House of Commons

International Trade Committee

UK trade negotiations: Scrutiny of Agreement with Australia and Agreement with Australia: Government Response to the Committee's First and Second Reports

First Special Report of Session 2022–23

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The International Trade Committee

The International Trade Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for International Trade and its associated public bodies.

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Publication

Committee reports are published on the Committee's website at www.parliament.uk/tradecom and in print by Order of the House.

Committee staff

The current staff of the Committee are Eligio Cerval-Peña (Clerk), Jonathan Edwards (Committee Specialist), Leigh Gibson (Senior Specialist European Affairs Unit), Louise Glen (Committee Operations Manager), Professor Tony Heron (POST Parliamentary Academic Fellow), James Hockaday (Committee Specialist), Aaron Kulakiewicz (Assistant Clerk), Julian Mazowiecki (Committee Specialist), Adam McGee (Media Officer), Roxanne Michael (Committee Researcher), David Turner (Committee Specialist), Emily Unell (Second Clerk), Emily Unwin (Deputy Counsel), Beatrice Woods (Committee Operations Officer).

Contacts

All correspondence should be addressed to the Clerk of the International Trade Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 6957; the Committee's email address is tradecom@parliament.uk.

You can follow the Committee on Twitter using @CommonsIntTrade

First Special Report

The International Trade Committee published its First and Second Reports of Session 2022–23, *UK trade negotiations: Scrutiny of Agreement with Australia* (HC 444) and *UK trade negotiations: Agreement with Australia* (HC 117), on 6 July 2022 and 29 June 2022 respectively. The response from the Government, and an accompanying letter from Rt Hon Anne-Marie Trevelyan MP, then Secretary of State for International Trade, were received on 6 September and are appended below.

Appendix 1: Letter from Rt Hon Anne-Marie Trevelyan MP, Secretary of State for International Trade

Thank you very much for sharing your report of 6 July, "UK trade negotiations: Agreement with Australia" as well as your previous report of 29 June, "UK trade negotiations: Scrutiny of Agreement with Australia". I am writing to offer a response to the points raised by your Committee in relation to recommendations directed at the Government in the two reports.

I very much welcome this comprehensive and detailed report provided by your Committee which, along with the reports of the International Agreements Committee and the Environment, Food and Rural Affair's Committee, reinforces the important role Select Committees play in scrutinising trade deals.

I particularly welcome the positive comments in relation to many areas of our first from-scratch FTA. I was pleased to see how you welcomed the ambitious provisions we agreed on Trade in Services, including mutual recognition and locking in market access. Similarly, I am grateful for your recognition of the liberalisation of trade in both processed and unprocessed food, as well as our standalone chapter on Trade and Gender Equality.

Appendix 2: Government Response

Scrutiny of the UK-Australia agreement

1. ***For future trade agreements, the Government must give an undertaking that there will be at least 15 sitting days between the laying of the "section 42 report" and the commencement of the statutory period of parliamentary scrutiny. It must also undertake that the Secretary of State will attend the Committee to give oral evidence on the free trade agreement before the statutory period is initiated by the Government.*** (First report, Paragraph 20)

2. ***We recommend that the House should be given the opportunity to debate the UK- Australia Free Trade Agreement before the expiry of the period of 21 sitting days provided for under Section 20 of the Constitutional Reform and Governance Act 2010 (CRaG).*** (First report, Paragraph 23)

3. ***Following the Leader of the House's agreement that free trade agreements should receive appropriate scrutiny, we recommend that the Government should exercise its powers under section 21 of CRaG to extend the statutory period, providing more time for the House to examine and to debate the Australia agreement within that period, but after the summer recess. Failing this step, the Government must guarantee that the debate we have requested should be scheduled between 13 and 19 July and should be on a substantive motion to resolve that the treaty should not be ratified, in accordance with section 20 of CRaG.*** (First report, Paragraph 25)

4. **The Government continues to refuse an extension of the 21-day scrutiny period, we reiterate our call for it to schedule a debate on the Agreement between 13 and 19 July and to table a substantive motion that would allow the House to vote against ratification.** ***In that event, we recommend that Members vote against ratification on this occasion, since this would have the effect of extending scrutiny of the Agreement, and allowing the House proper time to consider our reports and its views ahead of ratification.*** (Second report, Paragraph 11)

5. The Government takes its scrutiny and transparency commitments very seriously. On the 19 May 2022, the Government undertook an exchange of letters with your Committee and the International Agreements Committee (IAC), which outlined the Government's scrutiny and transparency commitments for new Free Trade Agreement's (FTAs).

6. Within this exchange of letters, the Government outlined that post-signature:

> "The Government will ensure that the relevant select committees have a reasonable amount of time of time to scrutinise new FTAs and produce any reports on them that they may wish to prior to the start of the CRaG period. In the case of Australia, New Zealand and CPTPP agreements the Government expects there to be a period of at least 3 months between the publication of the signed FTA and the agreement being laid under Part 2 of the CRaG Act 2010."

7. As the Committee is aware, the Government triggered CRaG on 15 June which was six months after the UK signed the deal with Australia and twice as long as the three months outlined in the exchange of letters. By the time CRaG was completed on 20 July, the treaty had been available for Parliamentary scrutiny for more than seven months.

8. In addition, prior to triggering CRaG, the Government published two reports which assisted Parliamentarians with scrutiny of the FTA: the independent Trade and Agriculture Commission's (TAC) report on 13 April and the Government's report under section 42 of the Agriculture Act 2020 on 6 June. We made these reports available to both the International Trade Committee (ITC) and IAC prior to publication to further support their scrutiny work.

9. With regard to a debate, it is the Government's position that we will seek to accommodate a debate where a request for one is made in a timely manner and subject to Parliamentary time. Unfortunately, it was not possible to schedule a general debate in Government time prior to recess, but the Government will continue to discuss how best to support scrutiny of trade agreements.

10. We have provided extensive opportunity and time to scrutinise the agreement and do not believe it was necessary to extend the CRaG scrutiny period. The UK-Australia FTA cannot be ratified until all necessary primary and secondary legislation is scrutinised and passed by Parliament in the usual way, which will give the House opportunities to debate the implementing legislation. As you know, the Trade (Australia and New Zealand) Bill is due to have its Second Reading on 6 September.

Context of the Agreement

11. **There is little question that the Agreement is likely to aid the UK's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. We note that the UK-Australia Agreement draws widely on the Trans-Pacific Agreement, while also going beyond it in some respects and potentially being in conflict with it in others. *The Government should explain clearly how and why this has come about.*** (Second report, Paragraph 20)

12. The Government welcomes the Committee's view that the FTA is a step towards the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which would further open 11 markets worth £9 trillion GDP for UK exporters and investors. DIT policy teams work to ensure that all our agreements and negotiations are coherent and in line with our overarching strategy, and also note that Australia is a member of CPTPP. We would be happy to receive further detail on your specific concerns about perceived conflicts between the UK-Australia FTA and CPTPP.

13. ***The Government should clarify how the market access provisions under the Agreement with Australia relate to its negotiating positions for bilateral market access discussions with other Trans-Pacific Partnership members as part of the accession process.*** (Second report, Paragraph 21)

14. CPTPP will create new opportunities for UK businesses, going in some areas further than our bilateral FTAs, including with Australia. However, the market access provisions under the Agreement with Australia do not impact our negotiating positions for bilateral market access discussions with other CPTPP Parties.

15. ***The Government must publish a coherent trade strategy which brings together its various priorities and dovetails with other strategies, including the Export Strategy. The trade strategy must set out clearly what kind of trading nation it wants the UK to be and how it will seek to achieve its aims, both through its broader trade policy and in negotiations with trade partners. The Government should also set out how it will engage with each prospective negotiating partner, giving a clear sense of how each negotiation serves its broader strategic vision.*** (Second report, Paragraph 26)

16. The Government has a clear vision that guides our trade strategy. We champion open and fair trade in line with the Government's wider economic strategy to drive growth, jobs, higher wages, and raise living standards across the UK and abroad.

17. Our Departmental objectives reflect this vision and the strategic context in which we are operating. These objectives are published in the Department's Outcome Delivery Plan. They are to secure world class FTAs and reduce market access barriers; to deliver economic growth to all the nations and regions of the UK through attracting and retaining inward investment; to support UK business to take full advantage of trade opportunities; and to champion the rules-based international trading system, ensuring it is fit for a modern, global economy, and to protect UK businesses from unfair trade practices.

18. We will deepen our economic relationships with new and existing partners through trade agreements and market access agreements to open new opportunities, provide greater market access for UK business and more choice for our consumers. At the same time, we will use this network of trading partners, and work with other likeminded partners on trade, to build support for modernisation of the global trade rule book and reform of the WTO to ensure it is fit for purpose in a 21st Century global economy.

19. We will continue to publish strategic cases for each new FTA. Each strategic case places the trade agreement within our wider strategic approach.

20. The Government has consistently and clearly set out its trade policy strategy in publicly available documents. We will build on these and adapt to global challenges and the evolving strategic context while continuing to pursue our economic and international interests, keeping our strategy agile and dynamic.

21. **We note that the Agreement does not refer to the protection of human rights. *We ask the Government to explain what its negotiating position was on the inclusion of language in either the preamble or the main text of the Agreement on the protection of human rights. If the Government favoured excluding such provisions, we ask it to explain why it did so. We also ask the Government to confirm whether its policy is to adopt the same approach in future trade agreement negotiations—including where it is renegotiating existing agreements that include human rights provisions.*** (Second report, Paragraph 33)

22. There is no one-size-fits-all approach to negotiating trade deals. The UK will continue to assess appropriate action in response to human rights violations. This goes wider than trade, drawing on all levers at our disposal.

23. The UK is a leading advocate for human rights internationally. This is undertaken separately to negotiations on FTAs, including the negotiations we had with Australia. It is our experience that having secure and growing trading relationships increases UK influence; FTAs are not generally the most effective or targeted tool to advance human rights issues. The UK will continue to show global leadership in calling upon all states to uphold international human rights obligations and hold those who violate human rights to account, including through our independent global human rights sanctions regime.

24. **The Agreement with Australia is the UK's first from-scratch trade agreement since leaving the EU. We note that, while the Government has insisted the Agreement does not set a precedent for future trade agreement negotiations, it has appeared to contradict itself by insisting that some provisions are precedent-setting. Given the likelihood of future negotiating partners citing aspects of this Agreement as precedents, it is disappointing that the Government has not outlined how the Agreement with Australia fits into its wider strategic approach.** (Second report, Paragraph 36)

25. No single deal sets a blueprint for future deals. All deals represent negotiated outcomes, meaning they are bespoke and are tailored to the relationships and markets of the countries involved. Some provisions we have agreed with Australia are unprecedented- in that Australia has not agreed to them with any other country before the UK. This is a testament to what the UK can do as an independent trading nation.

26. The Australia FTA is a world-class trade deal – the first we have agreed since leaving the EU- and is clearly an important part of our wider strategic approach. The deal is part of our Indo-Pacific tilt and paves the way to UK membership of CPTPP.

Trade in manufactured goods

27. **We welcome the fact that the Agreement includes liberal product-specific rules of origin for manufactured goods. These rules are likely to benefit UK exporters, notably in the automotive sector. However, we note that the application of such product- specific rules to imports from Australia potentially poses the risk of third countries using them to circumvent UK tariffs. *The Government must conduct a scoping study concerning this risk and carefully monitor any such impacts arising from the Agreement.*** (Second report, Paragraph 52)

28. One set of Rules of Origin (RoO) is agreed within the FTA which applies equally to both Parties. The agreed outcomes therefore reflect a balance between facilitating trade for UK exporters with international supply chains, and preventing trade diversion and unfair trading practices. Almost 300 pages of specific rules for individual sectors were eventually negotiated in order to strike that balance optimally for the UK, product by product. The Government's considerations were guided by knowledge developed through a combination of direct engagement with UK businesses and trade associations, and very careful evaluation and analysis of supply chain and trade flow data. Additionally, robust RoO verification processes enable each party's customs authority to launch an investigation if they suspect illegitimate circumvention is taking place. This includes

the ability to request the exporting customs authority to conduct a business site visit if required. The FTA will also have a Working Group on Rules of Origin and Customs and Trade Facilitation to consider matters that arise. The Government will continue to engage with UK businesses to monitor the impact of RoO outcomes.

29. The impact assessment for the UK-Australia FTA makes a commitment to publishing a biennial FTA monitoring report. The report will cover key monitoring indicators where available and provide the analytical evidence base to inform Parliament, the public and other interested stakeholders on the implementation of the agreement and potential emerging impacts. We have additionally committed to publishing a comprehensive ex-post evaluation report outlining the agreement's generated outcomes within five years of the FTA entering into force.

30. **We note that the provisions in the Agreement on technical barriers to trade do little beyond reaffirming the parties' existing multilateral and bilateral commitments. We regret that these provisions are not subject to the Agreement's dispute settlement provisions.** (Second report, Paragraph 63)

31. The Technical Barriers to Trade (TBT) chapter is modern and comprehensive. The chapter aims to ensure that technical regulations and conformity assessment processes are based on international standards, with the intention of limiting discrimination against products exported to Australia. Further to this, the chapter will also make it easier to identify where UK and Australian regulations are equivalent to each other. As result, we expect the number of products that are required to meet two different sets of regulations in the UK and Australia to reduce in the future. This will reduce the cost of exporting to Australia for UK businesses. Cooperation provisions are also expected to ease future trade between the UK and Australia, particularly in the medicines, medical devices, and cosmetics sectors.

32. That the TBT chapter is not subject to dispute settlement represents a negotiated outcome. The TBT chapter does, however, establish a Committee on Technical Barriers to Trade that will allow both countries a forum to resolve disputes relating to the chapter.

33. **We are disappointed that the cosmetics Annex to the chapter on technical barriers to trade does not explicitly confirm the UK's commitment to maintain its ban on animal testing, in contrast to the recent trade agreement with New Zealand.** (Second report, Paragraph 64)

34. The text in any FTA represents a negotiated outcome. The UK's ban on animal testing for cosmetics comes from UK domestic law. Nothing in the Australia FTA has any impact on the UK's ban on animal testing for cosmetics products.

35. The provision in paragraph 22 of the Cosmetics Annex to the Technical Barriers to Trade chapter does not go as far as both countries' domestic regulations, in that our regulations ban animal testing. However, the text does not need to – both countries are committed to upholding our respective bans on animal testing. The purpose of this clause is to promote our common goal in this area. The UK and Australia identified that by using this language, we positively influence countries that currently require animal testing for cosmetics.

36. Relatedly, the FTA is the first signed FTA in the world to contain a dedicated animal welfare chapter, which provides protection against either country lowering their standards to gain a trade and investment advantage. Additionally, the TAC found that the FTA does not require the UK to change its existing levels of statutory protection in relation to animal welfare.

Agri-food trade

37. **We welcome the liberalisation of trade in processed food achieved by the Agreement. Insofar as tariff cuts are passed through, this will benefit UK consumers—and UK exporters should also benefit. However, in both cases the gains are likely to be modest. Australia's existing applied tariffs are low; and, while the UK's applied tariffs for a few processed food products are significant, their removal from Australian imports will not make any noticeable difference at supermarket tills.** (Second report, Paragraph 80)

38. **The almost complete liberalisation of unprocessed agri-food trade with Australia is a significant step, especially given the UK's strong defensive interests and minimal offensive interests. We note the Government says that other markets are more of a priority for Australian exports, and that Australian products are likely to displace imports from the EU. However, we also note producers' fear of the UK being a potential fallback market if international trade flows change.** (Second report, Paragraph 94)

39. **We acknowledge that the Government has sought to cushion negative impacts on UK producers with long-lasting phase-in arrangements. However, the duration of those arrangements is not necessarily a long period for the sectors concerned, given their lengthy planning horizons. We also note agri-food producers' views on what they see as the excessive size of the quotas that form a key part of the transitional arrangements. We note too that UK red meat producers fear being disadvantaged by the effect of not setting quotas on a "carcase weight equivalent" basis.** (Second report, Paragraph 95)

40. The Government welcomes the Committee's positive comments on the liberalisation of trade in processed food achieved by the Agreement and the almost complete liberalisation of unprocessed agri-food trade with Australia, which will deliver for businesses across the UK. As the Committee sets out, we have put in place a range of phase-in arrangements and are working with businesses and producers to address any concerns they may have around changes in trade flows or our approach to setting quotas.

41. **We note concerns that liberal product-specific rules of origin for processed food products could encourage manufacturers to replace UK ingredients with imported ones. *The Government must say what it has done to model such possible consequences of these rules of origin—and what it will do, following entry into force, to monitor any such impacts.*** (Second report, Paragraph 98)

42. The RoO agreed in the UK-Australia FTA support the current and future supply chains of many UK agricultural producers. Careful consideration was given to the UK's positions, with consistent engagement with agricultural stakeholders. The Department for Environment, Food and Rural Affairs (DEFRA) were also consulted throughout negotiations to understand the industry's needs. The negotiated outcomes provide a

balanced approach affording security for UK producers of processed food inputs while providing the necessary flexibility to enable UK-processed food exporters to be able to meet the RoO in the Agreement. For example, UK and Australian cheese producers will be required to use UK and Australian originating milk in the production of their goods when exporting to Australia and the UK, preserving the UK dairy industry's role in cheese production. The FTA will also have a Working Group on Rules of Origin and Customs and Trade Facilitation to consider matters that arise. The Government will continue to engage with UK businesses to monitor the impact of RoO outcomes.

43. The Government's impact assessment for the UK-Australia FTA makes a commitment to publishing a biennial FTA monitoring report. The report will cover key monitoring indicators where available and provide the Government's analytical evidence base to inform Parliament, the public and other interested stakeholders on the implementation of the agreement and potential emerging impacts. The department has additionally committed to publishing a comprehensive ex-post evaluation report outlining the agreement's generated outcomes within five years of the FTA entering into force.

44. **The Agreement in Principle referred to a UK-proposed annex on spirits and "Australian proposals on wine and organics", as well as "best endeavours" commitments to reach agreement on amending Australia's definition of whisky and implementing in the UK Australia's proposals under the Wine Agreement. It is disappointing that these are not present in the final Agreement.** ***The Government must set out how, and when, it plans to address the issues concerned.*** (Second report, Paragraph 106)

45. After Agreement in Principle, the UK and Australia did not agree annexes for Wine or Distilled Spirits. However, the UK was able to secure important gains for the UK spirits industry without a dedicated annex, including through the elimination of tariffs on UK distilled spirits. In addition, the FTA secured a tariff elimination for Australian wine, which could reduce the cost for British consumers.

46. Trade in wine between the UK and Australia is already governed by the comprehensive UK- Australia Wine Agreement. Despite this, the UK was able to take steps to further facilitate trade between the UK and Australia outside of the FTA. This included the removal of the requirement for VI-1 certification of wine, simplifying the import process for Australian wine.

47. The UK and Australia worked intensively to find a mutually acceptable solution that would deliver a high-quality definition of whisky but could not reach a jointly agreeable position. We will continue to work and consult with domestic industry to support the establishment of a quality whisky definition in Australia.

48. On the organics annex, at the time of negotiations, the UK was in the process of establishing a new review and assessment processes for its organics regulatory regime. The UK determined that it would be inappropriate to agree to provisions in the FTA on organics whilst this review was ongoing.

49. **We welcome the role of the new Trade and Agriculture Commission in scrutinising the impact of trade agreements on UK agri-food production standards.** ***For future trade agreements, the Government must ensure that the Commission is provided with the time and resources necessary to fulfil its remit. This must include the provision of a dedicated budget for the commissioning of research.*** (Second report, Paragraph 119)

50. The Government fully supports the TAC in their role of scrutinising new FTAs. This includes providing remuneration and expenses to TAC members, a small Secretariat, and information from government officials involved in the negotiations.

51. We are continuing to consider ways to further support the Commission with respect to future agreements such as CPTPP, which was worth £9 trillion in GDP last year and includes some of the world's biggest current and future economies across the Asia-Pacific and the Americas.

52. **We welcome the fact that the Agreement does not change the UK's statutory Sanitary and Phytosanitary protections, including its ban on importing hormone-treated beef. However, we note concerns that attempts could be made to try and undermine such protections by means of the Sanitary and Phytosanitary Committee under the Agreement, the provisions on equivalence of standards and the Chapter on Good Regulatory Practices.** (Second report, Paragraph 160)

53. Our agreement with Australia protects the rights and freedom of both countries to regulate, uphold standards and recognises the importance of independent Sanitary and Phytosanitary (SPS) regimes. Decisions on standards will remain a matter for the UK Government and Devolved Administrations. This agreement does not change that.

54. The role of the SPS Committee under the agreement is to facilitate understanding of each other's SPS systems, new SPS measures and address any unnecessary market access barriers. Similarly, provisions on equivalence allow for the UK and Australia to agree that different SPS measures may achieve the same level of protection. This could help businesses move agri-food goods between two markets more easily where there is a strong degree of confidence in the robustness of the other country's regime, helping to avoid supply issues. However, the UK will not be compelled to recognise equivalence and the decision to do so will remain ours. The text is clear that the final determination of equivalence rests with the importing Party.

55. Issues pertaining to SPS protections cannot be undermined by the Good Regulatory Practice (GRP) chapter as the provisions of the GRP chapter maintains each party's right to regulate as per domestic practice and states that in the event of any inconsistency between the GRP Chapter and another Chapter of this Agreement, the other Chapter shall prevail to the extent of the inconsistency.

56. **It is regrettable that the Government did not negotiate any relaxations of Australia's strict bio-security controls, such as those on pork imports, especially given the extent of UK concessions in respect of Australian agri-food exports. *The Government must say whether—and, if so, how and when—it plans to address this issue through the Sanitary and Phytosanitary Committee under the Agreement.*** (Second report, Paragraph 161)

57. The FTA respects the regulatory autonomy of the Parties, and it is important to note that this applies equally to both Parties. Decisions on specific standards of food safety, animal and plant life and health protections are made on the basis of scientific evidence, separate to trade deals and will remain a matter for the respective Governments.

58. The trade deal provides for new levers to address SPS market access barriers. For example, we can hold a Committee meeting, establish a working group, or enter into technical consultations to address such issues. We have also secured commitments

for timely and transparent import approval procedures, which will aid market access applications, as well as commitments to hold consultations on certificates and progressing the implementation of electronic SPS certificates. The SPS Committee under this agreement will meet within one year of the FTA entering into force, and annually thereafter, unless the UK and Australia jointly decide otherwise. We will continue to welcome input from businesses to identify matters to raise through the agreement once it is in force.

59. **We welcome the commitments in the Agreement on combating antimicrobial resistance and we are reassured by the continuance of UK Sanitary and Phytosanitary controls on antibiotic residues in imported meat. *The Government must say what it will do through the Sanitary and Phytosanitary Committee under the Agreement to address the high level of antibiotic use in Australian production processes.*** (Second report, Paragraph 162)

60. The UK is a world leader in the battle against antimicrobial resistance (AMR) – significantly cutting our use of antibiotics in farming. We have agreed a strong cooperation commitment with Australia to combat anti-microbial resistance. This includes a commitment by each Party to explore initiatives to promote the reduced need for, and the responsible use of, antimicrobial agents and a commitment to collaborate in international fora on international standards and initiatives.

61. Under this trade deal, the UK and Australia are able to establish working groups on AMR under the Cooperation Committee as a forum to cooperate on combatting AMR, exchange information and expertise on AMR including supporting existing bilateral cooperation channels to promote the prudent and responsible use of antimicrobial agents and harmonisation of surveillance data. Any such activities will contribute to our overarching objective to tackle AMR at a global level, consistent with the UK's National Action Plan.

62. **We note the concerns of UK agri-food producers that the Agreement increases UK market access for food produced in ways that would be illegal in the UK, making for unfair competition. We also note the new Trade and Agriculture Commission's conclusion that, while such concerns have generally been overstated, this is apparently not the case in respect of goods produced using pesticides not permitted in the UK and canola oil produced from GM crops.** (Second report, Paragraph 163)

63. The UK independent pesticides regulatory regime includes provision for import tolerances, which are Maximum Residue Levels (MRLs) set to take account of residues on imported produce arising from uses and authorisations in other countries. These are set using the same safety criteria as for domestically produced food and take into account that pesticide use differs where different climatic, geographical or pest conditions exist. The UK's pesticides regulations set a high level of protection for consumers. Produce can only be imported as long as it does not exceed the MRL prescribed.

64. Similarly, any Genetically Modified Organism (GMO) imported into the UK must undergo a rigorous safety assessment led by the Food Standards Agency and Food Standards Scotland. These agencies will provide independent advice to ministers on whether to approve any GMO for sale or not. If approved, the product must be appropriately labelled.

65. **The non-statutory Trade and Agriculture Commission and Henry Dimbleby's National Food Strategy review suggested making liberalisation of agri-food trade**

under UK trade agreements conditional on the other Party meeting core UK food production standards. We are disappointed that the Government has not acted on this suggestion. ***The Government must say what it will do to monitor the impacts of any unfair competition for UK producers resulting from liberalising trade in agrifood goods whose production is subject to different rules in the UK and Australia. It must also say how it will act to mitigate adverse consequences for UK producers' interests, and UK consumers' wishes and choices, arising from such competition.*** (Second report, Paragraph 164)

66. The Government responded to the original TAC's report on 21 October 2021.

67. The current TAC concluded that the FTA between the UK and Australia does not require the UK to change its existing levels of statutory protection in relation to animal or plant life or health, animal welfare, and environmental protection. The TAC concluded that the FTA reinforces the UK's statutory protections in the areas covered for two reasons. First, it contains environmental and animal welfare obligations that require the UK to maintain its statutory protections in the areas covered. Second, these obligations also ensure that Australia will not gain a trade advantage by lowering its standards of protection or not properly implementing its domestic laws in the areas covered.

68. The current TAC noted that if there are any concerns about animal welfare in products being exported to the UK, the UK can raise these concerns with Australia in the Joint Working Group on Animal Welfare established under the FTA. The FTA also has an Environmental Working Group where environmental concerns can be raised and if it cannot be resolved there is recourse to a dispute settlement in this chapter. Any concerns relating to SPS can be raised in the FTA SPS Committee.

69. Furthermore, a range of Government departments, agencies and bodies continue to ensure that our stringent import requirement standards are met including the Food Standards Agency, Food Standards Scotland, the Animal and Plant Health Agency, The Veterinary Medicines Directorate and Health and Safety.

70. The UK will continuously monitor Australian exports under the FTA, by reviewing up to date trade data, and will use the protections set out in the agreement to step in and support industry if serious injury, or the threat thereof, is being felt as a result of trade liberalisation under the FTA.

71. The UK is proud that we are global leaders on animal welfare and Australia is proud of their sovereign and internationally recognised welfare standards. The UK will continue to use the full range of tools at its disposal to uphold the UK's commitment to high animal welfare standards as well as to protect our farmers from unfair competition.

72. **We are concerned about the potential undermining of voluntary food production standards in the UK as result of agri-food liberalisation under the Agreement.** ***The Government must say what it will do to monitor, and potentially act on, this possible consequence of the Agreement.*** (Second report, Paragraph 165)

73. The FTA will not result in any new permissions or access for products which are otherwise not permitted or present in the UK market prior to the agreement coming into force.

74. Voluntary food standard schemes that go beyond statutory requirements are industry-led and are entered into by producers who recognise the wider appeal that such accreditation gives their products to consumers. This agreement does not impact the ability for any organisation to continue to set and maintain such schemes and standards.

75. The UK will continuously monitor Australian exports under the FTA by reviewing up to date trade data and will use the protections set out in the agreement to step in and support industry if serious injury, or the threat thereof, is being felt as a result of trade liberalisation under the FTA.

76. **The Government has failed to secure any substantive concessions on the protection of UK Geographical Indications in Australia—relying instead on that country's ongoing negotiations with other trade partners. This is another example of the Government failing to secure an obvious benefit in exchange for the extensive concessions it has given on liberalising agri-food imports.** (Second report, Paragraph 174)

77. Australia do not currently have a Geographical Indications (GI) scheme for agri-food or spirits. The UK has agreed that should Australia, introduce a scheme for the protection of GIs (as part of an international agreement) we will be able to submit all eligible UK GIs for protection in Australia.

78. To support this, we have agreed a "side letter" which includes a list of the GIs the UK is intending to protect in Australia, should they agree to establish a GI scheme. This side letter can be updated at a later date to include future UK GI registrations. This is the strongest commitment Australia have made towards setting up a GI scheme in any of their FTAs and is therefore a significant gain for the UK. We will continue to discuss GIs with Australia and are confident that we will make progress towards protection of UK GIs in Australia.

Trade in services

79. **The Agreement's provisions on trade in services have the effect, broadly speaking, of locking in current levels of market access, thereby providing welcome certainty to businesses and individuals.** (Second report, Paragraph 226)

80. The Government notes the Committee's conclusion and welcomes the response.

81. **There is clearly an appetite from stakeholders for free trade agreements to establish mutual recognition of professional qualifications. While this Agreement does not go that far, it does contain useful provisions to facilitate the achievement of mutual recognition by the Parties' respective regulatory bodies.** (Second report, Paragraph 227)

82. The Government notes the Committee's conclusion and welcomes the response.

83. **We are not wholly convinced that the mechanisms in place to deliver further regulatory alignment in respect of trade in services are as effective as they might be. The committees set up for this purpose should meet more than once a year and involve regulators, as well as Government representatives. *The Government must say what it will do to seek amendments to the Agreement in this respect.*** (Second report, Paragraph 228)

84. Regarding what we have achieved in the FTA, the Professional Services and Recognition of Professional Qualifications chapter will facilitate the recognition of UK professional qualifications in professional services, including support work towards recognition arrangements. It also provides for ongoing discussions overseen by the Professional Services Working Group on other behind the border barriers to trade in services.

85. The UK is committed to maximising the benefits of the FTA for professional services. Post- entry into force, we will engage stakeholders, including regulators, to identify where there is interest in having discussions with Australia on the recognition of professional qualifications or tackling other barriers to trade. The Professional Services Working Group is designed to monitor and evaluate progress of the Chapter and both governments take commitments to provide support to regulators in delivering outcomes for these important sectors. The frequency of meetings is agreed with the Australian Government, but we have committed as a guaranteed minimum to meet annually for the first three years. It is worth stressing that negotiations on recognition arrangements will be undertaken by relevant regulatory bodies, who are independent of government, outside of the Working Group. The Working Group is able to invite the relevant regulatory bodies to attend a meeting and will monitor progress and decide if there is further support the Governments can provide.

86. We have also agreed a ground-breaking set of commitments to set up a bespoke legal services regulatory dialogue, which establishes structured engagement between the UK and Australian legal professions. The regulatory dialogue will be profession-led, with the aim of sharing expertise and addressing remaining barriers to practising law locally in each market, such as those relating to requalification and business structures as vehicles for legal services. Participants may also choose to establish expert sub-groups to consider matters relevant to the dialogue. The dialogue will be established post-entry into force of the agreement, with the government initially playing a facilitatory role in its formation. The dialogue is encouraged to meet annually for at least the first three years. It is encouraged to keep the Professional Services Working Group updated on the progress of its work and to provide an update no later than 20 months after entry into force of the agreement. These commitments sit alongside provisions that guarantee that UK lawyers can practise home (UK), foreign and international advisory law in Australia using their 'home' title and qualification, without having to requalify as an Australian lawyer. This includes arbitration, conciliation, and mediation services.

87. The Committee's report stated that UK regulators may be unable to recognise overseas professional qualifications and referenced the Professional Qualifications Act 2022 (the PQ Act) as potential mitigation for these barriers to some degree. The Government's view is that implementing legislation will not be required for this Chapter of the trade agreement. UK regulators are responsible for assessing the individual's suitability to practise professions in the UK. The regulators' relevant sectoral legislation will contain the powers they have to decide whether professionals from overseas meet UK standards or not. In order to facilitate the recognition of professional qualifications, regulators can make arrangements with their overseas counterparts, known as 'regulator recognition agreements'. Section 4 of the Act provides for the UK government and Devolved Administrations to make regulations to authorise regulators to enter into regulator recognition agreements where they are not currently able to do so. If used, regulations made under these powers can be

used to allow a regulator to make a recognition agreement with overseas counterparts, including those in Australia. Such an agreement would only be made where the relevant regulators wished to do so.

Mobility of persons

88. ***The Government must provide details of any assessment it has made of the expected increase in flows of businesspersons, and the associated economic impact, as a result of the Agreement. It must also commit to providing this information for future trade agreements in its published impact assessments.*** (Second report, Paragraph 236)

89. The Agreement contains provisions relating to Temporary Entry for Business Persons including clearer transparency commitments, as well as the removal of economic needs tests. Whilst the Government has not made a separate quantitative assessment of these impacts separate to the broader services provisions in the agreement, these provisions will provide clarity and legal certainty helping stakeholders take advantage of new opportunities and supporting business travel. Existing published work suggests that increased business travel boosts trade. For example, a report from Oxford Economics published in May 2016 found that a 1% increase in business travel increases total trade by 0.05%.

90. The Government's impact assessment estimates the potential economic impacts of the services elements agreement as a whole. This is a robust assessment of the Australia FTA which uses internationally recognised techniques and independently scrutinised analysis.

91. **We welcome the planned changes to the Working Holiday Maker and Youth Mobility schemes, and the new Innovation and Early Careers Skills Exchange Pilot. We note that it is planned to review the pilot scheme when it may have been in operation for as little as one year.** ***The Government must work with the Australian Government to ensure that the review of the pilot only takes place when the scheme has been in operation long enough for its impact to be properly evaluated.*** (Second report, Paragraph 244)

92. We welcome the Committee's recognition of the planned changes to the Working Holiday Maker and Youth Mobility schemes, and we thank the committee for their comments on the Innovation and Early Careers Skills Exchange Pilot.

93. Australia have made a unilateral commitment to offer the UK an Innovation and Early Careers Skills Exchange Pilot Scheme and to implement this scheme within one year of entry into force of the Agreement. Both Parties have committed to the review period set out in the mobility side letter dated 16 December 2021. The agreed review period will provide both Governments with one year to consider progress and outcomes of the new mobility arrangements.

94. The review will offer a first opportunity for Australia to discuss the implementation and operation of their pilot scheme with the UK. We will assess progress at that time and jointly decide appropriate next steps with Australia.

Digital and data

95. **We welcome the Agreement's forward-looking provisions on digital trade, which will help to boost e-commerce and improve online consumer protection between the UK and Australia. However, it is important to strike the right balance between digital liberalisation and the protection of personal data.** (Second report, Paragraph 254)

96. We welcome the Committee's recognition of the value that modern, ambitious provisions on digital trade bring for both businesses and consumers. The Government's vision is for the UK to be a global leader in digital trade, with a network of international agreements that drive productivity, jobs, and growth across the UK.

97. The UK-Australia FTA enables the free flow of trusted data between the UK and Australia so that trade can flourish between our two countries without unjustified barriers. This is necessary for UK businesses to provide modern services while helping to ensure that data can be processed, and transferred between the two countries, without facing unnecessary red tape.

98. The agreement safeguards the UK's high standards on personal data protection and locks in a requirement for personal data to be protected in both countries. The deal ensures that both the UK and Australia maintain their domestic personal data protection regimes and draw on international principles and guidelines in their design. The deal also requires both the UK and Australia to publish information on the protections they provide, including information on how citizens can take steps to enforce their personal data protection rights.

99. ***The Government must set out clearly and precisely how it intends to fulfil its commitments on cross-border transfer of data under this Agreement while also maintaining current levels of protection for UK citizens' personal data. It must also set out how its policy on granting data adequacy will interact with this and future free trade agreements. The Government must give an unequivocal commitment that it will seek to avoid the loss of EU adequacy—which would be catastrophic for the UK.*** (Second report, Paragraph 255)

100. Both now and in the future transfers of personal data to Australia must satisfy the UK's data protection law, providing confidence for consumers to shop online and benefit from international services. UK data protection rules will continue to apply.

101. In June 2021, the EU formally recognised the UK's high data protection standards as 'adequate.' The Government welcomes the EU's adequacy decisions, which allow for the continued free flow of personal data from the EU and EEA to the UK. As set out above, the agreement safeguards the UK's high standards on personal data protection and locks in a requirement for personal data to be protected in both countries. The UK, which now operates a fully independent data policy, has also legislated to permit the free flow of personal data from the UK to the EU and EEA. We will continue to engage with the EU as appropriate on these issues.

Innovation

102. **We question the extent to which the Strategic Innovation Dialogue's two-year meeting interval and stakeholder involvement is sufficient to allow it to be impactful.**

The Government must set out how the Dialogue will be monitored for effectiveness, and what the arrangements will be for making details of its meetings public. (Second report, Paragraph 263)

103. We are pleased that the Committee sees the value of the Strategic Innovation Dialogue. The Innovation Chapter, and the Strategic Innovation Dialogue within it, are the first of their kind in an FTA between any two countries. They represent significant ambition from two global leaders in innovation to maximise the opportunities, and minimise the risks, posed by future innovation.

104. The Dialogue will meet within 12 months of entry into force of the FTA, and thereafter at least once every two years, unless the Parties agree otherwise. The agreement provides flexibility for the Parties to jointly agree a frequency of meetings that leads to greatest impact. Among other things, the agreement allows the Parties through the Dialogue to identify and develop a cooperative activity in an area of mutual interest. Accordingly, the Parties may use the time between meetings of the Dialogue to implement any such cooperation activity. The Chapter also allows for the consultation and participation of stakeholders through the Strategic Innovation Dialogue.

105. We intend to establish a work plan and terms of reference as part of the inaugural meeting of the Strategic Innovation Dialogue. This may include consideration of transparency measures.

106. ***The Government must clarify how innovation-related provisions will be addressed across free trade agreements and digital economy agreements. It must show it has a coherent, clear and consistent approach in this regard.*** (Second report, Paragraph 267)

107. The UK has published various domestic strategies to support emerging technologies and innovation. Our negotiations draw from these to internationally promote approaches and principles that facilitate innovation and trade in innovative products. In this way, the UK takes a consistent approach to innovation-related provisions across all agreements it negotiates, including digital economy agreements.

Investment

108. ***The Government must explain how Investor-State Dispute Settlement came to be omitted from the Agreement and set out clearly how it intends in future negotiations on trade agreements to approach the issue of mechanisms for settling investment disputes.*** (Second report, Paragraph 296)

109. In light of the positive UK-Australia investment relationship, the UK and Australia decided that it was not necessary to include Investor-State Dispute Settlement (ISDS) in this new bilateral agreement.

110. Inclusion of ISDS is considered where it is in the UK's interests and where we agree with partners that it can play a useful role in supporting the bilateral investment relationship. Furthermore, where the UK negotiates ISDS, it will be in line with modern international best practice, to ensure that the mechanism delivers fair outcomes of disputes, has independent arbitrators bound by high ethical standards and that proceedings are transparent. However, the precise details of any future free trade agreement are a matter of formal negotiations, and we would not seek to pre-empt these discussions.

Labour

111. **We welcome the inclusion in the Agreement of provisions on forced labour, modern slavery and human trafficking, but note the limitations of those provisions—notably the fact that enforceable provisions do not extend to supply chains.** (Second report, Paragraph 331)

112. What we have secured with Australia are world-leading provisions on forced labour, modern slavery and human trafficking. These provisions not only affirm both the UK's and Australia's commitment to tackle modern slavery in supply chains, but they also demonstrate our clear resolve to tackle the injustices of modern slavery, and will continue to work closely with partners who wish to do the same.

113. The Agreement does subject the provisions to its dispute resolution mechanism. This means Parties can resort to this for non-compliance or violation of the terms in the FTA. This robust enforcement mechanism ensures that Parties can be held to account when they fail to uphold commitments made in the agreement. The Government also remains committed to taking forward an ambitious package of measures to strengthen the Modern Slavery Act 2015, and will outline new measures in the forthcoming Parliamentary session.

Trade and Gender Equality

114. **We welcome the Agreement's dedicated chapter on trade and gender equality. However, we note that: the chapter only establishes a "Dialogue," rather than a formal joint committee; there is no requirement for the Dialogue to meet within a set time or with any frequency; and there is no clarity on how it will operate, including its interactions with stakeholders. *The Government must set out how it intends to address these issues under the terms of the Agreement, and this must include specifying its intentions regarding the frequency of the Dialogue's meetings.*** (Second report, Paragraph 337)

115. We welcome the Committee's positive comments on the benefits of our world-class Trade and Gender Equality Chapter. The Chapter is the first of its kind in an Australian FTA.

116. In regard to implementation of this Chapter, in addition to the Joint Committee, the Agreement establishes two bodies. The Committee on Cooperation (in the Cooperation Chapter) is the main body responsible for the implementation and operation of cooperation provisions included in this Chapter (and other relevant Chapters in the Agreement), including monitoring and review, and shall meet within one year of the date of entry into force.

117. The Agreement also establishes the specific in-chapter Dialogue on Trade and Gender Equality. The Dialogue ensures that gender equality can be addressed at any time, in addition to and independently of the Committee on Cooperation meetings. It provides a flexible space for both Parties to come together and share best practice, engage with stakeholders such as women workers, business owners and entrepreneurs, and consider any matter relating to advancing gender equality in our investment and trading relationship with Australia.

118. The Dialogue reports on its progress to the Committee on Cooperation, but both bodies can also make recommendations to the Joint Committee as appropriate. This innovative, streamlined mechanism allows us to have impactful and ongoing working level discussions with Australia through the Dialogue in addition to and outside of the Committee on Cooperation to advance gender equality and women's economic empowerment across the Agreement.

Development

119. **We commend the Government for taking into account potential adverse effects on developing countries from preference erosion and its intention to monitor such effects. *However, it must also set thresholds for taking remedial action, and say what such action would involve*.** (Second report, Paragraph 343)

120. We are committed to monitoring the effects of trade agreements on developing countries. This monitoring enables the Government to take action if appropriate. This includes remedial action or to apply good practice from other trade settings.

121. We know that FTAs have the potential to contribute to preference erosion. When negotiating trade agreements, the Government analyses the impacts of preference erosion as part of a balanced approach to negotiations.

122. Based on our analysis of the FTA with Australia, the risks of trade diversion from preference erosion were not deemed to be substantial.

Preventing market distortions

123. **The Government has rightly highlighted the potential procurement opportunities that some new (or reclassified) entities offer to UK suppliers under the Agreement. *The Government must publish its assessment of each procuring entity under the Agreement, to help UK suppliers assess the procurement opportunities presented; and it must commit to publishing equivalent details alongside all future trade agreements.*** (Second report, Paragraph 365)

124. The Government conducted extensive research and engagement with stakeholders including British businesses and the Devolved Administrations to determine sectors and entities of interest in our trading partners' markets. This included through the initial public consultation, through forums run with representatives during negotiations and in individual meetings with businesses operating in Australia.

125. In addition, the Government explored what Australia had offered previously in other deals and considered the regulatory framework that governs Australia's procurement.

126. Each procuring entity was assessed for the potential value for UK businesses of different Australian contracting entities, and those that offered most economic gain and in areas of strategic interest to UK suppliers were prioritised. Entities that present particular gains economically and in areas of interest for UK stakeholders include infrastructure and transport bodies like Public Transport Victoria and education providers like Technical and Further Education (TAFE) New South Wales.

127. The UK secured a guarantee from Australia that all tenders covered by this agreement are accessible online, making it simple for British businesses to access the new opportunities for each contracting authority.

128. **The Trade (Australia and New Zealand) Bill was introduced to the House towards the end of our inquiry. Consequently, we have not considered its provisions in great depth. However, our initial assessment of the Bill has left us satisfied that its content and provisions are necessary and proportionate. We emphasise that, for primary implementing legislation required by a free trade agreement, a degree of advanced notice under embargo would help us to scrutinise it alongside the agreement. Suchadvanced notice would be especially helpful where implementing legislation entails substantial changes to UK domestic law.** (Second report, Paragraph 373)

129. The Government is committed to ensuring the ITC (and IAC) are able to effectively scrutinise the Government's trade agenda, which includes implementing legislation for FTAs. The Trade (Australia and New Zealand) Bill was introduced on 11 May 2022, and will have its Second Reading on 6 September 2022. This has provided Parliament nearly 4 months to have sight of the legislation before it is debated.

130. ***We ask the Government to revise the Explanatory Notes to the Trade (Australia and New Zealand) Bill to include an explanation for the statement of compatibility with the European Convention on Human Rights.*** (Second report, Paragraph 374)

131. The Government is committed to ensuring all legislation tabled is compatible with the European Convention on Human Rights. In line with standard practice, the Trade Secretary has signed the statement of the Bill's compatibility with the European Convention on Human Rights.

Implementation and governance

132. ***We ask the Government to confirm how Parliament will, in a timely manner, be made aware of, and be engaged in, the UK's consideration of proposed amendments to the Agreement by the Joint Committee. The Government should also inform us how it will engage Parliament in the wider body of work undertaken by the Joint Committee and other bodies established under the Agreement.*** (Second report, Paragraph 398)

133. Signing an FTA is not the end of the process but a new beginning and we will continue to work with Australia to move our relationship and this Agreement forwards and delivers the best for UK business.

134. The Government's intention is that significant amendments to FTA treaties should be subject to ratification and therefore will be submitted to Parliament for scrutiny in accordance with CRaG. Moreover, all treaty amendments (whether subject to CRaG or not) are laid in Parliament as Command Papers and published in United Kingdom Treaty Series.

135. In addition, as with other UK FTAs, all joint committee decisions made under this Agreement (including joint committee decisions which constitute treaty amendments) will be published on the same webpage as the Agreement on gov.uk. This will ensure a complete, up-to-date and easily accessible record of the Agreement and relevant related documents.

136. Alongside the reporting outlined above, the Government also intends to provide updates to the International Agreements Committee and International Trade Committee regarding the implementation, and continued operation, of this Agreement on a regular basis. The Government will continue to review and adopt best practices in this regard as the UK's first 'from scratch' free trade agreements come into force, as it will with wider scrutiny arrangements.

137. ***We ask the Government to explain why there are such different approaches to the availability of dispute resolution mechanisms across the Agreement. We also ask the Government to explain how Parliament will be kept informed when a dispute under the Agreement leads to a dispute resolution mechanism being triggered.*** (Second report, Paragraph 402)

138. The Government's policy on Dispute Settlement is to establish appropriate mechanisms that promote compliance with the agreement and to seek to ensure that state-to-state disputes are dealt with consistently, fairly and in a cost-effective, transparent, and timely manner whilst seeking predictability and certainty for businesses and stakeholders.

139. Particular chapters may be excluded from the scope of an FTA's dispute settlement provisions, depending on the nature of the chapter and specific commitments contained therein. The scope of the Dispute Settlement chapter was decided in discussions between the UK and Australia. In line with the Agreement's objectives, the UK values a transparent process for the settlement of any disputes. The Government will ensure that UK interests are protected and defended at every stage of the dispute process.

140. **The interaction of the Agreement with the Ireland / Northern Ireland Protocol is complicated and opaque.** ***We ask the Government to clarify what it is doing, and how it is engaging with Northern Ireland stakeholders (including the Northern Ireland Executive and Northern Ireland importers), to ensure that sufficient support is available to help those impacted by these provisions to navigate this complex situation.*** (Second report, Paragraph 420)

141. We will continue to work closely with the Northern Ireland Executive. During the Australia negotiations:

- There were 25 Chief, or Deputy Chief, Negotiator updates provided to DA officials, including the Northern Ireland, across the negotiation lifecycle.
- At official-level, there were over 100 hours of policy discussions with the Northern Ireland Executive, via the Trade Strategy Group devolution team, on all areas of the UK-Australia FTA negotiations.
- NI business also had the opportunity to engage on trade policy via the Department for International Trade's (DIT) Strategic Trade Advisory Groups, Thematic Working Groups, and Trade Advisory Groups, as well as the TAC.

142. In March 2022, we established a trade and investment hub in Belfast to improve the connection between Northern Ireland stakeholders and DIT services. The team of nine includes sector specialists in agriculture, food & drink, advanced manufacturing & technology, and creative services, who provide support to NI businesses and can connect them to the DIT global network.

143. ***The Government must state what its understanding is regarding whether UK trade defence measures can apply in Northern Ireland if there are no equivalent EU trade defence measures in place.*** (Second report, Paragraph 422)

144. The UK-Australia FTA ensures both the UK and Australia retain existing rights to apply trade defence measures to each other's goods. The FTA also provides both Parties with a new bilateral safeguard mechanism to use if an increase in imports resulting from the reduction of duties under the FTA is causing or threatening serious injury. The UK can apply its trade defence measures to Australian goods entering Northern Ireland that are "not at risk" of moving into the EU regardless of whether equivalent EU trade defence measures are in place.

145. ***We ask the Government to explain: i) how it will inform and involve Parliament and the Northern Ireland Executive when differences in regulations operating in Northern Ireland and the rest of the UK mean that the Agreement will operate differently, with regard to imports, in these areas; and ii) what mechanisms will be used to minimise disruption to trade across the UK as a result of such differences.*** (Second report, Paragraph 426)

146. Where the EU legislation listed in the Northern Ireland Protocol is updated, the EU is obliged to provide information of those changes to the UK. This is done through the Joint Consultative Working Group. The Government has committed to providing an Explanatory Memorandum (EM) to the Parliamentary EU Select Committees in both Houses when an EU proposal within the scope of the Protocol is amended, replaced, or added to the Protocol. This can also include tertiary EU legislation in the form of Commission delegated and implementing acts which can supplement, amend, or provide implementing rules for EU legislation listed in Protocol where significant implications arise. The Government provides extensive guidance on the Protocol on gov.uk and EU legislation, including the EU regulations operating in Northern Ireland, is available on EUR-Lex: https://eur- lex.europa.eu/homepage.html?locale=en.

147. Australian exports to Northern Ireland will need to meet EU standards, however many businesses already export to the EU and so this will not be an extra burden for these businesses. While the UK's preferred solution to disruption in Northern Ireland resulting from the Northern Ireland Protocol is a negotiated outcome, the Government has introduced the Northern Ireland Protocol Bill which would introduce a Dual Regulatory Regime to give businesses the choice and flexibility to place goods on the market in Northern Ireland according to either EU or UK goods rules.

Impact Assessment

148. **The Government's Impact Assessment modelling relies heavily on econometric estimates, with limited use of valuable qualitative forms of evidence.** ***The Government should take steps to develop its capacity to collect and utilise qualitative forms of evidence in its Impact Assessments, including both as complementary forms of evidence and to inform quantitative modelling.*** (Second report, Paragraph 432)

149. We are constantly reviewing and improving our methodologies to ensure our impact assessments meet the Government's objectives of informing policy and the public. The modelling results presented in the impact assessment are informed by qualitative evidence

collected during negotiations via stakeholder engagement and expertise from other government departments. The timing of publication of the impact assessment means there is not time to collect further qualitative evidence on the impacts of the negotiated agreement once the negotiations have concluded and prior to the analysis being completed.

150. ***For each future trade agreement, the Government must undertake or commission an analysis of the cumulative impacts of the UK's new trade agreements to date, across all sectors of the economy, to be laid before the House as part of the Impact Assessment for that agreement.*** (Second report, Paragraph 436)

151. **The Government has explained that its modelling of the impacts of trade agreements is not comparable between agreements where the economic modelling is not done on the same basis.** ***DIT should evaluate the practicability of compiling a single dataset that allows the comparison of trade agreement impact modelling on a like-for-like basis, and should publish a detailed explanation of its conclusions.*** (Second report, Paragraph 464)

152. The purpose of impact and scoping assessments is to set out the marginal impact on the UK of concluding a free trade agreement with a country or countries, and the Government carefully considers the individual effect of the agreements that are being negotiated. The Government constantly reviews and seeks to improve our analytical approaches, including our modelling frameworks and analysis. Any improvements to the modelling approach, in addition to the use of more up to date data, means that that the estimated impacts from more recent analysis will not be directly comparable with previous published analyses.

153. The Government modelling uses publicly available data: our econometric modelling to derive the inputs to our CGE modelling are based on publicly available datasets; the core dataset used for our CGE modelling can be purchased from Purdue University.

154. Three broad reasons exist as to why differences occur between assessments. First, different model specifications might be used as we continuously improve our methodology. Second, trade data in the model may differ between the assessments as we use the latest available data where possible. Third, different assumptions may be used in the baseline, as we include the latest signed trade agreements where possible. This makes it challenging to produce like-for-like modelling for all current and future agreements. Going forward, we will continue to be transparent about the methodologies and choices we have made by including all the relevant details in our publications.

155. **We are disappointed that the Impact Assessment did not consider the strategic importance of the Agreement to the UK's future trade negotiations, including the benefit it may bring to the UK's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.** ***Future Impact Assessments must address this aspect of trade agreements.*** (Second report, Paragraph 439)

156. The purpose of impact and scoping assessments is to set out the marginal impact on the UK of concluding an FTA with a country or countries. The Australia Impact Assessment makes reference to some of the potential economic benefits of the UK of joining CPTPP and to the strategic importance of the UK-Australia FTA to the UK's accession. This is also set out in other accompanying documents.

157. A full analysis of the impacts of the UK joining CPTPP will be published in an impact assessment upon accession.

158. **We welcome the Government's initial assessment of the environmental impacts of the Agreement. However, the Impact Assessment could go further in its assessment. *The Government must ensure future Impact Assessments take account of changes in emissions due to deforestation or land use change, when assessing an agreement's impact on emissions, and extend its modelling approach so as to capture environmental impacts and the effects of environmental policy instruments.*** (Second report, Paragraph 443)

159. The Government recognises the importance of assessing the environmental impacts of new FTAs. Our approach to the assessment of environmental impacts is similar to an EU Sustainability Impact Assessments (SIA), covering a range of environmental impacts such as emissions, carbon leakage, deforestation and biodiversity.

160. DIT will continue to work closely with other Departments to assess the environmental impacts of new FTAs and to improve our methodology and range of approaches for doing so. For example, DIT is already developing our core modelling approach to include extensions that capture environmental impacts, in response to recommendations from the Trade Modelling Review. We will explore further such environmental extensions to the core model once they are available through the Global Trade Analysis Project (GTAP) centre, and we will endeavour to include these results in future impact assessments. But note, these developments will take time to incorporate.

161. The Computable General Equilibrium (CGE) model used to capture the environmental impacts of the Agreement will not necessarily be able to capture the effects of environmental policy instruments implemented in the period in which an FTA might apply. We have been clear in our impact assessment that because of this, the modelling is not a forecast and our emissions estimates may therefore overstate what might actually occur, in the same way the economic impacts estimate by the model do not capture other government policies which might affect UK productivity growth. We will explore whether these measures can be captured as we develop our model.

162. **The Government's Impact Assessment does not sufficiently assess the Agreement's impacts in the devolved nations and English regions. A notable deficiency in this regard is the inability of the Government's modelling to assess the specific impacts on Northern Ireland arising from the Agreement's interaction with the Ireland / Northern Ireland Protocol. *The Government should set out the steps it is taking to ensure that modelling in future Impact Assessments is able to distinguish, with greater specificity, between the impacts on each UK nation, as well as individual English regions. The Government must ensure that future Impact Assessments include more detailed information on the impacts of the interaction between the relevant agreement and the Ireland / Northern Ireland Protocol.*** (Second report, Paragraph 449)

163. The current methodology used to assess regional impacts of an FTA is based on the sectoral structure of regional economies in the UK. It uses the national impacts derived from the CGE modelling to give an indication of the equivalent effect at a national and regional level, they are not precise estimates or forecasts.

164. CGE modelling uses a social accounting matrix which captures the flows of transactions between agents within an economy and the trade and investment that occurs between economies. To derive estimates of the impacts on the nations and regions of the UK within the same CGE model framework requires the development of data capturing the trade and investment flows between the nations and regions of the UK. The difficulty of developing such data was reported in the Trade Modelling Review. Following the Modelling Review's recommendations, DIT is developing a workplan to better understand how trade impacts differ across parts of the UK using alternative approaches.

165. ***The Government must beware of overselling trade agreements. Impact Assessments must clearly communicate a realistic assessment of potential winners and losers (across different sectors and different parts of the UK) under each agreement.*** (Second report, Paragraph 460)

166. To ensure balanced analysis, our impact assessments bring together evidence from across Government and a range of data and analytical tools. The Government constantly reviews and improves how we conduct analysis to ensure it is as accurate as possible and reflects best global practice. We have robust governance surrounding our analysis and we are confident that we have presented estimates that provide a robust indication of the direction of impacts.

167. Our impact assessments are also subject to scrutiny by an independent body, the Regulatory Policy Committee (RPC). All our final impact assessment publications for new FTAs have been rated as 'green' meaning they deem them fit-for-purpose.

168. **There is a need for greater transparency and detail in the Government's Impact Assessments. The Impact Assessment for the UK-Australia agreement provides some detailed information regarding its economic modelling, but this is insufficient to enable thorough scrutiny. Greater transparency will enhance external trust in Impact Assessments.** ***The Department for International Trade must ensure that its modelling and choice of modelling approach are more transparent. The Department should publish its detailed workings for the modelling in the Australia Impact Assessment and commit to doing the same in respect of modelling of future Impact Assessments. It must also commit to publishing key inputs and parameters that will be used in future Impact Assessment modelling.*** (Second report, Paragraph 461)

169. The Government's published impact assessments include descriptions of data, parameters, assumptions, and methodology used in the modelling. As we constantly improve our methodologies for assessing the impacts of FTAs, we aim to include as much detail as possible on the rationale behind modelling changes and choices of inputs.