

International Trade Committee

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

Wednesday 15 May 2019

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Members present: Angus Brendan MacNeil (Chair); Mr Nigel Evans; Sir Mark Hendrick; Mr Ranil Jayawardena; Emma Little Pengelly; Julia Lopez; Owen Smith; Gareth Thomas; Matt Western.

Questions 215-266

Witnesses

I: Dr Christopher Dent, Senior Lecturer in Economics and International Relations, Edge Hill University; and Dr Maria Garcia, Senior Lecturer in Politics, Languages and International Studies, University of Bath.

Examination of witnesses

Witnesses: Dr Dent and Dr Garcia.

Q215 **Chair:** Good morning. I welcome the panel to our inquiry into trade with the Commonwealth: Australia and New Zealand. I thank the panel for coming this morning. Can I ask you to introduce yourselves as you wish for the record: name, rank and serial number, generally?

Dr Dent: I am Dr Christopher Dent from the Business School at Edge Hill University.

Dr Garcia: I am Dr Maria Garcia from the University of Bath.

Q216 **Chair:** Thank you both for coming. Can I kick off by asking if the Department should be prioritising free trade agreements with Australia and New Zealand, as opposed to FTAs with other partners outside the EU? Why Australia and New Zealand? Why would the Department for International Trade think those might be good places to prioritise?

Dr Dent: New Zealand and Australia may be small markets for the UK, but they are quite easy trade partners to do business with. They are strongly aligned with UK interests generally, and as fellow market liberal economies they share many views on how trade should be managed.

The other interesting thing about both Australia and New Zealand is that they are quite innovative in terms of policies and the ways in which they approach formulating free trade agreements. I would even argue that New Zealand is a little more innovative than Australia. If Britain is trying to establish a model of its own ways of doing FTAs, there could be an interesting discourse and discussion between the UK, Australia and New Zealand as to breaking new ground in terms of how you link trade to other key issues that face these countries, and humanity, in the 21st century. For example, there could be discussion on linking trade to climate action, on digital trade and on issues such as energy and energy security. There is a lot of scope for discussion as to how you break new ground, in terms of establishing new ways of doing trade governance and free trade generally, not just in Asia-Pacific, but globally.

Dr Garcia: I agree with Dr Dent on this, but in order to do that and maximise that innovation value, time is required; it can't be a quick negotiation. It also requires the UK to really think through what it wants from its future trade policy and how that is going to link to its future agricultural, industrial and education policies. That is part of the debate that you don't normally see played out in public.

New Zealand has, in the past, positioned itself as a helpful partner to other countries. For example, China's first preferential trade agreement with a developed country was with New Zealand, and New Zealand really tries to leverage that to its advantage. Because it is a relatively small economy

with certain constraints, New Zealand is not going to be a massive challenge for other countries, and therefore it is easier to negotiate with.

Q217 Chair: When you say challenge, do you mean challenge or threat?

Dr Garcia: A threat for domestic producers in the partner country. One thing it would be worth keeping in mind is that any innovation, or anything that is put into those agreements, is likely to create precedents for other agreements. While it might be absolutely okay and simple enough to grant more access to Australian and New Zealander service providers in the UK, not least because their numbers realistically are limited, in a future trade agreement with the US, the US would probably demand at least that same type of entry level.

Q218 Chair: You say they are innovative in the trade agreements they do. Australia particularly has done trade agreements with the US. One of the big fears that is often touted in the UK is the aggressive nature of American health companies, and the impact they might have on the NHS. Has this style of innovation had any effects on the health providers of Australia?

Dr Dent: We are going back to the Australia-US FTA that was signed in 2005. The deal was done quite quickly and I think there were political factors that led to the closure of that negotiation within 13 months. There were a few controversial issues relating to the content and provisions of that agreement—not just for health, but for other industries in which Australia has strong competitive advantages.

Evidence from Australia's Productivity Commission and other reports suggests that the trade diversion effects were significant. There are views that the agreement led to a worsening in trade terms for Australia vis-à-vis the United States, and I can provide further details for the Committee on the healthcare controversies.

Chair: That would be welcome.

Dr Garcia: There are two important things to take into account on that point. First, a trade agreement can be crafted in such a way as to protect the NHS. That can, and probably should, be done. The United States, in hypothetical future negotiations, will push against that.

Chair: Its offensive interest, as they say.

Dr Garcia: Its offensive interest, indeed. If elements of the NHS had already been privatised, it would be difficult then to argue that we do not want to give the US access to those areas. On the Australia-US FTA and health provision, one of the most controversial issues in Australia has been the impact that that has had on the way medicines are priced. Off the top of my head—I cannot remember my colleague's name, but I am happy to email the Committee links to some Australian papers that deal specifically with this issue. They have a complicated way of pricing their medicines, including the use of generics, and the US agreement has had some impact



HOUSE OF COMMONS

on that. That impact was before signing the agreement—it was a requirement that Australia modified the medicines that were on the list.

Q219 **Chair:** You could argue that it was imposed on Australia, rather than being caused by it?

Dr Garcia: Exactly.

Q220 **Mr Jayawardena:** Since healthcare has been mentioned, I should refer Members to my entry in the Register of Members' Financial Interests. On priorities and sequencing, should the UK negotiate FTAs with the EU and others in parallel?

Dr Garcia: Tough question. Realistically, it could be difficult. Parliament still has not given us a clear view on what the future relationship with the EU will look like, and until that is clarified it will be difficult for the UK to determine its interests in trade agreements with other parties, and what the UK can realistically offer.

Q221 **Mr Jayawardena:** Does it provide competitive tension to have multiple FTA negotiations in place?

Dr Garcia: It is quite common. If you look at the EU, the US or any other country around the world, they are negotiating a number of agreements at the same time. There are some examples—South Korea and Chile negotiated with the EU and the US simultaneously, and Chile was able to use that to strengthen its bargaining position a little. The nature of being a member of the EU, and potentially a member of the customs union, is so different. The single market is fundamentally different from negotiating trade agreements, which makes it very complicated. There are possibly other areas where that could be useful.

Q222 **Mr Jayawardena:** Let's focus in on that point. Would we be betraying the Commonwealth, Australia, New Zealand, our allies, the US and others if we signed up to a customs union, because that would stop us negotiating the FTAs we want to secure?

Dr Garcia: It would stop the UK being able to negotiate on tariff aspects. The EU is currently negotiating with Australia and New Zealand, so the likelihood is that a number of those tariffs and non-tariff barriers will be eliminated anyway for those countries, but indeed, if the UK stays in the customs union with the EU, the external tariff will be the European one and the UK will not have the freedom to change that in a bilateral negotiation with somebody else.

Q223 **Mr Jayawardena:** Dr Dent, do you have any comments?

Dr Dent: Yes, just very briefly: going back to sequential negotiations, it obviously depends on the actual capacity of the Department for International Trade—how many trade diplomats it has—because if you are going to be negotiating bilaterally a relatively high-standard comprehensive FTA, that is very similar to negotiating anything at the WTO. You have multiple sectors involved, so it just depends on the trade negotiating capacity that we have at the DIT. On the matter of the



HOUSE OF COMMONS

customs union, I guess that the UK currently, as an EU member state, has access to many other markets through the EU's FTAs. If we were to remain a member of the customs union, how that would then determine our position vis-à-vis the existing FTAs that the EU has—whether we are to be party to those—is an issue that is relevant.

Chair: Before I turn to Emma Little Pengelly, Owen Smith, do you wish to come in?

Q224 **Owen Smith:** I just want to take you back briefly, Dr Garcia, to what you said a moment ago about the impact on pharmaceuticals pricing—medicines pricing—in Australia, of the deal they did. I didn't quite understand what the output was. Was it that it stopped the Australian Government holding prices down and drove prices up, and limited their ability to rationalise in respect of medicines?

Dr Garcia: As I said, I think I would be most comfortable sending those other papers, because their system is very complicated, but my understanding of it is they have two lists: the list of medicines that they will pay for and another list with more generic medicines. The idea, because it is a relatively small market, is to encourage the use of generic medicines and then to negotiate some prices for some of the branded ones. The Australian Government negotiates those prices and creates a price—how shall I put this? It negotiates the price with the named brand on the basis of what they think the price ought to be based on generics and other information. What the US agreement did was modify how they come up with the number that the Australian Government thinks is appropriate to pay for the branded medicine on one of the two lists.

Q225 **Owen Smith:** What was the net outcome? Did prices go up?

Dr Garcia: Slightly. For some.

Chair: So it favoured the pharmaceutical company over the consumer, as we have seen between Canada and the US?

Q226 **Owen Smith:** That is the point, and obviously for us in the UK where we have the PPRS, which does a similar job, that would have massive implications in cost terms.

Dr Dent: I would just like to add, briefly, that, as you probably understand, the pharmaceutical industry in the US has very strong lobbying power in Washington. Companies like Pfizer, which I interviewed when I did my research over there a few years ago, have considerable clout.

Owen Smith: As a former employee of Pfizer, I can absolutely corroborate that.

Chair: This morning, by looking at Australia and New Zealand, we are finding out quite a lot about free trade agreements with the United States, but we do not want to be going down that avenue too much.

Q227 **Emma Little Pengelly:** What in your view are the key areas that the UK



HOUSE OF COMMONS

should focus on in any future free trade deal with Australia, and with New Zealand?

Dr Dent: Obviously, the trade relationship and the investment relationship are already quite strong, especially on services. If you take Australia and the UK, we both have economies where 80% of our GDP is services. I would say the investment relationship is actually far more important than the trade relationship. The actual merchandise trade relationship is there, but it is a relatively narrow trading relationship with relatively few sectors, so I think it is investment—the investment interests of British companies, which are already quite well established in Australia—and an increasing number of Australian companies that are investing in the UK. There has been an increase in Australian investment in the UK as well. So services is where, really, any future agreement would, I think, be focused.

Q228 **Emma Little Pengelly:** Has that investment been created on the back of a deliberate campaign to try to increase it by the UK Government or by the Australians? Or has that just happened organically?

Dr Dent: I don't know for sure, but my instinctive answer would be that it has been an organic process. The Australian economy has been performing very well in the last few years, and Australian companies have become quite prosperous. There is a lot of investment going on around London—for example, Australian companies have been instrumental in projects including renovations at Elephant and Castle and work at King's Cross.

Dr Garcia: The one thing I would add is that services is definitely where it's at and where UK trade agreements will focus in the future, I imagine. One thing to take into account is that services also includes some form of worker mobility for the so-called mode 4 services. Increasingly, that is being included in trade agreements—not European trade agreements typically, but others—and I expect Australia and New Zealand would be very keen to develop that with the UK. Again, we are probably talking about limited numbers, when all's said and done, but that would create precedents for other agreements that the UK might then negotiate—maybe with India, where the domestic politics in the UK might be different with regard to mode 4 service mobility.

Q229 **Mr Evans:** Is it a win-win for Australia, New Zealand and the UK, or is there some fear that somehow the UK might have an advantage going into these talks?

Dr Dent: That is a good question. No, I don't think so. There is already a strong diplomatic relationship between both sides. I don't think there are any competitive tensions necessarily between all three countries involved—there is a lot of complementarity between them. If you look at the profile of what Australia sends us, it is largely commodities and minerals, such as gold, pearls, other precious metals and wine, which dominates the beverages sector. In fact, as a country we import a large amount of wine from Australia—I think we are the second or third most important export market for wine.



HOUSE OF COMMONS

On the UK side, there is a lot of specialist machinery, digital tech and products. Services are very important as well in the trade relationship, as opposed to just looking at it from an investment point of view. We actually trade a lot of services with both countries as well.

Mr Evans: Australia has elections on Saturday.

Dr Dent: They have; that is a good point.

Q230 **Mr Evans:** It is a good point. If the Labour party wins, does the policy change?

Dr Dent: I have been looking into that. At the moment, the polls would suggest a Brexit-like split, with 52-48 in favour of the Labour opposition party. Labour have shifted their position a little on things like the CPTPP. In the past, Labour were opposed to the TPP/CPTPP, but now they have changed their position. They are more proactively engaged in the debate and they will not oppose its implementation.

In terms of trade policy, in preparation for this hearing I have been trying to gauge the Labour party position on the UK and Australia negotiating a deal, for example. I couldn't find too much detail, to be honest, so I presume they will be as pro an FTA with the UK as the current Government, all things being equal.

Dr Garcia: I found some documentation saying that the Labour party would continue to pursue their negotiations with the EU, without really changing track. I think we can extrapolate from that they will also want to make sure that they are not harmed by the Brexit process. That would mean doing something with the UK.

I would like to come back to your point about win-win. With any trade agreement, rather than thinking win-win, it is important to think about what sectors win and what sectors maybe don't win as much. That will always be the case, including in a trade agreement between the UK and New Zealand or the UK and Australia. I know you had a specific session on agriculture, and we know that Australia and New Zealand have strong offensive interests in that. It is a matter of principle for them, so even if that extra quota is not used, they will pursue it very aggressively. It is then up to exporters whether they use up that quota or not. I found some interesting figures on New Zealand lamb. Although increasingly more is sold to Asian markets and to China—I expect that is where the growth markets are—at the moment the highest price per tonne of the lamb that New Zealand exports to Europe, which goes mostly to the UK, is much higher than the price per tonne of the lamb it exports to China and other Asian countries.

Q231 **Chair:** That's for different cuts though.

Dr Garcia: Yes, so that is important for New Zealand in that respect.

Q232 **Mr Evans:** The foreign policy declaration of Bill Shorten seems to suggest that, if Australia becomes more strident against China, it may impact on



HOUSE OF COMMONS

its exports to China. We know that the Chinese react, so even that is uncertain.

Dr Garcia: Exactly, so rather than think win-win, it is easier to think about sectors. That also makes it easier to think about what can be done to make up for that.

Q233 Chair: On the lamb, I think New Zealand sells different cuts to different markets, so it is not about the entire carcass. Before I turn to Julia, Nigel Evans's question was about a win-win, and I yesterday asked staff to provide me with some figures on GDPs gains—Jake has just given me some. The EU Commission reckons that, by 2030, there will be a gain to EU GDP from a free trade agreement of 0.02%, and Australia would see a GDP gain of 0.17%, which is eight times greater. New Zealand would see a gain of 0.63%—about 30 times greater. It is definitely a win-win, but it is a bigger win for some. Do those figures from the Commission chime with your understanding?

Dr Garcia: Yes. We have to use such models with care, as they obviously factor in different scenarios, but in general each individual free trade agreement does not necessarily translate into many points of extra GDP. Those figures make sense, especially as the gains for the EU will be quite diffuse among the whole EU.

Chair: Yes, so although it is a win-win, it is a different win for each of the three.

Q234 Julia Lopez: Dr Dent, you spoke about complementarity. Does that extend to the idea of the UK, Australia and New Zealand as a cluster, and what that could offer other countries? For instance, the Australian high commissioner—he is now in a different post—spoke to us about agriculture and the seasonality of produce, and of how we could work together to penetrate some of the Asian markets and fulfil the demand for produce all year round, and for different cuts. We have heard from services providers about the idea of different time zones and having offices in Australia and New Zealand, which would be helpful in penetrating some of those Asian markets. To what extent could FTAs with Australia and New Zealand help us to improve access to the Asia-Pacific market by providing a springboard for UK firms?

Dr Dent: From a business point of view, FTAs with Australia and New Zealand could lead to it being easier or more enticing for British companies to establish a presence in Australia and New Zealand from which they can develop regionalised operations in the wider Asia-Pacific. For example, if you look at the FTAs that Australia and New Zealand have with other Asia-Pacific countries, the question is whether UK-owned companies that operate in Australia would be eligible for the same market access as Australian and New Zealand companies that are based in Australia and New Zealand. That would depend on the provisions of the FTAs that Australia and New Zealand have with countries such as China, Japan, South Korea, and the ASEAN countries.



HOUSE OF COMMONS

The political economy of this goes back to an early conversation we had about how, for example, a UK-Australia or UK-New Zealand FTA could establish new, innovative areas of service liberalisation and market access. Those policy innovations and new grounds broken could then be used as a precedent or benchmark to transform a future reviewed FTA—for example, New Zealand and China are currently reviewing their FTA—in the Asia-Pacific.

The thing to remember about FTAs is that they are not just static. Almost every single one has a review mechanism, which vary in time periods—it could be a year or it could be five or 10 years. FTAs evolve. The oldest existing FTA in the Asia-Pacific is actually between Australia and New Zealand—the CER, or closer economic relations. It was established in 1983 and has evolved considerably into a much more sophisticated FTA. It is almost as close as you can get to a common market between those two countries without it being a common market.

I believe in the UK's capacity—we are quite a creative nation, right?—to generate new, innovative ideas for policy innovation in FTAs, and Australia and New Zealand are good partners in that process.

Q235 Matt Western: I have been reading about the growing scale of inter-regional trade in the Asia-Pacific markets and how significant that has been. What is the global significance of that entire region, in terms of markets, and its significance for the UK specifically?

Dr Dent: It is considerable and it will become even more considerable, in my point of view. On east Asia especially, if you put together north-east Asia, which includes China, Japan, South Korea and Taiwan, with the ASEAN group of south-east Asia, it is the second most regionally integrated part of the planet after the EU. The average intra-regional trade of countries in the EU—their trade with other EU member states—is about 60% to 65%. Europe is a very integrated regionalised economy. East Asia's ratio is about 50% to 55%. To put that in context, in south Asia, if you look at India, Pakistan and Bangladesh, it is about 20%. For east Africa it is about 10%. For South America it is about 20%.

It is a very regionally integrated part of the global economy, at two levels. At the micro level—the ground-up level, including infrastructural development, logistics, supply chains and production networks—it is very integrated and has been for some time, first driven by Japan and now increasingly by China, which is at the centre of the “factory Asia” phenomenon. At the macro level, in terms of policy, there are increasing layers of regional integration in terms of agreements not only on trade but also on things such as finance. Cities in east Asia are prominent international actors, and there are a lot of inter-city economic and trade and investment relationships in east Asia. There are multiple layers of regional co-operation and integration. China has 12 of the top 20 largest ports in the world, and its urban areas are growing in significance economically as markets and also as logistical hubs. It is a very EU-like regionalised economy, in east Asia at least, where the heart of the Asia-Pacific economy is.



HOUSE OF COMMONS

A large amount of British multinational corporations are already well established in east Asia. They are in a strong position to benefit from FTAs. In fact, they are already benefiting in some senses from the FTAs that have developed in east Asia in the past few years, because they are already there and embedded.

Q236 Sir Mark Hendrick: Connected to that last question, you mentioned the degrees of integration. Obviously one of the things that characterises the EU is the degree to which there is harmonisation of technical and consumer standards. Given the level of integration you mentioned in north-east Asia in particular, what has been done there to look at harmonisation in that area? Here it is seen as red tape. Is there less of it there, and how does it operate?

Dr Dent: It is a very diversified picture in terms of regulation and there is not too much harmonisation or even convergence on those technical standards. That is an area of opportunity for countries in the region to look at how they might bring about greater regulatory coherence and convergence. You are probably aware of the regional comprehensive economic partnership—RCEP. They do not have such an ambitious agenda in terms of standards co-operation or convergence—nowhere near as strong as, say, the CPTPP has been. Japan and Singapore have been quite strong advocates of trying to bring about greater coherence of standards, but China has been somewhat resistant to that aspect of their negotiations.

Q237 Sir Mark Hendrick: Is it viewed as a degree of protectionism one way or the other? What about health and safety standards, or product safety standards?

Dr Dent: My understanding is that hardly any traction has been developed in that area among Asia-Pacific or east Asian countries.

Q238 Sir Mark Hendrick: So people just trust products, full stop?

Dr Dent: That is an issue I would need to do a little bit more research on for you, but it also comes down to sovereignty. I don't think China would want to have anyone else's standards imposed upon it.

Q239 Sir Mark Hendrick: Is China imposing its standards, or lack of standards, on others?

Dr Dent: That may be part of the issue.

Q240 Chair: Taking advantage of mutual recognition, perhaps?

Dr Garcia: There is also the other issue of the supply chains of companies. Big international companies, irrespective of where they operate, will apply the technical standards of their home country or the markets where they want to sell, so anything that is being produced that is sold on to the US or to export into the EU must comply with European standards. Typically, there will be a process whereby either the product will have to be tested again, or the factory where it is being produced will have to be inspected, either by EU inspectors or by domestic inspectors,



HOUSE OF COMMONS

provided that the EU accepts that the domestic inspectors are up to scratch. Those things are sometimes regulated through free trade agreements.

Q241 **Sir Mark Hendrick:** So they could be EU or American standards—not imposed, but by default?

Dr Garcia: If they are exporting there. If a factory does not export to those markets, they do not have a need to change.

Chair: Again, New Zealand and Australia have taken us to another part of the world. Earlier, it was the United States, and now it is north-east Asia. They are going to take us to Wales now, to an extent.

Q242 **Owen Smith:** No, I am going to continue talking about east Asia. Is it therefore true to say that lots of this very interesting high degree of integration is driven up almost despite Government—that it is organic and driven by companies or finance?

Dr Dent: Yes. It is a very diverse region, so on the one hand you have economies such as Cambodia and Laos, and on the other hand you have economies such as Singapore, Japan and South Korea. There is a lot of diversity, and the production networks and supply chains play to that diversity. If you look, for example, at how Toyota manufacture cars in east Asia, you have about 40 factories around the region. They will be configuring their division of labour based on the competitive advantages of each of those countries. You may have, for example, more lower-tech and more labour-intensive parts of the manufacturing of automobile supply chain based in countries such as Indonesia and Vietnam and the more high-tech stuff done in countries such as Singapore and South Korea. The production networks have quite a long history. For example, Toyota started to open up factories in Thailand in the early 1960s. The process has been growing for some time, first led by Japanese multinationals, then increasingly the Chinese companies have been brought into these big supply chain networks.

Q243 **Owen Smith:** Are there important, interesting lessons for us—if we do Brexit—out of this different model of integration, or is it just so different and so other that it is irrelevant?

Dr Dent: I actually have a question for the Committee, which is: what is your understanding? I would like to know what the Department for International Trade preferred model of FTAs actually is.

Q244 **Chair:** We are meeting the Secretary of State today, and we are hoping to get to the bottom of that. Which route to take is a concern. Obviously we are hoping they will learn from the Prime Minister's foray into her first international negotiation, where she then came back latterly and asked Parliament, having not taken anybody with her. You can see it from both sides of the argument—whether ardent remainers to ardent Brexiteers, turning in no direction in particular—that neither went with the Prime Minister on that journey. The feeling that we have is that there is early thinking going on in the Department. I have an informal meeting with the Secretary of State on that very issue.



HOUSE OF COMMONS

Dr Dent: I say that because the DIT report on possible accession to CPTPP says that Britain will have the opportunity to shape trade rules in the Asia-Pacific, should it accede to that agreement, which I would like to come back to later. There are some important issues relating to the model we are going to formulate, going forward.

Chair: It might be a neat time to segue to Ranil Jayawardena.

Q245 **Mr Jayawardena:** Thank you, Chairman. I was going to ask about this very question. Can you set out—in the general, in the first instance—what the broad advantages and disadvantages would be for the UK in joining CPTPP?

Dr Dent: Well. First of all, we are assuming that we will be invited to join, and I do not believe that there will be sufficient enough advocacy for our case in the CPTPP group.

Q246 **Mr Jayawardena:** So you don't believe what Japan and Australia have said already?

Dr Dent: Australia's Trade Minister, Simon Birmingham, has said that we will probably not be invited, for two reasons. One is—

Q247 **Mr Jayawardena:** But that contradicts what other Australians have said.

Dr Dent: Yes, that does contradict what others have said.

Q248 **Chair:** As a Committee, we had those kinds of feelings at the WTO meeting from representatives of Australia and Japan in particular. Continue with your answer—we need your answer, not our opinions.

Dr Dent: Depending on the result of the general election this Saturday in Australia, that position may change. I have not heard to the contrary. There may be some support in Australia for Britain joining the CPTPP. I know that Simon Birmingham said it was a matter of geography, because the last time he checked, Britain was not in the Pacific. It is something of an irony that Australia can participate in the Eurovision Song Contest, which is also this Saturday, and geography does not seem to matter in that case. More seriously, Britain not being a member of the Pacific community could be problematic. Moreover, there are a number of other candidate countries, such as South Korea, Indonesia and Thailand, that have all indicated an interest to join. How can I put this politely?

Chair: Do you just want to put it frankly?

Dr Dent: Okay. We have to take into consideration not only how we see the Asia-Pacific, but how the Asia-Pacific sees us. The past few weeks and months have done some—I do not have any firm evidence for this, but it is my instinct—reputational damage to us in terms of us being perceived possibly as politically and technocratically a difficult trade partner to deal with, because of how we have not managed the Brexit negotiations as we would have liked, or whatever view you have on it. The second point is that our growth rate has not been that great.

Q249 **Mr Jayawardena:** It is greater than the eurozone.



HOUSE OF COMMONS

Dr Dent: Yes, but it has still not been that great compared with other Asia-Pacific economies. Whatever your view on Brexit, there is a possibility that, if we did go for a hard Brexit, our GDP would be somewhat compromised.

Q250 **Mr Jayawardena:** Can I probe a bit further? Prime Minister Abe of Japan said that the UK would be welcomed into CPTPP with open arms. Those were his words, not mine.

Dr Dent: Yes—in October last year.

Q251 **Mr Jayawardena:** So there are contradictory views. Can we just go back to the question of the advantages and disadvantages in general for the UK if we were to join the CPTPP?

Dr Dent: Okay. If we go for a hard Brexit, there is the question of leaving one regional trade agreement and joining another, where our ability to shape the rules of that agreement may not be as effective as we would have liked it to be. You do actually have some quite important players. Even though the US has left, you have Canada, Australia and Japan, for example. I am not saying that we wouldn't work well with those countries—I think we would work very well. In fact, they are much easier to work with than, say, the United States would be. One risk is that if the US does decide again to come back into that agreement, I am worried that we would then be a rule taker, not a rule maker. Even though the US has left, the imprint of the US on the CPTPP is still quite considerable.

Q252 **Mr Jayawardena:** Sorry—with respect, I am really quite keen to understand the advantages and disadvantages to the UK.

Dr Dent: This is—

Q253 **Mr Jayawardena:** We can second guess what might or might not—

Dr Dent: That is what I am trying—

Q254 **Mr Jayawardena:** Hang on a minute. We can understand what might or might not happen for the future, but if we were to join, tomorrow. It is important to understand that.

Dr Dent: I am trying to make a longer-term point about the possible disadvantages. Coming on to the advantages, because we would be in a compromised position, possibly—

Mr Jayawardena: Possibly.

Dr Dent: It is all possibly.

Mr Jayawardena: Exactly.

Dr Dent: On advantages, 7% of our trade is with the CPTPP. It is a relatively significant market for us.

Q255 **Mr Jayawardena:** And it is a growing market.



HOUSE OF COMMONS

Dr Dent: It is a growing market. We already have quite strong commercial interests already embedded in the region. They are already there. There would be a lot of advantages in terms of new trade within a region that would be created.

Q256 **Mr Jayawardena:** Would it provide a good platform for further negotiations with the US, given that we would be working alongside countries like Japan?

Dr Dent: Personally, I would not advise that we embark on a FTA with the US, for various reasons, but it is a way—

Mr Jayawardena: That wasn't the question.

Dr Dent: If the US were to come in, the CPTPP is a good way of circumventing American bilateral power, which they inevitably bring to bear in bilateral trade negotiations. If you were to do an FTA arrangement with the United States, the CPTPP is the least worst-option.

Mr Jayawardena: So it is the best option. Thank you.

Dr Garcia: Can I just say something on that point? The early idea behind it, when it was originally the P4 of just Singapore, Chile, New Zealand, and then Brunei joined in, was actually to make those countries more attractive to the US. New Zealand still does not have a preferential trade agreement with the United States, which they pursued for decades. Once the US came on board to the TPP negotiations, a lot of their issues came on to the agenda. I think it is no coincidence that as soon as Trump withdrew from that agreement, a number of intellectual provisions were pulled out. These were clearly things that many of the other partners were not happy about and yet felt they needed to include to have the US. I think it is worth keeping that in mind.

The other thing in terms of joining CPTTP tomorrow is rules of origin. It has been designed to maximise supply chains in that part of the world, particularly in some of the east Asian countries, where they are already very well integrated. The rules of origin permit components from any of these countries to be used in goods that are then exported within the area. Today, a large part of the UK's supply chains are intertwined with the European Union. That is not going to change from one day to the next. It just takes some time.

To some extent the immediate benefit would be lost because, depending on what percentage of a product's components come from the EU or the US—we trade a lot with the US as well—it might not be eligible for the CPTPP rules of origin. It is not as simple as our joining and suddenly seeing these great opportunities open up.

Mr Jayawardena: It is a long-term journey.

Chair: We will now hear from Gareth Thomas, who has just joined our Committee—I think this is your debut question, Gareth.



Q257 Gareth Thomas: I am the new boy, just catching up. You started to set out some of the potential disadvantages of joining the CPTPP, such as the risk of our being a rule taker. Could you finish that train of thought?

Dr Dent: Yes. As I mentioned, trade agreements evolve over time. Obviously we will know what we are going into at first if we accede and negotiate our accession to the CPTPP, but there are enough policy innovators in the group—not just Australia and New Zealand, but Japan, which likes to develop new provisions every now and then—that the dynamic of what will happen and which new rules will be implemented is likely to be very speculative.

We do not know what will happen, but we will be joining a group in which we will not be the largest economy—Japan is the largest. I think we would be the second-largest economy if we joined the CPTPP, but there are a number of other quite innovative trade and diplomacy Ministries that could provide new ideas that we might have to accept if there was a majority view in favour of new rules. We do not know yet, but it would not be the same as in the European Union, for example; the level of rule making would be relatively narrow compared with what the EU currently operates in the single market.

Q258 Chair: How would you sequence the negotiations between the UK, Australia and New Zealand with the negotiation on CPTPP accession, assuming that Japan and Australia were open to it? Would they happen alongside each other? Would it be one instead of the other or one trumping the other?

Dr Garcia: I think negotiating with Australia and New Zealand individually will be easier. Accession to the CPTPP would require Japan and all the other parties to also agree to whatever tariff reduction or improvement of market access the UK is willing to grant. For a lot of them, and particularly for Japanese car makers, part of the UK's attractiveness is as an entry point to the European market, so I think they would like to see what arrangement will be made in that area. Obviously it is easier to negotiate bilaterally than with a whole group.

Dr Dent: I concur with that view. I think it is much easier for the UK to negotiate bilaterally with Australia and New Zealand first, because it is part of a conditioning process anyway. You will get a feel for the kind of issues that could come up in the CPTPP negotiations and take more measured, considered action to prepare for them.

It goes back to my earlier point that the DIT and the UK Government need to come up with something. It does not have to be a model overall—the US has a very strong template for FTAs—but on particular sectors we have to be quite clear about what our objectives are and what policy innovations we may want to introduce.

Chair: Do you think that the UK Government has enough interaction with the various sectors at the moment? I know that in some countries there is almost a symbiotic relationship now because they have doing it for so long, but the idea with Brexit is that the UK will take over the sort of role



HOUSE OF COMMONS

that the EU was doing. Is the UK Government well equipped or ready for that?

Dr Dent: My understanding is that the DIT has had to recruit very fast an expanding number of trade diplomats into its ranks. It would be a question of socialisation—a question of those new recruits to the DIT becoming socialised with the various sectors of the UK economy. Are we talking about business sectors here, or are we talking about other sectors such as the TUC?

Q259 **Chair:** Business sectors are the main thing we are thinking of.

Dr Dent: They would also have to socialise with various other civil society groups, because they can also have an effect on how the dynamics of trade negotiations work.

Q260 **Chair:** As we saw with TTIP quite effectively.

Dr Dent: Yes.

Dr Garcia: Everything I have read around future processes for trade policy in the White Papers are saying all the right things about consultation and openness.

Q261 **Chair:** Have they got the capacity? The EU can say these things.

Dr Garcia: That is the question. They are saying all the right things; I am not sure to what extent it is being implemented or will be implemented. Big business will always have channels to make their views known to you, to DIT and to the Government. There is a risk of smaller businesses, the Federations of Small Businesses or other associations and non-business groups being left out of these discussions, not least because some of them might not really understand how potential future trade agreements might have an impact on the work they do and on their daily activities. That needs to be bridged.

Q262 **Chair:** Before you talk to Nigel Evans, could one of you maybe give a flavour? Perhaps I will address this question to Dr Dent. Bearing in mind what you said earlier about Australia and the CPTPP, and the feeling we had as a Committee when we visited Geneva, what role do you think Australia and New Zealand will play as members of CPTPP in any UK accession negotiations? Would they be blocking? Would they pull in the red carpet? Would they be just like anybody else? What sort of feeling would we get from them?

Dr Dent: I think Australia and New Zealand would both see the UK as an ally in formulating any future FTA or shaping the FTA landscape in the Asia-Pacific region, because our interests are so closely aligned. We think in quite a similar way about trade agreements and trade governance generally, so they would see us an ally. The Australians and New Zealanders have already got quite strong alliance relationships in the Asia-Pacific region, anyway. You are probably aware that Australia and Japan have long been architects of regional economic community building in the Pacific—it goes back to the 1960s. There is a very strong



HOUSE OF COMMONS

relationship between Australia and Japan in this respect. If the UK joined an FTA with Australia and New Zealand, it could also possibly bring the UK and Japan closer together.

Q263 Mr Evans: On the back of that about the dynamics of trade and trade policy in relation to agreements that have already been signed—we have one here, which is the regional comprehensive economic partnership. What you just said is absolutely spot on. How will that affect any future trading relationships?

Dr Dent: The RCEP negotiations are currently ongoing and have been ongoing for some time. For the Committee's knowledge, it includes India, China, Japan, South Korea, the ASEAN states, Australia and New Zealand. In terms of sophistication, this will not be such a high-level agreement, unlike CPTPP. However, as we are talking about 32% of the world's GDP and half the world's population—it is a region that still has huge momentum—it is estimated that the long-term benefits of a concluded RCEP are just over twice that of CPTPP. If Britain is not part of either of these two agreements, that will close out our interests a little bit. They are both very significant for our trade and investment interests going forward. RCEP negotiations could be concluded by the end of this year, but they have already missed one or two deadlines. I am not exactly sure when it will be concluded.

Q264 Gareth Thomas: Talk us through how the EU-Australia-New Zealand trade negotiations are going at the moment. I wondered, as well, if you would just in passing mention the differences between those negotiations and the potential UK-Australia-New Zealand negotiations.

Dr Garcia: The negotiations started last year. As far as we can tell, they are going well. It appears that New Zealand, as usual, is perhaps closer and will probably be able to conclude before Australia. They have had the third round of negotiations. I think the fourth round with New Zealand is taking place this month. In the last round of negotiations they more or less agreed on a text for services. The services side is going well, but that is not surprising considering that they are quite like-minded in that area. It is also going well with New Zealand.

The issues that were always going to be concerns, which everybody knew: issues around access for Australian and New Zealand meat and dairy into the EU still haven't been dealt with; and issues around Australia and New Zealand committing to the European Union's geographic indicators, and the list that the EU has presented, have also not been resolved yet. The EU has given New Zealand a list of 2,000 geographic indicators, including wines, spirits and foodstuffs. Everybody knows that New Zealand is not going to accept that whole long list, so they are in the process of asking their business community which ones they object to.

They knew these things would be the issues before going into the negotiation, so I am sure both parties have some plan in the back of their head as to how these will be resolved. The agreement between the EU and Canada was resolved by allowing people with trademarks that conflict with European GIs to continue using those names in their trademark rather

than getting rid of it—so grandfathering of pre-existing trademarks—and a number of cases that they use protection for were left out. I suspect it will probably be something similar with Australia and New Zealand; and those are things that they can live with. They are obviously making a fight at it.

I think there is one complicating factor, and that is Brexit and the fact that, with the UK leaving the EU, the tariff rate quotas that Australia and New Zealand, and especially New Zealand because it has got quite high ones for butter, that they don't use—it is still unclear how those will be divided between the EU and the UK. The proposal from the EU and the UK to divide them between them has not been accepted by some WTO members, including Australia and New Zealand, so this will now have to be negotiated with each country in the WTO. Of course what they have proposed is that the tariff rate quota—that that same number should be for the UK and also for the EU, which then changes the dynamics of what the EU might be willing to offer Australia and New Zealand in terms of increased quotas for agricultural products through the ongoing negotiations. The European Parliament has been quite clear in stating that they would expect sugar, dairy—certain sensitive agricultural areas in the EU—to be protected in that agreement. That is the challenge.

The rest of it is moving along quite well. The report from the last negotiation with New Zealand says that for services they more or less have a text agreed, including a mode for service mobility, so that is going to plan. They aim to finish at the end of the year. It is always questionable whether they will meet that or not. I think with the UK it will be the exact same issues. Of course at the moment the UK is expected to continue having EU rules, and the GI regime. The question is whether we will have that post-Brexit. That will of course depend on what our relationship with the EU is. That will be challenging.

Q265 Chair: A relationship that is murky and ever-complicated.

Gareth Thomas: Lastly, you are obviously an expert in gender equality in terms of trade. Can you give us a sentence or two on that? You have written in the past about the EU's commitment on gender equality and coming up against a brick wall in terms of participation in the global economy.

Dr Garcia: There are two things. Over the last few years there has been a move, particularly in Chile, Canada and now the EU, who are jumping on board that ship, to include explicit chapters on gender in trade agreements. That is not to say that gender was absent before—there are mentions of gender and gender equality in a number of trade agreements across the world, particularly in chapters on development or on social and labour rights. It is interesting that these new gender chapters are not legally binding and are excluded from the dispute settlement mechanisms of trade agreements.

A lot of it is about co-operation and very much in line with what is going on in the United Nations with the sustainable development goals, particularly goal 5 on gender and women's empowerment. It is also in line



HOUSE OF COMMONS

with the 2017 WTO declaration on women and trade, so it is about improving data on the gendered effects of trade. There is a growing recognition that businesses led by women may have extra difficulties in accessing global markets. A lot of the work the WTO is doing—the EU is also doing it, although not with trade agreements—is around training, building capacity and making it easier for businesses led by women to export and to join global supply chains. Some agreements include language on Government procurement—I think CPTPP is one of them—and on allowing for countries to give preference in public procurement processes to companies run by women, disadvantaged groups or indigenous populations. I guess that would be a caveat to the opening up of global procurement through trade agreements.

Dr Dent: I have a very small point. Going back to policy innovation, linking the SDGs—sustainable development goals—with an FTA would be an interesting area for the UK to explore. You mentioned the gender provisions in the CPTPP, which I think is under the development chapter. There is scope for us to link trade with other challenge issues. The SDGs are a fertile ground for us to explore.

Q266 Chair: In our report on trade in developing countries, we had a chapter on gender. There was a reasonably positive response from the Government, who agreed to build on it and that there was “a credible body of evidence to understand the multifaceted gender impacts from trade agreements.” There is a recognition that although trade inherently and disproportionately impacts on that at the moment, and benefits one gender above the other, that can change in the future if we look at trade for the benefit of all people in time.

I thank the panel. Shortly, we will have a private briefing, but I thank you both for your time and for sharing your views on what is certainly a very interesting area. It took us up several avenues, across the world, from north-east Asia to north America, with an applied focus on New Zealand and Australia.