

Foreign Affairs Committee

Oral evidence: Global Britain and South America, HC 1617

Wednesday 3 April 2019

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Members present: Tom Tugendhat (Chair); Chris Bryant; Stephen Gethins; Ian Murray; Royston Smith; Catherine West.

Questions 102-141

Witnesses

I: John Carroll, Head of International Trade, Santander; Wilson Del Socorro, Global Director of Government Affairs, Diageo; and Stephen Hill, Partner, Eversheds Sutherland.

Written evidence from witnesses:

– [Santander](#)

Examination of witnesses

Witnesses: John Carroll, Wilson Del Socorro and Stephen Hill.

Chair: Welcome to this afternoon's session of the Foreign Affairs Committee. Thank you all very much for coming. I must apologise in advance; business going through the House of Commons at the moment is a bit of a mess, as you know, and there is the likelihood of interruption at any point. If that happens, we will go away and come back, but we will keep things as brief as possible. I would be really grateful if you did, too, so if somebody has already said something, do not feel the need to repeat it for effect—just let it pass. We will start with Chris.

Q102 **Chris Bryant:** What are we—the UK—good at, in terms of trade in South America, and what are we pretty dire at?

Wilson Del Socorro: I'll start. Thank you, Chair and members, for having Diageo here at the Committee. We are in 180 countries around the world, and 10% of that is in South America and growing. The big issue for us is ensuring that growth is supported by an open and transparent policy and regulatory environment that ensure open and free trade, as much as possible, and transparency for businesses like Diageo in our value chain.

In terms of what the UK Government are very good at, they help us on the ground very well in engaging policymakers, bureaucrats and customs authorities, in liaising to unlock barriers to trade, in free-trade deals and conversations around that, and in ensuring that companies like Diageo are able to be heard.

Areas for improvement or development are in ensuring that there is a more co-ordinated approach across Latin America as a region. There are things and policy issues that I think could be taken at a more strategic level. Across Whitehall, the Departments could perhaps be a little more co-ordinated, particularly here in London. We do very well with FCO and DIT—they are fantastic—but I wonder whether we could also leverage the skills in other Departments to ensure a joined-up approach to promoting exports.

Q103 **Chris Bryant:** I will come back to the other two witnesses, but may I pursue this a little with Diageo? Obviously, the drinks industry is quite a big industry for the UK and all around the world, and in a country like Russia you have difficulty with transparency. I am trying to unpack the word "transparency", which might mean two things. First, it might be about corruption and the difficulty of getting your whisky behind the bar in such and such a bar—whether you have to bribe the local mayor, or whatever. Secondly, some countries—I think I am right in saying that Brazil is one—insist under our trade agreement that 50% of whisky has to be made there.

Wilson Del Socorro: At the moment, there is no trade deal that we avail of with Brazil. There is an EU-Mercosur trade deal that is currently being

negotiated, and we would welcome that progressing. Ultimately, perhaps later in a UK independent trade policy world, the UK can replicate or leverage that.

The majority of our exports from the UK is Scotch whisky, which has to be produced in the UK, as per the Scotch Whisky Regulations. That goes directly to Brazil and other markets around Latin America, and in fact, we are the largest UK spirits exporter and have been for the past decade. We have about a 50% or 60% share.

To get to your question in terms of transparency, it is really around what we do here and in other developed markets in ensuring that there is a proper consultation process. I think that approach could be a little more consistent in some of the markets around Latin America. Companies like Diageo perhaps have the data and the information, and provide a different perspective, particularly on some of the unintended consequences from various policies, such as tackling issues such as illicit trade or the unintended consequences of higher taxes or excessive regulation. That is what I mean in terms of transparency.

Q104 Chris Bryant: What about the others—Stephen, or John?

John Carroll: I will focus on the SMEs throughout the session, if that is okay. We have 6.5 million SMEs in Santander; it is the largest cross-border SME bank, so it is very much focused on their experience in terms of international trade. I guess, to answer the question, it is not about what we are good or bad at in the UK, because the same companies that are selling into France and into the US successfully are not doing it into South America.

Perhaps to set the scene for the session, we look at the international trade journey for SMEs in four boxes. The first is where genuine demand and supply are meeting up. The second is how that can be successfully executed, and the issue of trust there is particularly relevant in getting those relationships—trade is based on relationships. The third is the myriad set-up logistics and regulations—all those different barriers, which make life quite difficult in every country. The fourth is finance.

We do a trade barometer, which surveys 1,000 SMEs every quarter, and essentially the first three factors are much more important for every market. That is, "Where is there supply and demand for the SME? How can I successfully find a local partner? What are the logistics and barriers?" That is really important as we set out through this session, because there are big opportunities for the UK to do a lot more in South America.

In terms of the figure, it is low—2% of UK trade flows. That is much less than France and a lot less than Germany, so clearly we start from a very low point. It is still not yet materially changing: about 38% of the companies we survey that are international trading companies do something with South America, but obviously not enough. Only 11% consider it a growth area, so there is clearly a lot more that needs to be done in South America.

On the opportunities—getting back to why I see the figure as low—it is obviously the cultural background. The reality is that trade is based on relationships. Interestingly, the UK and Brazil had a very strong trading relationship before the First World War. Since then, the UK economy has changed, and, obviously, there has been a focus on more of the Commonwealth countries and—due to linguistic reasons—the US and so on. So that is obviously the first reason, the historical basis.

Distance is relevant, but it is not completely relevant, and there are ways in which we can overcome it, because obviously parts of the US are just as far away as South America. Tariffs have also been an issue. It is a very high tariff; the bound tariffs are particularly high in South America. The local content issues are relevant for certain sectors as well, but again, there are ways in which we can overcome all of those, which we can discuss throughout the session.

Stephen Hill: I am at a law firm, so I can talk about the legal services in South America, but I think what is more interesting is what the clients I act for are doing there. I act for funds and utilities that are interested in investing in energy and infrastructure projects, and if I look back three to five years, none of them was really looking at South America or Latin America. That has shifted, and we have seen a movement—in a very generalised term—from money that goes overseas outside the traditional countries being invested in Africa to it going into Latin America.

Why is that happening? We act for a number of organisations that are both UK and overseas, so as a law firm we can act for any company. Actually, a lot of that investment is coming from outside the UK, and the UK is missing a trick in the huge amounts of investment in energy and infrastructure that could be done throughout South America; it is an area that is ripe for investment.

The Governments are all looking significantly at increasing their infrastructure spend. They are very keen on some of the models that we have done in the UK—in particular, things like public-private partnerships and PFI, which in the UK have some baggage, but, as a concept, work very well. The expertise that we have is very strong in that area. It is strong across both the investors and the investor base, in terms of the companies that can undertake it and the advisers who can help to deliver those projects. I don't think we are fully utilising that expertise and I am increasingly seeing other countries deploying more capital in the region than we are. I am thinking particularly of Europe—Spain and Italy. The Scandinavian utilities are looking a lot at it. China is looking a lot, as part of the Belt and Road project. I think there are opportunities there for the skillset that we have to deploy capital—in other words employees and resources—into that jurisdiction.

One of the challenges that we have is an education piece that needs to happen in the UK, which I think the Government can assist in. We think the DIT has improved significantly recently, but needs to continue improving and get the message out. There are separate funds that are being set up—the FCO prosperity fund is a really interesting proposal, but

there are challenges around the rules of engagement, which means that they are not deploying the capital that could be there and could be used.

Chair: I'm terribly sorry; could you speak up? My hearing is not great.

Stephen Hill: Sorry. I was saying the FCO prosperity fund, which has some money that can assist UK companies deploy their capital within the region, has certain rules of engagement that are causing challenges for that money to be deployed, so there is money there that can't be accessed. Some of our clients are saying maybe not but for that, but that it would certainly assist in their investment to have those rules of engagement looked at and amended.

We have also seen an upturn in the level of engagement in people like UK Export Finance, which is to some extent the lender of last resort on credit facilities. Those are the things that make the difference between an investor, particularly a financial institution, making or not making an investment.

If I look at how people in this room can help and how the Government can help, those are the things that I would see as being the most pertinent. Money will flow to where money needs to flow, and there is little we can do about that in terms of whether the economics of the individual jurisdictions are such that it is better to deploy capital in another country, but in terms of making ease of investment, that is what we would be looking for.

Q105 **Chris Bryant:** If you had looked at British investment in South America 120 years ago, we would have been at the top of the league. We were building all the railways, and we were doing all the infrastructure—most of the roads and most of the public buildings, which is why lots of them look like British public buildings and things run on the British side of the road and all that kind of stuff. What has gone wrong in that time? Have we just failed to learn Spanish and Portuguese? Or have we become feeble? Are we lacking in courage and ambition? Even with Diageo, it is a long way down on the list, isn't it?

Wilson Del Socorro: The broader economic trends, particularly since the 70s, are that we have seen other countries, such as the US and China, boost their trading relationships and their investment relationships with South America. That might explain the broader environment. Specifically for a company like Diageo, while it is 10%, we are seeing significant growth prospects over the medium to long term, despite the economic and political volatility, which is often the headline that you see with Latin American countries, particularly over the last 12 to 18 months with some of the changes in the political environment.

I look at the demographic trends—the trends of the emerging middle class, and the cocktail and drinking culture, particularly in some of the hotbed cities, such as Mexico City. I look at the aspirations towards brands such as Johnny Walker, Buchanan's and Old Parr, which are long-loved. A quarter of the world's Johnny Walker goes to Latin America. In terms of



HOUSE OF COMMONS

UK spirits, we export around three to four bottles per second from the UK to Latin America, and there is a trend of premiumisation—people wanting to drink more premium brands.

Q106 **Chris Bryant:** But isn't the Canaries still a bigger market for you than any individual country in Latin America?

Wilson Del Socorro: No. Mexico is a significant business for us. That is almost half a billion pounds—£300 million or £400 million in terms of value. Brazil is significant for us, where we are not only exporting, but investing in local spirits. So it is quite important. As we see those trends, we are quite excited. In saying that, looking everywhere as well, Asia Pacific is growing. You hear about China and India, where that emerging middle class is increasing consumption. I still think Latin America has a powerful story to tell. The GDP per capita in Latin America is 25% higher than Asia Pacific, so the prospects are there.

I go back to the earlier comment I made. It is getting that product to market. It is having that ease of doing business, which was Stephen's point—a clear opportunity that we can perhaps partner with the UK Government. A mention for the prosperity fund—issues around capability, capacity and ease of doing business. If the industry could partner with the UK Government on a fund like that, we would welcome that and collaborate on it.

Another point is just understanding what the market access barriers are for different sectors. If I take an example of India and, looking ahead, Asia Pacific, we have worked quite closely with the UK's trade commission in India to map the market access barriers for spirits, as part of the joint trade review between UK and India, where we have not only given data but actually analysed the potential value to India and the UK for boosting exports, if you tackled some of those barriers.

I would love to see that happen in Latin America, so that we can look at and prioritise where some of the low-hanging fruits are. That is just for our sector. I'm sure in other sectors we could do something similar as well.

John Carroll: The sector aspect is crucial when talking about trade throughout this session. You are right about Brazil; I think 20% of its imports were from the UK prior to the First World War. There was obviously an historical context. Since the First World War, Britain's position in the world has obviously changed as well. There has been a focus on other parts.

You cannot ignore, particularly when we talk about the importance of connections for trade, the diaspora of the Germans and Italians post the Second World War. We do see those connections happening between those different countries. I think an opportunity for the UK is English, which is particularly relevant there. English, with the US and Canada, is still a great choice for a lot of South Americans when they go abroad. The visa issue there is very relevant.



HOUSE OF COMMONS

To give you an idea, Uruguay stands out: 55% of Uruguayans speak English while 5% of Brazilians speak English. So, there is a huge opportunity there, but I think the visa requirements here are a bit harsher here than they are in the—

Q107 **Chris Bryant:** Can I interrupt you there? British pop music does better than American pop music in South America, so I don't understand this cultural dissonance.

John Carroll: In terms of?

Chris Bryant: We sell more.

John Carroll: I'm not sure they know they are British or American. I think they probably just like the beat.

Chris Bryant: They clearly seem to know actually; all the evidence shows.

John Carroll: I guess the point is that there is an opportunity, I would have thought, for a lot more, particularly of the middle class, to study in the UK and develop those connections when they go back.

Q108 **Chair:** So, you are strongly linking things like university places—access to universities—to future trade relationships?

John Carroll: Yes. Or even vocational training. The UK is particularly strong.

Q109 **Chair:** Sorry—educational links?

John Carroll: Education: there is a real opportunity for the UK, particularly throughout the world in terms of vocational training, as well.

Q110 **Chair:** Can I just jump in on one thing, particularly for Mr Hill, on legals? This applies to both Mr Carroll and Mr Hill, particularly on legals and financials—non-items, if you like. How much does the language barrier make a difference? How much of an issue is it that people don't access UK law because they speak Spanish and Portuguese?

Stephen Hill: That's a fair point. I was going to pick up on the language. To give an example, I did a negotiation in Brazil at the end of last year and in that room there were Mandarin speakers, Italian speakers, Spanish speakers and Portuguese speakers, but the entire negotiation was undertaken in English. It is still the universal language for business, which is very important, particularly in Brazil, which is Portuguese rather than Spanish.

In terms of language difficulties, I don't see that as a barrier. Clearly, an ability to speak the native tongue would be an advantage. In formal, business settings, English is fine. Probably in informal settings, having the native language would be of more use.

Q111 **Chair:** But this is surely an important part of the barrier. We both know that the ability to do the job is only half the criteria for winning a contract



HOUSE OF COMMONS

or a bid. The ability—bluntly—to schmooze, to influence, to be part of a team can unusually be done in a foreign language, but usually has to be done in the local language. You will appreciate this, Mr Del Socorro, quite obviously.

Wilson Del Socorro: Yes.

Chair: But presumably in finance also, the need for local language fluency is high?

John Carroll: Yes. Again, I will refer more to the SME experience. Obviously, Diageo or other larger companies would have teams who were specialists in Brazil and would all speak Portuguese or Spanish. A typical SME in Birmingham or Manchester is going to have probably two or three people responsible for international trade for the whole world, and when you suddenly need to have a local partner to set up with in South America, that becomes really important. A classic example is that there is a massive opportunity in commercial marine; in the next two or three years, 155 vessels will be built within Brazil. You will need to be able to have a local partner, but the obstacle that we had seen with our clients was that we had no idea who that would be, so we have set up an arrangement with a specialist HR firm that can connect you to the right type of people, because otherwise it's virtually impossible to navigate those difficulties.

Stephen Hill: There is no doubt that language helps. Even in our organisation, we typically, on all job specifications, say that language is a distinct advantage, because the internationalisation of our business—it is less than for Diageo and Santander, but our business is global in nature—means that it requires those language skills.

Another observation I would make is that from an infrastructure perspective, most contracts are governed by the US dollar currency—as opposed to sterling—or the local currency. Those are the two options. It is rarely euros or sterling. Then, from a legal perspective—you touched on law as well—most or a lot of contracts are governed by New York law. That is the influence of the US on South America and Latin America. That is changing and it does depend, obviously, on the counterparties. You can choose whatever language you want. But in terms of entering into a contract, we often find it is local or US law for the global tenders that are being put out. That might be different when we are dealing, on a bilateral basis, with a UK company and an Argentinian company, but if the Argentinian Government are putting out a proposal, they will do it in US dollars if they are going to do it in a non-local currency. Our influencing that would be, I think, a major change, as it would increase our costs in the US, because if we did not have the ability already to have dollar accounts, we would need to be able to hedge that.

Q112 **Chair:** Can I follow up on the legal point? First, if it's New York law and no longer the laws of England and Wales, or English commercial jurisdictions, how much opportunity is there for you to expand into those markets? Secondly, given that services agreements will fall when we leave the European Union, how much of an impact is that going to have



HOUSE OF COMMONS

on your business out of South America, because the law won't be applicable directly to other European Union states?

Stephen Hill: In terms of it being governed by New York law, that is not a barrier for our firm; we have New York offices, so we can deal with it. If it's local law, from a lawyer's and, actually, an accountant's perspective, often it remains the case that the City of London is doing a lot of the work. If it is governed by local laws, we would tend to get a local law firm to bless the document, but the discussions and negotiations—the commercial driver—would be very much governed by a UK-centric legal system as opposed to a European legal system. There is a difference between those; there is a civil code and there is the UK code. South American companies, in our experience, like the UK rule of law—that is an important piece of this—and the way we have set up arbitration in London, albeit there are very good arbitration centres in other cities as well. So actually, that is not a detriment to us.

In terms of where we are with the EU, the feedback that we have had directly is that, whatever else we think of it, Brexit is a positive in terms of our relationship with South America, because we will need to increase our exports to jurisdictions outside the EU, and they see that as a knock-on and probably unintended consequence or benefit of Brexit.

Chair: Thank you very much. Royston, you wanted to come in.

Q113 **Royston Smith:** You talked about future investment opportunities in South America. Are some countries easier to do business with than others? Which ones and why?

Stephen Hill: I can talk about investment from an infrastructure perspective. You will not be surprised to hear that it is the larger jurisdictions. We would say Brazil and Colombia, which has really improved recently. As a sidebar on Colombia, one of the challenges for the UK businesses I speak to about Colombia is that when they seek UK financing, there is an education piece to educate that UK financial institution about doing business in countries such as Colombia, for reasons that are more associated with the television than with the reality of what is there. I am not sure how we can assist that. We hear generalising about a whole continent, but we need an education piece about not generalising about a country either. We need to make sure that we are looking at the actual counterparty on that.

Brazil, Colombia, Peru and Chile are very good, as is Mexico. Argentina is getting there, but there are macroeconomic issues there and the potential changes in Government in October lead to a bit of uncertainty. The World Bank is covering over \$50 billion in loans there. Venezuela is going through some issues at the moment, but if you look at its natural resources, there are corporates that should be doing business there, but will not for the foreseeable future.

Q114 **Royston Smith:** Do you think that they have significant opportunities?

Stephen Hill: Yes. Forgive me, but again, I am talking about infrastructure. Infrastructure projects happening in and around Lima on rail, energy and transport are all the things that our big constructions companies—admittedly, every global construction company—could and should be looking at. The barriers for them are in no way insurmountable. The issues tend to be around who the counterparty is. If it is the Government, that should assist. Importantly, with a lot of those countries, we have bilateral investment treaties, which give us the protection that we will not be prejudiced compared to any local corporate. We do not have bilateral investment treaties with every country. We do not have them with Brazil, for example, but I think that it is a policy decision for Brazil rather than for us.

The other issue is around hedging. If you want UK export finance, or any form of credit insurance—that all comes back to counterparty strength—there is a cost to that, which increases your marginal bid cost. That means that when you are competing with a state-owned enterprise from China, there is a risk that your bid is uncompetitive.

Q115 **Royston Smith:** Do you have anything to add to that?

John Carroll: From the SME side, there are three or four sectors. I mentioned commercial marine. In terms of the size, Brazil has approved \$1.4 billion to finance projects over the next couple of years. We talk a lot about difficulty in doing business. Tariffs are higher in Brazil and it is about matching that—there is the supply and demand issue. Brazil will naturally protect local industries where it can, but to be able to build those vessels it needs part of the supply chain that it cannot make locally. The UK is particularly strong in that, so, particularly with the DIT, we are working to bring over some of those main purchases in the next couple of years. There are difficulties, but they can be overcome. That is a really concrete opportunity where the UK has a comparative advantage versus most countries.

Aerospace is another part of the UK economy that is particularly strong on the world stage. We have just seen a recent merger between Embraer—the Brazilian aerospace company and the third largest manufacturer of aeroplanes in the world, after Boeing and Airbus—and Boeing. Aerospace supply chains are notoriously difficult to change, so that is probably a once-in-a-cycle opportunity to be able to do that. Again, we are working closely with the DIT to be able to see how the UK can perhaps get involved in any new supply chains that develop in future.

Healthcare is another particularly interesting area in which I think the Government can be helpful. Brazil is the largest healthcare market in Latin America and a growing one. There is an ageing population and, with a growing middle class, a greater focus on healthcare. The opportunities are probably in two areas—medical devices and pharma, but much more in medical devices.

In the case of pharma, the way it works in Brazil is that they tend to use drugs that have come out of patent. That is not particularly attractive for



HOUSE OF COMMONS

SMEs who are more innovative, which is the case particularly around the golden triangle of Oxford, Cambridge and London for life sciences. But there are real opportunities for medical devices. The problem that you have is that it is quite difficult for an SME to get the approvals into Brazil, so if there were ways in which we could team up to signpost or fast-track those approvals, that would be great.

In Chile, which is probably the easiest market to deal with in South America, along with Uruguay, the whole lithium area is growing enormously, particularly linked to electric vehicles. The UK is really strong there in the services and the design road to those sectors.

Q116 Royston Smith: We talked about Chinese state businesses and how they can be a challenge to UK businesses. What differentiates us from other international businesses that seek to trade in the region? What advantages do we have? We did touch on some of them, but what else?

Wilson Del Socorro: Without over-emphasising the point, the British brand is so powerful for our sector. How we have tied in very closely with the embassies in post on GREAT campaigns and on activating some of their innovations with the UK Government has been hugely powerful in getting that profile that I mentioned. I mentioned before that many of our products are seen as aspirational brands, and the tradition, the history and the innovation tied to Scotch whisky, or the gin craze, which is also growing across South America—

Chris Bryant: South London as well.

Wilson Del Socorro: There you go. It's everywhere. I was in South Africa two months ago, and it's the same.

There is just that link between a Scotch whisky and a UK brand. I wouldn't underestimate the power of that. I think there is advantage with all of it.

From Diageo's perspective, we pride ourselves on the work we do with the communities—not just promoting responsible drinking. We mentioned vocational education and training. We have this great programme called Learning for Life, which originated in Venezuela, in 2008. We have trained hundreds of thousands of bartenders, retail operators and hospitality operators through that. In fact, the winner of our World Class, which is a global bartender prize, was someone who trained under the Learning for Life programme last year.

I can only speak on behalf of Diageo, but a company like Diageo, with the brands that it has, is tied to that UK brand, and I think that differentiates the quality and heritage that we should absolutely amplify, looking ahead into that region.

Stephen Hill: The brand is really good. In addition to the brand, it is also the rule of law—I have mentioned that before. It is relevant when, if we are manufacturing kit to go into whatever it is within South America, there is a choice between a five-year, 10-year or 20-year warranty with a British company, as opposed to another company—we have mentioned Chinese



HOUSE OF COMMONS

SOEs. That is very powerful. Sometimes we can't compete on price, because our cost of labour or materials is higher, but we can compete in terms of long-term security that the buyer of that kit has, because they will be more confident that they can rely on that contract. If anything ever goes wrong, they will be able to bring a claim against that company, and the rule of law will survive. That is an important point that we emphasise when we go to these jurisdictions. I'm not saying other countries don't have that, but it is something that we can definitely play upon.

Q117 Stephen Gethins: First, I have visited the magnificent Diageo plant in Leven, where I was able to see the stuff that is going all round the world—

Chair: You didn't bring any samples back.

Stephen Gethins: I didn't bring any samples, but I would encourage all members of the Committee—

Chair: Did you, Mr Del Socorro?

Wilson Del Socorro: We did ask the Committee—

Q118 Stephen Gethins: It is a deeply impressive facility in terms of what you are able to do. This is a question for everyone, but particularly for Diageo. I was quite interested in what you were saying about branding, but also what you were saying about the different Departments working better together. Could you expand on how those Departments could work? Where are the opportunities for expansion? In terms of the Departments, does that include devolved Administrations? On selling things like whisky, are we making full use of the resource that we have?

Wilson Del Socorro: I would look at the ultimate impact that it has on the ground in promoting Diageo's brands or UK-origin brands, and ultimately that it supports and aids the UK economy. If I look perhaps at some of the other countries that engage in our big markets—Mexico, Brazil or Colombia—they have intra-country policy and sectoral expertise that perhaps comes from different Departments. They are not just DIT people or FCO people, but people who have deep knowledge of IP, regulations and customs. They mobilise and co-ordinate very well to support their businesses and sectors within those countries. As the UK looks to develop its plans in post, activating that cross-sectoral approach locally and then having a mirror image in Whitehall would absolutely work.

As a sector, UK spirits is the largest in food and drink, but in Diageo, our experience is that we often have to go to multiple Departments to say the same thing. We could have one Department promoting exports of Scotch and the wonderful benefits of trade, while we battle—perhaps battle is not the right word, but have a great conversation with—another part of Government about something to do with labelling regulations that we might be fighting, counterintuitively, to remove in another jurisdiction around the world. So it's just that co-ordinated approach.



HOUSE OF COMMONS

If we are talking about a great UK export, let's ensure that our Departments absolutely understand that coherence and that we are all working together to support and facilitate it. That is all. Let's just ensure that it is more joined-up. We can provide a further submission, in some detail, on what that looks like, but that is certainly the experience that we would absolutely support and be part of.

Q119 Stephen Gethins: I think that more information would be helpful. To reflect on something that the Chair and I discussed previously, we were in Wales recently, where they were talking about how they access markets in their own particular brand. Information on how the devolved Administrations fit into that approach would be helpful as well, if that is okay.

Chair: Can I interrupt? What was striking in Wales—the Penderyn distillery was one of the businesses that we saw—was the way that they use the Welsh, British and UK labels differently at different times and in different places. I would imagine that for your business, the different national designations could be used in different ways. I was just wondering whether you do or not.

Wilson Del Socorro: Scotch whisky, by regulation, has to have different marketing cues that we absolutely have to leverage. We think about it as total UK. Of course, we have 29 or 30 distilleries in Scotland, and we will leverage that history. We are investing a lot in Scotland, as you know, to promote Scottish tourism, but in totality and in the way that the landscape is today, it is a whole-of-UK brand and we absolutely support anything to continue to promote that. We are happy to provide further submissions on the specifics of what I mean by cross-Whitehall leverage.

Q120 Stephen Gethins: Thank you. Just one more question to pick up on something that Mr Hill said earlier. You mentioned the rule of law and some of the issues there. What role do you think that business can play in exporting and building on those values, and not just business but—I was very interested in this, but I cannot remember who mentioned it—educational institutions as well? Can business and education institutions contribute in areas such as rule of law and other values?

Stephen Hill: “Rule of law” is not a natural phrase to start talking about. It is probably a very legalistic term, but it is not meant to be. It comes down to trust. All it is meant to do is say, “You can trust us. In the contracts that we will put in place and the way we will deliver, we will abide by what we say.” In terms of how that gets disseminated, I would expect that businesses would use it—I know that the clients I talk to use it—as part of the promotion of their brand. To some extent, brand is really important. We also need to recognise that it is just one part of an overall mix. You can have the best brand in the world, but if someone's price is a lot cheaper in a bid for a project, it does not matter.

It is a question of using that brand and the ability to say—I will come back to my kit example—“Given that kit, you can trust that we will be here in three years' time and we will fix it, because that is what we have



HOUSE OF COMMONS

contracted to do and are obliged to do.” I have never heard anyone say anything other than positive things about our ability to do that and the way we build it up. That goes to the long tradition of our legal history, but also of doing trade globally—this happens to be in South America.

Another thing I would say is that although you did not mention silos, there is almost a silo approach, and we need to try to break that down. Sometimes the trade bodies are quite good at that. People might be familiar with Canning House and ProColombia, but there are other examples of those, and they are quite good at bringing these different and slightly disparate groups together with businesses and getting them interacting, so I would encourage the use of that and ensuring that UKEF, the DIT or the FCO prosperity fund—whoever it is—is engaging with those bodies as well. I think that is really useful.

Finally, we have talked about sectors, but the one sector that we did not really talk about is the service industry. The UK has an extremely good service industry; I would include the financial institutions in that. Promoting that is really positive. When I was in Bogotá last year—in Colombia—the big thing that people were talking about was insurance; and the insurance industry that we have in the UK is very strong and very positive. We should be outsourcing there our expertise in finance, in banking, in accountancy—you cannot always do it with legals, so this is not a plug for legals. It is that sort of service industry that we are starting to move towards to some extent exporting. We are still seen as having industry that they want to emulate, and some of the structures that we put in place—I mentioned PPP projects—are things that are being emulated.

We went out to the Colombian Government last year and trained them in how to run a PPP project, so that over the next 12 months, when they are doing their PPP project, it will be based on the UK model. That is how important that brand is. They have not gone to the US; they have not gone to Europe; they have come to the UK in order to utilise that structure.

John Carroll: I have two points to make. The first is on cross-departmental collaboration. We have what we call sector country cohorts. There are about 60 of those. This could involve aerospace into Poland or aerospace into Brazil. And it is a very different path across the four areas that I mentioned at the beginning: where the demand is; where you get the local partner; the logistics; and the finance. That is really useful: you can see the whole SME path. Many of the obstacles or opportunities we can deal with ourselves as a bank; for many, we require you or other partners on the ground to be able to deal with them. We would be really keen to share those with you, because I think that if you had something like an aerospace sector co-ordinator or a food and drink co-ordinator within Government, they could see the whole client journey and then basically move that forward. I think that would be useful, and we would be happy to share that with the Committee at any stage.



HOUSE OF COMMONS

You made a point on FinTech, which is very relevant as well. We are the largest bank in Chile, the third largest in Brazil and the largest in Uruguay; we have a very big presence, yet we also have difficulties in getting FinTech companies set up in these markets. That is because of the lack of a local regulatory environment for FinTech companies. The UK is very well regarded there, and I think that is one way you can offer your help to those countries in the region.

Q121 Catherine West: I have two questions. First, you all seem to know Colombia very well. What is the impact of the stalled peace process on doing business in Colombia, whether in the regions or in Bogotá?

John Carroll: We only have a small presence there.

Stephen Hill: As I mentioned, I was in Bogotá at the end of last year. I did not notice any direct impact on that. We were looking at it from the viewpoint of a new energy regulation that they were bringing out in order to increase their general energy, and in particular their renewable energy. The UK is at the forefront of renewable energy, so it is a very interesting space for us as a country—albeit that there were a number of people there from the UK and other jurisdictions. That went to an auction process. It failed as an auction process, but they are looking to bring it back later this year. As a result of the areas they were looking at, there were not too many issues in relation to war or civil unrest. The more relevant piece was around indigenous population and utilisation of land for indigenous people and/or for non-agricultural purposes. But they are very local-type issues, and other jurisdictions in South America have similar indigenous population issues that need to be addressed. I do not see that being different between the UK and any other jurisdiction or corporate group that is going into it.

Wilson Del Socorro: From what I understand, there has been no direct impact, but obviously we monitor—like with other South American countries—the security situation. The interest of our people and our supply chain is of the utmost importance. Where we have been challenged in Colombia is on the fiscal constraints and the need for revenue with Governments. Alcohol has been part of the broader mix on that over the last six to 12 months. It is impacting our business. I mentioned before the idea of having transparency and conversations with Government that are quite reasonable and constructive. That is an area where we have worked with the UK Government to ensure that we are working with them and engaging the right policy makers in Colombia, which has been quite helpful. We are still in a period of flux there; we still do not know the ultimate outcome, but that is a live example of where British business and the UK Government are helping us engage policy makers on the ground. To get directly to your point, nothing has come on the radar at this point.

Q122 Catherine West: You have both mentioned renewables and e-vehicles. I wanted to talk about whether there is any influence on the climate change agenda in terms of the choice that various businesses are making on investment. You might be aware that there is a bit of a campaign going on at the moment with HSBC and some of its choice of projects in



HOUSE OF COMMONS

Asia. Is that something that has come across your radar, or is it not anything to do with the work that you are doing? I would imagine that, as a finance group, you would have something to do with that. From civic society, I feel that there is more pressure on elected members here to get some more values into business. Banking is one of the interesting ones, because if your average retail customer wants to bank with HSBC, they want to know that their money is not being used for various projects that they would not agree with here in the UK. The nature of global business is that these auctions come up; these things come up. I am just wondering about values.

John Carroll: As a bank, we are in 10 core markets. Obviously, Santander is a Madrid-headquartered company, so we have a global reputational risk panel. Any of the deals involved—particularly the trade ministries—have to be approved by that panel. We abide by a core set of principles, which I am happy to send to you after the hearing.

Catherine West: That would be really interesting to see. Thank you.

Q123 **Ian Murray:** You have all mentioned the cross-departmental working that is required. Do we utilise all the facilities we have in post in country? What could be improved, and what works particularly well?

Wilson Del Socorro: There is a really good baseline in country—not just in South America but everywhere. Diageo is known to knock on doors in posts quite regularly, which is a great USP that we have. With that, we are able to activate, work and provide data to people in post as we need to, and get things up here in Whitehall as well. That works very well. If we are looking to really turbocharge that level of support for UK businesses, regardless of whether they are large multinationals or SMEs, there is probably a two-pronged approach, as I said before. If we think first about in post, there should be a regional review of South America. We as a business look at South America as a region. We have a regional president and a regional team that looks at where we want to deploy resources and priorities. In saying that, we also have local expertise, to answer your point about language and ability to respond with agility and speed to local circumstances—getting both those right.

From a regional perspective, perhaps it is about a strategy on where the cross-policy and themes are, and how you can have businesses, or one sector, having a set of issues, and another sector having another set of issues, and cross-pollinating those best practices and learnings to make sure that you get the full weight of the business community in the region as well as other expertise. That regional approach is really helpful, so that one hand is talking to the other.

In saying that, in-country, having that policy and sectoral expertise in post is really useful. Selfishly, I would advocate for something like food and drink, or spirits, because we have some wonderful policy folks here in Whitehall. So replicating again what perhaps the EU delegations and the US missions do in having deep knowledge and expertise on the ground is helpful. Local hires—



Q124 **Ian Murray:** Could you give us a particular example of what the US or the EU do?

Wilson Del Socorro: They are well staffed. This is not just Latin America, I think it is different parts of the world—perhaps I am generalising; there may be more staff in some places than others. But you know that you can go to customs specialists who have deep knowledge of the customs issues within that country, who have dealt with other sectors and know the right people within the bureaucracy of that country and the advisers to talk to. That is really helpful. As the UK looks to build up its own capacity and capability, it is worth looking at that and learning from those models.

I also mentioned that I think local hires are great. We have that in-country, but people who know the country, who speak the language well and who can engage with the right people and know how business works are always really useful. Not just looking to bring UK citizens from here into Bogotá or São Paulo, but actually having a local hire is really quite important.

John Carroll: Over the past couple of years, I have probably visited about 20 of the posts, so I have a fairly deep interaction with them. I would say that, without exception, they have all been excellent people.

There was a structural problem with the model, which probably related to the previous objective, which was getting 100,000 new exporters and £1 trillion in exports. That drove, in the UK, an approach that was based on getting someone doing their first ever export, and in the post, it was going for those really big deals that would get you closer to £1 trillion.

What would often happen was that you would have these very interesting deals—opportunities that were particularly relevant to the mid-sized companies—but you would not have access to those companies on the ground here in the UK. There was a mismatch between the opportunities being sourced abroad and what was being delivered here in the UK.

I think that is now being recognised by the Government, and there are moves to change that, but that is really critical to be able to have people here who are speaking to the mid-sized companies. What Germany has done so well for many years has been to create that *Mittelstand*—the mid-sized companies that drive the economy forward. That is what the UK needs. For me, that is really the sweet spot here for the UK to take that next step.

Q125 **Ian Murray:** You talked earlier about your focus being SMEs, because that is where your customer base is. Is there enough of a strength in the offer here, whether that be through the FCO or the Department for International Trade, to try to break down some of the barriers to local legislation and taxation, and those kinds of issue? Is the expertise there to be able to hold people's hands through that?

John Carroll: In post?

Ian Murray: Both in post and here. If you have an SME that wants to

export for the first time to a South American country, are the information and support available at Government level here? Are the facilities there?

John Carroll: There has been a big change in the digital offering, which is good. South America is probably not your first choice for an overseas market—that is questionable; it would depend on the sector. Interestingly, if we look at e-commerce as an example, it is often used as a way in which the very small ones can get involved.

The Brazilian market is the largest by some measure. It is quite difficult, though, for a B2C operation, in the sense that, for example, only 30% of Brazilians have a credit card. There are additional taxes if you are using a foreign credit card. All those things make it quite difficult. What we are trying to do is to engage with some of the big local platforms to see where there is concrete demand for UK-type products in the UK and try to match them from a B2B perspective.

Those sorts of thing can help to break down the barriers for the first time, but I think South America is a good market for someone who is already in two or three markets—perhaps that is even the case with the current context in Europe—and thinking, “Where else shall I go?” That is why I mentioned the aerospace company and some of the autos that are in Latin America and Mexico. It is crucial to direct them to opportunities and explain how they can fulfil, with the help of Government and ourselves—in Diageo, probably a lot of it is in-house—and to be able to signpost that. It is again saying where the opportunities are and helping with their fulfilment. The expertise is there; some of that should be private sector and some should be public sector.

Q126 **Ian Murray:** Anything to add, Mr Hill?

Stephen Hill: My only real example of in-country support is through the embassies. I tend to go through embassies, which have been very good, especially at granting access to Government and policy makers in-country. Being able to talk to the Ministry of Mines and Energy last year was extremely useful; we can talk through the projects that they are looking at and then relay that to our clients. That was the benefit for me, but I have less experience of other industries.

Q127 **Chair:** Can I come back to some of the areas you have touched on and ask for some specifics? Perhaps I could start with you, Mr Carroll, and go across the panel. Can you give any specific examples when the Department for International Trade has helped you win business?

John Carroll: For me as a bank, or helped a business win a contract overseas?

Q128 **Chair:** Either. Any moment when Santander has—

John Carroll: There is a link between the two. We are a challenger bank in the UK, so obviously with the SMEs, the top four have 80% to 85% of the market. The approach we have is essentially to speak to the CEO of the company and, instead of trying to get them to save 5p, help them to grow from £20 million to £25 million or from £50 million to £60 million.



HOUSE OF COMMONS

That is the business model, which is slightly different from some of the other banks; it is very much a growth-focused agenda rather than purely financial products. This year, we will do 90 physical and virtual trade missions, focused on about 16 countries and about 11 sectors. We will do probably one third of those in conjunction with DIT. That will depend where DIT can help as part of that process; it could be sourcing opportunities, helping on the ground with local access or simply going around the country. In the past week, there has been a Latin American roadshow with the new trade commissioner, Jo Crellin, where about 300 companies have got involved in very sector-specific projects.

Q129 Chair: Have you noticed an improvement since her appointment?

John Carroll: A substantial improvement. The idea of having people on the ground makes an enormous amount of sense. What she has done, which is a good model for the other trade commissioners, is bring somebody physically to be based here in the UK. I get back to that constant problem in the past where we had all this excellent expertise in post, but nobody here getting around the country and selling it. She has overcome that problem by putting someone here. For us, by the nature of our respective business models, both we and DIT want the company to export more because it helps us and it helps UK plc, and DIT is a crucial partner in the process. More than one third of our virtual and physical trade missions will be jointly done with DIT.

Q130 Chair: Mr Del Socorro, can I ask you to pin down a particular example, or one or two examples?

Wilson Del Socorro: No problem. I will turn back to UK Trade & Investment, before DIT. The situation we had in Colombia around 2014 to 2016 was quite a discriminatory tax structure against imported spirits. The majority of that is Scotch whisky, so while trade is an EU competence it was in the interests of the UK Government to ensure that that discriminatory tax structure was addressed. We worked closely with UKTI in post and here to ensure that it was prioritised by the EU and that we engaged the Ministry of Finance there on the ground. It led to a panel's being established at the WTO, which ultimately, in early 2016, led to the Ministry of Finance changing their law in Colombia to tackle the discriminatory tax structure. Now, we are in the process of going through that reform—because it is taking a while, as I mentioned before—but that is a real live example of where, if it wasn't for the support of UK Trade & Investment pushing and helping us, WTO rules, or non-compliance with WTO rules, could have been one area where we would potentially be disadvantaged.

Q131 Chris Bryant: But what happens to that after Brexit?

Wilson Del Socorro: It is now national law that they actually have to address the tax structure. They are in the process of doing that. We have a new system in place; they are still going through—

Q132 Chris Bryant: In Colombian law, you mean?



HOUSE OF COMMONS

Wilson Del Socorro: In Colombian law, correct. So in a post-Brexit world, if you will, it does not really matter, because what we are making a challenge on there is actually international trade law, which stipulates that your domestic policy has to be non-discriminatory against imported products. That is what we have used to challenge the Colombian Government, and it was through UKTI and ultimately the EU trade desk—and USTR was helpful on this, as well.

Q133 **Chris Bryant:** So it was not part of the FTA process?

Wilson Del Socorro: No, it wasn't an FTA process; it was through the international trade agreement, the WTO. Correct.

Q134 **Chris Bryant:** Are you aware of how many of the EU FTAs have been rolled over for the UK in South America?

Wilson Del Socorro: At the moment—

John Carroll: Chile would be the one.

Wilson Del Socorro: Chile would be the one, yes.

Q135 **Chris Bryant:** But not even Peru, which everybody thought was going to be dead easy?

Wilson Del Socorro: At this point, we are working quite closely with DIT on this, and they are really doing their best to get as much as possible through. A lot of it will perhaps be on domestic process, getting that ratification, which for some countries can be quite long. For others, it can be quite short.

Q136 **Chris Bryant:** But then what happens, let's say next Friday, when those FTAs no longer apply to British goods? You are suddenly on WTO deals with those countries, are you?

Wilson Del Socorro: Yes, potentially, that could happen. We are prepared for all scenarios in a Brexit world, and we have modelled that and looked at it.

Q137 **Chris Bryant:** So what preparations have you made, and how much has that cost you?

Wilson Del Socorro: I can give you the numbers following this, but certainly the entire—

Chris Bryant: It would be helpful if you could.

Wilson Del Socorro: Not just Latin America. It's not material to our business; we would withstand whatever post-Brexit world there was. Obviously, for us—like for other businesses—stability and certainty are our interest. Continuity of those trade deals is something of a priority; we have made that very clear with the UK Government, as well as with those third-country Governments, and I know they are interested in getting that across the line as well. Obviously, for whatever reason, they are not there



HOUSE OF COMMONS

yet, but we continue to partner with the UK Government to get them as close as possible to the finish line.

Q138 **Catherine West:** In the case of a no-deal Brexit, if Diageo does export, say, to South Korea or to other places—

Wilson Del Socorro: Sorry, which country?

Catherine West: South Korea—not that we're on that, but it just made me think about the fact that, obviously, some shipments will already be on their way, and the uncertainty around some of the tariff issues when they arrive. I know that the way the tariffs were announced was a little bit unusual, let us say—a bit scary. I am just wondering how you have managed that as a business, because obviously it is quite unusual.

Wilson Del Socorro: We have been looking at this for the last two years. From a policy point of view, continuity is absolutely our priority, but we will withstand if we go into a no-deal situation, and hopefully as quickly as possible resolve a future UK-Korea or a UK-country x FTA. We are planning for that, given the volatility that we are seeing at the moment.

Catherine West: I had visions of ships being stuck in the ocean, not knowing whether they'd be able to take the goods off when they arrived or the price they would be charged, and some other practical difficulties.

Wilson Del Socorro: Other sectors are perhaps in a more difficult situation than us. From the point of view of preparation for Brexit, UK spirits is primarily a domestic supply chain. For us, we have zero tariffs for those spirits coming into the EU. Yes, there are EU trade deals around the world that are important, but also we trade in 180 countries. We avail ourselves of perhaps 30 to 40 FTAs around the world, so the numbers show that we will trade no matter what, even without a trade deal.

Q139 **Catherine West:** Whereas possibly for SMEs, it might be a bit more of an issue?

John Carroll: That, I guess, is an issue generically. They do not have the same resources. Obviously, in terms of Mercosur, there is no trade agreement, and the issues there are very much—as we have discussed—that if you are getting into the market, you often need a subsidiary, so you are obviously operating through that; maybe not an enormous impact. But the tariffs—the bound tariffs—are quite high in South America; the applied tariffs are only about half, more or less, of those bound tariffs. However, where there is a trade agreement, obviously for that to be rolled over would be in everyone's interests.

Q140 **Chair:** Mr Hill, are there any specific examples that you would like to give on DIT or—

Stephen Hill: Yes. This is more of a general comment, but specific to a client; I can follow up on this, if that would be helpful.

Q141 **Chair:** If you would like to add to any of these comments in writing, I would be very grateful.



HOUSE OF COMMONS

Stephen Hill: One of our clients is a manufacturer and distributor of solar panels, actually, to pick up on the renewables piece, and they have struggled to make their exports work as to the UK, partly on a pricing basis, but their brand was very strong. They got in touch with the DIT and the feedback that I had from them is that they found that an extremely positive experience. They were able to open doors that then facilitated them increasing their exports to the area.

I'm afraid that is the only general feedback I've got, but on that one I can follow up.

Chair: Thank you very much. If there are no further questions, may I thank you all three very much indeed for making the effort to come in? And we were saved from the bell. I am very grateful for you making the time.