HOUSE OF COMMONS

International Trade Committee

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

Wednesday 3 July 2019

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Watch the meeting

Members present: Angus Brendan MacNeil (Chair); Mr Nigel Evans; Mr Marcus Fysh; Mr Ranil Jayawardena; Julia Lopez; Faisal Rashid; Gareth Thomas; Matt Western.

Questions 825-969

Witnesses

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

Examination of witnesses

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

Chair: Good morning, everybody. Thank you for coming to our session of the International Trade Committee. Secretary of State at the Department for International Trade, Dr Liam Fox, can I ask your two comrades to introduce themselves for the record?

John Alty: I am John Alty, director general for trade policy in the Department.

Catherine Vaughan: I am Catherine Vaughan, director general and chief operating officer in the Department.

Q825 **Chair:** Secretary of State, this Brexit is not going brilliantly, is it? We are now dancing to the tune that was given to us by the European Commission as 31 October, a date that has become almost a holy day for some Brexiteers. But raining on the parade this morning is Canada. Big companies in the global equities and manufacturing sector are very concerned about 31 October with the annual reporting they do and the financial year running concurrently with the calendar year. Where are we exactly? The only bit of good news I have seen coming from you is the possibility of Scottish independence coming out of it, so thank you for banging that drum. But Canada: tell us what is happening.

Dr Fox: Let me answer your whole question, or your whole 10 questions.

Chair: I will tick them off.

Dr Fox: In terms of Brexit in general, I voted three times to leave the European Union with a deal. Had Parliament done so, we would have left the European Union in March and we would now be discussing our future partnership with the European Union.

Q826 **Chair:** Are you pointing a finger at your Conservative colleagues here?

Dr Fox: No, but I make the point to any Chair who decides that we should not leave the European Union with a deal. We will continue to seek to leave with a negotiated settlement, which gives us better predictability all round. The Government continue their policy of preparing for no deal if, ultimately, that is what Parliament decides the country must do.

Q827 **Chair:** On 17 June you wrote to me to say that negotiations with Canada were at an advanced stage and we were continuing to make progress. What has happened to that progress that was at an advanced stage on 17 June?

Dr Fox: The progress was very advanced; in fact, we reckoned above 99% agreement. The difference was, as ever, that the signals coming from our Parliament were conflicting. Countries were negotiating with us on the basis that there would be potential for a no-deal exit. When Parliament then says it will make sure that there is no possibility of a no-deal exit, those we are negotiating with get mixed signals. If Parliament continues to be inconsistent, it is very difficult for the Government to maintain a consistent position in negotiations.

The other change was the publication of the temporary day one tariffs. We have made clear to the Canadian Government that any advantage that they see from the day one liberalisation would be a temporary arrangement, and not something they could count on for a period of more than a year. To not come to an agreement for a no-deal exit would put at the risk the potential Canadian exports to the United Kingdom, were the UK to change those emergency day one tariffs in future. For that reason, my advice to the Canadian Government is still to seek to make an agreement that covers us in all circumstances.

Q828 **Chair:** So let that be answered. A 99% deal is not quite over the line; it can fall apart before the final 1%.

Dr Fox: No, that agreement is still there; it has not changed. What has changed is the perceived advantage that Canadians think they can get from the day one tariffs. Again, I make the point that those day one tariffs are not permanent tariffs but a temporary arrangement entered into to prevent a price input shock to the UK economy. They do not guarantee access to the UK economy on that basis.

Q829 **Chair:** We have ourselves a situation where a 99% agreed deal is not a 100% deal and it's not going to happen. There is major alarm, as we can see this morning, about a no deal with Canada. Given some of the candidates for Prime Minister have talked of the chance of the UK leaving and having a no deal with the entire European Union on 31 October—the date given to us by Donald Tusk and his friends—how much more prepared are you now for a no deal than you were in March 2019?

Dr Fox: In terms of trade access, when I was last in front of the Committee we had 100% agreed for what would have been 28% of the 10.7% of UK trade that is currently carried out under EU trade agreements.

Chair: So about 2.5%.

Dr Fox: That today sits at 63% of that 10.7%.

Chair: That's about 6.7%.

Dr Fox: Following some very constructive discussions I had yesterday with South Africa, and recently with countries such as Egypt, Tunisia and Morocco, those numbers potentially will go up. I reiterate the point that those countries hear mixed messages from the UK—we are preparing to leave without a deal, then we hear people say that Parliament would frustrate that and not allow no deal to happen. We then hear the EU say, "The UK may not have control over this." That sends very conflicting signals to those we are engaged with in terms of continuity agreements.

Q830 **Chair:** Would you vote for any Conservative party leader who was elected and promised no deal? Would you back them to become Prime Minister?

Dr Fox: I am answerable for Government policy in terms of trade; I am not getting into a media circus on Tory party leadership.

Q831 **Chair:** You say that across the world, people are paying attention to what is happening. As the Secretary of State for International Trade, you have a vote to decide whether somebody who is promising no deal should become Prime Minister. What signal do you want to send across the world?

Dr Fox: As far as I am aware, both candidates have said that they want to leave the European Union with the right deal. I should think that is what the whole of Parliament would want, if they were democrats.

Q832 **Chair:** They are both prepared to leave without a deal. Mr Hunt was actually talking about leaving at the end of September without a deal. He was getting tougher—the macho talk was getting better from Mr Hunt.

Dr Fox: The Government's policy has been to prepare for no deal, because the UK cannot guarantee no deal on its own. The European Union could reach a position, for example, where it did not want to extend beyond 31 October and there would be no deal. No deal is the default position in British legislation. That is what happens if we cannot reach a deal.

Q833 **Chair:** The UK has one sovereign power, where it does not rely on anybody else, and that is the revocation of article 50, which could save the UK from calamity. Would you rule out the revocation of article 50? What signal do you want to send across the world on that? The sensible thing to do when looking down the barrel of disaster would be to revoke article 50, but I have a feeling you wouldn't be for that at all; you would rather flirt with disaster than do that. Is that correct?

Dr Fox: You say "the sensible thing to do"; I say the fundamentally undemocratic thing to do would be to revoke article 50. In this country, Parliament, including everyone on this Committee, said to the people of this country, "We will offer you the choice on our future relationship with Europe," and a leaflet went to every house saying, "We will honour that decision." The people took their decision. It is the duty of all parliamentarians who are genuine democrats to honour that.

Q834 **Chair:** You might want to be better briefed on where the Scottish National party was at that point, but anyway.

Dr Fox: There was also a referendum in Scotland. I would expect the Scottish Government also to be democratic and to honour the result of the referendum.

Q835 **Chair:** Thank you for opening that up, Secretary of State. That was the referendum where we were told, "Scotland, stay in the United Kingdom to guarantee your place in the European Union—in a family of nations." We see what a family of nations means from the respect Ireland is shown in the European Union.

Dr Fox: The SNP's internal pain is not really for me.

Chair: It is certainly not our internal pain; the internal pain is in the United Kingdom.

Q836 **Mr Evans:** It is nice to be on this Committee when some Members have not quite made it: we have a majority of Brexiteers at this moment in time, so hopefully we can make some positive progress. I am following the leadership campaigns of both candidates. Both want to leave with a deal, as you just stated, Secretary of State, but both have also said that, if needs be, they will leave without a deal. Is one of the options for that leaving with article 24 of GATT so we can continue tariff-free trade with the European Union for a period?

Dr Fox: The whole of our exit and what relationships we will have is dependent on the fact of the two parties coming to an agreement. The idea that you could invoke article 24 unilaterally and that Britain could continue its current trade is, of course, unrealistic. Were we, for example, to get to the end of an implementation period and both parties agreed to continue to trade on the same basis, you could make the legal case that article 24 could be invoked. My point is not a legal one; it is a political one.

One of the reasons I voted to leave the European Union is that I believe it is a political project more than an economic one. The example of the euro made it very clear that, in order to progress to the end point of ever closer union, the European Union would be willing to tolerate economic pain across the Union, and we have seen that manifested in high levels of youth unemployment. The idea that such an organisation would say to the United Kingdom, which we know it resents being disruptive in leaving the European Union, that we could continue on exactly the same trading terms as today is, I would think, unlikely.

Q837 **Mr Evans:** Is there interest among them for doing that for a period, at least? Remember the Malthouse compromise, which said we would leave the European Union—now on 31 October—and then go into negotiations about the FTA, which would fairly well mean being within the European Union for however long the implementation period lasted. I assume that is very similar to going out on article 24, which would be in both countries' interests, wouldn't it?

Dr Fox: It is entirely possible to do a lot of things if both sides want them. The reason I remain doubtful is that I believe the European Union is a political project long before it is an economic project now, and I believe there is still a strong desire to ensure that other countries do not follow the UK's example. To give the UK the same access as it has today would be seen to be rather running against that policy aim of the European Union. It may well be that a grand enlightenment falls across the Commission and they are happy to see the UK gain the same access to the single market as it has today, and the same access to the customs union as it has today, without actually being part of the European Union. I have grave doubts about whether that would happen, which I say again is one of the reasons I wanted to leave the European Union.

Q838 **Mr Evans:** We had some announcements yesterday about some of the people who are taking over from some of the other anonymous figures such as Tusk and Juncker. Do you think they would be prepared to sacrifice maybe millions of jobs throughout the EU27 just to spite the UK and threaten any of the other EU27 that are thinking of leaving?

Dr Fox: I think it is about the priority given to the concept of ever-closer union. I have always thought that. I always thought that the euro project was a drive towards a nation state with a state currency, and that the economic consequences of that would be tolerated. That, in fact, is what has happened. How the many young unemployed across Europe, particularly southern and eastern Europe, view yesterday's horse trading for high-paid bureaucratic jobs is not really for me to comment on.

Chair: Sounds like the BBC.

Q839 **Julia Lopez:** I am not aware of anybody suggesting that article 24 can be invoked unilaterally. It is about whether the EU would consider, in the event of no deal, coming to a temporary agreement with the UK. We have looked at the potential of going to no deal on 29 March and subsequently on 12 April. What discussions did you have in your Department before those deadlines to think about what kind of mitigations could be discussed and offered to the EU at the point of no deal? For instance, when you considered the 29 March and 12 April deadlines, did you draft an FTA that could be put to the EU in an article 24 situation?

Dr Fox: Of course, the EU have always said that they would never negotiate a future trading relationship until we have left the European Union. They have been absolutely hard line on that issue. They have also said that there can be no implementation period without a withdrawal agreement and so on.

Part of the problem here lies in the sequential nature of those discussions, rather than the concept. The British position at the outset was that the withdrawal agreement and the future economic partnership would be done in parallel. The sequential nature of them has meant that we have got to this point without any discussion with the European Union, because they refuse to, on any future potential outcome. Of course, there are a number of potential trade agreements out there. The most recent is the Canadian one, which sets a potential model.

Q840 **Julia Lopez:** My specific question was: before the 29 March and the 12 April deadlines, and now before the 31 October deadline, what discussions have you had in your Department as International Trade Secretary about what kind of mitigations you could consider putting to the EU in the event that we end up having a no deal? You must have had discussions—or have you not had discussions with your officials?—as to what mitigations or offers you could put to the EU to get us through the next period.

Dr Fox: That is not done by my Department. That is done by DExEU at the moment.

Q841 **Julia Lopez:** So you have had no discussions about what you could do from a trade perspective to mitigate the impact of tariffs in the event of a no-deal situation, or about the discussions you would recommend we have with the EU in that eventuality.

Dr Fox: We have discussions inside Government. Any discussions with the European Union are done by DExEU. We have no direct contact—

Q842 **Julia Lopez:** What discussions have you had in Government, with DExEU, for them to have those discussions with the EU then?

Dr Fox: We have set out that there are a number of potential future shapes of arrangement with the EU, as the House of Commons has debated on a number of occasions—whether we would want to maintain the single market with the EU or whether we would want to—

Q843 **Julia Lopez:** Specifically, before those deadlines, after which we could have gone to a no deal, did you have any discussions within Government, particularly with DExEU, about what kind of package we could put to the EU? If so, did you discuss article 24?

Dr Fox: John, you were involved in those.

John Alty: As people have seen, at the time of 29 March or the middle of April, the focus from the EU side was on unilateral mitigations that they were prepared to put in place. I am not aware of discussions that may have happened with the EU. As the Secretary of State said, it is not our Department. We were focused on delivering no deal—

Q844 **Julia Lopez:** Sorry, specifically, I am not asking what discussions you had with the EU. I am asking what internal discussions the Government had as potential preparations for us leaving on 29 March or 12 April, which was a distinct possibility.

Dr Fox: Specifically on trade, the primary element of that would have been on day one tariffs. In terms of mitigation, the primary objective of the Government at that point was to recognise that the EU had now twice told us that they would apply full MFN tariffs to the United Kingdom if we left without a deal. That was the position they took, and that would potentially lead to a price shock to the UK economy.

Q845 **Julia Lopez:** You are going to suggest that we have come up with our own tariff schedules for no deal, and that's fine, but specifically, have you discussed what kind of offer you could put to the EU? What discussions have you had within Government about the offer that you could put to the EU in the event that we have gone to no deal? Have you had any discussions about the article 24 mechanism in particular?

Dr Fox: We did not discuss that in particular, because if we left with no deal, that would imply that there was no agreement on the future relationship, and of course, as I said, to apply article 24, about a future relationship, would require both sides to be in agreement.

Q846 **Julia Lopez:** Nobody was suggesting that it can be done unilaterally, but have you thought about putting the offer to the EU?

Dr Fox: I understand that, but the EU have made it very clear that, in the event of no deal, they would not seek an agreement with the United Kingdom, and that they would apply full MFN tariffs, with the UK as an outside country. They made it very clear to the UK that if we left without a deal, an agreement on a future partnership was not on the table.

Chair: Such is the enthusiasm at the moment—I think Gareth caught my eye first and then Marcus and Ranil did; we will proceed on that basis.

Q847 **Gareth Thomas:** I just want to be clear. From what you were saying in answer to Julia, you have had no discussions with DExEU. You have had no discussions with the Brexit Secretary, and your officials, Mr Alty and Ms Vaughan, have not been party to any similar conversations, either.

Dr Fox: Of course not, but what was very clear to us was that in the event of no deal, the EU were not going to enter into a new trade agreement with the United Kingdom at that point. We have considered all the potential future options with the EU, but the EU made it very clear that unless there was a withdrawal agreement, they would not enter into negotiations with the UK about that future relationship.

Q848 **Mr Fysh:** Is this an example, Secretary of State, of the Government just taking at face value what the EU says and doing no further work?

Dr Fox: No, but we can't have a trade agreement with ourselves.

Q849 **Mr Fysh:** Exactly, so you have to propose one to the EU, but you have not done any work on what you might propose.

Dr Fox: There is a huge amount of work; there are all sorts of models out there that we could use if we wanted. The problem is that the EU have made it very clear that, in the event of no deal, they will not enter into a trade agreement with the UK at that point.

Q850 **Mr Fysh:** So you have just accepted that and you won't try, on behalf of the British people, any further.

Dr Fox: We have a whole range of models. We could go to a CETA model; we could go to a CETA-plus model. All sorts of models are there, and of course the EU know what all those arrangements are, because they have already entered into them with other countries, but the EU made it very clear that they would not enter into negotiations with the UK until there was a withdrawal agreement.

If you're asking me, I think that's irrational. I think that the sensible thing to do would be to recognise that no deal could happen and to work out what might be in the best interests of both the UK and the European economy and to have measures in place just in case that were to happen, but that has not happened. What the EU have said is that, in the event of no deal, they will immediately treat the United Kingdom as a third country. They will apply to the UK the trading rules that they would apply to any other third country and then, at some future point, they would seek a negotiation.

But—I make it very clear—there has been absolutely no willingness in any way, shape or form for the EU to consider what the fall-back position would be, in terms of no deal, in relation to an immediate new trading relationship with the UK.

Q851 **Mr Fysh:** So are you looking forward to a situation where we might have a Government who might do the work on what a proposal to the EU might look like, to put our interests on the—

Dr Fox: It doesn't matter how many proposals we have if the European Union say they will not enter into an agreement. However much we want there to be an agreement, we have to have the European Union's agreement to it; that is the whole point.

Mr Fysh: For which you need to propose an agreement—correct?

Dr Fox: I would very much have preferred from the outset that, because there was always a possibility of no deal, the European Union were willing to say, "In the event of no deal, which is a democratic potential outcome in the UK, what would the fall-back position be?" The fall-back position has been that, if there is no deal, Britain will be treated as a third country, outside the EU, and at some point in the future there will be a negotiated settlement.

Q852 **Mr Fysh:** So is it fair to say that if you are involved in a future Government, perhaps led by Mr Hunt, you won't try to put an agreement on the table, in the same way as that has not happened under the previous one?

Dr Fox: There are all sorts of potential agreements there, but it takes two sides to have an agreement. This idea that we can unilaterally want an agreement and the EU will agree to it is fanciful. One of the many reasons why I voted to leave the European Union was that I have always believed they would put the political imperative of ever closer union in holding the project together ahead of the economic interest. If that required them to have no agreement with the UK, that is what they would do.

Q853 **Mr Fysh:** So am I to understand that you are not willing to conceive of any other offer from the UK Government to the EU, other than a withdrawal agreement?

Dr Fox: No, there are all sorts of things that we can offer the European Union, but the European Union has been very clear in its position from the very beginning. We can offer them a customs union. We could offer them a single market, which I think both of us would not want to see. We could offer them a CETA-plus agreement. We could offer them all sorts of things, but the European Union have said that they are not willing to enter into a discussion with us about any future trade relationship until we have left.

Q854 **Mr Fysh:** I think the country watching will be able to see from that what the position is. But it is true, is it not, to say that an FTA is not the same terms of market access as we have with the EU at the moment. So we are not talking about a standstill and a continuity agreement within such an FTA that reflects the exact same terms, which is what you said was the essential reason why the EU would not want to accept such an offer. Given that that is the case, why wouldn't we have done any work on this?

Chair: May I tag on to that the fact that on 29 March the UK blinked? There will be no European Commission in place to negotiate with up until 1 November, which is the day after 31 October. Should the UK blink again or should it go for no deal?

Dr Fox: If it is clear that the European Union leaders want a deal that Britain is happy with, we should pursue it. My view is that if it is very clear that the European Union will not accept a deal that we find acceptable, we should do what our law says, which is to leave without a deal on 31 October. I have never changed my view on this.

My view has always been, as Mr Fysh says, very clear. You cannot have under any FTA the same level of access that you have as a member of the customs union and the single market. The question is what the EU, subsequent to that, would accept. I would hope that if Britain left without a deal that the European Union would understand that there was an economic imperative to have a trade agreement with the United Kingdom. That would be in the interests of all our citizens. My worry is that, as I have said, in the European Union it is not the economic imperative that is put at the top of the list; it is the political one.

Q855 **Mr Jayawardena:** If we stare the EU out and end up, because it is not possible to amend the withdrawal agreement, which is what they say—I don't believe that to be the case, but if they mean what they say—and we choose not to blink this time, are you really saying that "at some future point" is in the distant future? Or are you saying that, for the reasons you have just outlined, the economic imperative is there, and that future point comes much sooner and article 24 could be used—as the WTO has told this Committee when we visited it—as an interim step? Taking in good faith what the EU has said about how they do want to have a trade agreement of some form with us, whether that is as currently put forward or an alternative form, could article 24 be used?

Dr Fox: That is a difficult question to answer because it depends on the political willingness: not the economic and legal basis, but the political willingness of the EU to enter into such an agreement.

Q856 **Mr Jayawardena:** But don't politicians care about the jobs that their people have?

Dr Fox: My entire reservation, as I have already said, for example, about the introduction of the euro, was that it was for a political reason irrespective of the economic cost. I would take that experience strongly into account when I was trying to make a decision about how the European Union might react. The question would be, given what we have seen of that track record, would the European Union be willing to allow the UK something that would be perceived by the hardline integrationists in

Europe as preferential trading, having had the disruption of our leaving the European Union?

It is entirely right that we might both agree 100% that the rational economic thing to do would be to see as much continuity as possible. The question is would that be the calculation or would the political imperatives take precedence over that? My worry is that it would be the latter. I would love to say that sensible calculations about the prosperity of our citizens would be at the top of the list; I am afraid that my belief is that, in the European Union, the political end point of ever closer union is the driving force behind its decision making, not necessarily the economic wellbeing.

Q857 **Mr Jayawardena:** Surely Her Majesty's Government's policy is not that because of flawed decision making in the European Union we should just agree to whatever they propose. Surely this Government have identified ways forward, as Mrs Lopez indicated or questioned. I am not sure that we got the clarity that this Committee would like.

Surely the Government have prepared plans to bring forward an article 24 letter. Surely, the Government have identified the British preferred route in the event of a no deal. It would be absurd to have not done that preparation—much like, dare I say, a former Prime Minister did not do in respect of a referendum—simply because the Government thought that an agreement might go through.

Dr Fox: The Government look at all the options, but they do so in relation to what the other side of the negotiation says that it is willing to tolerate. If the European Union were to say, "In the event of no deal we are open to all offers about trade continuity," of course that would be one thing, but the European Union has not said that. It has not said it for the very reasons—

Q858 **Mr Jayawardena:** You said that at some future point they would countenance an agreement. Therefore, surely, this Government have done some preparation for that future point. Whenever that future point might come, this Government would not go through this process, surely, without—

Dr Fox: We have already set out in public what we want the future trading relationship to look like—that we want as frictionless trade as possible outside of the single market and the customs union.

Q859 **Mr Jayawardena:** In the event of no deal?

Dr Fox: In all events. That is what we want to see.

Q860 **Mr Jayawardena:** So that's fixed?

Dr Fox: That is our position: we want as frictionless trade as possible. The point here is that—this is where I have a little bit of difficulty—I think the European imperative is political. I think it is the drive towards every closer union. Experience has told me that they will choose that over potential economic disruption. I therefore find it slightly naïve, if I may say, to think that they would suddenly change that tack, with Britain having voted to leave the European Union, with the disruption that they perceive that to have caused politically, and that they would say, "Never mind you can get the best possible trading relationship on day one."

Q861 **Mr Jayawardena:** I might then counter that by saying, is it not irresponsible for Her Majesty's Government not to prepare for a so-called no deal? Is it not irresponsible for Her Majesty's Government not to have prepared an article 24 process internally? Is it not irresponsible for Her Majesty's Government not to have identified alternative trade agreements that they might want to take forward? A negotiation requires both sides to have a perspective, so why are we not?

Dr Fox: We have looked at article 24 some time ago and all these options are on the table, but all these options are not on the table if the EU does not want to take them.

Q862 **Matt Western:** I am sorry I was a little bit late. Going back to one of the last times we met in this forum, we talked about no deal. I think you said that no deal would be hugely suboptimal. Last week we had the reception with the SMMT. I am sure you spoke to a lot of the manufacturers and suppliers at that event. Do you still hold the view that no deal is suboptimal?

Dr Fox: Yes, I would much rather leave with an agreement. I think it is beneficial. We are weighing up a number of different things here, perhaps in the opposite way from what we have just been discussing. We also have to take different things into account in this country. Economically, it is suboptimal. I would say, democratically, that not leaving is the most suboptimal outcome. I have always said there are three potential outcomes to this process: we leave the EU with a deal; we leave the EU without a deal; or we do not leave the EU.

The Chairman mentioned revocation right at the beginning. I would regard revocation as the worst possible outcome because of the damage it would inflict on the credibility of our political system. Not leaving, for me, would be entirely democratically unacceptable, because I believe that would be a betrayal of Parliament's relationship with the electorate. So, if we can just park that for a moment.

Then we have the choice of leaving without a deal or with a deal and I think leaving with a deal is preferable. If we have to leave without a deal, there are mitigations we can put in place. My Department is responsible for a number of those things—trade continuity agreements, the Trade Remedies Authority, a procurement agreement and involved in setting day-one tariffs—all of which provide mitigations. But in my view they are less optimal than maintaining a period of stability, during which time we do properly enter into that new trading relationship for the future.

Q863 **Matt Western:** On Radio 4 this morning, one of the junior Ministers talked about how unprepared small businesses are and that in the next couple of months a lot of work will be done to prepare them. There is not much time left though, is there?

Dr Fox: It is an interesting question as to how prepared small businesses really are. The Government has had advice lines open for months now. Our Department is able to cope with 1,100 a day and we have been getting something like 20 at peak times, in terms of the number of inquiries coming from small business.

A lot of those small businesses won't trade exclusively with the European Union. A lot of them will do so through agents, who have already been doing that work for them. Some of them may be prepared. It is an absolute unknown unknown as to how many won't be ready. But there are some things that we can say in some sectors. In the automotive sector we can have mitigations in terms of our day-one tariffs. We can help in terms of supply chains, for example, in that.

There are other areas where we have less ability to have those mitigations. I think of farming as one. In terms of tariffs, there is so much we can do. We sell about 100,000 tonnes of beef and veal to the EU a year, about 15% to 17% of our production. That is worth about £342 million—or was at the latest prices we looked at. Facing a huge tariff into the European Union and suddenly finding a big price increase in UK goods being sold into that market would undoubtedly have a market shock to the UK, even if we had protective tariffs to prevent flows in the other direction. It is unavoidable that it would be suboptimal economically.

Q864 **Faisal Rashid:** Secretary of State, you mention all the time and in all inquiries that you would rather leave with a deal. Would you just explain why a no-deal Brexit is bad?

Dr Fox: I think I have just done so. I have just given the answer and an example of why it would be economically suboptimal for us.

Q865 **Chair:** How suboptimal?

Dr Fox: I have just mentioned in terms of that one sector, where you can quantify it.

Q866 **Chair:** Can you do a percentage of GDP?

Dr Fox: Of beef and veal? I think that is impossible to quantify but you can look at specific sectors and where they would be affected. You can make an assessment of what that impact would be. I was looking for an example before I came here, Chairman, of a sector where we could quantify what the actual export is, what share of the UK market of production it is, and what we could expect the level of tariff to be applied to it is. Even if we applied protective tariffs ourselves, it still leaves a lot of uncertainty in the market. Far better to have a period of transition to be able to do that.

Q867 **Faisal Rashid:** So, we agree that a disorderly Brexit could obviously be catastrophic.

Dr Fox: No, we didn't agree that at all. I said it was economically suboptimal and that we would look for mitigations.

Q868 **Faisal Rashid:** Okay. Let's leave it at that. For two or two and half years the Prime Minister kept saying that no deal was better than a bad deal. Of course, she said the deal was good and we should have voted for that. But is the Government prepared for no-deal Brexit? Yes or no?

Dr Fox: Yes, the Government are prepared inasmuch as we can be for the predictable elements of no deal, but there are some things that sit beyond our control. In the event of a no-deal, the EU will apply MFN tariffs to the UK. That will have an impact on a number of sectors of our economy. We can mitigate that. In farming, for example, we can utilise our freedom within WTO rules to provide mitigation for that. You can provide support for that—it is allowed under WTO rules—as long as we are not infringing the WTO, for example, by stimulating production, which would be against the rules itself.

We have a number of areas where we can do that and have looked at and have made preparations for, but it is our still our view that leaving with a deal is preferable. I don't really hear anyone in the House of Commons say that leaving with a deal is not the best outcome, other than those who don't want to leave the European Union at all, and who would, in my view, be committing a grave democratic offence to the people of this country.

Q869 **Chair:** Before I move to Gareth Thomas, large multinational companies are very worried about a Brexit that is going to be at the end of the year. They are worried about a number of unknown unknowns. You have said that you prefer a no deal to remaining. Do you think there is a difference with the no deal at the end of the year? Is it better or worse than no deal would have been in March? Certainly, big companies are coming to me as Committee Chair—I mean, big companies—and saying that a no deal now is even worse than a no deal would have been in March.

Dr Fox: The Government are better prepared. The Government have set out what they need to do. Again, DExEU take responsibility for the integration of that and the cross-Government elements of that. In terms of this Department, we are better prepared now than we would have been in March. Unless we are able to get a change in the narrative that convinces our trading partners that we are going to leave with no deal, I don't see that much changes until the last minute.

Q870 **Chair:** The Institute for Government has argued that the civil service and businesses are likely to be less prepared for a no-deal Brexit on 31 October than they were on 29 March. They mention the high rate of change of officials, operational centres for no deal being stood down, the lack of available warehousing, previous spending on no-deal prep, which cannot be replicated, and uncertainty about the true Brexit date, because there is no European Commission until 1 November, so nothing can really change on the withdrawal agreement and the no deal that we had in March.

Do you not think the Institute for Government have a better overview than your view, which is simply of your own Department?

Dr Fox: I am answerable for my Department, and I am not answerable for what others may say about other parts. All I can say in terms of my civil service and my Department is that we are better prepared than we would have been.

On trade continuity agreements, we are very close to finishing. A number of countries leave a single item on the table, knowing that they could remove it very quickly if a no deal did come around, but are quite understandably hedging their bets, given that they are getting mixed signals from the UK about whether Parliament would block any no deal, which I, of course, think would be democratically quite wrong. As long as we give mixed signals, there will be an understandable temptation on their side to hold back to see how much they can get in any agreement.

In terms of the other elements that we are responsible for, such as protecting British business against any potential dumping and subsidy, we are ready with the trade remedy mechanisms that we would need to have, and we have of course just achieved the necessary UK accession to the Government procurement agreement. Unless this Department is hugely exceptional—which I sometimes like to think it is, but in reality I doubt—then I imagine that across the Government, all other Departments are better prepared than they would have been before.

At some point—this is the bottom line—we have to accept that leaving without a deal would be suboptimal, but if that is what we have to do to fulfil our democratic mandate, then that is what we have to do.

Q871 **Chair:** I am glad you have communicated your view there. Clearly in March the feeling was not that; the feeling was for a continuation—a mini-revocation if you like—for at least another little while.

You have talked about mixed signals, but let's have some clear signals. Many in business are watching this and they want to know your thinking and your evaluation. I want an economic evaluation We have talked about three scenarios, and we know your preference politically is deal, but of deal, no deal and revocation, which one is worse economically? Between deal, no deal and revocation of article 50, which one is suboptimal, which is second suboptimal, and which of those three is best for the economy? I am looking for economic answers; I am not looking for political answers.

Dr Fox: I don't think you can disaggregate the political from the economic in that circumstance. There would be a political shock to this country and instability, which is something that the Chancellor talked about in his speech back at the beginning of the year. If you get the sort of political turbulence that you would get in the event of revocation, that does not have calculable consequences for our economy in terms of stability and investment confidence, which is a key element. I therefore think the best outcome is to have a deal.

Q872 **Chair:** I am looking for economic answers. You took in the factors you wanted to put in there, but people will be looking at this—in fact, boardrooms across the world will be looking at this and at your

Government's credibility. Economically, of those three—no deal, deal and revocation—which is best for the economy?

Dr Fox: To have a deal.

Q873 **Chair:** Which is best between no deal and revocation?

Dr Fox: I have made it so clear on so many occasions. First of all, you cannot disaggregate the political consequences of revocation. To tell the 17.4 million people who voted for something that—

Q874 **Chair:** I am looking for economic, rather than political, answers. The people of Scotland and Northern Ireland voted differently.

Dr Fox: A lot of those are businesses. A lot of those are investors. A lot of those are small businesses. Looking at the political fragmentation in other places where the democratic will of the people has been denied, it is not a route I want for the United Kingdom, because it brings with it its own economic disruption. You cannot say, "We'll have political disruption, but it won't have any effect on the economic circumstances." I believe that revocation—betraying the British people over Brexit—will actually produce greater economic turbulence than a managed no deal.

Q875 **Chair:** What do you think the Scottish and Northern Irish people will feel—they voted quite differently—about the very close political union of the United Kingdom doing things that are damaging their economy and are against their will? They are surely consequences to that.

Dr Fox: I am sure there are always those who don't want a United Kingdom to exist, and who will try to take advantage of any potential fear of instability to break up the Union. I would not be one of them.

Q876 **Chair:** What headlines do we have here? "Fox warns of 'threat' to Union from no-deal Brexit". What did you mean by that?

Dr Fox: I meant exactly what I said.

Q877 **Chair:** Would you countenance a no-deal Brexit?

Dr Fox: Would I countenance a no-deal Brexit? If the alternative is not to leave the European Union, yes I would. I have always been very clear. I believe it is a democratic imperative that we leave the European Union. What did I mean by that headline? As politicians, we all understand that headlines might not always reflect the text. What I meant by that was exactly as I have said. There are those who do not want the United Kingdom to exist and who want to see it fragmented. They would use any opportunity and fear of instability to try to break the Union apart. That is hugely to be regretted, because the United Kingdom is much stronger as an integral unit. We are not a political project in the UK, unlike the EU; we are a nation of families that has married and moved together for several centuries, unlike the 40-year political project of the European Union.

Chair: We are a Union of nations, Secretary of State. That is the reality.

Q878 **Gareth Thomas:** Dr Fox, this could well turn out to be your last appearance before the Committee—

Dr Fox: Or indeed anyone on the Committee's last performance.

Gareth Thomas: —given the potential change in the leader of your party. It is almost 20 months since the Trade Bill was introduced. If this is indeed your last appearance before the Committee, do you have any sense that the Trade Bill will have finished its journey through the House of Commons, or will the failure to have it pass be part of the legacy that you leave?

Dr Fox: In terms of leaving without a deal, we want the Trade Bill passed. That is a matter for the business managers and the usual channels. As a former Whip, I do not wish to intrude in any of that territory. In terms of what we need from the Trade Bill—

Q879 **Gareth Thomas:** With respect, that is ducking it completely. I was a Minister, too. As a Minister, you have considerable influence over when a Bill is brought back to the House of Commons. If you wanted the Bill in before 24 July, I have no doubt that you could push for it. Isn't the truth that you have not got agreement for some of the central issues relating to the Trade Bill? That is why you are ducking it.

Dr Fox: No, the Trade Bill had three functions. The first was to maintain our ability to trade with countries that had agreements with the European Union. We have the legal powers to do that, whether we have the Trade Bill or not. The second aim was to get trade remedies in place so British businesses would not be disadvantaged in the event of no deal. We have those in place—in fact, they are up and running. The third was to achieve membership of the Government procurement agreement, which we also have. It would be much better to put it on a long-term statutory basis and to have the Trade Bill go through, but I'm afraid you are quite wrong: we are able to carry out the three main functions of the Trade Bill by other means, without that legislation passing. Would I like to see it and those three sections on the statute book to provide long-term continuity? Yes, I would. Is it absolutely necessary? No, it's not.

Q880 **Gareth Thomas:** Will it be passed by 31 October?

Dr Fox: I don't know how long this Parliament will last. I don't know whether we will be in the same parliamentary programme and, with all due respect, neither does anyone else on this Committee.

Q881 **Gareth Thomas:** What conversations have you had with the business managers about bringing it back before the summer—particularly before 31 October?

Dr Fox: I have a perpetual conversation about wanting to see the Trade Bill back. Sadly, that decision on the Government and parliamentary timetable is not mine.

Q882 **Chair:** I detect a note of exasperation there, Secretary of State.

Dr Fox: Those of us who have had to have these discussions are well aware of how much influence individual Departments have on the shape of the Government’s programme and the timetable for any particular week. I will leave it there.

Chair: I have a feeling that this might be becoming a therapy session.

Dr Fox: Much cheaper than group therapy, I have to say.

Q883 **Faisal Rashid:** Secretary of State, this Committee raised concerns about the preparedness of the new Trade Remedies Authority prior to 29 March. How much better prepared are you now in terms of trade defence? You have had more time now, and by 31 October you will have had some months more. How well prepared are you now?

Dr Fox: We are even better prepared. The new authority is almost fully staffed now—I think the current level is 94% of the vacancies that we set. We have been able to carry out better staff training and introduce better working on sector-specific understanding and format, and we will carry out transition reviews once we pass the statutory instrument through Parliament, which I think is in Parliament today.

Q884 **Faisal Rashid:** Are you fully staffed now?

Dr Fox: As I said, it is about 94%. I went down to visit Reading myself to talk to our staff. I have to say that I was very impressed by how enthusiastic they were and the range of backgrounds that they came from. I was very impressed by their enthusiasm to get working. Of course, while we are in the European Union, there is a nuance. We want to have transition reviews, which are designed to ensure that any measures we have when we leave the European Union are done purely on UK data, and not aggregated EU data. The transition reviews will take between 12 and 18 months, but it is a continually improving position.

Q885 **Faisal Rashid:** You also said that you will carry forward a significant number of the EU’s trade remedy measures. In the past, it has been argued that you must carry out investigations into whether the UK should continue to apply those measures; otherwise, you risk being challenged at the WTO. Are you carrying out those investigations?

Dr Fox: That is exactly what I am saying. We have to put down a statutory instrument to enable us to carry out those transition reviews. That is what is happening at the present time.

Q886 **Faisal Rashid:** Will they be ready by 31 October?

Dr Fox: Were we to leave the European Union without a deal, we would simply take over the investigations. The transition reviews are to ensure that, in the future, they are based on purely UK data. We wouldn’t have purely UK data at the point we left the EU if we left on 31 October. We would simply take over the EU’s agreements.

Q887 **Chair:** Would that be legal? It seems like a circular argument.

Dr Fox: Yes, it would be legal. John?

John Alty: As the Secretary of State said, we will start the reviews shortly, and we have made very clear to other countries—WTO members—that we will be carrying out those reviews. They will not, as the Secretary of State said, all be completed by the time we leave, but we have made clear to countries that we have an active programme there. It will obviously be for them to reflect on that, but that is our intention.

Q888 **Faisal Rashid:** Are you confident that it will be done by the 31st?

Dr Fox: We are confident that we will give continued protection to all vulnerable UK sectors. Yes, we are.

Q889 **Chair:** But if you haven't done the reviews by 31 October, and we know that you can't then use somebody else's reviews, the European Union's reviews—you'll have to use your own reviews—this is going to be challenged at the WTO, isn't it?

Dr Fox: No. We ran a call for evidence to determine which of the existing EU trade remedies measures should be transitioned at the point of exit.

Q890 **Chair:** Have the WTO agreed this?

Dr Fox: Yes. They are the same trade remedies that the EU is carrying at the moment, so of course they are WTO-compatible.

Q891 **Chair:** No, have they agreed them for the UK? Not "have they agreed them for the European Union"; have the WTO agreed these for the UK?

Dr Fox: They are WTO-compatible.

Q892 **Chair:** Yes, for the European Union. The question is whether the WTO have agreed the EU trade remedies as they are for the United Kingdom.

Dr Fox: That is not how the system works. John, do you want to explain?

Chair: This is what I want to know.

John Alty: We are carrying forward those measures where UK industry has an interest. We will carry out the reviews; we have explained to the WTO members what we are doing. Obviously, it will be for them to decide how to respond to that, but we have made it very clear, and I think they understand, that we are not simply rolling these measures forward without looking at them ourselves.

Q893 **Faisal Rashid:** So they have not, obviously, agreed to anything. You are talking to the WTO, so they are aware of what is happening, but there is no guarantee that they will agree on that.

Dr Fox: But they are already WTO-compatible. The measures will be in place.

Faisal Rashid: For the European Union, not for the UK.

Dr Fox: The measures are in place. We had a call for evidence to see which of the European Union ones apply to the UK, because some clearly would apply to EU elements where there was not a UK interest. That was what the call for evidence was for, and we decided that we would roll over or transition 42 out of 104 measures which apply to the UK. That is what we will do. To further the evidence base, we will carry out the transition reviews to make sure that we have UK-based evidence and we are not looking for aggregated EU elements.

The question I think you are asking me is whether I can guarantee that all the protections that are currently in place for British business from dumping and subsidy will be in place at the point when we leave the European Union. The answer is yes.

Q894 **Chair:** How many of these have the WTO agreed to for the UK?

Dr Fox: They are already in place.

Chair: Yes, for the EU.

Dr Fox: But they are part of the international rules against dumping and subsidy.

Q895 **Chair:** So what you are telling us is that there will be no trouble, or no aggravation, at all from the WTO when the UK adopts another economic bloc's trade remedies. There will be no problems. Is that what you're saying?

Dr Fox: Because they are already agreed by the WTO.

Q896 **Chair:** Can we just get this on the record? As Secretary of State for International Trade, you are saying that if the UK adopts measures that are EU measures, there will be no problems from the WTO.

Dr Fox: There will be no problem, but we will not apply some of them because they will not apply to the UK.

Q897 **Chair:** So there will be no problems from the WTO a second after midnight, when this happens. This will be fine.

Dr Fox: Not on trade remedies, no.

Q898 **Mr Fysh:** I just wanted to talk a bit about the roll-over of the EU's trade and trade-related agreements, and first off, to congratulate the Department on the progress that is being made. You mentioned earlier that 63% of the value of trade—if you exclude Japan and Turkey from the figure—has now been achieved. Those are deals that have been done, so in a sense, that is not a no-deal situation; I congratulate you on that. How many of those countries with which you have done those deals have said, or have agreed in writing, that under a withdrawal agreement they would be committed to allowing our trade to continue in the same way as it does now?

Dr Fox: All of the ones with which we have agreements naturally would want that to continue in an implementation period.

Q899 **Mr Fysh:** They have agreed that, have they?

Dr Fox: They have; unsurprisingly, they want the continuity. At all points in this process, we have made it very clear that because of time constraints and legal constraints, it is effectively a two-stage process. We have to have continuity—a safety net, if you like—and then we can have ambition later on. We have always said to countries that in this roll-over of the EU agreement, we have seen this as a down payment to future liberalisation and a future improvement, we where can get it. That has been a very widely understood principle.

In general, countries also understand that were we to deviate from the concept of replication by more than we have to—to make certain changes to create a UK agreement and not an EU one—that would take us into legal territory that would inevitably involve delay. It has been more difficult at some times than at others to get the understanding of the legal process and the differences that we may have, but it is generally well understood.

Q900 **Mr Fysh:** When it comes to rules of origin, at the moment those countries—South Korea, for example—are able to accumulate the content within a product that we export. It does not matter to what extent that product originates in the EU or in the UK ex-EU. How will that work in future? How many of those countries have agreed to that full effective cumulation of EU content in our products or UK content in EU products moving to them?

Dr Fox: The Committee will remember that one of the points that was raised by the Swiss agreement was that it did not allow that cumulation. For the three-year period, it allowed EU content in UK goods going to Switzerland to be counted as UK content for that purpose. That is also the agreement that we reached with South Korea. Those were the major economies where that was an issue.

A lot of people said was an impossible agreement to get—we seem to live in a perpetual environment in which people say that agreements are not possible—but it was possible to reach it. It gives us at the point of exit, whether with or without a deal, a period of stability to be able to negotiate a future agreement without disruption because of rules of origin complications.

John Alty: That is correct.

Q901 **Mr Fysh:** That is true; I can confirm for the South Korean agreement. I just want to say thank you on behalf of my constituency and Leonardo, who are looking to export helicopters to South Korea; that will help with that. What progress is being made with the Koreans on investing in more Wildcat helicopters?

Dr Fox: Niche question. I actually held negotiation discussions on exactly that issue with my counterpart in Seoul two weeks ago. I am expecting a reciprocal visit to the UK, when we can carry on that particular discussion. We highlighted it and what we were looking for was greater access to the procurement part of the South Korean Defence Department in the same way that other countries have been allowed access. I made a specific request that our ambassador and his team and our trade team would be able to get access to that because getting the same access as one of our major competitors is a major determinant as to whether Leonardo is able to get that contract. You can inform your constituents that it is high on our agenda.

Chair: It is good to hear that Leonardo is benefiting from EU trade agreements under continuation—that is much needed in the new trade agreements.

Q902 **Julia Lopez:** One of the key agreements that has been made in terms of roll-over is the Switzerland trade agreement, which you signed in February and which we anticipate to be in place by 31 October. If we were to leave the EU without a deal at that stage, that is potentially one of the agreements that we would seek to rapidly improve and deepen. As you know, the Swiss are currently embroiled in a big row with the EU over access to each other's stock markets, after their equivalence regime lapsed. The financial editor of *Die Welt* says that the EU Commission was the big loser in that; it made a miscalculation over the leverage that it had over Switzerland. To what extent do you think that a deeper partnership between the UK and the Swiss could provide leverage to both parties in their negotiations with the EU, and what discussions have been had with the Swiss in that regard?

Dr Fox: I think I am right in counting seven questions in that. Of course, this was an issue that the Swiss were discussing during our discussions—the potential of the European Commission to end equivalence of the Swiss stock market with the EU. I think it is very unfortunate that that has happened. The net effect of that has been that additional costs will fall on investors unnecessarily.

In terms of the EU, it looks like an overreaction. A number of commentators yesterday were using the word "bullying" in relation to Switzerland, but of course, the Swiss refuse to be bullied. The Swiss said that if the EU ended equivalence, they would bring in their own mitigation measures, which has happened. One of the places hit by that was London, because around 30% or 35% of Swiss stocks trading took place in London. That business has gone from London. The politicisation of the event, which of course was to force the Swiss to come to a quicker consolidation of previous treaties, is not a good sign when you are looking to show that the Commission will act in a fair, equitable and proportionate way.

I say that without having policy responsibility on it, but I am very aware of how much help the Swiss gave us. They went out of their way to help to bring our agreement to fruition. They are still working very hard with us to deal with the parts of it that are not finalised. It is a great pity that this situation has arisen; it is not to the advantage or reputation of the Commission, or to the advantage of the Swiss, who have been put in an invidious position.

Q903 **Julia Lopez:** Is it right to say that within the withdrawal agreement, there is no guaranteed access for UK services providers to the EU market? In so far as we go forward on this, and they are difficult in that regard, Switzerland is a big financial centre, as is London. How do you think we could work together to make sure that the EU has constructive talks with us in terms of future financial services access?

Dr Fox: In the longer term, the answer is a multilateral agreement on services, which we would like to see happening. In terms of London, the sheer scale of it affords a great deal of protection in terms of access to capital, insurance and so on. I hope that the EU will look at the experience over Switzerland and say that that was perhaps an unwise thing to do, because all it has done is create friction where there was no friction before in an area where it did not exist, and bad feeling, which did not need to happen.

Q904 **Chair:** Isn't that what Brexit is about—creating frictions where frictions do not exist?

Dr Fox: Switzerland is already outside the European Union. Switzerland had an agreement on equivalence in 2017. This is not actually a debate about the stock markets or equivalence. It is about that power being used as a lever against Switzerland to achieve an element in another part of policy. This is a development in trade policy that we would not want to see accentuated. Trade policy should be about trade policy; it should not be used as a weapon in other areas. That will lead to further friction and discord inside the trading system.

Q905 **Mr Evans:** Is any of this about the EU sending a signal to the United Kingdom to say that, in any future treatment of the UK, they would start to try to get us to abide by things that we might not otherwise want to, and that if we did not do it, there might be repercussions for us too?

Dr Fox: That might be described as leading the witness in a court. The EU has a dispute with Switzerland. The loser in this, largely, is the trading in London. There might be those who would want to read parallels. I could not comment.

Q906 **Mr Evans:** Okay. Once we have left the European Union, the relationship between the London financial markets and Switzerland could be resurrected.

Dr Fox: Oh yes.

Q907 **Mr Evans:** Will that happen straightaway?

Dr Fox: I imagine it would.

Q908 **Chair:** From what I am hearing, it is the EU that are holding the cards and sending minnows like Switzerland and the UK messages of some sort or other. It is quite interesting.

Dr Fox: I would not regard the United Kingdom as a minnow—

Chair: Comparatively.

Dr Fox: If the United Kingdom is a minnow, what are the comparative parts of it?

Q909 **Chair:** To the EU. For the first time in 800 years, the Republic of Ireland is punching above the UK because it has 26 or 27 allies.

Secretary of State, I want to confirm something. EU content in UK goods to South Korea is covered in the agreement; what about UK content in South Korean exports to the European Union?

Dr Fox: We covered bilateral trade; the arrangement does not cover what South Korea does with the European Union. That was not within our remit.

Q910 **Chair:** So we wouldn't have as a good a deal—

Dr Fox: It is not our responsibility what South Korea does with the European Union.

Q911 **Chair:** We know that revocation would have been the best deal with the EU, your deal is the second best and no deal is the worst, but in this situation we have gone from the best deal with South Korea—under the EU umbrella—to a deal that is not as good, yes?

Dr Fox: Our deal is with South Korea; we are not responsible for the triangular relationship that, consequently, the EU has with South Korea or vice versa. That is for them to decide. They would take that into account in coming to a cumulation agreement with the United Kingdom.

Q912 **Chair:** At present, you have a deal that allows UK content in South Korean exports to the European Union but if the deal afterwards does not allow that, which deal would you say was better—the deal that allows UK content in South Korean exports to the European Union, or the deal that does not allow UK content?

Dr Fox: A position that allows the United Kingdom to have, in time, a full independent trading relationship with South Korea is what I think is the best, which is why I think it is best to leave the European Union.

Q913 **Chair:** We might be independent, but it is not as free—because we would not be as free to put as much UK content in South Korean exports to—

Dr Fox: This is an agreement that lasts for three years. It gives us stability until we are able to negotiate our own independent trade policy.

Chair: But we will end up with independence not to trade, it seems like. Anyway, we get bogged down. Gareth Thomas.

Q914 **Gareth Thomas:** The rollover Andean agreement was signed on 15 May. There was a considerable gap before it got laid before Parliament. What is the reason for such a delay? While you are on that, will you also reflect on the problems with the UK-CARIFORUM economic partnership agreement, which had to be relaid, so speeding up Parliament being able to see the details and a quality assurance process to make sure that stuff does not have to be withdrawn?

Dr Fox: Indeed. John?

John Alty: On the CARIFORUM one that was relaid, that was a formatting and publishing issue. There was no difference in the substance of the agreement. Obviously, it was regrettable, but it was really a technical change that we had to make.

On the Andean one, I am sorry that it took longer. We try to do these very quickly, within about 10 days, I think, but this one took a few weeks. The main reason for that was simply the intensive discussions that were happening in the run-up to the signature, which meant that we were not as prepared subsequently. But we have looked at how we do these things, and we will try to avoid that in future.

Q915 **Gareth Thomas:** You will avoid that in future, or you will just keep trying.

Dr Fox: We will avoid it—

John Alty: We are committing to avoid it.

Gareth Thomas: You will avoid it in future, okay.

Q916 **Chair:** As to the rollover with Chile, the UK granted more generous tariff rate quotas than indicated by the data on historical usage of the quotas granted by the EU. Why did you do that? Is that not giving away part of your bargaining position for a future agreement?

John Alty: I do not have the detail of the Chile agreement in front of me, but there is a general rule. What we have done with all the TRQs is to look at proportionate usage of our share of the EU TRQ. There are various ways of calculating that. Some TRQs have had very little usage; therefore, you cannot go on historical data. You can look at UK trade as a percentage of EU trade, and at the particular products, so in different cases we have tried to maintain the principle of our share of the EU quota, but you will find slightly different percentages that have resulted in particular cases. I am sorry that I cannot comment in detail on the precise Chilean number.

Dr Fox: The principle on which we operated was that we wanted to apportion TRQs in a way that fulfilled three criteria. First, that it did not disadvantage our trading partners—in other words, they would not get less access to the UK market than they had already. Secondly, that it would not cause market distortions in the UK in terms of price to consumers. Thirdly, that it would not cause unexpected competition with UK producers. I think these were appropriate ends in themselves, but they were also to ensure that we had compatibility with WTO law.

We said, however, that while we were looking at a three-year basis for disaggregation of TRQs, we would be willing to look at any evidence that countries gave us. For domestic, climate or other reasons, three years may not be a fair estimate of what the quota would have been, and we were willing to look at other data. It has been a general rule that we do allow deviation from the exact number where a case can be made for that.

Q917 **Chair:** It is very noble of you not to want to disadvantage trade partners, but isn't it more the case that you probably had to give this? You are under pressure to get agreements rolled over. This is not a rolled over agreement; it is an agreement that is more beneficial to Chile than what they originally had. Would New Zealand and Australia not look at this new principle—maybe the Fox principle—of not wanting to disadvantage trade partners by giving them a greater TRQ? There are huge risks in what you have just done.

Dr Fox: As I said, we have tried to be as fair as possible. We want to ensure that we get an agreement, and we want to ensure that we are not putting ourselves in a position where we will infringe WTO rules.

Q918 **Gareth Thomas:** Does it not risk creating a precedent of Britain being seen as a soft touch in the negotiation of these roll-over agreements?

Dr Fox: No. In some areas, for example, we would look at a TRQ and say, "We would accept 95% of that EU TRQ" if the UK was already absorbing that amount. But in other commodities we may say, "The UK is only absorbing 0.5%, so that is all we will accept of that." We have been doing it sector by sector, because that is how we think we get a fair balance. All through we have said that we wanted transparency in the process, and it is to provide continuity. That is the aim of the policy.

Q919 **Chair:** Isn't the pressure that you, having promised to have trade deals rolled over a minute after midnight, put yourself in an awkward position? Countries such as Chile could exert a bit of pressure, because you wanted to come back shouting, "Trade deals in our time." Chile played hardball with you and demanded a greater TRQ. You are talking about not disadvantaging trade with the partner, but the partner got something out of this. You got nothing because of the pressure you are under. You are starting to give away advantages for no reason other than your own rhetoric of a year or two ago.

Dr Fox: No. We want to provide continuity. We operate within clearly set out rules. We have made our position very clear, and WTO countries understand it. And of course, as I said, the continuity element is only part of our wider policy to have more ambitious trade agreements in the future.

Q920 **Chair:** I said earlier that the EU holds the cards, and it seems here that Chile is holding more cards with the United Kingdom than it did, thanks to the trade agreement you have rolled over and added on to, to Chile's advantage.

Dr Fox: As I said, in some places the TRQ might be slightly larger or smaller if there are circumstances that warrant it. That is the process we set out. It is a process we have followed. We have not deviated from that at all.

Q921 **Gareth Thomas:** Are you sure it wasn't just a mistake and they got one over you because you were not following the detail closely enough?

Dr Fox: That is highly unlikely, given the detailed nature of these—

Q922 **Gareth Thomas:** So you would be able to write to the Committee to clarify exactly why—

Dr Fox: If the Committee wants me to write in detail about the Chilean agreement, I am very happy to do so.

Q923 **Chair:** Thank you. Do you think the Canadians, with a greater eye on the detail, thought, "Chile have played a good one here. Let's play our cards a bit closer to our chest and get some cards from the UK, just as Chile has done," to Canada's greater advantage? It is the UK that is in the difficult position, not Canada. Brexit has put the UK in a difficult position, as Chile understood.

Dr Fox: That is not my interpretation at all.

Q924 **Mr Fysh:** We recommended in our report on the US that an overarching trade strategy should be produced by the Department. Where are we on that? Will we be able to have that examination of our offensive and defensive interests in trade strategy soon?

Dr Fox: We set out, for our wider consultations on future trade agreements, where we want to be on that and where we think there should be scrutiny by Parliament. Obviously this Committee will have a role to play in that. We finished our public consultation and we will publish our summary and response shortly, before Parliament goes up for the summer. We have our working groups with the United States, but all the time we are cognisant of the fact that we are under a legal obligation not to negotiate a new trade agreement with the United States while we are still members of the EU. We are very grateful to the USTR for setting out to Congress what their position would be. We will do the same in due course when we are in a position to be able to launch a negotiation, which we are not at the present time.

Q925 **Mr Fysh:** You mentioned earlier some of the effects of the EU having published the no-deal tariff schedule on the negotiation of future trade agreements. I wondered whether you see any effect other than what you described, such as on your talks with other nations about their willingness to engage with us in such a situation.

Dr Fox: There is wide understanding that what we were setting out was a no-deal position that would be temporary. Let me explain why. The whole approach was that if we liberalised from 80% to 87%, as it turns out, that would be to avoid an input shock. This is a country that has a very large volume of imports across a whole range of commodities. Also, about 23% of our exports contain an imported content. Our exports would be vulnerable to a price shock, too, because those import costs could easily push up the price of our exports were we not to take any action on day one.

There are a number of scenarios—the Committee will be aware of some—to estimate the potential devaluation of sterling in a no-deal scenario. Our aim was to provide a temporary cushion so we did not get an inflationary or export cost push into the UK economy. No policy decision has been taken; of course, we will have a new Prime Minister and a new Government that might take a different view on those tariffs. That is why we have set it as a temporary tariff arrangement—up to 12 months, but it could be shorter. That is why we have been trying to impress on those countries with whom we are in discussion for continuity that they cannot take any short-term advantage they may get from temporary tariffs as a long-term advantage, and that it would be better to be in a proper continuity agreement with the UK.

Q926 **Mr Fysh:** Has it made any difference in your discussions with them on the concept of continuity within the framework of the withdrawal agreement, if one were signed, relative to what would happen if we went out without a deal?

Dr Fox: In terms of our current discussions, not the United States—that does not apply. It only really applies at the moment to Canada, as has already been mentioned, because a lot of the perceived advantages that Canada would have got from a continuity agreement with the UK, in relation to a rollover of CETA, they see as also available through the day one tariffs. Again, the point I reiterate is that these are temporary tariffs: they could change, and I would not be responsible for what our future Government would say. If I were in the position of a trading partner, I would want to ensure that I had that continuity agreement, because I could not take for sure that the same market access advantages that would apply from the current short-term day one tariffs would apply for a longer period.

Q927 **Mr Fysh:** What about with Japan? Does it take the same sort of view?

Dr Fox: Japan is a different case. The Japanese Government are very keen to negotiate a future FTA as soon as possible. We have had discussions with them about what their legislative constraints would be—their parliamentary process is slightly different for when an agreement could come in, and we have to take account of that. We have regular discussions—I held discussions when I was at the G20 in Japan two weeks ago. Their appetite to get that agreement with the UK is undiminished. They see it as being based on the EU-Japan EPA, but they want it to be far more bespoke.

Q928 **Mr Fysh:** Are you getting feedback from them that they have seen what you have done with South Korea, which is going to be an advantage to Korean car companies, for example, being able to import cars into the UK tariff-free? Is that an incentive to the Japanese, and even to the Americans, to want to have an agreement with us as soon as possible?

Dr Fox: Well, trade is entirely about comparative advantage, and it is a very dynamic picture. Of course, the more that we can bake liberal access into agreements the better. It is a really important point that we want to make that Britain's direction of travel is towards greater liberalisation. We do not want to see greater tariffs. Tariffs are taxes, and taxes have to be paid by someone.

We want to move to a lower tariff regime globally, where we can. If we can use a multilateral route, we will do so. If we can use a plurilateral route, we will do so. If we have to use a multi-bilateral route, we will also do so. The UK’s aim is very clear: we need to move to a lower tariff and lower regulation trading environment, because it is consumers and taxpayers who are suffering as a consequence of not doing so.

Q929 **Chair:** Interesting—low regulation. Sometimes in Committee a situation like this can be quite adversarial, but there has been some talk among Committee members of a report into offensive and defensive interests that the United Kingdom might have, and countries that are more sophisticated and have a greater track record of trade agreements. That work has an historical continuity. Do you think it would be useful to your Department if the Committee were to probe around in that area in a constructive manner for you?

Dr Fox: Oh! If the Committee—

Chair: You are surprised that it is not adversarial.

Dr Fox: No. Nor do I ever assume that the question is entirely what the intent might imply.

Chair: Please, don’t be suspicious. You have friends here, Secretary of State.

Dr Fox: In terms of moving forward, looking at the areas where the UK would gain advantage from a liberalising trade agreement, and at the areas where the UK would want to maintain protections, is a sensible thing to do. If the Committee is offering to do some of that work, we would be very happy for the Committee to feed that in, and to respond to it in due course.

Chair: That was the only question that I had. There is nothing extra to that question. It is good cop here.

Q930 **Julia Lopez:** DIT’s consultations on future agreements with Australia, New Zealand, the States—CPTPP—closed almost nine months ago, but we have not yet seen the response published, or any analysis of those responses. First of all, when do you intend to publish those responses? Secondly, I presume that you have seen the responses yourself. I wonder what they teach you in terms of how you wish to sequence the negotiations of agreements with those parties, and what capacity do you think your Department has to be able to negotiate those agreements simultaneously?

Dr Fox: The answer to the first question is before the rise for the summer recess—so that is later this month. In terms of the negotiations themselves, when we leave the European Union, which is the key determinant, we can begin. Our discussions with the United States and our trade working groups have been very useful, but ultimately the Government will need to decide what the big asks and the defences are that the UK will want to have.

As we have said, after the consultations we will publish our outline approaches—effectively like the USTR did to Congress. This is the big, high-level outline approaches to what we want, plus the initial economic assessments that will be necessary for that. During the process, we will publish round reports after each round of negotiations, and an annual trade report on all the negotiations as they progress.

I have had discussions with the Committee privately on how we move on scrutiny. That is making progress. I do not know, Chairman, whether we want to discuss that, but I know we have another meeting coming up. We are moving in the right direction on that, and of course at the end we will lay the full treaty text before Parliament with an explanatory memorandum and a full impact assessment.

I have already given the commitment that we will leave enough time for this Committee to produce a report on that before we begin the ratification process. That is the process part of that. We will be ready to deal with those because we have already designed the Department's manpower to be able to deal with the United States, Australia and New Zealand. Potential access or accession to CPTPP will come later in that process, because they are not ready to see any new members take part.

There would be additional stresses on the Department were we to involve Japan as an early FTA, for example, and that would be a discussion we would have to have with other parts of Government about the resource necessary for us to do that. My general experience is that other parts of Government are very keen for us to do more and more things, but they are not always keen to ensure that the resources are available for that to happen. It is a genuine debate that we need to have if we want to have greater engagement, international and trade and if we want to see a global Britain. We cannot do it on a shoestring.

Q931 **Julia Lopez:** So you are confident then that you have the resources on 31 October, should we leave without a deal, to be able to start simultaneous negotiations with the US, New Zealand and Australia?

Dr Fox: Yes.

Q932 **Julia Lopez:** And then as a secondary, potentially Japan.

Dr Fox: If we have to go beyond—we have set out that our Department is designed to deal, in terms of manpower, laydown and resources, with Australia, New Zealand and the United States. If we go beyond that, that is a wider decision for Government about how we allocate our resources. If I may, it goes beyond that, because the debate has all been about free trade agreements, but not the next level, which is market access. If I might just give an example of that, when we wanted to do the agreement on market access in China for the dairy industry in Northern Ireland, we faced a single regulatory issue: milk from the Irish Republic could be sold in China and milk from Northern Ireland could be sold in China, but milk from Ireland could not be incorporated into Northern Irish products to be sold to China. That was a market access issue that was worth about a quarter of a billion pounds over five years to the Northern Ireland dairy industry. That took quite a lot of negotiation with China, and therefore resource and manpower.

At a sub-FTA level, a huge amount of work can be done on market access. We will have to, when the spending round comes, think about that and think about how we feel departmental resources should be allocated. I think that as a broad principle, we should be looking to see where we can allocate resources that can generate income for the country, not just absorb it.

Q933 **Julia Lopez:** I have read that Jeremy Hunt, with you as his Trade Secretary, would look to roll DExEU into DIT so that you would have one Department negotiating the future EU-UK FTA and all the other FTAs we seek to strike. In the event of no deal, how rapidly do you think that could be done? Does your Department and the resources of DExEU combined have the resource to conduct all those negotiations simultaneously?

Dr Fox: The addition there would be nothing that we have already identified. If a decision were to be taken that the future economic partnership between the United Kingdom and Europe should be done by DIT, that clearly requires a fair amount of extra resource. We have not quantified that, because we have not been asked by Government to do so. That is the only basis on which we would carry out that function as a Government Department.

There is huge merit in having a single architecture that carries out those negotiations. To begin a negotiation with the European Union that is separated by however many degrees from our negotiations with the United States runs the risk, however explicit our mandate in Parliament, of divergence in that process and the creation of conflicts further down the line. I have long believed and I have long argued that a single architecture is required. The most logical single architecture is the Department for International Trade. It has the lead on that, because it already has the responsibility for the other FTAs. I am sure that there are other ways for Government to do that, but from a personal point of view—having overseen a huge machinery of government change in creating DIT and bringing UKEF, UKTI, trade policy and a whole range of other parts together—it is very disruptive to do so. I think it is wise to use the machinery of government. Consolidation is much easier than the creation of whole new Departments.

Q934 **Julia Lopez:** Do you think one of the flaws in the process of leaving the EU so far has been that DExEU has been making concessions that have a big impact on your Department's ability to conduct future trade negotiations, in a way that you, as Secretary of State, might hope?

Dr Fox: Of course, Cabinet is there to reconcile, and Cabinet Committees are there to reconcile those differences inside the machinery of government. There would be an advantage of having it inside a single architecture, where the negotiations on multiple fronts were controlled, and any divergence could be nipped in the bud, as it were, rather than dealt with by a process of reconciliation further on.

Q935 **Julia Lopez:** Has that not been working?

Dr Fox: We haven't, of course, begun the discussion on the future economic partnership. This is one of the frustrations—that we haven't been able to do that. When we leave the EU but are having to have those negotiations with the United States, Australia and New Zealand, we will have to ensure that they are not happening—we have prepared for this—in a way that is derailed or undermined by the direction of travel of the negotiation with the European Union.

Chair: If you could answer quickly, you mentioned—

Dr Fox: I'm sorry. Ms Lopez always asks very complex questions that require complex answers.

Q936 **Chair:** Forensic, Columbo-style questions. You mentioned in answer to one of those questions the countries that would be blocking or not allowing the UK to join the CPTPP. Which were they again? Their policy would be that they would add no more new members, which would affect the UK if it wanted to join.

Dr Fox: No, it is just that the accession process won't begin yet for CPTPP. Not all members have fully ratified the agreement. Until it has been fully ratified they won't begin the process of accession of future members.

Q937 **Chair:** How long might that take?

Dr Fox: That is way beyond what we are able to predict.

Chair: I just hear it batted about by Brexiteers—

Dr Fox: There is one particular problem, which is whether Malaysia will in fact ratify CPTPP at all and, if Malaysia doesn't ratify, whether the others will begin an accession process beyond that. But that is way beyond the remit of the UK Government.

Q938 **Faisal Rashid:** During President Trump's recent visit, he said that the NHS would be on the table in a future US-UK trade agreement. Can you say with absolute certainty that a trade agreement with the US would not affect the NHS?

Dr Fox: I think we will also find that at the press conference the next day the President said that it was not on the table.

Q939 **Faisal Rashid:** What is your view?

Chair: What say you?

Dr Fox: I say that the NHS is not for sale. The NHS is not for sale to either domestic or foreign players. The NHS will remain free at the point of use to all those who require it in the UK. The Government will not enter into a trade agreement that gives away the rights for us to determine the running of our own public services.

Q940 **Faisal Rashid:** Okay. If the US wants, in the view of that negotiation, to have the NHS on the table, should we differentiate between potential impact to the supply of NHS services and provisions affecting the price and availability of pharmaceutical products?

Dr Fox: I think you have to differentiate between the NHS, the running of the NHS, access to UK citizens, and access for the NHS to the healthcare sector. We have got a big healthcare sector in the UK, where a lot of jobs are dependent on access to international trade.

Clearly, we have to take that into account in anything that we do. But we could not agree to any proposal, for example on medicines pricing or access, that would put NHS finances at risk. There is an area of overlap there. We could not allow anything reasonable that we do on the wider healthcare sector to impact on the basic running of the NHS—for example, on pricing of medicines—or on NHS finances. We would have to guarantee that that did not happen. We could not agree to anything that in any way, shape or form, ever allowed the regulation of the NHS, or forced privatisation, to be enforced upon the UK.

Q941 **Faisal Rashid:** That's good to know, but given the ongoing trade war between the US and China, and the US's approach to global trading norms more generally at the WTO, can we really be confident of securing a positive deal for the UK in any future agreement with the US?

Dr Fox: Well, we would only sign an agreement if we thought it was in our interest and if we thought there were sufficient safeguards in place; otherwise, we wouldn't sign it. That's kind of self-evident.

Q942 **Chair:** Like giving Chile greater TRQ.

Dr Fox: I don't regard allowing Chile to give evidence to us on the basis of our agricultural access, based on their own historical experience, to be in any way, shape or form an equivalent argument to what would happen with the NHS.

Chair: But it shows your obsession—

Dr Fox: I don't often say this, but as somebody who trained in the NHS and worked in the NHS, I would not agree in any way, shape or form to diminishing the Government's ability to regulate over the NHS itself. I can't really be much clearer.

Q943 **Chair:** Given that you are an opponent of ever closer political union, you will realise that of course there are four NHS's within the United Kingdom, and that one of the Governments of the United Kingdom would not be stomping all over the area of another Government of the United Kingdom's NHS.

Dr Fox: In terms of future trade agreements, one of the areas we are looking at is how we get in place a system whereby different parts of the United Kingdom have a responsibility for delivering on a trade agreement, and they have to have an input into that system. When I recently met both the Welsh and the Scottish Governments, my view to them was fairly unequivocal. My view was that there should be a match between responsibility to deliver and influence in creating the agreement itself. First of all, that is an inevitable consequence of our constitutional settlement on devolution, but also I think it's a fair and equitable way of dealing with the other parts of the United Kingdom. Trade is a reserved policy, a reserved issue, and ultimately, trade agreements will be the responsibility of the UK Government and the Parliament of the United Kingdom. Where other parts of the United Kingdom are responsible for delivering it, there is that consideration I mentioned—the fair and equitable treatment of those parts of the United Kingdom. Secondly, there is a very pragmatic issue. Anyone that we negotiate with will want to know that we can deliver an agreement, and having had a previous agreement on how that would operate within the United Kingdom would, I think, be a prerequisite to anyone else wanting to sign—

Q944 **Faisal Rashid:** But, Secretary of State, I'm sure you will appreciate why there is so much anxiety among the general public about the US-UK trade deal and the NHS being on the table—there is already creeping privatisation; it is already happening. There is so much anxiety, but I will come on to—

Dr Fox: But any privatisation of the NHS is decided by the British Government, and falls within the British Government's ability to regulate. The previous Labour Government privatised more NHS services than any Government in history, but it was the sovereign right of that British Labour Government to do so; it wasn't because of pressure elsewhere. It's a question of maintaining the sovereign right of the Government. The Government can do what they want and will change between Parliaments, but it was the right of the Government to do that.

Q945 **Faisal Rashid:** We have seen, over the last nine years, a lot more than ever before.

Dr Fox: Actually, that's untrue.

Faisal Rashid: Well, you can either agree or disagree. We can—

Dr Fox: I would love to present the Committee with some evidence.

Chair: This is another one for the Health Committee, sorry.

Q946 **Faisal Rashid:** To come back to the potential trade deal with the UK, the US does not want to have restrictions on cross-border data flows, and it called the EU general data protection regulation—GDPR—an unnecessary barrier to trade. How will your Department ensure protection of personal data and privacy in a potential trade agreement with such a powerful trading partner?

Dr Fox: That's a big—it's an issue. Data flows have to be tackled. It's a global issue. I think you have two issues: one is the flow of data, and the other is the protection of data. I have to say that, as a citizen, I'm very happy that my data is used for the greater good wherever that's possible, but I also want it to be protected adequately. There will be questions of equivalence, GDPR and so on when we leave the EU, but there will also be wider issues. At Buenos Aires, at the WTO Ministers meeting, this was one of the top issues. Of course, in the Japan agreement with the UK, this is one of the areas of disagreement that Japan has. I think it is fair to say that their concepts of data flows do not sit easily with the EU's concept of data localisation. There are issues to be dealt with there, which are also opportunities for the UK.

Q947 **Faisal Rashid:** How would you deal with it, though, when the US is saying that it is an unnecessary barrier to trade? It's a big statement to make and we are very protectionist; we want to protect our data and policies. How will your Department ensure that?

Dr Fox: There are different issues here. Again, the flow of trade and the protection of data are not necessarily the same thing—most countries in the world would accept that you can move data, particularly anonymised data, much more freely. This is not just in our negotiation with the United States; this will be in our negotiation with Japan. It will be a wider WTO issue, because at pretty much every WTO session—it also arose at the OECD session—it was at the top of the agenda of many countries. In a modern economy, is it conceivable that you can move goods and services but not data in an equal way? If you can move data equally, how is the data protected as you do so? That is the key issue and the issue to resolve.

Chair: Time, as ever, is our great enemy. Julia Lopez—you want to come in on that. Brief question, please.

Q948 **Julia Lopez:** The conversation has moved on slightly, but I just want to return to the issue of the NHS and particularly pharmaceuticals. It is my understanding that the US Administration feel that the NHS is probably not paying enough for pharmaceuticals.

When Australia has had FTA negotiations with countries like China and America, they have been able to carve out exemptions on pharmaceuticals but it was very difficult for them to hold the line. Is the US Administration, in your opinion, aware that we would seek to carve out similar exemptions on pharmaceuticals? In so far as that limits the ability to deliver other benefits from an FTA, what do you think those limits would be?

Dr Fox: As I said, I don't think we could agree to any proposals on medicines, or access to medicines, which would put NHS finances at risk or that would provide an impediment to either patient choice or clinician choice. So that would be our aim.

Q949 **Julia Lopez:** And they see that as a red line? In the discussions you have had in the working group, do they understand that red line?

Dr Fox: We have no red lines. Red lines only occur when we have negotiations, and we are not permitted by law to have negotiations. I make extremely clear—

Q950 **Julia Lopez:** But you have a working group, so do you think there is an understanding in the working group that that would be an area of carve-out?

Dr Fox: I think there is a broad understanding in the US that the UK takes the protection of the NHS, on a cross-party basis, very seriously. While we would want to see liberalisation in the broader healthcare sector, we couldn't allow that to impinge on the running or financing of the NHS. So there would be a line.

Liberalisation in the healthcare sector, giving greater competition to the many goods and services that the NHS wants to buy, if it can get the same quality at lower price, is one of the benefits of competition. But, and it's a very big but, it cannot—

Q951 **Chair:** Can you make it a small "but", please?

Dr Fox: It cannot be about the access to the NHS, free at the point of care, nor could it impinge on the Government's right to regulate the NHS, or affect the finances of the NHS as a consequence of other agreements.

Chair: Thank you. We will now move to Gareth Thomas and then back to Julia Lopez. We have got reports under way that will be used for evidence as well.

Q952 **Gareth Thomas:** On services, if Brexit goes ahead you obviously seek to use a variety of measures to achieve access to other countries' services markets. I wonder whether you could just talk through your priorities for those particular routes. Would they be free trade agreements? Would it be initiatives at the WTO, or market access work carried out by DIT?

In particular, the most controversial area of future services arrangements at this stage is probably going to be around mode 4, which is movement of people. I wonder whether you can talk us through what discussions you have had with the Home Secretary and—at official level—what discussions your officials have had with the Home Office about red lines around a mode 4 negotiation.

Dr Fox: That's about half an hour's worth, Chairman *[Laughter.]* Services liberalisation is really important. Estimates are that the cost of trade in services, if we want to call it that in its broadest sense, is about the same now relatively as the cost in goods about 50 years ago. Goods liberalisation has gone way beyond the pace of services liberalisation, and therefore the costs—No. 1—and the regulatory barriers to services liberalisation are there.

I had discussions yesterday with a number of senior American politicians about the fact that, in the service sector, access disputes very often are not at the federal level at all, so dealing with it in an FTA is really beyond our ability. There are state-level restrictions on access to practitioners in medicine and law, to take one example.

On service liberalisation, as you correctly say, we have to take it at multiple levels. Where we can get multilateral agreements on services, that is great. When we leave the EU, we would want to give major impetus back to the trade in services agreement at Geneva. One of the many stalling points on that agreement is the very point that Mr Rashid raised: data flow. The United States and the EU are at loggerheads about the concept of data localisation, which is holding up the trade in services agreement. Resolution needs to occur on that. So TiSA would be a major one. Where we could not get liberalisation at multilateral level, we would have to look to plurilateral agreements—but open ones, on the basis that they were a building block to a multilateral agreement in the future. We would want to utilise all the alliances we have on that, and we would want perhaps to start on the current things on e-commerce, pushing some of those agreements forward.

It is unavoidable that one of the asks of other countries in any agreement will be mode 4. That is particularly acute in the UK because of the amount of foreign direct investment coming into the UK. As the Committee knows from its previous session with Minister Stuart, the UK is the third biggest destination in the world for foreign direct investment. Even before we take anything else into account, intra-company transfer demands from inward investors are high. I entirely understand that. If I were investing a lot of my money in another country, I would want to use my own people to do that. That has an impact on mode 4.

Q953 **Gareth Thomas:** You understand that, but talk us through whether the Home Office understands that.

Dr Fox: This is where there needs to be a broader debate in this country about migration and how migration should work.

Q954 **Gareth Thomas:** Rather than a debate in the country, let's have your debate with the Home Office.

Dr Fox: It is a debate that happens inside and outside Government. My Department's view is roughly this: if you ask the British public what they think about migration, they will give you a pretty clear steer.

Q955 **Gareth Thomas:** Yes, but you are answering a different question. I specifically asked you about discussions with the Home Office.

Dr Fox: I am coming on to the specific question. They will say that people who come to Britain who have a job, pay their wages and abide by the law are welcome in our country, but—this was the issue over free movement—people who come and are able to access services without contributing may be less so.

Q956 **Chair:** Although, frankly, we know that those who come are contributing more than those who are here.

Dr Fox: I think there is already a reservoir of support out there for a concept that says whatever parameter we set numerically on migration into the UK, it should favour the movement of labour, and where we have an economic basis for that, that would be acceptable.

Q957 **Gareth Thomas:** And the Home Office accepts that?

Dr Fox: I would put it—and I have put it—in this way. If you are a country—

Q958 **Gareth Thomas:** It is a relatively simple question. Yes or no? Do the Home Office accept your—

Dr Fox: I don't think there is a Home Office view any more than there is a single Government view on this.

Q959 **Gareth Thomas:** So you have not had a conversation with the Home Office?

Dr Fox: Oh yes, we have had lots of conversations.

Q960 **Gareth Thomas:** So where have you got to in those conversations?

Dr Fox: Our conversation is to make the case that I make: that we need to prioritise whatever migration we have in the UK on an economic basis. It needs to be about the functioning of the economy.

Q961 **Gareth Thomas:** It sounds like you are a long way off getting any agreement to an approach to mode 4 with the Home Office. Is that a fair assessment?

Dr Fox: This will fall within the remit of the next Prime Minister and the next Government. My view is that we need to take an economically orientated view of it.

Chair: I know from businesses that fishing boats in Northern Ireland and the west of Scotland are tied up because of the Home Office. Anyway, moving on, Julia Lopez.

Q962 **Julia Lopez:** Just a quick one. Why have the Government not published an overarching investment strategy, and when do they intend to do so?

Dr Fox: In line with our export strategy. We have not had an overarching one, but we have set out our strategy in a number of different places. We have a clear strategy for outward direct investment; we have a clear strategy for inward direct investment. How we do that, and the aims and targets we have for that, are set out in our departmental accounts. Catherine, will tell us when those will be published.

Catherine Vaughan: Within this month.

Q963 **Julia Lopez:** On the issue of investor-state dispute settlement in future investment agreements in particular, does the Department have a view?

Dr Fox: We are looking at how we deal with that. In general terms, we will have to have a balance for the protections of UK investors abroad, which are considerable. We have a great deal of UK funds invested overseas and we want to ensure that they are properly protected, because they will carry pension liabilities and benefits in the future, but we also want to ensure that we are giving appropriate legal balances.

We will come back to this issue. It is something we are considering at the moment. Given that the UK is the eighth biggest investor overseas in the world, our investors expect that agreements reached by their own Government will give those investments proper protection, given that they are very often necessary for the wellbeing—including in pensions—of people in this country, but there are different ways of doing so.

Where we can guarantee those, for example, through the effective operations of a court system, and where we have clear equivalence, we may rely on that. We may want to have different mechanisms in different places. We will look at our own experience of bilateral investment treaties, of which there are 90. We have never had a successful case brought against the United Kingdom, and that is a proud basis on which to take this forward. But the balance has to be there. It has to ensure that the Government protect the investments of those in Britain who invest abroad.

Q964 **Faisal Rashid:** You have visited China on many occasions since becoming Secretary of State. You have been clear that China is an important partner to the UK. At the same time, the UK is attempting to forge close trading and political ties with the United States. How can the UK manage the tensions of seeking deeper relationships with both parties, given the ongoing trade war between China and the US?

Dr Fox: By encouraging both parties to accept that a rules-based international system, based on the WTO and Geneva, is the best way forward. The alternative to a rules-based system is a deals-based system, which would leave a great number of countries dispossessed. Ultimately, trade liberalisation, and the dismantling of barriers and tariffs, is a way to improve the prosperity of our people. As I said, a tariff is a tax and a tax has to be paid by someone.

Q965 **Faisal Rashid:** Are they, particularly the US, listening to you?

Dr Fox: I hope so. We make the arguments at every level. I meet the American chambers and American politicians. I go on American media and I make these arguments. I make exactly the same arguments in China. Of course, not having the same access in China to the political representatives or the political classes is something of an impediment. It is worth us remembering that the United States is a liberal democratic society, whereas China is not.

Q966 **Faisal Rashid:** Time is short, so I will be quick. Our Committee heard evidence on the Belt and Road initiative recently. It brings significant commercial opportunities to the UK and UK businesses. What are your thoughts on the Belt and Road initiative? How are you promoting it within the business community in the UK, and how can they get involved?

Dr Fox: Of course it brings significant opportunities, but those opportunities have to be operated in a way that is consistent with the ethics and values of the United Kingdom. We have very clear sets of rules within which our businesses operate. As you probably remember, when the Prime Minister was in China at the end of last year, she refused to sign the memorandum of understanding on the Belt and Road, on the basis that we could not guarantee that the involvement of British businesses within that would be within the level of values and ethics that we expect our businesses and their partner businesses to operate under. It is important, if we are having global liberalisation. Belt and Road could be important in terms of the projects and development it could bring, but it has to be operated on a rules-based system, and those rules have to operate on values that we find acceptable.

Q967 **Faisal Rashid:** That is exactly what China is saying: it is rules-based. It has evolved over the years since the Prime Minister went to China.

Dr Fox: The Government will keep that under review. If we believe that what we are being asked to sign up to fits with our ethical and business values, we will be able to do so; if it doesn't, we wouldn't.

Q968 **Mr Evans:** Gareth intimated that this could be your last appearance before this Committee—I hope it is not. Whoever wins the leadership of the Conservative party, are you happy to serve under them?

Dr Fox: My view has been clear. We have a democratic process. It is our duty to follow the results of that democratic process and, as far as the Conservative party is concerned, to work together to prevent the terrible calamity of an anti-left, anti-American, anti-trade Labour Government.

Q969 **Chair:** You will serve under either candidate. My final question is on the current position of the schedules in Geneva. There was much fanfare when the schedules were placed, but what is the situation of UK schedules?

Dr Fox: One objection on GATT is Russia—not unexpected—but it won't stop us being able to operate those schedules on day one of a no deal if required.

Chair: Thank you. We have heard a lot this morning about getting rid of tariffs and making trade happen more easily, which the European Union has done quite successfully across the European continent—I have to put that at the end. Secretary of State, I thank you for coming with your officials this morning. It is much appreciated. We have covered a lot of ground. We have, as ever, not had enough time, but thank you and have a nice summer.

Dr Fox: I promised Catherine that this time we would talk about the departmental budget.

Chair: Sorry, Catherine.