



International Agreements Committee

Uncorrected oral evidence: UK-India trade negotiations

Thursday 3 March 2022

11.00 am

[Watch the meeting](#)

Members present: Baroness Hayter of Kentish Town (The Chair); Lord Kerr of Kinlochard; Baroness Liddell of Coatdyke; Lord Morris of Aberavon; Lord Oates; Lord Razzall; The Earl of Sandwich; Lord Udny-Lister; Lord Watts.

Evidence Session No. 1

Heard in Public

Questions 1 - 10

Witnesses

I: Sophie Hale, Principal Economist, Resolution Foundation; Professor Sangeeta Khorana, Professor of Economics, Bournemouth University Business School; Amrita Saha, Research Fellow, Institute of Development Studies.

USE OF THE TRANSCRIPT

1. This is an uncorrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.
2. Any public use of, or reference to, the contents should make clear that neither Members nor witnesses have had the opportunity to correct the record. If in doubt as to the propriety of using the transcript, please contact the Clerk of the Committee.
3. Members and witnesses are asked to send corrections to the Clerk of the Committee within 14 days of receipt.

Examination of witnesses

Sophie Hale, Professor Sangeeta Khorana and Amrita Saha.

Q1 **The Chair:** As colleagues know, we are looking at the negotiating objectives for the India deal this morning. This session is being broadcast, although there will be a chance for you to see the *Hansard* script before it is finalised just in case we have misunderstood any of your words. There is a chance that we will have a vote during the session, in which case we will suspend for about eight minutes while we vote. We will let you know if that happens. If anyone has a declaration of interest, we will make them as and when we speak. Mine is that I am on the board of the Association of British Insurers, because we are dealing with some services issues here.

This morning we have three expert witnesses: Sophie Hale from the Resolution Foundation; Professor Sangeeta Khorana, a professor of economics at Bournemouth University; and Dr Amrita Saha from the Institute of Development Studies, who may have to leave a bit before the end for a teaching commitment. Hopefully, we will have everything by then.

We will ask various questions, but I will start with a fairly broad question as an opener. Could you identify some of the potential gains as well as the risks of a free trade agreement with India?

Sophie Hale: Yes, thank you. I will start with the benefits of the FTA. India as a potential trading partner will be very fast growing over the next few decades. It is expected to become the third largest import market in the world by 2050. That gives us a sense that there is a big growth potential for the UK if it manages to achieve an FTA with India. There are big trade barriers to address. More importantly, or as importantly, there is a lot of uncertainty about the barriers that businesses face in India. That is where an FTA can really come in useful. It can lock in the access that firms will have in the future and create a certain business environment that allows them to feel more confident about setting up the investments that they need to start trading with India.

There are also some consumer benefits. I know the committee is looking at the benefits for both business and consumers, which is important. The Government's analysis draws out the potential in the textile sector. It looks bad from an output perspective, because we will be having more, and cheaper, imports coming in. The other sector that is definitely worth mentioning is pharmaceuticals, where India is a key trading partner of the UK. According to the British Generic Manufacturers Association, a third of the medicines that we use in the NHS come from India. Half the medicine ingredients are also sourced from India.

The scale of the lowering of the barriers is what would drive the potential benefits. As you can see in the Government's analysis, they look at a lot

of the advanced high-tech manufacturing sectors as the main area for gains. I would also suggest that the services story might be underappreciated, with the major services and the economies meeting, a trade agreement, and the expected really fast growth of India's imports of services in the next couple of decades. There is also a lot of potential to lower and lock in the barriers to services trade, because there is a lot of uncertainty in the services trade. The scope of that gain is probably not as clear, but there is quite a lot of potential there.

In terms of the risks, we talk about this fast-growing economy as a big gain. Moving forward, there is a lot of potential for UK exports as a result. It also means that India is changing very quickly. If you look at the change in pattern of export specialisms in India over the last, say, 10 years, you will see that they have a bunch of sectors emerging as new export specialisms and moving out of some of the more traditional export specialisms. We expect that, as they keep growing over the next couple of decades and become a bigger trading nation, that trend will continue.

That is a lot more important for a country like India than it is for some of the more developed and slower-growth countries that we have been doing FTAs with until now—Australia and New Zealand—where that pattern of specialism is a lot more stable. I flag that as a risk, because it means that the Government's analysis, or anyone's really, is often based on the current pattern of trade flows. So you are not seeing the sectors where, once you have opened up your market to India, there could be quite high import competition in the future that may not be present in what you are seeing at the moment. That is the big one to flag.

Professor Sangeeta Khorana: Good morning. Thank you for inviting me. Thank you, Sophie, for laying out the contours of what I will develop over the next couple of minutes.

If we look at what the deal proposes, we clearly see that it means to lower trade barriers. This is what we will see translate into gains from lower tariffs and from the reduction in non-tariff values, because it is important that we look behind-the-border barriers, and this is what a deep and comprehensive trade deal will look at.

Let me develop the tariff aspect. Lower tariffs will obviously increase trade between the partners. The simple average tariff on goods that are imported into the UK from India is around 4.2%. In comparison, the simple average tariff on UK exports faced in India is around 15%. So a reduction in tariffs will obviously translate into benefits for British businesses. At the same time, we understand that this will be a deep and comprehensive trade deal, which means that investment will also be included. This suggests that a liberal investment climate and policies will increase investment flows, inward and outward.

Finally, from the perspective of firms, lower tariffs and high-end reduction behind-the-border barriers mean that firms will benefit from higher productivity and specialisation a result of efficient allocation of resources. That means that firms will become more competitive under the new trade

deal because of lower tariffs and lower non-tariff barriers as a result of the trade deal.

Let us look at the gains and how these gains will be felt here. As Sophie alluded to, India is an economy that is growing and there will be benefits from the Indian middle class, which has been growing in past years. In developed countries, the growth of the middle class is flat at around 0.5% to 1% every year. But in a country like India the growth rate of the middle class is anywhere in the range of 6% to 10%. One would expect and imagine that the middle class will be expected to spend more on services, such as healthcare and education, and will seek premium offerings and new product categories. This will have an impact on British businesses, which will benefit from lower tariffs and lower non-tariff barriers or behind-the-border barriers..

Let me touch briefly on the aspect of consumers. Consumers will also benefit in this case, because there will be real-income gains on both sides. Consumers will essentially benefit from a diverse portfolio of goods at lower costs.

Dr Amrita Saha: Thank you for this opportunity. Sangeeta and Sophie have already mentioned quite a lot of points, so let me emphasize a couple of them. The obvious gain to the UK, of course, would be access to the Indian market, which both my colleagues have mentioned. There is rapidly rising demand coming from India for high-quality products as well as services, and this will be driven especially by alternative machinery as well as the technology services sectors.

Regarding the benefits, as well as the accompanying risks, UK businesses stand to benefit from reduced trade barriers as well as alignment on the regulatory aspects. Something that seems promising is a sizeable share for small and medium enterprises in this picture. At the same time, let me also draw attention to the fact that there could be risks here for businesses in the form of unfair competition, if any. That could be at two levels: for UK businesses in India or between the larger and smaller businesses in the UK.

On the consumption side, UK consumers will benefit from a greater choice, as Sangeeta mentioned, as well as potentially lower prices for goods and services. In terms of the risks, if the necessary standards as well as protections are in place—for example, through a consumption chapter—risks can certainly be pre-empted.

Q2 The Chair: Do you think it should be possible to have a consumer chapter in this deal in the way there is, for example, in the New Zealand deal? Secondly, is there a way of ensuring the advantages for the UK would reach all bits of the UK, particularly but not only the devolved areas? Can you think of any way in which the devolved authorities could be involved in this to ensure that things are spread more widely? Professor Khorana, do you have any views on either of those two aspects?

Professor Sangeeta Khorana: I will touch on the consumer chapter question that you just raised. You are aware that in trade agreements some consumer protection provisions are included in sectoral chapters, especially in the context of telecom, digital and financial services. It is really important that the UK defines consumer protection as a key objective of the agreement.

Consumer protection is not often listed as one of the explicit objectives of the latest generation of trade agreements. However, one way we can fill the gap within the context of the UK-India trade deal is to mention consumer protection in the objectives of the trade agreement. This should be done in the introductory chapter. Essentially, the introductory part applies to all the chapters, and this would make sure that consumer protection is defined as a legitimate objective of the trade deal. This should also be clarified in the general exceptions clause of the agreement.

The Chair: Thank you. That is an interesting comment about applying to all the chapters and not pigeonholing it, if you like.

Dr Amrita Saha: Sangeeta made a very important point about the consumer chapter and the objectives for consumers being throughout. I would like to add the possibility of grounding that aspect with standards of transparency. That has been an effort on other agreements. Bringing the two objectives of benefits to consumers and transparency in how that is done would be very welcome.

Let me add the other point, about geography. There is a business presence across the UK with Indian businesses and UK businesses trading with India. London is the centre of finance, of course, so, if we look at financial services or the start-up space, it is possible that the benefits could be majorly concentrated there. Otherwise, given the wider presence of these sets of businesses, it is possible that the benefits would be widespread to a certain extent.

Sophie Hale: Great points have already made about the consumer chapter. I want to flag a couple of extra things. The World Bank assesses what is covered in past free-trade agreements, and that has been included in the scoping assessment, which shows that consumer protection is an area of enforceable provisions. It has never been included in the past India FTAs in a legally enforceable way. That does not preclude it from being an objective that the Government might want to pursue, but it is worth mentioning that vis-à-vis what might be achievable and whether you want to use that negotiating capital on other issues like labour and environmental standards. It is worth flagging that. As has already been mentioned, it will be in other chapters, and one that has already been flagged is digital.

The Government have a public attitudes tracker where they ask the public about their views on their priorities for trade policy. One of the questions asks them to compare statements. One is whether they prefer tight controls placed on the cross-border sharing of consumer data,

versus a very free and open approach to data that would support innovation and collaboration and boost economic growth, or consumer data privacy issues. You see that the public are quite skewed towards tighter control. So consumer protection is one area that you might want to look at quite carefully on the basis of supporting what the public want, even if you do not have a consumer protection chapter per se.

I generally agree with the points already made about the regional distribution. The scoping analysis found that there could be some manufacturing benefits. What is positive about those benefits is that they are collocated with where you may see negative consequences, such as import competition-related job losses across textile sectors, particularly in the more northern, north of England, regions, which will minimise the long-term labour market shocks that you would see from that kind of consequence.

Q3 **Baroness Liddell of Coatdyke:** To all three witnesses, how do you assess the Government's negotiating objectives, and are they realistic? Could they be achieved? I am interested in what Sophie said about the public attitudes tracker. Given that the world has changed dramatically in the past seven or eight days, do you think there could be an impact from India abstaining yesterday in the vote in the UN on Ukraine? Will that seep into the public attitudes tracker?

Sophie Hale: On the public attitudes tracker, I am not sure when the next wave is. Four waves have been published now. I am not sure whether the next wave is under way or when that might be published, or whether the fieldwork is already done on that. I imagine that there could be some impact if the news is penetrating the public. I am not sure how widespread India's abstention would be. Generally the public attitudes tracker finds that people are not that engaged with trade as an issue, although current affairs could be changing that quite a lot.

On the first part of the question about the negotiation objectives, their level of ambition and how realistic they are, the first thing is to say is that they are in many ways pretty similar to the objectives that we have seen in some of the past agreements. If you compare them word for word with the Australia agreement, for example, there are a lot of similarities between them, despite there being quite different negotiation contexts. Ultimately that points to the fact that they are not that specific in many places, which makes it quite difficult to measure ambition and realism. One example is securing broad liberalisation as an objective but with no mention of the priority areas in which we want to achieve that, even key industrial tariff lines that you might want to see removed. So it is a bit difficult in that sense.

What we can say is that the coverage of the objectives is very broad. It looks to cover intellectual property, procurement and the environment, and these are chapters or enforceable provisions that have not been covered in that many previous Indian FTAs, although there is one where at least one of those chapters has been included. It also has a number of mentions of digital provisions that are quite ambitious, where again not a

lot has been done in past Indian FTAs. In that sense, we are being quite ambitious in the objectives that have been set.

If you look a bit more specifically, there are also signals of higher ambitions in telecoms, but I would also flag that it removes the mention of mutual recognition, or there is no obvious seeking of mutual recognition, of conformity assessment or professional qualifications that we have seen in some of the past negotiating mandates. Obviously, the regulatory environments are quite different. There are bigger regulatory differences between the UK and India than between, say, the UK and Australia. That might be what you expect, and you might be able to seek more benefits, as I mentioned earlier, just through increasing certainty and the regulatory transparency as opposed to necessarily going as far as mutual recognition.

The only other one I wanted to mention was the objective to continue to preserve the integrity of the UK's domestic immigration system. We will talk a bit more about visas, but that is a new objective which appears to be a lot more strongly worded than some of the past objectives, so there is some clear signalling there about potential sensitivities on the UK side.

Professor Sangeeta Khorana: Thank you, Sophie, for such exhaustive coverage. You have covered all the points that I had in mind. I completely agree with you that this is very broad and apparently very ambitious. We do not know which sectors the ambition is focusing on, but one thing is clear from the ambition that has been stated in the negotiating objectives: the aim of the agreement is a comprehensive and balanced FTA. This is where I draw comfort from.

Another ambition that I would like to allude to is that they want to close negotiations by the end of 2022. I am a bit sceptical about closing negotiations by the end of 2022, for several reasons. First, India is pretty much a newcomer into the trade deals arena. It concluded some trade deals and banked off and has now started negotiating with several partners. There is limited capacity for negotiation. Given that there are already four or five negotiations ongoing in India—it has just sealed one with the UAE—this might take time. It is overambitious to say that we will conclude the deal by 2022. Having said that, an early harvest may be possible. We can talk about that as we go along.

What I really like about the ambition is that it is a very formal and definitive way forward towards slashing barriers on UK exports. This is a firm and very right kind of ambition that has been set at the very start of negotiations, because there are UK exports like Scotch whisky or automobiles that face an exorbitant tariff. I think this is signalling to the negotiating partner that we have an ambition and we would like that to be looked at during the negotiations. I will stop here.

Baroness Liddell of Coatdyke: Thank you. I agree with you on the 2022 deadline. I think that will be very difficult to meet.

Dr Amrita Saha: Very useful points have been made about the ambition. My thinking echoes them. However, I would characterise the negotiating objectives on the table as cautiously ambitious. Why? There is quite a lot in scope; Sophie and Sangeeta both alluded to the broad scope of this agreement. The focus thus far appears to prioritise the early gains from the reduced trade barriers for goods as well as services. There is still significant caution on critical regulatory aspects, like data localisation, tax treatment and regulatory co-operation, which have been mentioned, so “cautiously ambitious” is how I would characterise this.

There are also quite different shading factors, the complementarities in services, in a potential UK-India FTA. Although India is seen as an emerging superpower, there are also quite a lot of constraints in the policy space, because inequality remains fairly high. Given the context, I think that the UK-India FTA looks different from other FTAs, but the negotiating objectives remain ambitious. The ambition is great, but there is quite a lot of caution too.

Q4 Lord Kerr of Kinlochard: My question is probably for Professor Khorana in the first instance. What about likely Indian ambitions in this negotiation? In the past, we have tended to see that for India the top priority was the reduction of barriers to Indians coming here, securing more relaxed visa rules. We have seen lots of sectors of our economy being rather keen on that—the university sector, the IT sector, the research sector—but we have seen some in government being less keen on that. Could you tell us how the UK might benefit from relaxed visa rules and what the risks would be in going down that road?

Professor Sangeeta Khorana: Thank you so much for the question. It is very interesting. There are obvious benefits from liberalising visas for professionals—ie in mode 4. As we understand, the contribution of foreign immigrants to specific sectors has been recognised in the UK and in other countries. In my opinion, this is likely to continue. Having said that, in the past India was completely focused on asking for easy visa norms for its professionals in a trade deal, but in the current context I must say that India has recalibrated its demand for the relaxation of norms for the services sector. This time around, the demands are much more broad-based rather than just focusing on liberalising professional movement, so I do see some kind of calibration on the part of the Indian trade negotiators.

You asked me about the benefits for the UK. The benefits are there, as I alluded to at the very start, because the contribution of foreign immigrants has been substantial.

Lord Kerr of Kinlochard: Do you think it will remain a high priority on the Indian shopping list in this negotiation?

Professor Sangeeta Khorana: I am not sure, as I said, because there has been a recalibration of the demands and, this time, it is not focusing just on the movement of professionals, unlike in the case of the EU; there has probably been some learning from the stalled EU-India negotiations.

Lord Kerr of Kinlochard: Thank you. That is very interesting.

Dr Amrita Saha: They were interesting points, Sangeeta. I would also emphasise that the visa issue is not front and centre at the moment, although there might be some weight to it with the possibility of facilitating short-term business activities. Another ask has been tied to the visas, which is the waiver of security payments for professionals on such short-term visas. Recalibration was mentioned. The bigger issues, and the bigger asks, are on the regulatory side—co-operation and alignment. I think that what will feature heavily will be a mutual recognition agreement for services. Those are bigger asks compared to the ask for visas.

Sophie Hale: On the benefits to the UK and the risk side, we are in quite a different environment and a different visa regime than we were even a couple of years ago, and the balance between benefits and risks has changed as a result. If you look at the types of visas that Indians are using disproportionately, it is high-school visas and student visas. The regime on both of those has changed. High-school visa caps have been lifted, and the ability to remain after student visas has been reintroduced post-January 2021. As a result, on the potential benefits, in particular filling the skill gaps that you might have in the UK, the balance has shifted away from that a bit.

At the same time, the asks, as has already been mentioned, might also be evolving and changing in response. It might be more about smoothing the visa process, fees and the kinds of issues that Dr Saha mentioned. So I would just flag the point that the benefits, certainly from a UK skills perspective, are slightly different now.

Lord Morris of Aberavon: On the visa issue, is it a question of numbers, or is it the problem of allegedly making double social security payments, or whatever they are, in India and in this country? I gather that is not on the table so far as the British negotiators are concerned.

Dr Amrita Saha: Yes. I mentioned that the waiver of security payments could feature here. The risk is absolutely as you mentioned. There is a double-payment issue with short-term visas; professionals who are coming in are paying twice, in that they are paying taxes back in India as well as making national insurance payments in the UK. So an ask for the waiver of one of these types of payments is tied in. We have seen precedents in the past on other agreements where such an agreement has come into the picture, so the ask is definitely to look into that double-payment issue. That is absolutely correct.

Q5 The Earl of Sandwich: Can I roll two questions into one? First, to what extent does the FTA fulfil the Government's aim, which I found in the impact assessment, to "promote both growth and poverty reduction in India, respecting human rights, the inclusion of minorities and the critical role of women in SMEs and sustainable development"?

That is my primary question, but it links link with the next one. How can

we ensure that a trade agreement with India supports the UK's goals to promote labour rights and standards, including in supply chains, around the world? I hope that some of you will at least manage to get around all those issues, which you will recognise are interrelated.

Dr Amrita Saha: Thank you for those questions. I would like to mention three points that I hope will respond to both those questions. First, how and to what extent would an FTA fulfil the development policy calls? There is a real opportunity here for the UK to set precedents in terms of a priority to sectors where there are likely contributions to poverty reduction and to upholding human rights. How is that going to work? There is definitely a fit with India's aim to attach priority to labour-intensive sectors such as textiles and leather. Any of these sectors could create new jobs and contribute to poverty mitigation. I mentioned earlier the constrained policies space which India works in, and there is still quite a lot of inequality. The opportunity to set precedents here and prioritise poverty reduction would be very welcome.

It is also important to mention that India's intention to include, or potentially to include, aspects of sustainability would also fit in quite well. These priorities are important, of course, but it is important to note that there have been cuts to UK ODA in recent times. How can the UK continue to complement this? The UK supports trilateral co-operation, for example, where it works with India as well as Africa. Of course, the FTA is not the answer to all development policy calls, so although on the one hand there could be some precedents, it is also important to attach priority to these trilateral co-operation efforts, which would also be important in addressing the more global impacts of the current health crisis.

For the UK to support its labour rights goals, not just with India but more generally in its trade agreements, quite a lot of priority would be required to align standards with partner countries' domestic regulations—in this case, India's. Protecting working standards and basic human rights is possible, but the history of trade agreements tells us that real efforts would be required to go beyond simple symbolic regulation. Of course, there have been quite a lot of references to human rights in past agreements, but also through unilateral efforts such as the generalised system of preferences. But going beyond that symbolic regulation would definitely be very welcome. So as well as India's intentions there is an opportunity to set an example. Both could come together to be a very good fit in moving forward on the development policy goals.

The Earl of Sandwich: Thank you, Dr Saha. I find that very encouraging.

Q6 **Lord Watts:** What are the potential implications of the UK-Indian agreement regarding trade divergence, and what should the UK Government do to mitigate the impacts on developing countries, including India?

Dr Amrita Saha: Regarding trade divergence, with trade agreements there is a need for assessments of potential policy changes affecting third-country partners. With textiles there may be effects. I will go to the second part of the question, which is how any adverse impacts can be mitigated. I alluded to trilateral co-operation agreements, where the UK plays quite an important role working with India and Africa. These are more micro-level initiatives. If we worked with that bottom-up approach in understanding the potential effects, and attached importance to these trilateral co-operation agreements, we would have some agreement on going forward in hedging against those adverse effects.

Lord Watts: Do you see any pinch points in this approach?

Dr Amrita Saha: One point to mention is that in the developing world importance has been attached to aid for trade, but that there needs to be a change in approach there. South-south and trilateral co-operation could be the answer when it comes to a slightly different approach in mitigating these effects. The pinch points are that this is a UK-India trade agreement, not a trilateral agreement. That is where we need to think with our hats off on the bigger global impacts. That is what I want to emphasise.

Professor Sangeeta Khorana: Thank you so much. It is a very interesting question. Amrita, thank you for again laying the ground. I will take off from where you have rightly pointed out that human rights are heavily intertwined with trade policy. You cannot treat trade policy and development goals separately. They have to be looked at together as a package.

We must understand that there will be a need to identify some middle ground, which will require both the UK and India to come together. We are aware that the EU and its trade deal stalled, because India was not willing to include human rights clauses in the sustainable development chapter. It is really very important that there is mutual understanding of each other's sensitivities. This will be key, along with the respect for sovereignty, in dealing with issues that are highly contentious in the Indian context.

We must understand that India and the UK approach human rights with different conceptions and different approaches. These differences are very normal, and natural, given that both countries have different cultures, traditions, political views, geographical and geopolitical realities. I think that the way forward in this trade agreement would be for both the UK and India to come up with a joint memorandum of understanding on human rights, because that would pave the way for further discussion. It would essentially signal the commitment of both partners to having some form of human rights discussion in the trade agreement. That answers point one.

On the second point about the developmental policy goals to promote growth and reduce poverty, it is important to allude to the fact that the trade deal will essentially lower trade costs. As a result of the lowering of

trade costs between the UK and India, there will be a deeper integration of the markets. There is ample evidence in trade literature to suggest that wherever there is greater integration of markets—ie where there is a reduction in non-tariff barriers—the benefits of trade on poverty reduction are felt. Given that in India there are different levels of poverty in different regions, the trade deal could be instrumental in the deeper integration of markets, and benefits from trade would be felt by the people. Essentially, my thinking is that this will create an enabling trade environment, create trade openness, and lower trade costs will deliver gains for the poor.

One more point that I would like to highlight is that the UK is already discussing the trading framework for developing countries, which will mean that tariffs will be lower from the general framework. Again, we can see the benefits of trade being passed on to the poor through the trade deal and within the wider trading landscape with developing countries and with least-developed countries.

The Chair: Thank you. Sophie Hale, do you have anything to add, or do you think that your colleagues have covered most of that?

Sophie Hale: Yes, they have covered the main points, particularly on the development questions and the expertise there. The only thing I want to add is on the labour rights and standards that were wrapped into the questions. Obviously the Government's overall economic strategy should be putting high-quality jobs at the centre for the UK, so they have to be very careful that their FTAs do not lower those standards or undermine any plans. That ties in with the Government's high-productivity, high-skilled jobs agenda, but one of the objectives is clearly about seeking an enforceable labour chapter and making sure that labour standards are not waived or poorly enforced.

You can see, even in the UK, that the enforcement of labour standards is a very challenging issue. It will be in India and it is in the UK. Even domestically we could be doing a lot more to protect our own domestic labour standards through more effective enforcement, so it would be very difficult to enforce those abroad as well. I just flag that challenge.

Lord Watts: Professor Khorana, you said that there are different approaches to human rights, but Britain is committed to the charter. Are you suggesting that the standards in that charter should be reduced as part of any trade deal to accommodate the Indian view about this issue?

Professor Sangeeta Khorana: I did not say anything about the charter. I am sorry if I did not convey my opinion or if it was not heard. I am of the opinion that there might be a joint memorandum of understanding between the UK and India on human rights, because this will signal to both the partners that there is a commitment to include human rights in the trade deal.

Lord Watts: I am still not clear on the level of reduction that you think would be appropriate to seal a deal on trade between the UK and India.

You seem to be indicating that India and the UK have different views about this. How do you see that coming together? What would the pinch points be on that, and what would the UK have to do to accommodate a trade deal with India?

Professor Sangeeta Khorana: Thank you. That clarifies it. India feels that historically it has played a very important role and it has been associated in framing the Universal Declaration of Human Rights. The issue with the EU was that India felt that labour issues are essentially a domestic issue and have to be dealt with at the national level rather than being included in a trade deal. This issue could come up again, because India says that it is already a signatory to the ILO conventions. That is right, so there is a difference here in the perspective of the partners. That is what I was trying to emphasise. One partner feels that this is a constitutional matter, that this has to be done and managed at the national level, given that it has already signed up to the ILO convention.

I also alluded to the fact that the approach to human rights and the approach to labour issues are different between the two countries in light of the culture, the tradition, the geographical and geopolitical realities, so it might make a lot of sense for them to agree to have a balanced approach. The immediate way forward for the partners on including human rights and labour clauses in the trade deal—ie coming up with a sustainable development chapter—would be to come up with a joint memorandum of understanding, because, remember, the objective is to get the trade deal passed.

I mentioned, and we are all aware, that one of the negotiating objectives is to complete the deal by 2022. How will the deal be completed by 2022 if we are faced with such roadblocks and differences in the opinions of the negotiating partners? We have to start by identifying a middle ground and how we will move forward. That was my suggestion.

The Earl of Sandwich: That was an encouraging group of answers. Thank you, all three of you, very much indeed. It is also interesting, in the context of the aid programmes, that this trade deal will take over quite a lot of the responsibility which the British Government have been trying to get out of but have not.

Q7 **Lord Razzall:** My question is about services and is to Sophie Hale first. It is quite apparent that both the UK and India are big exporters of services. Indeed, many would think that there is a bigger opportunity for both sides than in the manufacture and sale of goods. I know that Sophie has recommended that the UK should be concentrating on the exports of high value-added services, while leaving India with the cheaper end of the market, and therefore providing better supply chains and better costs for our manufacturers.

Sophie, do you believe that the provisions in the FTA regarding complementary issues can be dealt with, and if so in what way, or do you fear that these will all have to be sector-specific if we are going to remove barriers? If they are going to be sector-specific, do you fear that

it is more likely to be 2032 before the treaty is signed rather than 2022? I am sure that if Lord Gold were here and got on to the subject of legal services, he would echo that fear.

Sophie Hale: In our research, we emphasise how important the services story will be, and that it may be a bit underplayed in the Government's analysis. The key thing say is that the localisation of services will simultaneously generate the potential for export gains and enhance the competition on UK services. That is not to say that it is a bad thing; that can help to drive productively gains in and of itself. But the fast import growth in India gives us an area for focus, which is services. Business services import demand, for example, is expected to triple in the next 10 years. That is clearly a market that UK exporters will want to have improved market access to.

On the point about whether you can target the different layers and allow for a more complementary services policy with India, I think that would be very difficult. With regard to the types of service provisions that you typically include, on a sector-by-sector basis you can exclude certain sectors or cover certain sectors with different provisions, but it is very difficult to target the different levels of services in a sector, so it is not necessarily the tool that you would want to do that.

We tried to draw out in the research that trade policy should not be being delivered on its own. It needs to be delivered with a mind to a wider industrial priority and industrial strategy, using the suite of domestic policies that you have at your disposal to encourage those high-skilled services to make the most out of the expanded market access, enabling services to respond to enhanced competition and using the tools that range from skills-based policy to other domestic competition policy and so on that you can use.

India is an important services market for the UK. The majority of our services sectors are deeply and inextricably linked to the supply chains. If you look at the numbers, Indian services account for slightly less than 1% of our total services value added. When you look at that as a share of foreign value added, it goes up a bit. There are some sectors where it is really important. In information and communication services, for example, the foreign value added that is coming from India is much higher, at around 7%. So there are sectors where it is clearly important.

Under the complementarity narrative, it will be important to focus on the import side as well as the export side. But, yes, in general the UK services barriers are already fairly low. We are fairly low on an MFN basis. A lot of our stuff is locked into the gaps, so there is a big gain from addressing services barriers as a result of the asymmetry that there has been because the size of barriers. As I mentioned in answer to the opening question, addressing uncertainty for businesses will be what helps our services providers to feel more confident about operating in the Indian market because they do not feel that policies can be changed or, where they are changed, that they will have a certain level of certainty

locked in and they can build their business models around that. Those were my key points on that.

Lord Razzall: If we want a relatively speedy agreement and want to get regulatory barriers removed in the services sector, do you think that some parts of that sector need to be kept out of the negotiations; otherwise, we will not reach agreement in a speedy manner?

Sophie Hale: Prioritising speed over doing something deep on services is not what I would advise, given the scale of the benefits that are there. Do I think that if you are prioritising speed you will lose some of the benefits from doing more on services regulation? Yes, I think that is very possible.

Lord Razzall: If you prioritise speed?

Sophie Hale: If you prioritise speed, correct.

Professor Sangeeta Khorana: I completely agree with Sophie that we cannot prioritise speed in this case. If you look at the pattern of trade you see that services are an important component of UK-India trade. If we break it down further, we find that the professional business services are one sector where there is a lot of complementarity. Let us also look at the kind of barriers that services face. There are several barriers that UK services exports face in India, so it is important to prioritise those barriers rather than sectors. The research that I have done shows that these barriers are uniform, horizontal, and across all services sectors. Prioritising barriers might be a better way rather than just focusing exclusively on specific sectors.

We should focus on sectors such as financial services, where the UK has a big competitive advantage. Other sectors which the UK could look at prioritising are the creative services, the infrastructure services and the architectural services. There are sectors that could be prioritised in negotiations, but overall the emphasis has to be on seeking a reduction in the barriers which these sectors face, because they are by and large uniform and pretty high-end services in India.

The Chair: Thank you. That was interesting.

Q8 **Lord Morris of Aberavon:** We have discussed India's interest in obtaining visas. I suppose it will not surprise you, but we read that the DIT spokesman says, "As is the norm, social security agreements do not feature as part of the UK-India free trade agreement negotiations at present". Leaving that on one side, what are the other aims of India in negotiations? Perhaps you could give them in degree of importance.

Professor Sangeeta Khorana: I can see that India would like to prioritise its exports in labour-intensive sectors. Sophie has already alluded to this. The sectors that will be pretty much at the top of its ask list will be the agricultural processed sector, the gems and jewellery sector, the textile sector. Basically, these sectors are more labour-intensive and provide more employment in India. Sophie, would you like to add anything on this?

Sophie Hale: I agree that you can judge it based on India's export areas. India's Commerce Minister has flagged exactly those points. Concessions on labour and mobility will be a priority, but so will improving market access for textiles and agricultural products. A number of other products have been mentioned. There are some products in those broader sectors where tariffs remain; 12% tariffs are common in textiles and the manufacturing of some textile products. So even from a tariff perspective, action could be taken there.

The sector I would add is computer services and those kinds of sectors. India already has a high comparative advantage in them, so if it can find ways of addressing that, it will. I mentioned that UK services barriers generally are quite low when you compare them internationally, and there is potentially more to do there. That is probably why mobility is even more of an issue and more of a priority for India. In the UK's services trade restrictiveness index, the measure of services trade restrictions, around half of the barriers in key sectors that India will be interested in—business services and computer services, for example—and around half of the barriers in the UK's TRI are from the movement of people type of category. That is why this will remain a priority. In other countries, if a bit smaller, there is more to do on the regulatory side where it has not already been mobilised.

Q9 **Lord Oates:** Could I turn to some of the climate issues and, in particular, whether you think there is any danger that an FTA with India risks undermining the UK's climate goals? The DIT assessment suggests that the greenhouse gas emissions related to UK-based production would rise by only a very small amount, and transport emissions by around 21% to 36%.

On the subject of the possible impact of carbon leakage, the report says that it is very uncertain but that that may be an issue, particularly in textiles and apparel. Could you reflect on the potential risks to the UK's climate goal and how we as the UK should approach the climate issue in negotiations, particularly with developing countries?

Professor Sangeeta Khorana: In international trade, climate change is becoming more and more important as time goes by, because climate change is an important global policy problem. We all understand that trade has a significant role to play in developing green jobs, green industries, green economies. If we look at how the UK-India partnership has evolved, it is clear that over the past few months, at least over a year, the UK and India have been engaging not only on trade and investment but on climate issues.

To put the discussion into context, I would like to highlight that India is among one of the highest emitters of greenhouse gases, and this is where the problem lies. At the moment, we do not have clarity on the commitment to achieving the next zero greenhouse goal by 2050. So the debate in the context of the trade deal is how India will contribute to reducing greenhouse gas emissions, what the cost of climate change mitigation will be and how that will be shared.

We agree that the architecture of trade deals is evolving and becoming broader and more comprehensive, but not many trade deals have specific climate change actions included in them. There are discussions in the context of the Canada trade agreement and the CPTPP, but most trade deals essentially look at and talk about fostering co-operation, consultation, best endeavour. There has been no incidence of a concrete border adjustment carbon tax understanding.

This is where the UK-India trade deal could take a step forward. In my opinion, there are two ways in which the UK and India could blaze a trail in this climate change debate. The first is by coming up with a template on how to harmonise standards on environmental goods and services, and, secondly, by coming up with a mechanism or an understanding of how to eliminate distortionary subsidies on fossil fuels. These are the two mechanisms that could lead the way in addressing the climate change issue which the UK and India face.

I agree that introducing carbon taxes in an FTA setting will be technically and politically challenging, but partnering on issues such as harmonising standards, which I just mentioned, and agreeing to reduce subsidies will take the UK and India a step closer to a speedier trade deal.

Q10 Lord Udney-Lister: Both sides have spoken about the possibility of agreeing an early harvest or interim deal. How likely is this and, perhaps more importantly, how desirable would it be? In asking my question I should declare an interest. I am an adviser to HSBC Bank. I also want to expand on this slightly. Professor Khorana, you mentioned the UAE trade deal that was announced a week or so ago. I tried to read that and to me it sounded very much like an interim deal, because I could not see much substance in it. I should declare an interest in that, because I am also chair of the UK-UAE Business Council.

Professor Sangeeta Khorana: There has been a lot of discussion about an early harvest trade deal. I will go straight to the point. It looks really likely, because India for a change has started negotiating trade deals with countries like Australia, Israel and Canada. India is prioritising negotiating trade deals, and an interim deal with the UK looks likely.

With regard to the desirability of this, some points are worth highlighting. If the negotiators come up with a very stiff list and a list where they set the red lines, it is highly likely that Indians will lose interest. However, if they come up with very soft negotiating objectives, they may lose the incentive in negotiations. So it is important that we have an early harvest essentially to come up with a road map for what the deal will look like. This will set the contours of a deal, in my opinion, and the likelihood is very much for the short term. But flexibility will be key. In the interests of time, I will stop there.

Sophie Hale: On the early harvest, I agree that it looks likely. There are comms coming out of both sides. In terms of desirability, the Commerce Secretary has said that it could be 65% coverage of goods and 40% coverage of services. That is fairly ambitious to get through, although the

depth of how far you are covering those things can vary quite a lot. However, if it did manage to cover some of the key industrial tariffs that the UK is looking to export under, there are obviously some potential gains for the UK there.

Politically and negotiation-wise, there are some really big risks. Ultimately, this leaves a lot of the difficult things to the end to be traded off against each other. Although it happens naturally during the negotiation anyway, you have an agreement in place that is already giving firms from the other side access to a bunch of stuff that is usually used as a negotiation chip against those challenging issues at the end.

As an example, India concluded an early harvest agreement with Thailand in 2004 but struggled to bring it across the line to a full and comprehensive deal afterwards. My view is that if you have an early harvest deal, it should come—and the idea is that it will—with very clear and limited provisions in it, sunset clauses and the like, so that if a comprehensive deal is not reached, the deal will not stay in play.

On that note, and this plays into this, I have said repeatedly that reducing uncertainty through the negotiations will be one of the major benefits. Having an interim deal will not give the same scale of reduction of uncertainty for UK businesses. If there is a bit of uncertainty about whether they will ever get the final deal, about whether this interim deal will disappear, it will massively reduce firms' willingness and ability to make those investments in setting up new trades, and that extensive margin of trade increases, even if you have quite broad coverage in that interim deal. That certainty point is really important.

I have a couple of quick points to add on the environmental question. First, there has been a recent pivot to the Indo-Pacific—in general, to the less green countries. Although you might think that that is out of line with the UK's climate goals, the UK is also looking to be a global climate leader and to encourage the whole world to become greener. There is a lot of potential there from a leadership perspective, and the potential for a big missed opportunity if we do not manage to secure ambitious climate protection through the deals that we are doing with countries that are a bit less green at the moment from a leader perspective, aligning with our COP presidency.

Although India does not have a 2050 net-zero ambition, it agreed to the 2070 target in the previous COP and to a bunch of interim targets that were pretty positive and have some quite detailed and good content in them. Even just agreeing a deal, which helps the UK to generate some kind of enforcement mechanism to support India to reach those interim targets, could be a positive contribution from the perspective of that global leadership role.

I agree with the point about carbon leakage. It is important to measure better. The current analysis does not do it justice. It does not look, for example, at carbon leakage between trade diversion where imports are going to start coming from India instead of the EU. It is just looking at

carbon leakage from where we are replacing our own domestic production. From a climate change perspective, you do not care where those emissions are coming from; it is just about the totality of emissions. It is important to look at that perspective.

The carbon border adjustment mechanism which the EU has proposed and the products which it is proposing to cover in that gives you an indication of some of the products that it thinks might have major carbon leakage if you aligned with its emissions trading scheme and its carbon pricing. If you apply that to India-UK trade, you may want to look at other products, such as aluminium and steel, in a lot more detail, because there may be diversion from imports from countries that are producing those goods in a less carbon-intensive way, and it is important to take that into account. I have hopefully made most of my points there.

The Chair: Thank you very much. We have run out of time, but could I leave a couple of questions with you and invite you to submit some thoughts in writing? On the early harvest, as a shorthand, we have had other evidence that there could be dangers about this. You could just get that and it would remove the incentive for a longer-term one. Could you give us your thoughts on that? We also wanted to ask what India could do to encourage greater inward investment by UK companies. Could you let us have some thoughts on that and on other questions that you have heard from us? If once you have looked at the transcript there are other things that you would have like to have added, we would welcome that in writing if that is possible.

I am sorry that I have not managed to get everything in the time allotted to us, but on behalf of the committee could I thank, in her absence, Dr Saha, and Sophie Hale and Professor Khorana for their time today, which has been an amazing and useful way for kick-starting our consideration of this? Thank you all very much.