

International Trade Committee

Oral evidence: Trade in services, HC 1776

Wednesday 17 July 2019

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Members present: Mr Nigel Evans (Chair); Sir Mark Hendrick; Julia Lopez; Faisal Rashid; Owen Smith; Gareth Thomas.

In the absence of the Chair, Mr Evans was called to the Chair.

Questions 307-372

Witnesses

I: George Hollingbery MP, Minister of State for Trade Policy, Department for International Trade, and Tom Josephs, Director of Policy, Department for International Trade.

Written evidence from witnesses:

- [Department for International Trade – written submission \(TIS0011\)](#)

Examination of witnesses

Witnesses: George Hollingbery and Tom Josephs.

Q307 Chair: We welcome the Minister and Tom Josephs to the fifth and final evidence session in the Committee's inquiry on UK trade in services. Given that services account for at least 45% of all UK exports, do you think your Department is giving sufficient attention to trade in services?

George Hollingbery: You would expect me to say yes, and that is what I shall say. It is a deeply complex area. There are all sorts of levels of difficulty in negotiating service access, particularly under FTAs, and we are already a very liberal services economy, which makes it that little bit trickier, but since the barriers to services trade are roughly three times the barriers to goods, there is a lot that can be done. Not all of it can be done Government to Government—in fact, a lot of it probably has to be done regulator to regulator, but that can be facilitated by Government.

But yes, I believe the Department is very much prepared for our future trade policy when it comes to services. We will always be seeking to make the world a more open place for trade across the board, but of course with the substantial reliance on services in the UK in terms of GDP and exports—of course there are lots of services built into some of our goods exports, too—it is an area of real importance to the country. The Department has certainly done an enormous amount of work. That does not mean that solutions are always easy, but yes, we have done lots of work.

Q308 Chair: We are going to come to the interlinkage between goods and services. What analysis have you done of the worth, variety and value of services to the UK economy?

George Hollingbery: As I said, it is a complex matrix. These are very difficult things to measure, and the Committee has taken plenty of evidence on the difficulty of working out the levels of services exports—and, indeed, imports. Let me give you an example. Say you have an American client who is consulting a British lawyer. That is a mode 2 export for the UK, because the person comes in and is effectively a tourist and spends money in the economy. If that lawyer then provides advice that is remitted to the United States, that is a mode 1 provision. If the lawyer then ups sticks and goes to represent that client in the United States, that is a mode 4 provision. Trying to measure all the different ways we provide these services is extremely complex. I have slightly lost track of the question.

Q309 Chair: The variety, value and worth of services in the United Kingdom.



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George Hollingbery: Yes. On top of all that, as I referred to—we will probably revisit this—lots of goods exports have the worth of services built into them, not just in the products themselves but in the matter of getting them there—legally putting them through customs, employing agents and so on—so there is lots in there as well. The consequence of all that is that exactly what services we do and where is a very hard thing to put your finger on. Some of it is systemic, and I think some of it will never quite be ironed out, but I am encouraged.

Take the particular example of the United States and the UK. We both have surpluses in services with each other, slightly bizarrely. As a matter of quantum, those differences are actually quite small, since the export levels are very large. More importantly, if you look at the detail underlying it, there may not be absolute agreement, but I think that in the top 40 categories of our exports both ways on services we identify the same sectors. The sectors are not necessarily made up of absolutely identical amounts, but it is clear that if we both concentrate on the same issues when we are talking about a free trade agreement, or simply about facilitating trade outwith a trade agreement, we will both be concentrating on the same areas.

I think that that is the most important thing that we can derive from the statistics at the moment. A lot of work is going on to refine those statistics; we have projects on that with the ONS and the OECD, not least on mode of service. We have added an extra question to recent surveys, and if we can get reasonable, sensible answers to it from enough participants, it will put us at the forefront of measurement and granularity with some of this data. That will all help with trying to negotiate with third-party countries in those areas that are most important.

One thing did occur to me—Tom had better jump in if I get this wrong. The TiVA ratings are, of course, incredibly important, and those stats are still evolving. We discover that if we look at the world through that lens, exported services are even more important to us than they initially appear.

There is one little wrinkle on all of this. I think it is important to remember—to be honest, I mention this only because I happened to notice that it was not in my briefing—that we rely a lot on the cumulation of services when we are exploiting preferences in preferential free trade agreements to allow us to claim x amount of UK content, which is an incredibly important thing as well. These things cut both ways.

Chair: Thank you. I should have said at the beginning that the Chair, Angus MacNeil, sends his apologies; he is unable to be here.

George Hollingbery: Thank you, Mr Chairman. He did let me know.

Q310 **Julia Lopez:** I think you have answered all the questions in my section, so I will ask some different ones.

There is some discussion about the potential for mode 5, which is services in a box. Have you had any discussions at the WTO on looking



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into how we can bring it into more services agreements?

George Hollingbery: At this stage, mode 5, so called, is very much part of the academic world, rather than the practical world. I think a good deal more work needs to be done before it becomes a thing, to use the modern parlance. At this stage, the trade policy group is well aware of the existence of thoughts about mode 5, but at the moment I think things are nothing like sufficiently developed for us to begin to actively consider it in negotiations, or as part of our services offer. Tom, do you want to add anything on mode 5?

Tom Josephs: I think that is right. It is an incredibly interesting area of research, and we are very interested in seeing where it goes. To me, what it really shows is the importance of looking at services and goods together, and looking at your trade policy as a comprehensive, holistic thing, rather than looking at specific sectors too narrowly. That is very much the way we approach our policy development. We have teams of experts who are looking at what you might call cross-cutting areas in trade agreements and trade policy—things like intellectual property procurement, which can cut across all sectors—and working out what the best policies are to support the UK economy through trade in those areas. We are also looking sector by sector at the policies that can best support each sector, to give us that comprehensive picture.

Q311 **Julia Lopez:** Minister, you said that when it comes to services, it is often not Government to Government, but regulator to regulator. Do you face barriers within Government to the work that you want to do, particularly when it comes to the independence of regulators? I am thinking about how we could have a closer relationship with Switzerland on financial services, for instance. Have you had discussions with the Treasury about how that could be done, and how we could encourage the regulators to talk together about how we would intensify our co-operation on services?

George Hollingbery: We have to recognise in Government that ultimately the arbiter of financial services is the Treasury, and rightly so. The longer I have been in the Department, the more I think that we have developed the idea of, and have become recognised in Government as, conveners across many different Departments. It would be fair to say that, rightly, the Treasury jealously guards its right to regulate financial services. They are an incredibly important part of the economy, and an area where the Treasury has deep expertise, but we are obviously actively involved with it on where our regulation of financial services goes. I do not want anyone around the table to think that there is a total dog-in-the-manger attitude here. That is not the case. This is just the right place where financial services need to be regulated.

More generally on the issue of regulation, it is worth noting that while in many areas Government does not have a reach-in power to make regulators talk to each other and come to agreements about how things can be progressed, every single time we talk to third-party Governments, whether through JETCOs [Joint Economic Trade Committees], joint committees or FTA negotiations, it creates a slipstream in which



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incentives, and indeed encouragement, can be given to regulators to talk with each other. If we can pull those along in the slipstream of those negotiations and bring them in at the same time that we are having the JETCOs and other joint discussions with third-party Governments, so much the better.

Those have happened in almost every case where we are involved in those bilateral discussions, in markets such as China and India; we have seen agreements produced between regulators, and that is greatly to be welcomed. While we do not have reach-in, we can have influence, and we can provide the opportunity to bring people together, and that is very much what we do.

Q312 Julia Lopez: In that vein, in your power as a convener, have you done anything with professional services bodies so that they can have recognition of one another's qualifications—for instance, so that there can be recognition between us and Australia or New Zealand on how we could recognise accountancy or architectural qualifications?

George Hollingbery: The most recent example of that that I can adduce specifically is the Scottish accountancy body working with New York, where a mutual recognition of qualifications was produced. MRPQs are of course a very important issue, as are MRAs, and we get into a forest of acronyms—you start to suffocate if you are not careful, because you are so surrounded by them. We have signed MRAs with Australia and New Zealand on a range of issues, usually on products, and I am happy for Tom to elaborate a little further.

Of course, the mutual recognition of professional qualifications is a gold standard, and something we would all like to do a lot more of—particularly, in the United States, at the sub-federal level, but that complicates matters because it is not necessarily the role of an FTA, which is at the federal level. None of these things are straightforward, and we come back to the same conclusion time and again: for services, because there are no goods crossing the border that it is easy to regulate and see, there are many, many different moving parts that make this quite challenging, but it is absolutely a focus for the Department, and where we can encourage MRPQs, we absolutely do. Tom, do any further examples come to mind?

Tom Josephs: As you say, these are largely regulator-to-regulator agreements, but FTAs have been used to provide momentum to support and encourage those agreements to take place. Some FTAs have set up a more formal process under which that can happen, and in some cases it is more that the FTA has provided the momentum to get that going. As the Minister says, we see this as an incredibly important area of our trade policy, and one that we are doing lots of work on.

Q313 Gareth Thomas: This is linked to some of the questions that Ms Lopez has been asking. I wonder how you decide what your priorities are. Do you go down the route of the multilateral agreement? Do you just pick somebody who makes an approach to you and says, "This regulator in



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Australia might be up for a conversation about mutual recognition"? Or do you look at FTAs? How do you decide where to put the focus of the Department?

George Hollingbery: There are two parts to this. Clearly, any multilateral agreement is preferable to anything else. What we are looking for is worldwide liberalisation of trade, so having something across the 164 WTO members will always be better than the alternative, because then there is complete predictability across all members; everyone knows exactly how it works, and their rights and responsibilities.

Q314 **Gareth Thomas:** And the chances of that happening at the moment are limited. Presumably, you have to make some choices. That is what I am interested in. How do you do that?

George Hollingbery: Let me develop that a little further. That is absolutely the case. Trying to strike multilateral agreements at WTO level is very hard. It is very desirable, so there is a lot of work going on on that basis, but it would be fair to say that progress on many of these issues has been quite slow.

The next best alternative is plurilateral in a number of areas, such as e-commerce domestic regulation, where great steps have been made recently. E-commerce is definitely progressing, though perhaps not as fast as we would like.

There are groups of countries that will come together under the WTO umbrella to create, across those that wish to be involved, the same sort of agreement that would ideally happen on a multilateral level. Necessarily, and fairly straightforwardly, those are easier. You volunteer to be part of that. If you can make that happen, that is much more valuable than almost anything else.

There is a tension, of course, at WTO between developing countries and the developed world. Very often, the developing countries and the groups that represent them will attest that some of those steps forward are being taken in the image of developed countries, rather than for developing countries. I think that has become much more recognised as an issue. Really sterling efforts have been made to ensure that developing countries' voices are heard, and that the rules evolve in a way that suits them. That has made this plurilateral approach more successful. Things are now moving forward with more momentum.

Thereafter, of course, it is bilateral. Even in the case of countries that are grouped together in whatever customs union, it can be one to one, but with countries in the groups. There—and this is the second part—we have established, as the Committee is well aware, Her Majesty's trade commissioners across the world, currently in nine different regions but soon to be 10.

There are individual ambassador-rank trade commissioners in each market, whose job it is to create a specific trade plan for that market. As part of that, the route to market access, the route to mutual recognition of

professional qualifications—MRAs—are all identified as strands of work that will be pursued by experts in the field.

Everybody, every business, every participant in post and, indeed, the sector teams back in the UK have input into these plans, so that we have a very clear idea of where we can go, particularly with services but, of course, with goods, too, in each of these markets, and of which particular parts of the markets, in which particular way in each individual market, and so on.

I would like to think that, in the round, the Department is thinking cohesively and strategically about this. We want multilateral wherever we can possibly get it, but that is glacially slow. We are much more likely to get progress down at the bilateral level, but that will necessarily be narrow and, therefore, of less general use to all comers. That approach seems to us likely to yield the most for UK businesses.

Q315 Chair: When is the Australasia commissioner starting work?

George Hollingbery: The best estimate I have for that is within a year. It will continue to be covered from Asia-Pacific, as it has been up to this point. As and when the appointment process is gone through, when somebody has their feet under the table and starts to work, at the far end within a year. I hope it will be sooner.

Q316 Owen Smith: I want to ask you about the connection between trading goods and services. The Department's submission to the Committee says that the increased interlinkage between goods and services trade "means that restrictions imposed upon the goods sector, such as tariff and non-tariff barriers, are likely to have an indirect impact on the domestic services industry in the UK". How much of an impact do you think it might have?

George Hollingbery: Plainly, if you have on average 30% of any goods contract made up of value added from services—that is, of any goods sold, approximately 30% is services of one sort or another—you are paying tariffs on something that is not actually a good. Therefore, any fall away in the level of tariffs that can be achieved helps stimulate services businesses, because it allows us to be more competitive.

Likewise, any opening up of the services market that allows services to be applied more competitively, perhaps in-market rather than out of market, however it is, has exactly the same effect the other way round. It makes the good product in-market more competitive. Those things are absolutely intrinsically linked. It is not an easy thing to begin to deal with in negotiations. It is not necessarily something where you can specifically say, "I'm going to do this on goods, so I can do this on services," or the other way around, but nevertheless, you have to recognise that by liberalising a goods market, you can make services much easier. By facilitating the services market, you can make goods more competitive.

Q317 Owen Smith: Has the Department done an assessment of how much greater the cost to services would be if we went down a no-deal Brexit



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route and therefore saw an increase in tariffs?

George Hollingbery: You will understand that there are two trade Departments in Government. There is one that looks after the European Union and deals with all the negotiations of that, including the future economic partnership. Plainly, the Government's official position is that we still want to achieve a deal, and I believe that will still be the case in a week and a half's time. I speculate, but I think that is what the candidates have said. We are looking for a deal whereby all the issues can be negotiated in detail through the FEP [Future Economic Partnership] by the Department for Exiting the European Union with our European counterparts. I have no assessment from the Department for International Trade because it is not our remit.

Q318 **Owen Smith:** Do you have any idea of how much more costly it could be for our trade in services if we went out on no deal, as is looking increasingly likely, given the position taken by the two contenders?

George Hollingbery: Will it be costly for our services to access Europe? As I understand the modelling—I have not looked at it in detail—it will be more expensive, without any question. Certainly there will be barriers that were not there before, almost by definition.

Q319 **Owen Smith:** Will it be the job of your Department to put mitigatory measures in place to limit the impact on the trade in services?

George Hollingbery: Our job is to ensure that globally, where we can, we negotiate with third-party countries ex-Europe under the current machinery of Government—that is our job. We are there to actively negotiate with third-party countries multilaterally, plurilaterally and bilaterally to ensure as liberal a flow of business across the world as we can.

Q320 **Owen Smith:** What happens when we have left? Obviously, I presume that it then reverts to your Department to take responsibility not only for ex-EU, but for EU, too. Should you not be preparing for the possibility that you are going to have all this extra cost for services?

George Hollingbery: One would imagine that were that to happen—I have no intelligence to offer on whether it will—the expertise that comes from one of those Departments will be joined together, and that expertise will therefore exist.

Q321 **Owen Smith:** Can I ask you about a slightly separate, but tangentially related issue? We have seen a big depreciation in the value of the pound in the past month, three months and year. We are the worst-performing major currency versus the dollar over all those time periods. Has the Department done any assessment as to what a weaker pound—obviously it is perceived as being weaker because of the potential of a no-deal Brexit—would do to our trade in services?

George Hollingbery: The immediate concern of the Department for International Trade where we have direct responsibility is our day-one tariff package. That of course does not apply to services, but it is the most



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relevant issue I can bring to the Committee on this. Plainly, one imagines, although one simply does not know, that there will be a weakening of sterling in the event of us leaving without a deal. Certainly the models suggest that, and there has been a great deal of press coverage over that recently. I do not think anyone can know the facts, because actually it has already weakened substantially, so who knows.

This has an effect on services, because as we have said, 30% of most goods packages are services. We have tried to balance our day-one tariff package in such a way that it mitigates the adverse effects on the economy in two particular areas. The first is those in the lower income deciles. Daily and weekly consumables are a much higher proportion of the expenditure of the bottom two deciles than they are in the other eight deciles. On that basis, we need to ensure that those two deciles do not experience inflation in their weekly bill for shopping in a way that other households can cope with. We have therefore entered into a moderate liberalisation of our overall tariff package.

On the other hand, there are also areas where it is absolutely clear that if we do not put in tariffs to protect some of our more vulnerable industries, we could also end up with some very difficult competition in the short term. There are certain areas that we have picked out, such as ceramics—not steel, because that is 0% internationally—where we are putting moderate tariffs in to ensure there is room for those businesses to breathe in the short term. It is very important for the Committee to know and understand that that is a temporary tariff package. It will be reviewed over a year to see what the actual affects from exit have been, and then the package will be readjusted thereafter, to make sure that those things that need to be changed to ensure that those mitigations carry on are put in place. That is not directly about services, but it is the one area where the Department has a very clear input into potential currency changes.

Q322 Owen Smith: What about the assessment that the Department has made about the impact on an FTA with the United States, which is obviously going to be a major objective for the Government in the event that we do exit the EU, of our having a significantly weaker pound? Obviously, our sterling is looking feeble at the moment versus the dollar.

George Hollingbery: Our trade working groups meet any number of times—I think it was the fifth round last week.

Tom Josephs: Sixth.

George Hollingbery: The sixth round last week. As the Committee knows only too well, we may not enter into free trade negotiations at this stage—it would be contrary to the duty of sincere co-operation—but there is nothing wrong with us scoping exactly how the US economy works: where regulation sits and where it doesn't, how it differs from the UK economy and all the things you would need to know to be able to negotiate a substantial free trade agreement. As part of that, clearly there will need to be some economic modelling done. If the competitiveness of one of your major businesses is affected in—

Q323 Owen Smith: Have you done it in respect of a much weaker pound? That is the question.

George Hollingbery: I doubt we have done it specifically on currency, because at the moment there is far more work to be done on the actual structure of the US economy and the structure of the UK economy, and about what we might negotiate for. What we can say ex the value of the pound is that a free trade agreement would be valuable in any regard. A huge amount of our trade is done with the United States; it is our largest single country destination for exports. We have an enormous running foreign direct investment stock in the United States, so it is an incredibly important partner to us. Modelling exactly what that economy does and how it does it is by far and away the most important thing at this stage.

Whether the US to sterling rate has gone up or down, I suggest to you that we'd still want to try to do an agreement with the United States. Thereafter, it would be a matter for individual companies as to whether they think it is any longer competitive for them to export to that market. I am not sure, in terms of our remit and what we are there to do, that that piece of modelling is terribly useful for us. I think we need to be very clear about what we want out of a free trade deal, try to understand and predict what they want out of a free trade deal, and then work out a negotiation direction thereafter. That seems to me to be what we should be doing.

Q324 Gareth Thomas: How far do you think we are away from that comprehensive free trade deal signing ceremony in Downing Street? Is it a matter of months, as one of the candidates to be Prime Minister would appear to be indicating? Or are we in EU-Mercosur territory, and 21 years away?

George Hollingbery: I am not going to be drawn into making a prediction that I have literally no basis for making. I think I can say with some degree of confidence that it is unlikely that on 1 November we will start a free trade deal with the United States. If you asked me to project to 2029, I would hope that we had one on board by then. In those circumstances that is of little or no use to you at all.

What I am really saying is that free trade agreements are complex beasts. There are all sorts of competing interests. This isn't just a matter for either the President or the Prime Minister of the day to put their signature to. There is a great deal of political negotiation that needs to be done with all sorts of interest groups across the piece. The United States has a system of approving free trade agreements that means they have to go through political approval in Congress, which can and cannot, may and may not, be a complication. Who knows?

I am absolutely clear that a deal is hugely to the mutual advantage of both countries, always recognising that the United States economy is larger than the UK's economy; it would be foolish not to do so. Because our trade flows are so enormous, even a relatively shallow free trade agreement, which might be able to be constructed faster, would be of great use to both economies.

Q325 Gareth Thomas: Would a shallow deal be possible within three to five years? Would a more complex one take five years or more?

George Hollingbery: There is little or no profit in speculating about how long something might take, when you simply have no idea.

Q326 Gareth Thomas: It is a reasonable question to ask, in the context of the resources that the Department is going to have to invest in that and the effort across Government. It seems perfectly reasonable for the Committee to expect a Minister in your position to have a view on how long it will take and to ask that question.

George Hollingbery: Up to a point. The potential gains from a US free trade agreement are so large that actually taking five or 10 years to make it happen would seem to be a reasonable decision. I expect that, because there are sufficiently large mutual advantages on both sides for a free trade agreement to be struck, we will be able to do this, in relative terms, with reasonable expedition. But I am absolutely not going to be drawn on what that means necessarily—certainly in terms of years—because I simply do not know.

What I do know is that it is absolutely a good thing to be doing. Fifteen to 20 years is as long as it could possibly take, but we believe that the potential advantages are so great that, even with something that is not as deep as we would ultimately like it to be, it is worth pursuing in any event. The trade flow is so high that the smallest changes—from regulation and on lawyers to tariffs on beef—could make a very large difference to the UK economy.

Q327 Gareth Thomas: If there is a no-deal Brexit, what areas of services are you worried will be most exposed to a shock, in business terms?

George Hollingbery: I am afraid to say I have to make the same reply I made before. We are not tasked with what happens because of EU exit. We are tasked to take the position on the day we leave and ensure that we are as well prepared as we can be to strike out with our own free trade policy, liberalising the world's markets, working at WTO and making sure we have a trade remedies authority or equivalent in place. We will make sure we have transitioned as many of the agreements that the EU currently has with third-party countries as possible so that they are in place and can be used by consumers and businesses. That is what we are tasked with doing, and that is what we have been doing. We have had some very comprehensive meetings recently about our readiness for exit, and I believe that the Department for International Trade has everything in line technocratically at least to be doing exactly what we are there to do.

Q328 Gareth Thomas: Let me take you back to negotiating FTAs and, as part of those, trying to liberalise trade in services. Trade-offs might have to be made between securing a more liberalised situation with services exports as opposed to goods. What sort of trade-offs are the Government willing to contemplate?



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George Hollingbery: Plainly, those are the sorts of pieces of information that would be of great value to any third-party negotiator. Therefore, it is not something I would begin to talk about in a public forum of this sort. I hope the Committee will understand that. When we have done a huge amount of work on that, where we know we can give and where we know what we want—as yet, I don't think those opinions are fixed—the publicly available outlined approach, which will be discussed by Parliament in due course, will be agreed by Cabinet and will give a good idea of what we want out of a free trade deal.

If you take the United States as an example, they, of course, have already published their mandate—what it is they will be negotiating for. Observers around the Committee will have recognised that that mandate is pretty much identical to every other mandate that the United States issues. We would hope that ours will be high level, yes, because we cannot reveal too much of what it is that we wish and where we want to get it, but at this stage we certainly cannot offer up what it is that we think we can give up to get any part of that deal.

Q329 **Gareth Thomas:** We are already a very open economy in terms of services, so it is difficult to see immediately what we have to offer up that would represent a significant win for a potential FTA partner.

George Hollingbery: I come back to the same point. That is a perfectly reasonable observation. We are the sixth, seventh or ninth most open economy in the world for services—it depends on how you measure it. That undoubtedly makes it more challenging to negotiate more access to other people's markets when they already have that access into our market. I completely acknowledge that point.

That does not mean that there are not areas where we can improve, and indeed we are doing quite a lot of work in the UK to work out where we are not as open as we could and should be. We are therefore talking to other Government Departments about what flexibility might be offered. For certain businesses in country X—let's call it the United States for now—there may well be things where we are not as open on those measures as they would like us to be, and indeed there are things we can do. Likewise, we can demand equal and opposite compensation in the US economy.

Thereafter, of course, there are issues around goods too. There may be areas in goods where it is reasonable to consider trades on goods against services. Governments are tasked with making these judgments at a very high level, and it may be that we can work out packages that work for us on that front too.

Q330 **Gareth Thomas:** Finally, that lack of willingness to be transparent with Parliament and the country about what you might offer up inevitably feeds speculation and concern that the Government would be willing to open up public services to the US Government.



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George Hollingbery: I think we just need to deal with this one, absolutely and finally. There is actually a debate on Monday evening about this, and I would encourage you all to come along and take part in that.

It is my job to be absolutely certain that public services are not available to be traded away, or indeed demanded, by bilateral partners in free trade agreements. I have asked officials to give me every last possible word on this, and I am absolutely satisfied that there is no way that access to tendering for NHS services or, indeed, our right to regulate in public services generally can be challenged on a WTO basis, whether under an FTA or just under WTO rules more generally.

I think it is fair to say that there are areas where there are potential concerns. Procurement in the NHS, in terms of buildings and services provided and so on, is not one of them. It is perfectly reasonable to be a little concerned about our drugs bill—there is certainly a feeling in the United States that they will demand access to the NHS drugs market in a way that is not currently available—and there are some reasonable concerns about data and how that might be used, and so on and so forth. In both of those cases, I have had deep briefings from officials, and I am absolutely convinced that there is not a problem in either of those areas.

Straightforwardly, the United States drugs market is not helped by the fact that there is an incoherent policy on health in the United States. There are multiple providers, which means that the market's power of drugs purchases in the United States is very limited, whereas the market power of the NHS is very high. Now, it does not seem to me to be particularly coherent for a third-party country to say, "You've got somebody who buys more drugs than we do, and we think that is unfair because you get better prices than we do." There are a thousand areas of commerce with the United States where I suspect we could say exactly the same, equally and oppositely, and there is no way that we are going to allow that purchasing power to be undermined by a free trade agreement. It is simply not going to happen.

If the United States wants to get its house in order and ensure that my brother-in-law, who died of a brain tumour, could actually have got his treatment on a national, socialised version in the United States, and therefore there is a monstrous market for drugs in the United States that can dominate prices, all good and power to them; let's make that happen. However, there is no way that our purchasing power because of our size is going to be undermined by a free trade agreement. It is simply not going to happen. There is literally no mechanism that I can see where it would happen.

Anyway, on data, which I suspect we may come to, so I do not want to go into too much detail—will we be moving on to data later, or should I cover it now?

Q331 **Chair:** We will come to it later.



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George Hollingbery: Okay. I am also satisfied that that is entirely down to UK regulators, and it is not under the control of FTAs or, indeed, the Department for International Trade.

I think that as far as we possibly can, we need to put this to bed. The NHS has never been in any FTAs signed by the EU, nor ever will be under FTAs signed by the UK Government, something that is up for sale to third-party countries under the terms of an FTA. We are protected under GATS, and we are protected under individual agreements. Every single agreement that has been signed has made an exception for public services and the right to regulate them. That has been the case; it will continue to be the case, and there is simply no rational argument that says it is any other way. That is the way it is going to be.

I think this is getting to a point where it is simply scaremongering, and we have to calm this down. We have to get people to be rational about this. There are one or two little areas where we need to give more detailed responses, and where we need to be clear that there are some issues that are not quite as straightforward as that. However, on the general principle, it is not going to happen.

Owen Smith: Minister, you have been incredibly strong and clear that the NHS service, as it were, will not be up for sale, and I hope that is reassuring to people. However, you said that you think there will be pressure, particularly in terms of a US FTA, to look at the UK drugs market. There is a long-standing view among US drug companies that they would like to see higher prices in the UK, essentially. You said a moment ago that you could not see the mechanism by which that might be addressed. I presume that the mechanism would be that they would see the pharmaceutical pricing regulation scheme—the scheme for periodically regulating drug prices in the UK—as part of an FTA. Has that come up in discussions at all?

George Hollingbery: Yes, plenty of these issues have been discussed.

Q332 **Owen Smith:** Specifically the PPRS?

George Hollingbery: Tom, I will leave this to you, because I will get lost fairly quickly.

Tom Josephs: I am not aware that that specific issue has come up, but I have not actually been involved in all the discussions myself.

George Hollingbery: I think there is—

Q333 **Owen Smith:** Is there any chance you can come back to us about that?

George Hollingbery: I would be very happy to do so.

Q334 **Owen Smith:** That is a very specific and obvious way in which there might be a change to the pricing structure in the UK for medicines.

George Hollingbery: I recognise it as a mechanism, but I do not recognise why the UK should possibly begin to think about responding to it. That is the point I am making.



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Owen Smith: That, too, was reassuring.

George Hollingbery: This is a useful conversation, because we are concentrating on areas where there is some doubt. Those are the bits that we need to deal with. I commit to write to the Committee on that issue and also, depending on the conversation we have on data, on that issue as well, if it would be helpful, as a matter of record, to have a detailed response.

Q335 **Owen Smith:** I am going to pick up on Mr Thomas's earlier response on the mandate that might be sought by the Government from Parliament to take forward FTAs. You said that, in the States, where this is made public in debates in their legislature, it tends to be the same mandate every single time. I think you were suggesting that we would want something a bit more bespoke and concrete and realistic. How are we going to see that? Where is the Government's thinking about what that process will look like, to ensure at the get-go scrutiny of what the Government are seeking to get?

George Hollingbery: We have laid the Command Paper, which I am sure you have seen, which talks about the scrutiny of FTAs.

Q336 **Owen Smith:** It is quite high level, though.

George Hollingbery: I am not sure that it is; I think that is a slight mischaracterisation. We have said we would like to publish an outline approach, which will necessarily be quite high level, because if we get down into detail about every part of the negotiation, we give away our hand and it makes it almost impossible to negotiate.

There is an equal and opposite argument, which I think is reasonable, to a degree, that the more detailed you are and the more that Parliament is required to accept that, the more the negotiator's hands are tied—but the more the negotiator can say, "My hands are tied." There is a tension there, there is no question about that. At the same time, without knowing exactly where negotiations are going to go and exactly how they will pan out, to be tied too specifically would be a positive impediment, there is no doubt about that. In fact, there is a perfectly respectable argument that it would probably stop you going into the negotiating room in the first place if the mandate becomes too detailed.

Thereafter, we have said that we want to constitute an expert committee tasked with looking at the progress of FTAs as they go through their iterations. Our vision is of that committee having the resources it needs to bring in the people and texts that it needs, on a private basis, but nevertheless scrutinised by parliamentarians.

Q337 **Owen Smith:** I really want to concentrate on the front end, if I could. Will a vote in Parliament on what that mandate looks like be binding?

George Hollingbery: It will be a negotiation— Sorry; I apologise. It will be a general debate on the outline approach.

Owen Smith: So it will not be binding at all?



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George Hollingbery: Well, okay. I think it is germane to point out to Committee members that, if it comes in any other form, it is then amendable. Any reasonable Government has to look at the processes that they put in place for dealing with something like this, to make sure that they are robust for all circumstances. While I can see that there is some argument that having an amendable motion could be good, it could also make it almost impossible to do free trade agreements. We have to balance all these issues and discuss them widely across Government before we get to a final point where we are clear about what we are going to do.

Q338 **Owen Smith:** Do you accept that, in an era in which there is clear public demand for, and a trajectory towards, greater transparency about trade deals, having a non-amendable, non-binding general debate on a general position will exacerbate the problems and the feeling that the Government are effectively asking for carte blanche?

George Hollingbery: No, I don't accept that. It won't be carte blanche, because it will have been informed by the wide-ranging consultation that we undertook. I think the Secretary of State came last week or the week before and promised that we would publish before recess, and indeed we will. It will be an interim report about the responses, the rough ideas and so on, but not a full analysis; that will be done at a later point. But the mandate that is agreed by Cabinet will be shaped by that consultation.

The consultation has not been just a matter of decoration; it has been one of the most widely responded to consultations in Government history. Even if you strip out all the responses from the NGOs, of which there were many, many hundreds or thousands, a lot of which said exactly the same thing, the depth and level of the responses to the consultation was very high indeed. It put a great deal of information into the Department, and that will shape what we suggest to Cabinet. So this is not just carte blanche. The responses to the consultation will be out there for all to see, and everybody will be able to see whether the outline approach has taken account of those consultations. It is not as if the public will not have been able to have their say.

At the same time, we have the strategic trade advisory group. I think there are 12 members; I may be wrong by a couple. It is there to reflect—across all of trade policy, but of course free trade agreements will be part of this—what civil society thinks is needed from free trade agreements and trade policy more generally. That will also be used to shape our thoughts. On top of that, we have ETAGs—the acronyms keep coming—the expert trade advisory groups. They will be there, sector by sector or outcome by outcome, for example sustainability, to advise on what is going on—specifically, in this case, in free trade agreements.

All the way through this, there are plenty of fora in which public opinion, the wider public and the wider expert environment will be able to feed into what we are doing. I absolutely understand the desire for transparency and I believe absolutely in it, but I also believe that we have to be incredibly careful about what we open up at the front end of these



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negotiations. If we do this incorrectly, we will not be able to negotiate with the freedom that we need to negotiate with to get the best result for the country. I am reasonably satisfied that the system we are suggesting at the front end is the right one.

Chair: We'll need plenty more time to discuss those particular issues. Before we go to Faisal, Gareth wants to ask a couple of questions.

Q339 **Gareth Thomas:** Obviously, opening up access to trade in services globally is a key part of our trade policy as a country, assuming that Brexit is to go ahead. What do you see as the main challenges to improving market access conditions abroad for UK services and suppliers, and what are you doing to tackle those?

George Hollingbery: This is not a repetition but a re-emphasis of comments I made earlier. We clearly had that tiered system, through multilateral down to bilateral, but the most important part there is the very clearly divided role of nine trade commissioners to look at their individual marketplaces. Overlaid on top of this, we have recently created a digital market access service. Thus far, this is internal facing. I wouldn't say it is in beta testing, but it has been inward facing, inside Government, to make sure that it actually works, with people from outwith the Department using it and making sure the interfaces work.

Very shortly, we will be making available publicly to all comers—companies both here and across the world—a market access reporting service. It is a very simple digital form that says, "We have this problem with market access. This is the problem. This is how we think you might sort it. These are the people you might need to be talking to," so that we can feed those things into our regional trade commissioners and they can begin to triage all the potential opportunities.

Personally, I think there is one danger with this service, which is that it will create a set of expectations that everybody's market access problem will be dealt with. Necessarily, the Department will prioritise; it will triage through ones that it thinks are possible to deal with, that will be done in a reasonable time and that, if solved, will create a sufficient gain for the country to make the effort, over what can be tens of years in some cases, worth pursuing.

I think I have brought this example to the Committee before, but I will use it once more, because it does illustrate the point. In China, there is a very large market for cosmetics, as there is a very large number of people. We have a 5% market share in the cosmetics market in China, whereas around the globe that tends to be more like 20%. The reason is that UK products are not tested on animals, and regulations in China—at least as I understood it a month or two ago—require imported cosmetics to be tested on animals. That is a classic market access barrier. If we can sort that one out and negotiate with the Chinese authorities to get that dealt with, which may require a trade on the other side—who knows?—and if we can make that happen, that on its own would be worth US\$10 billion annually in turnover to the UK economy.



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In relative terms, these are incredibly important things that we find out about. We are doing a lot of it; the trade commissioners are already pivoting to market access in their key markets, and we believe that analysis suggests that, at least in some examples, you can find trade access barriers that are frankly worth as much as FTAs in certain circumstances.

Q340 Gareth Thomas: You have the ambassadors in place, you have the service tool coming on board and you have given an example of what the tool might potentially lead to, but can you point to any areas of successful market access work that have already been done and already delivered a significant benefit to UK plc?

George Hollingbery: There are a great many of them. I will give you one that is a little more obscure, just to give you a flavour. There was a report from Taipei, from somebody who wished to get involved in a new urban train line, that there were no officially sanctioned English versions of the contracts. You might say, "Well, you can just get a contract translated from the Chinese and that will be fine, won't it?" The answer is no, because law is a very precise business and you would have to be absolutely certain that the ownership of the contract on the other side was indeed in the hands of the Government of the day and that what they had said in English was what they meant in English, and so on, so that it was justiciable. Just by asking the Government in Taipei to produce an official, sanctioned English version, this particular contractor was able to pitch and to win the contract.

That is a slightly odd one; the ones that are rather more obvious are that post-BSE—that was a long time ago now—there are still markets out there from which British beef, British pork through swine fever and British lamb through scrapie are excluded. Over the past two or three years, we have made some real steps forward in many markets on those three issues. In China, Taiwan and Japan, variously, those meat products are now allowed into the country where they were not before.

That has all been the result of market access work, which was previously done by DTI and Foreign Office staff in embassy, and more recently by DIT. Some of them have taken coming on for 20 years to get back in, but these are very large numbers, and even on a 15 to 20-year process, which has consumed a lot of time, it has been well worthwhile.

Q341 Gareth Thomas: We have dived straight into the US as a potential target for services liberalisation. Is that the priority for an FTA deal for the Department, or are there other significant priorities? If the US is the priority, what are you going to do about the sub-federal level access, particularly the restrictions on foreign suppliers that are covered by things such as the Jones Act?

George Hollingbery: You are absolutely right that in the US market, this is one of the biggest challenges: some of or, particularly for services, quite a lot of what you want to do is not regulated at the national level. I come back with the same rough answer I gave earlier, which is that yes, we



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want to do the FTA, and yes, it is a priority. It is a priority simply because of scale more than anything else. I don't think anyone underestimates the potential difficulties. There clearly are potential difficulties, but even a relatively shallow deal, if that is unfortunately what we have to end up with, is worth pursuing.

We can start work down at a sub-federal level without having to worry about the FTA. Antony Phillipson brought his regional trade plan to the departmental board only on Monday. He produced a lot of evidence and a very clear and comprehensive plan for exactly how he was going to pursue market access at a sub-federal level. It is very much recognised in the Department, and indeed out in post, that this, in the United States, is a potential area of real benefit.

There are some tensions. Quite a lot of what is avowedly operated by the states also has federal elements. I am not suggesting for a moment that this is part of our export strategy, but the legalisation of cannabis has both federal and state elements, and the same is true of a lot of other areas. We need to have that in our heads when we work concurrently with the FTA negotiating teams, to make sure that where there is that interaction—whether it is about accountancy, financial regulation or the standards for particular goods—we are working on the same issues at the same time. It is not uncomplicated, but it is certainly an opportunity that we need to pursue.

You look very amused, but we are not going to be exporting cannabis.

Owen Smith: It is an amusing example to choose.

George Hollingbery: It is just that it is an example of the clear interaction between federal—

Owen Smith: I presume that we are not proposing to start exporting weed.

George Hollingbery: I would not want the record to show that I am proposing that we export cannabis to the United States. That is not part of the DIT's plans.

Q342 **Gareth Thomas:** It would be interesting to hear a little more about Mr Phillipson's plan. I asked specifically about the Jones Act as a key impediment to a deeper relationship for British services companies at sub-federal level. Can you offer us a bit more clarity?

Tom Josephs: As the Minister said, we are taking a comprehensive look at all the potential areas that we would want to explore with the US in a free trade agreement.

Gareth Thomas: That is a wonderful non-answer.

Tom Josephs: I don't think that at this point, as the Minister said, we want to be providing detail on our particular offensives.

Q343 **Gareth Thomas:** Are you pressing for the Jones Act to be repealed or for



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there to be an exclusion for British companies? Or is that too much to hope for, and are you therefore not pursuing it as an objective?

Tom Josephs: As I said, I think those are the sort of objectives that we might set out when the Government publish their negotiating objectives. It would be pre-empting that if I set out that kind of thing at the moment.

Q344 **Faisal Rashid:** Dr Fox told us earlier this month: "Estimates are that the cost of trade in services...is about the same now relatively as the cost in goods about 50 years ago." How has your Department arrived at that conclusion? How are you seeking to address it?

George Hollingbery: I think the estimate is that the barriers to services are now roughly three times what they are for goods. What are the principal reasons for that? First, to a lot of nations out there, goods are more important than services and are therefore one of the early concentrations. Secondly, we had a discussion earlier about the difficulty of measuring services—exactly what is going to whom, and what is and is not a service. Because that is much harder to tie down, monitor or see, it is therefore much harder to deal with the barriers to services than with the barriers to goods.

On the whole, the most important thing in goods is probably the tariff level, which over time has probably dropped away. It is by no means just at nuisance level—in certain sectors it is certainly not—but in general the number and the value of tariffs across the world on goods has dropped away. It is then about certification and various other things behind the border, and indeed about how you construct your companies and so on.

In trying to come to a reasonable understanding of services and how to deal with them, you have to understand what is a service and what is not. That has become quite complicated.

Q345 **Faisal Rashid:** What I am trying to understand is how the Department came to its conclusion.

George Hollingbery: We have looked comprehensively over the last two or three years at what our services market is and which sectors it is involved in. If you look at the OECD's index of difficulty in trading services, you can see where we trade most; I think there are 20 metrics across that, or 20 sectors that are looked at. You can begin to get some sort of idea as to where your key export markets are, what the volumes of trade flows are and how difficult it is to trade those services in those markets. Those are never going to be anything more than approximations—frankly, that is the case across all of trade, to some degree, but probably more so in services than in goods.

Hopefully, as the data improves and we begin to be able to measure things a little more carefully, with some of the changes that we are encouraging on the OECD and the ONS to get down into the more granular version of services, we will have a better idea of which sectors are important, where we trade them most, and therefore what the impediments are in those markets that we need to address. As we assess



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them now, I think we were quoting from an academic paper from 2011 or 2012, which talks about that three times. It is plain that there are many more potential barriers to services than to goods, because they are rather hard to divine.

Q346 Faisal Rashid: Okay, let me put it the other way. What analysis of key barriers to services trade have you done so far, and what is your Department doing to eliminate these barriers?

George Hollingbery: I hate to repeat myself, but I think I will come back to the HMTCS. I don't want to take up lots of your time, but the regional trade plans are very detailed. Trade commissioners have taken an awful lot of time working with posts across their regions to work out where these issues are. We have put in the digital market access service, which hopefully begins to elucidate a lot more about where these barriers exist. There are plenty out there that we do not know about. We will only know about them if some of our companies report them to us. That is another step forward in the analysis.

All that granular information then comes together into deciding how to prioritise which countries, in which sectors, for what particular companies and at what scale, across these regional trade plans. The answer is that there is still a lot more to do. I am sure that the more time we spend in the field, the more granular our detail will get and the more specific we can be about removing some of these barriers.

Q347 Faisal Rashid: I will move on to digital trade. Dr Fox told us earlier this month that the key issue to resolve in respect of digital trade is how to protect data as it moves across borders. What solutions is your Department putting forward to tackle this issue?

George Hollingbery: I could try to walk on DCMS's toes here, but I will not. In the end there are two parts to this. One is what the Department for International Trade can do, which is to level the playing field. One of my officials who has now moved on, unfortunately to DCMS, described our job in the Department for International Trade as laying the pipework. It is for us to create the mechanisms by which data flows, and to ensure that they are as even as they can possibly be, particularly when it comes to data localisation, which is a completely unnecessary cost on the whole. There are some areas, such as national security, where insistence on data localisation in markets may be a legitimate way forwards, but on the whole, data localisation is protectionist. It is simply about creating industries at home, when 90% of the time there is no need for that data to be held anywhere near home.

We lay that pipework and ensure it is flat. We ensure that the data can flow on understood rules. We don't set the regulation. For that, you need to talk to DCMS, because it decides whether it is permissible to turn the taps on and allow the data to flow through the pipes that we create. It is entirely possible that we will spend quite a lot of time negotiating in a free trade deal about how data is treated in a free trade deal, and then that provision will never to be used, because DMCS is not satisfied that the

third-party country with whom we have negotiated a deal has data protections in place that are sufficient to satisfy it.

Q348 **Faisal Rashid:** What particular solutions are being put forward by your Department? I am just looking for some solutions from your Department.

George Hollingbery: Solutions for what?

Faisal Rashid: Solutions for resolving this by digital trade and to protect data across borders.

George Hollingbery: It is absolutely not our concern. We are not the regulator. DCMS is there to perform exactly this task: to work out whether a country's data protection regime is sufficient to satisfy what it believes to be the privacy of data, and the adequacy of that privacy, if it is held overseas. Whether that is satisfied or not is what will determine whether the pipes are actually used.

We set those pipes. We ensure that the FTA describes exactly how this can and will flow and how both sides will agree that they treat data flow. What we cannot do—I cannot speak to this—is decide whether adequacy has been reached with GDPR in the European Union, or whether Privacy Shield is regarded as adequate by the UK authorities. That is absolutely not in our remit.

Q349 **Faisal Rashid:** Are you aware of any solutions being put forward by that Department?

George Hollingbery: Clearly, we have conversations; we need to know where we are with third-party countries, and we need to know where the Department for Digital, Culture, Media and Sport is moving in its negotiations.

Q350 **Faisal Rashid:** You communicate with that Department, so do you know what solutions it is putting forward?

George Hollingbery: No. The answer is that until they have actually come up with the solution, it is certainly not my place to talk about how they develop their ideas. I will be governed by—or rather we, the Government, will be governed by—what DCMS comes up with as the solution for each individual country, so no.

We necessarily have contacts with DCMS on a regular basis; indeed, I have held a debate jointly with DCMS on these issues. However, the reason we jointly held that debate, which was over an SI on data, is because both of us are responsible for different aspects of data. If you want to talk about the political progress of data adequacy with the EU, Japan and the United States, then it is DCMS you need in here.

Q351 **Faisal Rashid:** Fair enough. techUK told us that “the UK has seen increasing examples of data localisation requirements in Government contracts.” How do you justify that, given that you argue against forced data localisation requirements in your submission to us?



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George Hollingbery: Data localisation, as I said in my previous answer, can be a necessity. I doubt very much that you would want quite a lot of the data that is held by certain agencies stored abroad; I am not sure that would be an entirely sensible thing to do. Actually, in terms of security, it is probably not a huge deal, but nevertheless I completely understand why national carve-outs for some sorts of data are thought to be necessary.

Australia has a carve-out for health services, for example, under CPTPP, so that they can and do localise their data. Again, personally, I am not absolutely convinced that that is necessary, but I understand the intent and it is permissible under that agreement. I cannot tell you, unless you can tell me, exactly where this data localisation is being imposed in Government here in the UK, but I should be moderately surprised if it is anywhere surprising, if you see what I am saying.

Q352 **Gareth Thomas:** Could we focus on the tensions between immigration policy and services liberalisation? Obviously, many people have talked about how easy it is going to be to negotiate wonderful new trade deals left, right and centre with all sorts of people, including India and so on. However, there will be inevitably be a demand from our partners for more access for people into the UK, so I wonder if you could just set out how you see that tension playing out in practice.

George Hollingbery: There are different horses for different courses, and plainly there are different appetites in different markets for different levels of access, which will produce a different response in each individual trade agreement. It is no great secret that the Indian Government are very keen that we do more on this front, and that the sanctity—or rather, I should say, the robustness—of the UK's immigration system trumps that. We know that there are issues about the flows of individuals from certain markets that make some of these agreements more difficult to reach.

I think I can say this: it is absolutely clear that unless you can have movement across borders dealt with in an agreed fashion in free trade agreements, it will make the liberalisation of services more difficult. That is not to say that our visa system is not already quite generous; if somebody wants to come and work in the UK and makes a reasonable case to do so, they can do so, and get a visa to do so. Let's take CETA, for example. CETA, I think, specifies a—is it two years?

Tom Josephs: I can't remember.

George Hollingbery: Basically, it guarantees a level of service to Canadian citizens on what they can apply for in the UK that, actually, is currently at a lower level than is available to everybody else. It is simply an insurance system, such that if we were to change our regulations at home—let's say we closed the border completely—an exception would be made for Canadian citizens under CETA. It is plain that quite often, what is being negotiated is not actually as open as what is already currently available. It is more of a safety valve.



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I also recognise that there is an imperative to make sure that, in a services economy driven by tech and by the movement of very highly qualified people—not even necessarily highly qualified, but highly specialised—there is going to be a need to allow the borders to work to accommodate that. DIT has very much made its case to the Home Office on this front, and we have had some excellent conversations with them. Again, it is not the Department for International Trade's job to regulate our borders—that belongs firmly to the Home Office—but I can tell you that we have had these conversations and that they know our position absolutely. So far as they possibly can, they will be looking with a mind to trade and services and national wealth and prosperity as they create the new border system.

Q353 Gareth Thomas: In short, is that code for saying that the Home Office and yourselves are in dispute—that there is not an agreement on the way forward?

George Hollingbery: It is not code for that at all.

Q354 Gareth Thomas: Just talk us through how you think service providers from developing countries can make the most of the UK's commitment in respect of mode 4? I ask that in the context of many developing countries spelling out to us that the movement of people under mode 4 is key, through remittances, to helping their economies to develop.

George Hollingbery: I think those are two slightly different things. The development of remittances is, I suspect, slightly different; perhaps Tom wants to elaborate on this. Mode 4 is generally coming to work in another country under contract, with a specific job to come to—correct?

Tom Josephs: *indicated assent.*

George Hollingbery: I see the point that sending money back to developing countries is very important, but I do not think that that sits as part of the overall view. The overall view is: "Do we need person X", "Does company X have the appetite for person y to be in market producing a good or service?", or "Is individual X applying to come across and work in the UK?" Those are two rather different things.

Mode 4 is there to make sure that, if you are Fujitsu and you have a specialist team that you need in the UK, you can bring them in on a temporary basis. Likewise, if you are an investment banker working for JP Morgan and they have a need in London for a specialist skill around the US law around trusts, you can be brought in to do that. I am not sure that the two things necessarily marry together.

The UK has a pretty open system. You can apply to come and work in the UK, and as long as you can show various things under our current immigration system, you will be allowed to do so. If the UK border authority has worries about why you are coming, what you will be here for and whether you will leave again, they can say no. I think it is fairly plain, from lots of recent events, that UK citizens, as a whole, have worries about the borders and whether we should regulate them.



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Most recently, the modus operandi has changed from absolute targets to the idea of allowing people that we need for certain professions; there is all the complication about the income threshold, which I am sure Committee members will have thought about deeply. That is plainly a system that works better for international trade than the alternative, which simply seeks to keep the numbers down. For us, the ability to bring people into market to perform functions, to allow other economies to provide businesses in the UK with services that are hopefully competitive, therefore making us more competitive in the long run, seems to me to be the right way to move things.

Tom Josephs: It is important to understand that mode 4 in FTAs is about temporary entry. It is not about the wider immigration framework. It is temporary entry in order to basically support the wider market access that is enabled through FTAs. It is things like intra-company transfers, business visitors or contractual specialists. As the Minister said, we work closely with the Home Office in order to develop policy that can support that. That is wildly inconsistent with the Home Office's wider objectives for the immigration system.

Q355 **Chair:** Minister, you know that there are certain skill shortages in the United Kingdom in any event. I know you say it is the responsibility of the Home Office, but does your Department lobby effectively?

George Hollingbery: Yes, I think we do. I think it is reasonably common knowledge that the Government are looking at those levels and looking at certain exceptions to them. I do not have a sufficient in-detail knowledge to speak on behalf of the Home Office, so nothing I am saying here should be taken as a Government view; this is just my personal knowledge. But yes, we have regular conversations with the Home Office about what is needed to facilitate international trade.

Sir Mark Hendrick: Minister, in an earlier response to a colleague's question, you talked about the fact that the UK's public services are protected by specific exemptions and reservations in EU trade agreements. That certainly is the case. If I cast my mind back, certainly people on the left of British politics said for many years that they thought further involvement in the EU would lead to the NHS becoming up for sale. Of course, that never happened, for the reasons that you pointed out, and I have just mentioned them as well.

However, once the new Prime Minister slams the door on the EU, as looks like it is going to be the case, we are going to be in a very weak negotiating position with the United States. I noticed that occasionally the word "Trump" came into one or two of your responses. Despite protestations from your Secretary of State and yourself that the NHS would not be vulnerable, are you still not concerned that the erratic nature of the US President and the way that he does deals—or no deals, as we can see with China at the moment, in terms of the trade war—means that there will be a very different scenario, with a new Prime Minister and a very fragile Parliament, and maybe the current Secretary of State is not in place and you yourself might not be in place?



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George Hollingbery: That's entirely possible.

Q356 **Sir Mark Hendrick:** Things can change very quickly. So are you not concerned, as many other people are concerned, that what at the moment looks like a red line might in fact become open and up for grabs?

George Hollingbery: Absolutely not even slightly.

Q357 **Sir Mark Hendrick:** Why is that, given the volatile nature of the current Government and the likely Trump Administration that you will be facing?

George Hollingbery: One of the joys of having a balanced Parliament is that controversial decisions are—shall we say?—a little more difficult to carry than others. If we were to produce an FTA that gave access to the entirety of procurement in the NHS, there is no way on this planet that it would ever clear the House of Commons in any reasonable way.

Q358 **Sir Mark Hendrick:** I think that is overblowing the question a little bit.

George Hollingbery: No, it's not. It is not going in; it is not going to be part of any deal. I think I can say this with a reasonable degree of confidence, and clearly I can only say this for myself and Liam Fox at the moment, and indeed for the current Government. And of course no Government is bound by its predecessor, so I cannot make an absolute 100% guarantee to you.

It would be political suicide for the Conservative party—one. Two, it's immoral and completely wrong; it should never happen. We have a fantastic national health service that provides care free at the point of use. We are protected by GATS, the straightforward GATS that underlies all free trade agreements. It sits there and says that we do not have to do this.

Yes, we could, in theory, give it in a free trade agreement, but I am absolutely confident that this would be a complete red line for every single British Prime Minister, whether they are from the Green party, the Liberal Democrat party, the Tory party or the Labour party. Nobody is going to do a free trade deal with the United States that gives the national health service up to private procurement—

Q359 **Sir Mark Hendrick:** Are you prepared for no deal with the United States, as we are with the European Union at the moment?

George Hollingbery: I'm not sure I understand the question.

Q360 **Sir Mark Hendrick:** Obviously, if we have a no-deal situation with the EU, we won't have the same trading relationship that we have at the moment. Indeed, after—presumably it is 31 October when we do leave the European Union—we will need a deal of some kind with other people. Now, you've mentioned that trade will continue around the world, but if we actually want a specific trade deal with the United States, we will have very little leverage at all. And if Trump turns this into a red line: "We want access to the NHS, or else"—



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George Hollingbery: Then we shall not be doing a trade agreement, full stop. If he turns this into a red line that says, "You either give"—

Q361 **Sir Mark Hendrick:** So you're prepared for a no-deal with the US as well?

George Hollingbery: I can only talk to you for the current Department and the current Prime Minister; plainly, I can't do more than that. And I can tell you now that if President Trump says that he will not—*[Interruption.]* You chose the date; I didn't choose the date. If he says that he will never sign a trade agreement unless he gets access to procurement in the national health service on a full and open basis, there will be no trade agreement, full stop.

Q362 **Sir Mark Hendrick:** What if he said, "Just the drugs, then. Go on—just the drugs"?

George Hollingbery: "Just the drugs"? No. We have lots of strengths in a deal with the United States, not least of which is very substantial flows of business into the United Kingdom from the States and not least of which is \$1.3 trillion of US assets. It's not like we are completely impecunious or powerless. We are the sixth largest economy in the world. I get slightly tired of us being told that we're this tiny little minnow who can't possibly survive on their own. It's complete nonsense all of this.

Q363 **Sir Mark Hendrick:** China is the second largest economy on Earth and he's declared a trade war with them. What do you think he would do with the sixth largest economy?

George Hollingbery: If the President of the United States decides that that is his red line, and that is entirely his prerogative, and that is what he wants to do, I cannot see any circumstances—this has to be a personal opinion, because we have a new Government coming—in which any British Prime Minister then says anything other than, "Ta-ra. We'll see you later. We'll come back when you've decided to change your mind."

Q364 **Sir Mark Hendrick:** Okay. In your submission to this inquiry you said: "We will protect the right of the UK Government and devolved Administrations to regulate our domestic market effectively." How will you protect the right of devolved Administrations to regulate their public services?

George Hollingbery: I will take Tom's advice on the detail of the legal protections. As far as I am concerned, as part of the United Kingdom, they are covered by our GATS obligations in exactly the same way as England is. You could ask exactly the same question of England, and I don't think it would be any more relevant. In the procurement of public services, the right to regulate exists across the piece for all those who govern in the United Kingdom.

Q365 **Sir Mark Hendrick:** Well, again, in response to an oral question in the House in April this year, you said: "We are currently in negotiation" with the Devolved Administrations on "putting together what is known as a concordat on how they"—free trade agreements—"will be implemented.



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The progress on that, to be quite frank with the House, has been disappointingly slow. From our end, we have not reached an agreed policy position.”

Are you not concerned about that? Given the responses you gave to one or two of my colleagues earlier about the role of Parliament in these free trade agreements, I am sure the Devolved Administrations would be very unhappy that that sort of heavy-handed attitude towards Parliament or the devolved Administrations is being pursued by the Government.

George Hollingbery: No heavy-handed attitude is being pursued by the Government. We are in the middle of constructing, and I am afraid to say that my comments—from April, I think you said—are still reflected in exactly the same way.

There is tension within Government about exactly what this offer is going to be. From our point of view, in the Department for International Trade, I want to be quite clear. We believe that those who have the responsibility to implement parts of free trade deals that are agreed at a national level, because it remains a non-devolved issue, have a right to have their views heard in how those free trade deals are constructed.

We are clear about the mechanism that we wish. At the moment, some issues remain to be ironed out with other parts of Government. It is fair to say that, over the past several weeks, trying to get issues of this sort dealt with efficiently has been something of a challenge. I would hope that, as we go forward under a new Administration, it will be recognised that this is an absolutely clear and essential thing to do.

I have said to the Scottish Government several times that we would do much better trade deals if all those who have responsibilities and rights are involved in those discussions. If we work together to produce a deal that works for all of us, we will get a much better free trade deal.

It is also entirely necessary for the negotiators on the other side of the table to be absolutely clear that, when something is agreed in a free trade agreement, and signature applied, the person who puts that signature on is capable of delivering what is agreed in that free trade agreement.

Therefore, there is also an imperative on us to ensure that the other side can see that and have confidence in it. You may notice some degree of frustration in my reply, because there is. I am absolutely clear as to what we need to do. At the moment, we cannot necessarily deliver precisely what we believe is necessary.

Q366 **Sir Mark Hendrick:** You talk about a sense of frustration. The whole selling point with Brexit was taking back control. It seems to me that Parliament or devolved Administrations are not taking back control. It is an authoritarian style of Government that is taking back control.

George Hollingbery: I’m not sure I follow the logic.

Q367 **Sir Mark Hendrick:** In terms of free trade agreements, we will listen, we have done lots of consultations, we will have a general debate, though



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nothing that is binding, and then we will make a decision, whatever has been said on the Floor of the House and whatever consultations we have seen.

George Hollingbery: Which will be analysed very carefully by a Committee of the House—in fact both Houses, we hope. That will report on the rounds that will be clear at every stage as to what has happened, and will advise Government about how free trade negotiations are going and whether they feel a different tack is needed. Those exchanges cannot, by definition, be made widely public; otherwise we would simply blow our chance to negotiate any sort of reasonable deal.

I have already covered in some detail what I think about having a binding debate on the outline approach and having it amendable. There is simply a very genuine practical difficulty, which no Administration should wish for. That is my belief in this. It will bind our hands in such a way that it might make it extraordinarily difficult to do an FTA in the first place.

Q368 **Sir Mark Hendrick:** Can I give you an example of that? That is the withdrawal agreement, which the Prime Minister spent something like 18 months negotiating behind the scenes. The House had general debates on this, asked questions about it, and virtually nothing was said about what was going on and how it was being dealt with, other than that there were these red lines.

Some 18 months after it all started, the Chequers plan was pulled out like a rabbit out of a hat. Your own Cabinet people started resigning; the Government were in turmoil, and the deal that the Prime Minister negotiated was rejected by this House three times. It looks to me like, in the way that this is going to be handled, you are prepared to make the same mistakes with free trade agreements as were made with the withdrawal agreement.

George Hollingbery: No, I absolutely do not agree with you. As far as I am concerned, we need to be as open as we can be in a practical fashion, such that we can actually deliver negotiations. We can all dispute where the degree of openness is appropriate; I understand that, and that is an argument that is yet to be had, but there is an absolute determination for us to be at least as open as the European Union, certainly in terms of how we report back on negotiations and how we deal with the various Committees that are tasked with looking at them. That is, for us, where we would like to get to.

You will understand, again, that in Government there is some appetite in certain Departments to control the Government's right to deal with foreign affairs by treaty. Every Government has used this over many, many years, and there is a certain degree of— I completely understand why the Government feel that, in terms of their relationship with foreign Governments, they have to have a level of control, so there is that element. However, that is mitigated by the need to be transparent, and I absolutely agree with you: it is essential.



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I think you also need to accept, if you would be so kind, that at some stage there is a level at which this becomes positively impeding to the ability to negotiate a good free trade agreement. There is a tension there, and I do not think we can avoid the fact that there is a tension and at some stage, we are going to have to agree where the fuzzy line sits. If we do not, we are going to find it very difficult to do free trade agreements at all. Now, that might suit some people; some people might think that is a good thing.

Q369 Sir Mark Hendrick: I get the impression that the Government do not want to agree, though; they want to tell Parliament and the devolved Administrations how it is going to be done. You will remember that on the withdrawal agreement, this had to go to court. This had to go to the highest court in the land before Parliament was given a say on this. Now, I am not saying that will happen with free trade agreements—it probably won't happen—but that heavy-handed, holier-than-thou attitude that this Government have has got them into the mess we are in now, and they are at risk of making the same mistakes on free trade agreements.

George Hollingbery: I completely agree with you that a heavy-handed Government who are not transparent are asking for the TTIP debacle. I completely acknowledge that that is the case, and that is why I see large numbers of NGOs on a regular basis. I see Trade Justice now; I see any number and continue to see them on a six-weekly basis, because it is incredibly important that we discuss with the people who are most opposed to our ideas on this about why we are doing it, how we are doing it, and so on and so forth.

I also completely agree that the more transparent we are, the better, in terms of public acceptance of the final result. I would hope that members of the Committee also accept that there is a level of transparency that becomes positively damaging, if we begin to reveal to others where our red lines sit; what we can and cannot accept, what we will and will not accept at extremis. There is a tension, and if we do not all accept the actual rules around which we are trying to find the solution and do not accept that there is a tension there, we need to think a little more carefully, because that tension is absolutely clear. I want to be as transparent as I can be, but there is only so transparent that one can be.

Q370 Chair: I have two final brief questions. First, is there going to be a role for the devolved Administrations in setting the strategy for services?

George Hollingbery: I think the answer to that, Mr Chairman, is that we speak with the devolved authorities—the devolved Governments—on a regular basis. We are now establishing an informal quad; we are not doing it under the JMC structure, but we are having regular meetings—I think the first one will probably be in September; it is not absolutely set yet—where we will sit and discuss trade. We will have an agenda, and it will be about trade.

On a political level, between myself and the Secretary of State, we have had 12 to 15 interactions with Scottish and Welsh Ministers over the past



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year. Plainly in Northern Ireland, this is currently a challenge. Lots of work has been done at official level, as well, and much-improved work at official level. We are now meeting six-weekly at senior official level to discuss trade policy.

Q371 **Chair:** Are you planning to assess the impact of service provisions in the FTAs on the UK economy, and if so, how?

George Hollingbery: It is difficult for me to know how to answer that, precisely.

Q372 **Chair:** Tom, do you want to give it a go? You say how important it is, so how are you going to make that assessment of the impact of future FTAs on services?

Tom Josephs: Part of the work we do when we are developing our policies is try to get as good an understanding as we can of the economic impact of market access barriers in services on our trade, and we do that through a number of routes. We talk to stakeholders; we do analysis, and we do that on a sector basis. We also look at individual provisions or barriers that cut across sectors and try to assess how important they are. When we publish our negotiating objectives, we have also said that we will publish an economic assessment alongside that.

George Hollingbery: The one bit of comfort I can give here is that I think there is an appetite, certainly within the Department—I am not quite sure where we have reached in this yet, but the EU has a very clear programme of reviewing FTAs post facto to make sure that what was agreed is being done and what should have been done is being implemented, and the effects that they are having. I would absolutely expect that to be part of the process on the ongoing nature of FTAs in the UK Parliament.

I would hope that if we can get our scrutiny and transparency processes in place adequately, the Committee—informed in the House by the House authorities—would be tasked with producing those reports. They would do regular reviews of the deals we have struck to ensure they are actually producing what they were designed to produce. I think that is more what you are looking for.

Chair: Minister and Tom, thanks very much for giving evidence this morning; I am really grateful. I know next week is going to be vitally important to a number of Ministers, George, but on a personal basis, I wish you the very best of British luck next week.

George Hollingbery: You are very kind, Chair. Thank you very much indeed, and to all Members.