

International Trade Committee

Oral evidence: UK trade negotiations, HC 233

Wednesday 23 September 2020

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Members present: Angus Brendan MacNeil (Chair); Mark Garnier; Mark Menzies; Taiwo Owatemi; Martin Vickers; Matt Western; Mick Whitley, Craig Williams.

Questions 159 - 195

Witnesses

I: Elizabeth Ames, Board member, Menzies Australia Institute, King's College London; Stephen Booth, Head of Britain in the World Project, Policy Exchange; and Dr Maria Garcia, Senior Lecturer, Politics, Languages and International Studies, Bath University.

II: Phil Stocker, Chief Executive, National Sheep Association; Miles Beale, Chief Executive, Wine and Spirit Trade Association; Adrian Dobson, Executive Director Professional Services, RIBA; and Richard Rumbelow, Director of International Affairs and Export Services, Make UK.



Examination of Witnesses

Witnesses: Elizabeth Ames, Stephen Booth and Dr Maria Garcia.

Q159 **Chair:** Welcome to today's hearing of the International Trade Committee on the UK's trade talks with New Zealand and Australia. We have two panels today, a panel of three and a panel of four. Without much further ado, would the first panel introduce themselves on their own terms—name, rank and serial number?

Elizabeth Ames: Thank you. It is lovely to be back. My name is Elizabeth Ames. I am the chairman of the Menzies Australia Institute at King's College London. I am also the national director of the Britain-Australia Society, and I am a former Australian trade negotiator.

Chair: It is very good to see you again. I don't know if we are running a points system but, at this rate, you may get a free return to the Committee on the day of your choice.

Stephen Booth: Good afternoon. My name is Stephen Booth. I lead the Britain in the World Project at the think tank Policy Exchange.

Dr Garcia: Thank you very much for the invitation. I am Maria Garcia. I am a senior lecturer at the University of Bath, working on the political issues around trade agreements in the EU.

Q160 **Chair:** Thank you all very much for coming. Elizabeth Ames, can you briefly summarise the UK's current bilateral trading relationship with both Australia and New Zealand, please?

Elizabeth Ames: At the moment, the UK's trade with Australia and New Zealand is covered under its agreements with the EU. Australia does not have an agreement with the European Union at the moment, although it is in the process of negotiating one, and the same applies to New Zealand. Australia and New Zealand have less access into the UK and the EU than a lot of the countries that the EU already has negotiated agreements with, and the idea of the FTAs—and I am sure we will get on to this—is to improve the access for those economies.

Q161 **Chair:** In the past, before the Common Market as it was, there was a lot of trade with New Zealand and Australia. I know that merchant seamen in my neck of the woods made long voyages, and some of them didn't come back. What was that done under? That was before WTO terms. Was that called imperial preferences or something?

Elizabeth Ames: Yes, it would have been under the old imperial preference trade system that then morphed into a Commonwealth trade preference system. It was set up to make sure that those countries that the UK had settled at its time of empire were providing the goods and raw materials to the UK that were useful to that economy at the time. Of course, the economies of Australia and New Zealand have changed quite a bit since 1971, when they shifted away from the UK and that



preference was removed. It is now much more about digital and services trade than it was at the time.

Q162 **Chair:** Would it be fair to say that they were then more satellite economies of the UK and of the empire, and now they have become the centres of their own world, or is it something else entirely?

Elizabeth Ames: In one interpretation of history, Australia and New Zealand always had quite strong trade links with the Asia-Pacific. The original indigenous Australians had trade with Indonesia and other parts of the local archipelagos, and the same in New Zealand with the Māori tribes having trade with all the local islands. Trade is something that is in the bones of Australia and New Zealand, but the way in which both economies shifted post the UK entry into the European Union, or the European Community as it was at the time, means that they now have really strong links both with each other—in some respects, the Australia-New Zealand free trade agreement is the deepest and the broadest in the world, even more so than the agreements within the EU—and also with their immediate regions, particularly south-east Asia and north-east Asia.

Q163 **Chair:** I am tempted to ask if New Zealand wants to leave the southern hemisphere, Brexit style, but I won't go down that political line.

Stephen Booth, in what major respects does the UK potentially stand to gain from trade agreements with New Zealand and Australia at this stage, given the shift in the economies that have happened over the last nearly 50 years?

Stephen Booth: As Elizabeth said, the majority of the trade between Australia and the UK is already in services, digital and data. I think those are the areas where the UK would be seeking to achieve a high quality agreement both in the bilateral relationships with Australia and New Zealand but also looking ahead as a stepping stone to accession to the CPTPP. On the other side of the table, the Australians and New Zealanders will clearly be looking for a lowering of UK tariffs, in particular on agricultural products. I think that, ultimately, the crux of these negotiations for both parties will be the extent to which the UK is prepared to liberalise on agriculture in return for a high quality agreement on things like services, investment and data and digital.

Q164 **Chair:** Turning to Maria Garcia, on the potential benefits that the UK might offer New Zealand and Australia, because it takes two parties, what sort of approaches might each side take to these negotiations as a result of that?

Dr Garcia: I am in full agreement with Stephen and Elizabeth. Particularly from a New Zealand perspective, it will be access to the UK agricultural market. That is also important from an Australian perspective, but it is not a key cornerstone of its economy, as it is in New Zealand. However, the farming lobbies, the farmers' associations, are quite powerful. They have always had quite a lot of input into trade agreements, and they are very proud of the way the Government are



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able to sell the benefit of trade agreements to the population by showing specific wins for the farming community, cattle producers and so on. I think that is really where the challenge lies.

The other issues, such as digital and so on, are areas where there is quite a lot of like-mindedness to some extent. There will be some challenges on how the UK decides to change or alter the European Union's GDPR and some of the issues of data privacy that are not necessarily dealt with in the same way by other countries in their trade agreements, but obviously that is where the game of the future is. Having said that, for public opinion reasons, agriculture remains very important for both of these countries, especially New Zealand.

Chair: Thank you for that. I am delighted to say that we have Phil Stocker from the National Sheep Association in panel 2, who I am sure will have much to say about these areas. We will have to watch we don't digress into a conversation about sheep.

Q165 **Martin Vickers:** How well founded is the Government's belief that agreements with Australia and New Zealand will provide stepping stones to UK accession to CPTPP?

Elizabeth Ames: I think that is a really sensible belief. The UK has a lot of ambition to join the CPTPP. I helped to negotiate the agreement, and I am well aware of how comprehensive and high level it is. The UK is at the level of the CPTPP in some of its agreements. The one just signed with Japan goes beyond the CPTPP on the digital trade provisions, which is great to see. Australia and New Zealand are quite supportive of the UK joining, but it is a plurilateral trade agreement. You need to get the agreement of all the other countries that are currently members of the CPTPP in order for the UK to apply to join and then go through the accession process.

The best way for the UK to demonstrate to the participants in that agreement that it is ready and able to negotiate at the level that will be required, and to agree the provisions at the level that will be required on intellectual property and trade in services, is to negotiate some really high level agreements with Australia and New Zealand—and Japan, and it is fantastic that that is already completed—and use those agreements as examples of the sorts of agreements that it is capable of. That will really help smooth the entry into the CPTPP.

Q166 **Martin Vickers:** You have touched on some advantages to existing members, but what about the wider membership? What will they gain from our membership?

Elizabeth Ames: Of the CPTPP?

Martin Vickers: Yes.

Elizabeth Ames: It is a fascinating agreement because it has such a variety of countries. You have Vietnam, which in some respects is still a



developing economy, and you have Singapore, which in many respects is one of the most developed economies in the world. Different countries that are part of the agreement will be looking for different things from UK accession. For a lot of them it will be the opportunity to build on their services trade with the UK, and that will be a huge ambition across the board. For others it is access to a really mature and developed market in the UK. As the UK moves away from getting the majority of its products from the EU, it might open up opportunities for other producers in CPTPP countries.

Dr Garcia: I don't have much else to add. As Elizabeth said, it will be down to the other members and what they endeavour to negotiate with the UK.

Stephen Booth: To add to Elizabeth's point, the agreements we are discussing today—Australia and New Zealand—are very much seen by all the parties involved as setting the example that the UK does intend to join the CPTPP. I think the UK will be seeking to go further than just simply the CPTPP provisions in these bilateral deals because, ultimately, if we join the CPTPP, we will have access to the benefits of the CPTPP anyway. I think the UK will want both to demonstrate its ambition to join the CPTPP but also to use these agreements to go further in some areas, such as services and data.

Q167 **Mick Whitley:** My question is to Stephen Booth and Dr Maria Garcia. What impact could the UK's other ongoing trade negotiations, particularly those with the EU and the US, have on those with Australia and New Zealand?

Stephen Booth: The EU negotiation is clearly the elephant in the room. Until we have a degree of resolution on that score, I think it will be quite difficult for the UK to ascertain its bottom line in what it is prepared to offer in market access to the likes of Australia, New Zealand and the US. In contrast to the US, I think on some of the issues that are likely to be controversial in UK trade policy going forward, such as agricultural liberalisation, the context of New Zealand and Australia is perhaps a more fertile ground on which to have a sensible debate about what liberalisation might mean without some of the scare stories we have seen in the trade agreement with the US. Those are the things that I would point out.

Dr Garcia: The future relationship with the EU is absolutely critical on a number of issues because it will determine what kind of geographic indication regime the UK agrees to have, and that will have to feature in negotiations with Australia, New Zealand, the US and other partners. One of the values of negotiating with these countries is that it is less politicised. In a sense, there is more public support within the UK for negotiation with these countries, and fewer scare stories than there are with the US. It is possible to come up with formulas that will work in agriculture on some of the rules around the use of hormones, the types



of beef or the type of production that the UK is happy to accept in the future.

It is probably much easier to do that in the context of these negotiations than in the context of negotiations with the United States, but the timing of it all is extremely important. First, there needs to be some clarity on what will need to be agreed with the EU. If negotiations with the US run simultaneously with those with Australia and New Zealand, they might cause public concern and consternation over issues that would trickle down to the negotiations with Australia and New Zealand, as happened when the EU was negotiating with Canada and the US simultaneously.

Q168 **Mick Whitley:** I am going to turn it around. How might Australia and New Zealand's other ongoing negotiations, such as with the EU, affect their negotiations with the UK?

Dr Garcia: That is a very good question, because they are doing it simultaneously with them. Australia already has an agreement with the United States. New Zealand does not but it is a party to CPTPP, which has significant US input in it. Like many other countries, they will craft the intellectual property rights chapters around geographic indication in ways that make both systems compatible to some extent. They can manage that.

One of the challenges comes back to agriculture. In the last round of negotiations with the EU, two months ago, New Zealand rejected the European Union's offer of tariff reductions on agricultural issues. It is really standing up to the EU on this. Part of that has to do with the challenges that Brexit has brought up for these countries. Australia led a group of 14 countries in putting in a complaint and demanding that they be compensated for losses to their agriculture, particularly the beef industry, resulting from the lack of clarity around Brexit and from the way that the EU and the UK have gone to the WTO to split their tariff rate quota between them. These are not uncontroversial issues, and Australia and New Zealand are countries with great experience in negotiating trade agreements. They are quite good at it and, as New Zealand is demonstrating to the EU, they are not scared of taking their time to try to get the best terms for themselves, so it does matter.

Stephen Booth: I don't have much to add, other than that I think one of the reasons why Australia and New Zealand are good at trade negotiations, as Maria highlighted, is because they have undergone an unilateral process of tariff liberalisation. Reducing tariffs is less politically sensitive for them because they have undergone that process already to a great extent, unilaterally or via the FTAs they have already done. The UK, and I think the EU also, is facing this issue where we are starting from a much more protected position in sensitive sectors, which makes liberalisation trickier domestically.

Q169 **Chair:** I will go back to Maria Garcia. Could it be characterised that Australia and New Zealand can afford to be patient and the UK is in a



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hurry?

Dr Garcia: I guess it is in the eye of the beholder. The current trade arrangement between the UK, Australia and New Zealand is under WTO terms, so UK businesses will not necessarily be in a worse position than they are at the moment if the agreements are delayed. From my perspective, there are more important trade partners at the moment, but I can see the symbolic value of these agreements.

Q170 **Matt Western:** I want to look at the trade in goods between the UK and Australia and the UK and New Zealand. I am keen to know how significant you think are the UK's existing tariffs through the EU arrangement with Australia and New Zealand. What difference do you think the UK's global tariff, announced back in June, will make from 1 January next year?

Elizabeth Ames: It is quite interesting. I think the global tariff rate quota almost exists as a quota to negotiate against. You will remember that, at the beginning of this process, the Government released a series of quotas that are effectively zero rated on a lot of goods. That prompted Canada to walk away and say they did not want to negotiate an FTA because the original quota rates have given them basically everything they wanted. The new global tariff rate quotas have been introduced almost as something to negotiate down in those agreements. They are not substantially different from the rates and quotas that the UK has as part of its EU membership at the moment.

Wine is one of the areas in which there is real potential for gain. One in five bottles of wine drunk in the UK comes from Australia, and I think that could be increased. New Zealand also produces some fantastic wine and there are great opportunities for New Zealand wine to have better access into the UK market. There was discussion previously about agriculture. The quotas for beef and lamb now also produce imbalances in the market on what is allowed in and what gets stopped, mostly because of the tariff rate quota. You are only allowed a certain amount before you hit punitive tariffs.

The big one for Australia is cane sugar, which I am sure you will have heard about from Tate & Lyle. The EU tariff rate quotas on cane sugar from Australia make it completely uneconomic to import any cane sugar from Australia, so Tate & Lyle is not able to source cane sugar from Australia at all. The potential within an FTA would be to negotiate the quota away and to negotiate the tariff rate down, or to zero rate, to make that an economically viable prospect.

There are a lot of opportunities in the negotiations, not so much within the global tariff as announced, but on what can be done beyond that in the agreements.

Q171 **Matt Western:** Stephen, could you elaborate on which sectors you see as winners and losers if the tariffs were removed?



Stephen Booth: As Elizabeth said, we are starting off, effectively, in most of the sensitive sectors with a similar tariff to the EU's. If you look at the UK scoping assessments, which have one liberalisation scenario and a much more ambitious liberalisation scenario, the main difference is the degree to which the UK is prepared to liberalise on agriculture. I think it should be relatively uncontroversial to reduce industrial manufactured goods in trade agreements with both these economies. Those industrial economies are quite complementary. As I said before, I think agriculture will be the potentially difficult area for the UK in the extent to which we are prepared to liberalise.

Q172 **Matt Western:** Maria?

Dr Garcia: I don't think there is much more to add.

Q173 **Taiwo Owatemi:** Elizabeth, can you explain what opportunities the trade agreements with Australia and New Zealand could potentially present for the UK services sector?

Elizabeth Ames: I think this is one of the big areas that we have not spoken about. Agriculture is often the area that everybody gets quite anxious about, and I think we need not be as anxious as people have been, but services is the huge winner. In fact, the Australia-UK services trade now is equal to the size of the trade in goods, so that market is already the same size as the trade in goods and has huge potential to grow.

There is potential for travel and tourism, when the world reopens. Students and international students have been really affected by the current pandemic, but it is an area where there is huge potential for growth. Lots of Australians study overseas, and the same with lots of Brits. Historically, there was a lot of movement between academic institutions in Australia and the United Kingdom and, over the last 10 to 15 years, we have seen that drop off dramatically. I think there is a fantastic opportunity for that to be improved.

There are huge opportunities for New Zealand and Australia in digital trade. This is the trade of the future. It is the way that people are doing business now. Australia, New Zealand and the UK all have quite ambitious regulatory requirements for digital trade, so the opportunity for the two agreements between the three countries to go further than most other countries have gone is huge. The WTO has not been able to do much in digital and services trade because of the blocks that have come up in WTO negotiations over the last five, 10 years. There are opportunities to grow that sector, to improve the number of people who can travel between our countries and to improve the recognition of qualifications so that an Australian or a Kiwi lawyer can practise over here and a British accountant can work in Australia and New Zealand. There is huge scope for that agreement and for the services trade to take off, post agreement.



Q174 **Taiwo Owatemi:** What opportunities and potential pitfalls are there in liberalising trade in digital services in particular?

Elizabeth Ames: I am a big advocate of trade in digital services. We are all using a digital platform at the moment. I don't think there are that many pitfalls. You need to think about who is in the market and the regulation of the market. There is a lot of concern about protection of consumer rights in digital trade, and that is something that Australia and New Zealand have been thinking about quite actively. You will have followed that the Australian Government are thinking about how to force Google and Facebook to pay media providers for the content that they use and aggregate on their sites. I think there is a lot of opportunity for the three countries, as part of their FTAs, to establish what could be the basis of a new global regulatory regime and to create the global leadership that the Government have been talking about wanting to do post Brexit.

Q175 **Mark Garnier:** Stephen, can I chat to you, to start off with, about foreign direct investment? I see that the UK is Australia's second biggest destination for FDI, and we are New Zealand's fourth biggest destination for FDI. My question carries on from Mick Whitley's a bit earlier. How important is our relationship with the European Union in getting that foreign direct investment from Australia and New Zealand? To what extent are they using us as a launchpad to get access to the single market?

Stephen Booth: I think that is true to some degree, as it is with many of our trading partners. Japan is another example. The UK is a big enough domestic market, a mature enough market in its own right, to be attractive to these countries. It is also worth looking at it in the reverse, the extent to which the UK can benefit from a more liberalised agreement with opportunities for outward investment. As Elizabeth touched upon, one of the strategic elements of this agreement from a UK point of view is being able to use these bilaterals, and potentially the CPTPP in the future, as a base and launchpad in our efforts to diversify in the Asia-Pacific region.

Elizabeth will know more about this than I do, but the UK scoping assessment identifies that both Australia and New Zealand have requirements on inward investment that are higher than the UK's and higher than the OECD average. The UK might be looking to reduce some of the barriers to our ability to invest in those economies as a base for our exports into the region.

Q176 **Mark Garnier:** What sort of industries would we be looking to take advantage of?

Stephen Booth: The services sectors, telecoms, financial services, digital and data, the kind of things we were talking about where the UK clearly has a comparative advantage. There is a lot of trade already: 60% of our exports to Australia are already in services. That can be further



supported by freer movement of professionals and so on, but anything that lowers the barriers on investment would also help that.

Q177 **Mark Garnier:** Elizabeth, you have worked in the Australia-United Kingdom Chamber of Commerce so you will presumably understand the extent to which Australian and New Zealand businesses are trying to get access to the single market. Do you want to add anything on that particular point, before we come to things like investor-state resolution?

Elizabeth Ames: It is true that a lot of Australian and Kiwi businesses use the UK as a base to get into the EU. That may still continue. It remains to be seen what the agreement with the European Union looks like, particularly in services and financial services. It is not that it is a complete break with those relationships, and the UK will still be as close to Paris and Brussels as it is now on the train. That is not changing. For Australian and Kiwi businesses looking at where to base an HQ, London and the south-east of the UK is still an attractive location. On access to the EU market, the big Australian banks have had to set up EU subsidiaries and part of that, of course, is about the length of time that it has taken to get some clarity about what the final deal with the EU will look like. If we had been able to have a clearer deal with the European Union more quickly, they might not have made those effectively defensive investments, which they made because they were a bit worried about what the changes might mean for them.

Q178 **Mark Garnier:** To be fair on that point, our own regulators were requiring them to set up these branches in order to protect their income flow in case we did not get a deal with the European Union.

On investor-state dispute settlement, New Zealand is dead against it and made a particular point about this. I can see Maria is nodding. Shall I give you a break, Elizabeth, and let Maria have a crack at it?

Elizabeth Ames: I can talk about it quickly, because Australia is not super keen on investor-state dispute settlement either. We had it in some previous agreements, but I think it is fair to say that both the Australian and Kiwi Governments are not particularly interested in having ISDS chapters in new free trade agreements. The argument for agreements specifically with the UK is that the UK is a very trustworthy partner. Businesses already have access to UK courts, Australian and Kiwi courts, all of which operate under the same system. There is no need to set up an additional level of dispute settlement over and above what exists within the well established rule of law in those three countries.

Where ISDS has been particularly controversial, and for some companies particularly useful, is in agreements between one country that has a very well established rule of law and another country that has a less well established rule of law or has had a tendency to renationalise industries without due notice or compensation. Between the three countries we are talking about today, I think ISDS need not be as much of an issue and



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the UK should probably rely a little more on the rule of law that it has established in the courts that it already has.

Dr Garcia: I agree with that completely. Between countries that have high standards of rule of law, ISDS is really not necessary. Under Jacinda Ardern and her trade-for-all strategy, New Zealand has refused to include that in trade agreements. I am not sure if we can trust polls these days, but it looks likely that she will continue in power, so it looks unlikely they will change that. Something the UK needs to bear in mind with these agreements is that the way you negotiate agreements can also be a statement of intent for others or can create precedents for future agreements. It is worth thinking about that and coming up with a strategy and an explanation of why it is okay perhaps not to have ISDS with Australia and New Zealand and why the UK may want to have that in future agreements with others.

Mark Garnier: That is a very interesting point. Thank you very much.

Q179 **Mick Whitley:** This is to all the witnesses. How successfully have the Government modelled the potential impact of trade agreements with Australia and New Zealand?

Elizabeth Ames: Those trade models were produced in quite a different global context, and they modelled a very wide range of potential outcomes. Economic modelling is famously very difficult. We all know that. We have all seen the struggles that economists have had in responding to the pandemic and the slowdown. One of the things I always like to say is that the best trade deals follow what companies are already doing. There is no point in the Government negotiating a trade deal with a country with which your businesses are not already trading.

A lot of these models rely on the idea that trade remains a little bit static or increases a small amount from the FTA, but if you already have very robust two-way trade, which is the case with Australia and New Zealand for the UK, having an FTA that, for example, makes foreign direct investment and the movement of skilled professionals much easier and increases academic co-operation can have a multiplier effect. The models may well be underestimating how much impact these free trade deals could have, particularly if we think about post Covid. A lot of companies will be reconsidering which markets they trade with, how they do business and what their business strategy is. If they are coming into a world in which there are great, high-quality, comprehensive FTAs between the UK and New Zealand and the UK and Australia, that is an incentive for those companies to invest in each other and to build trade links.

Stephen Booth: I completely agree with that. The other thing about modelling is that it is notoriously difficult to model the things that we have been talking most about, the opportunities for services and investment. That is the difficult bit to do, and modelling tariff reductions is easier. That is the only thing I would add.



Dr Garcia: I think there is also an issue of data. The UK is better than most other countries at providing data on trade in services. Many other countries don't have accurate data, so it makes the modelling extremely difficult. The other thing with models is that we need to remember that you can't account for everything. The trade models for the EU-South Korea trade agreement expected South Korea to do really well out of it. Five years after, it turned out that it had been the opposite. The EU was selling a lot more to Korea, and Korea was losing out from the agreement because they had not factored in the euro crisis. They could not envisage it when they did the assessment. These are things that need to be used with caution.

Q180 **Mick Whitley:** The Government's scenario 1 for Australia represents full tariff liberalisation by Australia and New Zealand, but less than full tariff liberalisation by the UK, with no substantial reduction in UK agricultural tariffs. How plausible is that as an outcome?

Chair: It seems a good outcome.

Elizabeth Ames: I think it is probably not very plausible. We know that Australia and New Zealand would like zero-rated tariffs both ways. Stephen mentioned earlier that Australia went through the process, as did New Zealand, of liberalising its tariffs, particularly for agriculture, about 20 or 30 years ago. That was a painful process at the time but, in fact, it has made Australian and New Zealand agriculture incredibly competitive on the world stage and has boosted that as a share of Australian and New Zealand exports. The process of tariff liberalisation for agriculture can be bumpy as it goes through the process, but the end result is often an increase in efficiency and improved outcomes for farmers and farming communities.

Stephen Booth: I agree that there are some important lessons to learn from the experience of the Australians and New Zealanders on this. It is also important to think about how others have addressed this issue. If you look at how the Japanese have negotiated with Australia and on their accession to CPTPP, they have undergone tariff liberalisation as part of those agreements, but in some of the most sensitive sectors they have not removed tariffs entirely and there is a huge phasing in of those tariffs. Some of the tariffs are liberalised over 10, 15 and even 20 years. I think we should avoid the idea that it is black or white, a tap that is turned on and off. The UK can negotiate a phasing-in, and I think that would be sensible given that, as we move away from the common agricultural policy, we are changing our domestic policies on agriculture and our outward-facing and domestic policies should go hand in hand on agricultural reform.

Dr Garcia: I agree with that. I can't see how Australia, and especially New Zealand, would accept a deal that does not include, even if it is phased in, something that they can take back to their farming communities to sell the agreement.



Q181 **Mick Whitley:** To what extent will the Covid-19 pandemic require the Government to reassess its modelling of the potential impact of trade agreements?

Elizabeth Ames: I addressed this briefly in the point about modelling. Around the world, everybody's economic models have gone out the window this year, so there will need to be a remodelling. As we saw with the announcement yesterday, the barriers keep shifting and it is really difficult for any Government economist to model what the global economy will look like in three months' time let alone in 18 months or five years.

It might be better to wait until the full economic outcomes from this are known before the modelling is redone, but if there is an imperative to get some modelling out before the agreements are signed, it should take into account that China has recovered from this much more quickly than a lot of other members of the global economy, and the Australian and New Zealand economies are very closely tied into that area of north-east Asia. The Australian and New Zealand economies are predicted to have shallower and shorter depressions or downturns than the UK economy, so doing deals with them might be a good idea for opening up new markets for the UK that are growing again more quickly.

Dr Garcia: I think the assessments will need to be redone, and it is a question of when, because it would be incredibly difficult right at this moment to try to factor in all the uncertainty around Covid.

Stephen Booth: I don't have anything to add to that.

Q182 **Matt Western:** We have talked about economic impacts, and it is not necessarily on everyone's agenda but, of course, trade comes at some environmental cost, particularly trading halfway round the world. When we are talking about a bottle of wine coming from Australia or some lamb coming from New Zealand, both of which I enjoy, there is a real cost of transporting these products. I am keen to know what you think should be included in any trade deal to reflect the true cost. Around the world we are seeing fires on the west coast of the US and flooding here in the UK. We have to address this. I am interested to know what you think should happen in how that equates in an FTA. Elizabeth, do you want to start on that?

Elizabeth Ames: New Zealand is a great example here. Under Jacinda Ardern, as Maria mentioned, it has a policy of trade for all, and a key plank of that is sustainable trade. New Zealand will want to have a really ambitious environmental chapter in its trade agreement with the UK, and that will include not only the environmental action that the UK and New Zealand are taking themselves in reducing carbon emissions, improving farming and transport, but also how they can collaborate together to improve environmental outcomes around the world. I think it is fair to say that Australia is slightly behind New Zealand in its environmental activism, although with the Covid crisis you have seen the Australian



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Government move towards an acknowledgement that they need to move to alternative energy sources and to change the way in which Australia has been getting its energy and the way in which the Australian economy has functioned.

On the impact on logistics and moving things around the world, you have to accept that that will be part of the cost of the goods. Depending on where goods are made, if they are made to a very high environmental standard, with good animal rights and really good farming practices, that can help negate some of the environmental costs of the actual transport of those products. It is not just the length of the journey. It is also what is built into the products before they come across.

Q183 **Matt Western:** Maria, should there be an environmental tariff?

Dr Garcia: That has to be up to the Government and the public. Even when you include legally binding chapters in trade agreements on the environment and on not lowering environmental standard, et cetera, to date, if you look at the literature on how that translates on the ground, it has not been as impactful as we might wish. Perhaps something like an environmental tax, more tracing schemes or greater collaboration on those types of things might be a better way to make trade more sustainable, as opposed to an independent chapter in a trade agreement. We have plenty of examples of environmental chapters in trade agreements across the globe. We don't have a single example of when that has been applied in practice and led to a change. It is worth considering.

Q184 **Matt Western:** Briefly, Stephen, do you have anything to add?

Stephen Booth: This is a very fast moving area, and one thing that we might need to think about is whether these agreements are able to develop as things change globally. The EU is undergoing a debate about having a carbon border adjustment tariff, and that will have quite widespread implications. This is an evolving debate, and I don't think it will be settled before the UK and Australia and New Zealand try to conclude these agreements. It is something that might have to be factored in at a much later date.

Q185 **Chair:** I will come back to Elizabeth Ames. I remember when the Committee was looking at this area in a previous guise in a previous Parliament. Something that emerged in a morning fact-finding meeting we had with various industries was that the UK Home Office was one of the biggest barriers to trade. Visas had gone from four years to two years, and that was affecting an awful lot of people and their planning. There was a reciprocal tit-for-tat by the antipodeans on that. Is that still an issue? Is that still one of the biggest barriers around, and is it something that could be sorted reasonably quickly?

Elizabeth Ames: I certainly think so. We call it mode 4 in trade negotiations. Mode 4 is part of the services negotiations in a free trade agreement, and that is the visas for skilled workers moving between each



country. There is huge scope for liberalisation of the qualifications that are recognised, the numbers of people and the ease with which people can move between the UK and Australia and UK and New Zealand, and vice versa, to carry out their jobs, move their families and contribute to those economies. It is an issue with the Home Office's processing times and its openness to migration and to allowing free movement of people. I am very confident that these two agreements will be able to liberalise that quite significantly.

Q186 **Chair:** Is my memory correct that it got worse over the last decade? It was more liberal and then the Home Office tightened it?

Elizabeth Ames: I am not sure if it is the past decade. It was a lot easier for people to move between, but that was true for Brits moving to Australia as well. I am not sure of the timeframe, but historically it was much easier for people to move between the two countries.

Chair: Moving on, Mark Menzies is waiting patiently.

Mark Menzies: I was waiting patiently, Chair, but I was listening to the lady from the Menzies Institute, an institute named after my—

Chair: Is it the "Menzies" Institute or the "Mingis" Institute? We should be told.

Q187 **Mark Menzies:** It depends what day of the week it is, Chair. This is to Stephen Booth. The Australian High Commission in London has said that making "the intellectual argument for free trade in some quarters of the British political establishment is an argument that still needs to be fought and won." How fair do you think that is?

Stephen Booth: I think there is some truth in it. As we touched on before, Australia and New Zealand have undergone a long process over several decades of unilateral liberalisation, networks of trade agreements, and they have undergone a long process that has taken the public with them. The UK is undergoing that process and, in many respects, we are at the start of it. It was great that we concluded the agreement with Japan recently, but we had an EU template to go from. These negotiations are truly going to be novel and, therefore, in looking to liberalise in certain sectors, that argument will have to be made.

As I said in one of my earlier answers, on things like agriculture there is a bit too much alarmism and not enough thought about how you do this practically and sensitively over a time period that allows those in the market currently to adjust to the circumstances that will change. I think we have to be realistic that, as we leave the European Union, we will have to change our trade policies and, if we want to be at the forefront of the debate on free trade globally, it means we have to follow through with actions as well as words. We will have to be prepared to take some tough decisions on liberalising, but that doesn't necessarily mean it has to be black or white. There are lots of ways to do it in a gradual and sensitive manner.



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Mark Menzies: There has been a lot of focus, quite rightly, on agriculture and some of those sectors, but it is probably worth noting that a couple of years ago the UK did a huge defence deal, which has big ramifications for Scotland—the frigate contract. According to the BBC, it is a £35 billion piece of effort. You have to sell a lot of sheep and a lot of bottles of wine to get to those numbers, and also those employment numbers. I think it was about 5,000 jobs between Australia and New Zealand. I think it is really important that that battle is fought and won, because there is a lot of scope for trade, and it is something that needs to be corrected.

Chair: That happened in the previous regime, before any free trade agreement.

Mark Menzies: Absolutely, Chair, yes.

Q188 **Matt Western:** I want to ask Elizabeth a question about the negotiations with New Zealand and the comments made by the Deputy Prime Minister of New Zealand who said that he was very frustrated by the slow progress of the negotiations, describing the UK as “not match fit”. There are a lot of people I would describe as not match fit, but what do you think he meant by that? Can you elaborate on that? What impact do you think those comments will have on the negotiations? In addition to that, does the fact that there is not the equivalent of a Tony Abbott on board, as in the UK DIT, put New Zealand at a disadvantage?

Elizabeth Ames: The chief trade negotiator for the UK is a Kiwi.

Matt Western: My apologies. I hadn’t picked that up.

Elizabeth Ames: In some respects, the Kiwis are at a huge advantage in all of this.

Q189 **Matt Western:** Does that suggest that we didn’t have any expertise in the first place?

Elizabeth Ames: I think it suggests that it took a while to staff up and find the right people.

Matt Western: A long while.

Elizabeth Ames: Finding people at the level required takes a long time. Australia and New Zealand have had 30 years of experience recruiting, retaining and training trade negotiators, and the UK needed to do that from a standing start.

On Winston Peters’s comments, like the Australian High Commissioner here, he is a big advocate of free speech and I am sure he makes comments sometimes that his staff and his officials wish he didn’t. I think one of the problems with the negotiations for both New Zealand and Australia has been that DIT is not always able to turn things around as quickly as they can be turned around in the Australian and Kiwi systems.

Q190 **Matt Western:** We don’t have the capacity, is that what you are saying?



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Elizabeth Ames: There is a capacity constraint. It is probably in the number of people currently working on these agreements, and then, of course, you have the distraction of the ongoing negotiations with the EU, which takes up a huge amount of time. Then you have the civil service dealing with Covid-19. It has been a perfect storm in the ability of staff to sit down, concentrate and reply to, for example, market access offers or to put text on a table to negotiate on.

Maria was right when she said that Australia and New Zealand are very good at negotiating FTAs. They have had a lot of experience doing this. These will be quite gentle negotiations in most respects, as opposed to, for example, with the US. I have sat in negotiating rooms with US trade negotiators; it can be a pretty terrifying experience. They have a lot of them and they are very clear on what they want. It is really important that the UK starts to get up to speed, that it recruits the right people and that those people are able to do their jobs and are given enough space to do their jobs efficiently and effectively.

Matt Western: Okay. It doesn't sound very good.

Q191 **Chair:** Was the New Zealander in question Crawford Dunlop Falconer?

Elizabeth Ames: It was indeed.

Q192 **Chair:** The very man. Born in Greenock, Scotland, 1954.

Elizabeth Ames: So you can claim him as well.

Q193 **Chair:** He is an early export but he came back, so he is an import as well. He is one of those trade accumulations perhaps.

Elizabeth Ames: A bit like I am, because I came back.

Chair: I think it happens a lot.

Q194 **Craig Williams:** I think it is worth noting that Crawford Falconer is one of the best negotiators in the world on trade. We may have taken time but we are certainly match fit now, in my opinion.

Can I ask the crystal ball question, Angus? This is to the panel. How long do you foresee until we start concluding trade deals with Australia and New Zealand? I am not asking for the day, or perhaps the month, but just a sense from your perspective on how you see these concluding and when.

Elizabeth Ames: I was able to speak in the last couple of days with negotiators from DIT, from DFAT and from MFAT in New Zealand. I think a realistic deadline would be in the first half of next year. I know that the Secretary of State for Trade, Liz Truss, is keen to get an agreement by the end of this year. That is a really tight goal, particularly given that in the New Zealand-UK negotiations you have not even exchanged market access offers yet. I think, realistically, a stretch goal would be to have them concluded by Easter next year. You could comfortably say that as



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long as the UK comes to the table with a high-quality offer, particularly on tariffs, you could easily see this wrapped up in the first half of 2021.

Q195 **Craig Williams:** Any advance on that?

Elizabeth Ames: As in could you do it faster than the first half of 2021?

Craig Williams: No, I meant from the other members of the panel, whether they agree. You can nod or object.

Stephen Booth: I agree with that. For the reasons we stated earlier, and also the UK's negotiations with the EU, I think an agreement before the end of 2020 looks quite difficult. The first half of next year looks like a realistic ambition.

Dr Garcia: I can't see it happening before the end of this year, and it would take quite a lot of will and thought to get it done by Easter, not least because of some of the things Stephen has pointed out with the agricultural issues. This can all be done, but it needs to be done carefully and mindfully. It may be worth waiting a little bit and getting it right for this and future agreements.

Chair: I am looking at the brief, and I think the FTA with Australia would increase average wages here by about £3 to £12 per worker per year. In the context of what we are talking about now, it would be between a 0.01% increase to GDP and a 0.07% increase to GDP. The New Zealand trade deal is worth about a 250th or a 500th, depending how it is costed, of the cost of Brexit, according to the brief and Government figures. That brings us to the end of our first panel.