the necessary specialists to take negotiations forward. Why is that and what are you doing about it?

Dr Liam Fox: I have not had any complaints from our Japanese colleagues of that being the case, but I am sure that avid readers of the *FT* will be getting a whole range of different information.

Q782 **Faisal Rashid:** Do you have any issues with the recruitment of specialist negotiators?

Dr Liam Fox: We have not been short in the discussions we have had with Japan. Where we have come to is exactly as I have described. Were we to have a future FTA with Japan we could not negotiate that until we had left the EU in any case.

Q783 **Matt Western:** Trust and respect are clearly very important in Japanese culture. Are you fearful that there seems to have been a sense from their side that we no longer have as much respect or, in fact, that they have less respect and trust in us?

Dr Liam Fox: No, I don't feel that at all. My discussions with my Japanese colleagues have always been extremely warm and productive. In fact, I was very honoured when I was in Japan last year that Prime Minister Abe broke his holiday to have a meeting, which I regarded as a sign of the utmost respect with which the Japanese Government held the UK.

Matt Western: Importance, probably, yes.

Dr Liam Fox: It is just worth making the point that trade isn't simply about economics. Trade is also about politics and it is also about strategic relationships, and I think that, in terms of the UK-Japan relationship, a future trade agreement between us is part of a wider strategic relationship and is seen as such.

Q784 **Chair:** How do you think the Japanese will feel when they have invested in a country on the basis that it was the gateway into the single market and the customs union? They put 40% of their investments in that trading bloc into a particular country and then that country says, "Oh, we are leaving the customs union and the single market behind." Don't you think they will be mildly annoyed or a little bit upset?

Dr Liam Fox: That is probably the reason why so many of the Japanese car companies have been very vocal in supporting the Government's proposed agreement with the European Union. I think those who want to see jobs maintained in the car industry, particularly those who represent areas where the car industry is very strong, might want to take account of what those companies are telling us.

Q785 **Chair:** Indeed, they want to stay in the customs union and single market for another 21 months, which is what your withdrawal agreement would do. Do you think that they want to be out of the customs union and the single market after 21 months—in month 22?

Dr Liam Fox: I don't speak for all Japanese car companies. What they will want to ensure is that they get the best access to the markets that matter to them.

Q786 **Chair:** What is the best access?

Dr Liam Fox: They will take into account those circumstances. They will also take into account the fact that in the United Kingdom we have among the best technology and among the most skilled workers to produce the vehicles that they have.

Q787 **Chair:** How important do you think the customs union and the single market is to them?

Dr Liam Fox: It is clearly a factor but the environment for manufacturing in the UK is also a factor. I think that sometimes, the market that we are selling into is overplayed as the reason why many of these companies are in the UK. It is not just the skill of our workforce and the quality of what they produce, but the access to the supply chains in the UK, which will be increasingly important in the car industry as we move towards EVs and AVs, where the UK has a lot of that supply chain technology.

Chair: The supply chain has about 2,000 lorries a day coming out of the single market.

Q788 **Matt Western:** Secretary of State, I represent a constituency where the automotive industry is significant and you are saying that any Member should be voting for the Government's deal. The truth is, among manufacturing industry, they want to stay in the customs union and the single market. They do not like the deal but it is the only thing on the table, and it is the way the Government have negotiated—particularly the Prime Minister—that really concerns them. It has been presented as a fait accompli. That is why they are accepting it. They would really prefer not to.

Dr Liam Fox: Of course, they may prefer for us not to leave the European Union but the people of Britain have voted to leave the European Union. That is it, and if we were to stay in the customs union and the single market there would be a question of what we had left.

Matt Western: We are seeing the consequences.

Chair: People in Britain are being led by your Government because they voted to leave the EU, not the customs union and the single market.

Q789 **Mr Nigel Evans:** I am looking at the rollover with Switzerland and rules of origin, which are clearly very important, and diagonal accumulation, which I have just read through—it is complex to say the least but I understand why you want to go down this route. This is an agreement based on the pan-Euro-Mediterranean convention, which was apparently signed by 23 contracting parties including, clearly, the EU and then a number of others. Is it our intention to accede to this convention?

John Alty: The Government have not yet decided whether to accede or not. It is definitely a possibility, but that is something that we will be discussing, and are discussing with businesses who are interested, but there has not been a decision yet.

Q790 **Mr Nigel Evans:** There is no decision at the moment but if we were to do so, Secretary of State, do you think the American problem might arise again because they are not so keen on these rules of origin?

Dr Liam Fox: We think that the agreements we have on rules of origin make sense in terms of continuity for business. When we come to future trade agreements with others we will have to weigh up a number of different factors about how closely we are aligned to any parts of European standards or other alignments, versus the freedoms that we have for other free trade agreements. These are decisions that will come in the next phase.

Q791 **Mr Nigel Evans:** I do not have the faintest idea whether Americans would classify sparkling wine as champagne at all. I don't know if you know that, Mr Alty?

Dr Liam Fox: I think the Americans' views on GIs and ours are somewhat different.

Q792 **Mr Nigel Evans:** Yes, and that is where I am getting to, which is that—

Dr Liam Fox: These are current in any FTAs so this was a major element of the US-EU one.

Q793 **Mr Nigel Evans:** Basically, if they wanted to sell us that champagne that they produce in America, they would just have to relabel it?

Dr Liam Fox: There will be, I am quite sure, endless discussions on the pros and cons in any FTA discussions that we get into, but it is way too early to pre-empt any of these arguments.

Mr Nigel Evans: I have finished.

Q794 **Chair:** Secretary of State, there are concerns as well over preferences and developing countries, and bananas are a major part of the economy. Where would you, Secretary of State, place the emphasis on how this or any changes you might introduce affect developing countries?

Dr Liam Fox: We want to ensure that developing countries get the same advantages that they get under GSP today.

I am not sure whether I mentioned that to the Committee last time, but if I might be so bold as to make a suggestion to the Committee, one of the areas where single departmental scrutiny is not necessarily giving us the best results is on the interactions between trade and development. I would have thought there was a strong case—I am not even sure if it is possible, Chair—for a joint investigation by the DfID Committee and this Committee to look at where we could better align our trade and development policies.

I might have given this example before, but a lot of those preferences give zero tariffs, zero quota access, to countries' primary commodities being sold into the EU, but not if they add value to those primary commodities. If you can fresh roast your coffee beans, you will be subjected to a tariff.

Now it seems to me that it would be appropriate for us to try to tie trade and development more closely together. For example, my Department is very keen on promoting outward direct investment. I would have thought that it made sense for us to look at that outward direct investment into some of those areas that would give countries—primarily in Africa—the ability to add value to their own produce.

Then the secondary thing that we could do is use our tariff freedoms outside the EU to be able to bring down those tariffs on those value added products. In other words, we are actually giving countries a greater ability to trade their way out of poverty than to require aid.

It seems to me, Chairman—again, you will tell me if I am out of line on it—that this is an area where neither the DfID Committee, nor this Committee on its own, has perhaps the bandwidth and it might be a very useful area for Committees to look at. Certainly, the Government—I know

I would—and I am sure the Secretary of State for International Development would welcome input into this.

Q795 **Chair:** Perhaps you could have another look at the trade in developing countries report of November, and you can maybe spot any gaps, but we did take evidence from DfID as well your own Department.

Dr Liam Fox: If I may say, it was a very useful report and we have taken on board some of those elements and we are going to write to the Committee again on some of the elements. We are looking to see how much we can take on board ourselves as a Department, and how much that would impinge upon the territory of DfID.

Chair: That will be a welcome interaction.

Q796 **Emma Little Pengelly:** First, can I apologise because Northern Ireland questions are on now so I need to leave very shortly?

I just want to ask about the interest at state level in the USA in terms of building the relationship with the UK. I have met with a number of delegations from various states, many of which are significant in terms of their economies in their own right. There does seem to be a keenness about trying to build up relationships perhaps on a more formal basis, such as the signing of MOUs, the signing of documents in terms of the development of that relationship, and also what that could bring in terms of benefit to regions and the UK.

I understand that the Department is focusing at the minute on the rollover of the EU third country trade deals, but have you given consideration to how we develop that perhaps on a state to state basis, given the importance of state laws not just federal laws in terms of unlocking these relationships?

In terms of the trade envoy, the USA is obviously huge and a lot of this will come down to relationship to relationship. Are you giving any consideration to perhaps looking at, I suppose, where the best opportunities lie in those particular states and perhaps looking at identifying people who could work particularly with those states moving forward to alleviate the burden from just one state, the USA?

Dr Liam Fox: It is a very important but very large question. There tends to be an impression in the UK when dealing with trade with the US that we are dealing with a single homogenous unit, when the point is well made that it is not.

Q797 **Emma Little Pengelly:** I think the Committee spoke to some—

Dr Liam Fox: We have appointed a trade envoy to the US states—Mark Garnier the former Trade Minister—to work on that and build up some of those political relationships. That could go a lot further. We may need to expand that further.

One of the reasons we set up the trade commissioner programme was the very reason that inside the United States, for example, you can have very different markets. The three functions of the trade commissioners are to encourage foreign direct investment into the UK, to encourage outward direct investment from the UK and to encourage UK exports. There is a different mix in many different parts of the United States. That is why we opened our new trade offices in Minneapolis and San Diego and Raleigh Durham—they are not necessarily political centres, but they are trading centres.

I think it is important and it sounds terribly condescending to say this, but it is a really, really good question. We do have to alter how we think about these relationships because a lot of that trading responsibility is held at state level in the US, and I completely agree that improving our understanding of the workings of some of those markets, and the different elements and interactions in those markets, is very key to us. I am not sure if that was a job application as a trade envoy, but it sounded like it was coming perilously close.

Chair: Northern Ireland can be sold across the world very quickly.

Q798 **Sir Mark Hendrick:** Secretary of State, we have been here now for nearly an hour and a half and I think the elephant in the room and very soon to be the largest economy in the world is China, but there has been no mention of China. What are your aspirations for a trade deal with China at some stage in the future?

Dr Liam Fox: We would look to improve our relationship with China. There are a number of issues around market opening, so most of what we have been doing with China has been about market access rather than FTA. For example, since Northern Ireland has just been mentioned, the agreement we did with China on dairy, with a relatively small change about what type of milk was able to be incorporated into UK products, for example, was worth a quarter of a billion pounds to the dairy industry in Northern Ireland. Our work recently, which helped Shell get the first international licence in China, again, is a market opening issue.

We have been working with our Chinese colleagues, first of all, to get better UK access to exports. There are a number of problems there that are immediately apparent. If you look at UK goods and services exports to the world outside the EU, it is about 50:50. To China it is only 18% services, because it is a very closed services market. The point that we generally make is that you can only get to a trade agreement if your economies are sufficiently compatible, and there need to be changes made. There are issues around market access, particularly for services, but also around IP transfer—what we regard as forced tech transfer. These issues need to be resolved because they are not compatible with an FTA.

Q799 **Sir Mark Hendrick:** Let me just come in on that. Germany, which is obviously going to stay in the EU, actually does something like five or six times the amount of trade that we do with China. On IP something like 90% of copyright and IP judgments taking place in China are actually with Chinese companies, because they are very innovative now and they do a lot more of their own development. Some of the fears we had in the past are no longer there and for a country that says it wants to go global, well, in fact you have a country in the European Union that is doing five to six times more trade than the UK with China. Surely, you can be in the EU or out—the decision has been made—but still be very successful in trade with a country like China?

Dr Liam Fox: That is naturally true that you do not have to be in or out of the EU to do trade with China, but the problem there is with the market access issues and—

Q800 **Sir Mark Hendrick:** I accept that and the point you made about wanting to focus on services is important, but you can do well with goods as well—

Dr Liam Fox: We can do well with goods and our exports to China in the last full year for which we have figures, for 2017-18, I think it was a 28.9% increase in our exports to China. We have been working very hard on that, for example, by the high profile that we had at the CIIE, the expo at Shanghai.

I had five visits to China last year. We had a successful joint Economic and Trade Committee and we are awaiting the Chancellor's visit on other economic issues, so we have been making a lot of progress. If you are looking at the manufacturing exports, Germany, as an exporting economy, is much more an export manufacturer in goods than it is in services while we are the reverse. For us, the important market access issue will be services.

Q801 **Chair:** Thank you. You must have been as frustrated as the Chancellor with the Defence Secretary then, but I won't ask you to comment on that given what you have said about Cabinet collective responsibility.

Dr Liam Fox: You could try to.

Q802 **Chair:** I can detect frustration across Government with the Defence Secretary. Secretary of State, under Section 22 of CRAGA—the Constitutional Reform and Governance Act—a treaty can be ratified without coming before Parliament. The Brexit Secretary has told the Chair of the Procedure Committee that the Government cannot exclude the possibility of using Section 22 in "an exceptional case". Secretary of State, what would such an exceptional case be?

Dr Liam Fox: The general presumption is that the normal process with 21 working days would be applied. What would be exceptional would be if we were leaving the EU and there was a threat to trade continuity and we wanted to ensure that that could happen. I would think leaving the EU without an agreement on 29 March would definitely come under exceptional circumstances.

Q803 **Chair:** The Society of Motor Manufacturers and Traders is interested in what the Department has agreed with the EU and its trading partners, so what will happen to goods already in transit should the UK leave the EU without a deal?

Dr Liam Fox: John?

Chair: It is like a game of doubles tennis.

John Alty: Clearly, it will depend on the terms on which the UK leaves. It is an HMRC issue but we can give you more.

Dr Liam Fox: There have been discussions on that. We don't take the departmental lead on that, Chairman. Again, if you wish us to be in touch with HMRC we can give you a better detailed answer to that question.

Q804 **Chair:** Yes. I think the Society of Motor Manufacturers and Traders would like to know that.

Secretary of State, you also told us last month that if the Trade Bill is not passed by 29 March you have contingency plans for measures to facilitate trade agreement continuity. What exact contingency measures will allow you to make the legislative changes that are required by rollover agreements?

Dr Liam Fox: Again, there are three elements of the Trade Bill that we said we required the Trade Bill for: for trade continuity, for trade remedies and for GPA, which we have not touched upon today. We have laid the SIs already for the Trade Remedies Authority and for continuity and how that will be done under the TRID. When it comes to GPA, again, we will lay the appropriate legislation in Parliament to do that.

When it comes to trade agreements we hope, of course—to end as I began—that we will have an agreement with the European Union and, therefore, those agreements will automatically be deemed to roll over and we will get total trade continuity with all of those agreements. That is the Government's preferred option. If we can't we will use the CRAGA process, where we can, and we are looking at some contingency measures which we will bring to Parliament shortly when we are convinced that—

Q805 **Chair:** You cannot outline the contingency measures today—is that what you are saying?

Dr Liam Fox: I would rather wait until we have had further discussion and they have reached a level of fruition.

Q806 **Chair:** As a Committee we would rather you told us now.

Dr Liam Fox: Yes, I am well aware of that.

Q807 **Chair:** I see where we are going to get with that, given the time. You said you were looking to end, but we will not quite yet. I know we might all be anxious to end.

We have received your response to our UK trade policy transparency and scrutiny report, which we have today published online. At present, many of the proposed consultative arrangements that you have committed to are not in place, such as finalising membership of the Strategic Trade Advisory Group, updating the memorandum of understanding with the devolved Administrations, and establishing the new intergovernmental ministerial forum. Secretary of State, could you be walking into major trade negotiations quite soon, in a matter of weeks in fact, without proper advice from those who stand to be affected?

Dr Liam Fox: The Strategic Trade Advisory Group is almost complete in terms of cross-Government agreement on the members of that. I am hoping to do a WMS on that hopefully in the next week, and write to all the members who we would like to invite. The thing that is just worth saying, Chairman, about the Strategic Trade Advisory Group is that their names when they are published may come as a little bit of a surprise, in that they may seem to range more widely across the political spectrum than might normally be expected. The whole point—

Q808 **Chair:** Is Len McCluskey one of those surprises?

Dr Liam Fox: It is dangerous to hold your breath, but it certainly will include trade union representation. The whole point of STAG—the Strategic Trade Advisory Group—is to provide the Government with an input that would not necessarily be associated with a Conservative Government. It is to provide NGOs, trade unions and businesses all with a say on what the strategic trading environment should look like. I hope that when we publish it people will be pleasantly surprised at how encompassing it is.

Q809 **Chair:** There is about 24 days to go to Brexit but in November the Minister of State for Trade Policy stated that the membership of the Strategic Trade Advisory Group would be announced within the month. That was November. Three months have gone and you are saying it is about to be done. When will it be done?

Dr Liam Fox: As I say, shortly. Hopefully, we will be able to lay out—

Q810 **Chair:** Within the month?

Dr Liam Fox: Hopefully, to do a WMS within the week, Chairman.

Q811 **Chair:** Within the week?

Dr Liam Fox: If we are able to get—first of all, of course we have to have agreement of the members themselves before we publish it but I would hope that that could be done as expeditiously as possible.

Q812 **Chair:** Thank you. On 21 February, you scheduled one general debate for four potential future FTAs with Australia, New Zealand, US and CPTPP, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. Can you assure us that Parliament will be given opportunities to debate outline approaches in respect of negotiations for each of those agreements individually?

Dr Liam Fox: First of all, I would like to say that I thought it was a very good debate, but I thought that the level of interest shown by Parliament in such an important subject was extremely disappointing and the number of Members who turned up to discuss those four big potential FTAs I thought was disappointing. The Government will publish their outline approach and objectives, including a scoping assessment and the initial economic analysis, and then Parliament will have a role in scrutinising the outline approach.

The key element, Chairman, where we don't have the final piece of the jigsaw in place is what Committee or Committees in one or both Houses we will use to scrutinise those agreements and what powers those Committees might have to call for a debate on any element of that trade agreement.

You and I have had a brief conversation on that. I have had the same with my opposition numbers. I hope that we can come to an agreement quite soon because I think, although this is not universally a view held by all Governments, that strong scrutiny in real time by respected parliamentarians adds to the strength of our trade case. It does not weaken it, and all Governments should remember that no Government is in government forever and scrutiny powers that may be irritating to Government can be serious for Oppositions.

Q813 **Chair:** You would not say it, but the Prime Minister might have been better following that approach rather than returning to Parliament with a fait accompli trying to bounce Parliament into an agreement. I know you would not say anything but—

Dr Liam Fox: There are some words, Chairman, you simply cannot put into my mouth.

Chair: Not here. I would comment on the debate. You are right, it was sparsely attended. It was a Thursday but it was in a form of recess and it looked like it was a filler debate, which was disappointing, but I think you might remember my quip on the day that perhaps some of the Brexiteer Tories were in Val d'Isère taking advantage of maybe their last February break under freedom of movement, and we might want to leave that there too.

Q814 **Catherine West:** You stated your commitment to transparency in trade negotiations, but you have been consistently resistant to putting any commitment on a statutory footing. Given the considerable public concern about transparency, your own words about it just now, and your Department's poor record in this regard—because I am sure that the staff are aware that it is the lowest performing Government Department in responding to freedom of information requests—on what basis should this Committee trust your commitments?

Dr Liam Fox: We promised that we would have a public consultation and a consultation that would be longer than the European Union, and we delivered on that. We promised that Parliament would have the opportunity to debate those issues once the consultation was finished. We will be having two publications. We will be having the publication of the public's response to the consultations and we will have a Government response to each of the four of those individually.

Then we will have that process that I set out and was set out in the Command Paper last week, and I hope that we will get cross-party support for genuine scrutiny of a new process as we leave the European Union. Scrutinising new free trade agreements will be a new function of both Government and Parliament. I hope that when we do these things and when we give Parliament the opportunity, Parliament will avail itself of the opportunity better than it did the week before last.

Q815 **Catherine West:** Will those transparency commitments be put on a statutory footing, yes or no?

Dr Liam Fox: In terms of a Committee, that is quite a way from being decided yet. We will want to decide, having spoken to Opposition parties in both Houses, how we take that forward.

Q816 **Catherine West:** That is another thing that is not decided.

Dr Liam Fox: I can decide a lot of things but I cannot decide the Opposition parties' views.

Q817 **Catherine West:** The transparency commitments that have been made to this Committee will not be put on a statutory footing—or will they be, or have you not decided?

Dr Liam Fox: In terms of how we handle the future scrutiny, no decisions have been made.

Chair: Sir Mark Hendrick, time is getting short.

Q818 **Sir Mark Hendrick:** Yes, you previously told us inward investment rose by 20% in the UK last year. However, we have also heard that data that relates specifically to greenfield investment into the UK suggests that this has declined since 2016. In making such statements, why do you not distinguish between greenfield investment and mergers and acquisitions?

Dr Liam Fox: What I was referring to were the UNCTAD figures and the Deloitte figures from their published reports, which were very widely regarded. It is correct that you can get big distortions in inward investment from M&A activity. That is true. I would be very happy to share with the Committee any detailed information that we have on any disaggregation of that data, for which we hold quite a lot.

Q819 **Sir Mark Hendrick:** Dr Henry Loewendahl, chief executive officer of the company WAVTEQ, told this Committee that the DIT's database on foreign direct investment projects is "rather suspect". He said that there is a huge problem with the DIT data because you do not track how many companies close down or how many companies downsize. How do you respond to that statement?

Dr Liam Fox: We can only make judgments on the data that is available and whether that is kept centrally or not. One of our big problems—I think I have shared this with the Committee before—is access to trade data and business data. That does need to improve. That was one of the elements that has been in our legislation recently to give us better access to that data. Of course, what I was talking about was not our Department's data but the UN's and the private sector's through Deloitte.

What I think is fair to say is that, in terms of investment decisions, we have had domestic investment decisions held back as a result of some of the uncertainty around the Brexit process but foreign direct investment into the UK, including from Europe, has been very strong because we have strong economic fundamentals. They look at the United Kingdom. They see that our unemployment rate is half that of the eurozone. They can see all the advantages we have in a flexible workforce and our universities, access to tech and so on, which makes it a good bet for the long term.

A lot of that investment, remember, is sovereign wealth funds or institutions, which was bolstered by the Norwegians last week who said, again, they wanted more investment not less in the UK.

Q820 **Sir Mark Hendrick:** Anybody in your position would trot out those figures, wouldn't they, but getting a realistic assessment of the state of direct investment in this country means looking at how many companies have closed down and where we are losing things as well as where we are gaining. This is what Dr Loewendahl highlighted to us. Why don't you do what other countries have done, like Ireland and the United States, and look at the real situation on the ground, rather than just trotting out the statistics that you want people to hear?

Dr Liam Fox: Because the statistics matter because, for example, of the investments into the UK last year.

Sir Mark Hendrick: Statistics matter in another way as well.

Dr Liam Fox: My Department helped produce and safeguarded well over 100,000 jobs. That matters.

Q821 **Sir Mark Hendrick:** I am not saying it doesn't matter. I am saying that you should see other stuff that matters as well.

Dr Liam Fox: If we are able to improve our database we will.

Chair: Given the time we will have to move on from this point.

Q822 **Matt Western:** Secretary of State, I have one question on investor state dispute settlement mechanisms, which of course you will appreciate are pretty controversial and have been used in recent EU trade negotiations. What is your view on including ISDS in our future trade agreements, especially with those countries that have very developed legal systems to which UK investors could have recourse?

Dr Liam Fox: My view is that we have to ensure that our investors have proper protection. We have £1.3 trillion invested overseas. A lot of that will be things like pension funds, for example, so we need to ensure that our investors are properly protected.

We are in fact one of the world's top users of the investor state dispute resolution mechanisms, although not a single case has been successful against the UK but, in outwards terms, it is very important that we give the protections.

It is more important that they get the protection than that we have a single mechanism applied. When we are looking at agreements with countries where we have similar or very similar legal systems, perhaps the case is less strong for including a chapter there, but the key determinant will be: will our investors have the protection they need and the confidence to be able to do so? That is because that external investment generates income back to the UK and, in many cases, protects areas like pensions.

Q823 **Chair:** A final question. In response to the report on trade policy transparency and scrutiny, you state that the CRAG Act "provides a sound framework within which to scrutinise a wide range of treaties", but the Minister for Trade Policy told us that it would be "disingenuous" to state that Parliament can indefinitely delay a treaty under CRAGA, and I am sure you are aware of that. Would you commit then to giving Parliament a binding yes/no vote on future trade agreements, bearing in mind what you have said about Governments and Oppositions, and things coming to an end?

Dr Liam Fox: Yes, I believe that the previous Labour Government put the CRAGA process in place because it believed it was a reasonable balance in terms of the Government and Parliament, and I have no reason to disagree with it.

Q824 **Chair:** But given what your colleague has said about it being disingenuous, do you think CRAGA should remain as the way forward, or should we have a binding yes/no vote?

Dr Liam Fox: I think CRAGA should remain the basic process.

Chair: Thank you very much. I think we have had a game of tennis today, or, as an old friend and fellow campaigner Sean Connery used to say, "tennish". That was one of his favourite sports. Can I thank you for sticking to the agreement that we would indeed start at tennish? Thank you very much, Secretary of State.