

The Rt. Hon. the Lord Goldsmith QC
Chair of the EU International Agreements Sub-Committee
House of Lords

Angus Brendan MacNeil MP
Chair of the International Trade Committee
House of Commons

27 November 2020

Dear Lord Goldsmith and Mr MacNeil,

The UK-Japan Comprehensive Economic Partnership Agreement

The External Affairs and Additional Legislation Committee ("the Committee") has been considering the implications for Wales arising from the UK-Japan Comprehensive Economic Partnership Agreement.

We provide a summary of our assessment below for your consideration during the period of parliamentary scrutiny.

General assessment

The UK-Japan Comprehensive Economic Partnership Agreement ("the UK-Japan CEPA") is closely based on the EU-Japan Economic Partnership Agreement ("the EU-Japan EPA"), but with some limited changes.

The Committee welcomes the fact that an agreement will be in place, as a failure to reach an agreement would have meant that Welsh businesses already exporting to Japan would have reverted to trading on World Trade Organisation (WTO) terms as of 1 January 2021.

The "continuity plus" approach, as referred to by the Welsh Government, will allow for the effect of the EU-Japan EPA to be maintained and ensure a smooth transition for the UK and Japan from the EU-Japan EPA to the UK-Japan CEPA.



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The UK-Japan CEPA also allowed for some enhancements to be made to the precursor agreement in some areas of mutual interest. These include:

- the addition of a new chapter on "Trade and Women's Economic Empowerment";
- simplified rules of origin procedures for some traded products that Japan and the UK have shared interests in, such as automobiles;
- in relation to rules of origin, the agreement provides for extended cumulation in many industrial goods which permits the use of some EU inputs in both UK and Japanese goods for trade with each other. This will provide continuity for Welsh exporters that are currently utilising the arrangements in the EU-Japan EPA in their exports to Japan;
- substantial improvements have been made to the e-commerce provisions in the UK-Japan CEPA compared to the EU-Japan EPA. For example, removing the ban on data localisation and free movement of data; and
- in relation to Geographical Identifications (GIs), the UK-Japan CEPA makes provisions for both parties to consult on adding more products to the list of GIs than is currently covered by EU-Japan EPA.

Trade between Wales and Japan

In 2019, trade in goods between Wales and Japan was worth nearly £935.2 million. Wales exported £295.9 million worth of goods to Japan, and imported £639.2 million. Japan was the 11th largest export market for Wales, accounting for around 1.7 per cent of Welsh goods exports, and the 6th largest import market with around 3.5 per cent of Wales' total goods imports coming from Japan. This trade information is available through the HMRC Regional Trade Statistics database, and was also provided in the Welsh Government's report on the UK-Japan agreement.

Impact of UK-Japan CEPA Agreement on Wales

The Department for International Trade's final impact assessment of the UK-Japan CEPA suggests a 0.05% to <0.15% impact on Gross Value Added (GVA) in Wales over 15 years. The associated monetary value of this suggests a gain of around £34m for Wales over the same period. These figures represent the economic gains relative to the UK and



Japan trading on WTO terms, and therefore do not represent the net benefit of the UK-Japan CEPA relative to the EU-Japan EPA, but relative to trading on WTO terms.

To assist it with its analysis of this agreement, the Committee commissioned a report from Dr. Minako Morita-Jaeger, working on behalf of the UK Trade Policy Observatory.

This report concluded that the additional economic value of UK-Japan CEPA, beyond that of continuity from the EU-Japan EPA, looks to be limited.

The UKTPO analysis also states that:

These estimates were also based on the assumption that substantial tariff liberalisation and deep non-tariff measures reductions would be achieved. Given that added-value segments relative to the EU-Japan EPA look limited with regard to the latter, the de facto gains are likely to be smaller than the DIT's estimate of 0.07% increase in UK's GDP over the long term.

The UK Government has described the UK-Japan CEPA as "tailored" to the economies of UK and Japan, and as going beyond the existing EU-Japan agreement with *"big benefit for digital and data, financial services, food and drink and creative industries"*.

The Committee was, however, disappointed that the Impact Assessment to the final agreement did not provide an estimate of the potential value of these additional enhancements.

Monitoring implementation of the agreement

The Committee will continue to look at how both the UK and Welsh Governments promote the UK-Japan CEPA so as to ensure businesses in Wales are able to utilise its terms of trade.

The SME chapter in the UK-Japan CEPA could provide an opportunity for SMEs in Wales to increase their participation in trade with Japan. We would expect that the UK Government provides the Welsh and other devolved governments of the UK the opportunity to play an active role in supporting this in cooperation with the UK Government.

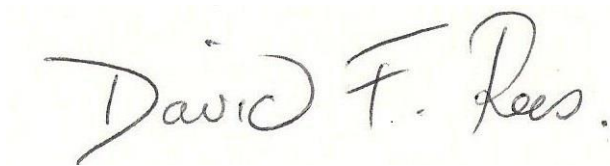
Additionally, the UK-Japan CEPA introduces a new chapter on 'Trade and Women's Economic Empowerment' which establishes channels between the UK and Japan to



cooperate on enhancing opportunities for women including in their roles as business owners and workers to participate equitably in the domestic and global economy. A working group will also be established to support and oversee the delivery of the cooperation activities. The Committee is planning to write to the Welsh Government to ensure that it is fully involved in delivering the aims and goals outlined in this chapter.

I appreciate that our analysis arrives with you at a relatively late stage in the Parliamentary scrutiny period for this agreement. Nevertheless, we hope that it provides a Welsh perspective and points towards possible areas of interest for future scrutiny.

Yours sincerely,

A handwritten signature in black ink that reads "David F. Rees." The signature is written in a cursive style with a large 'D' and 'R'.

David Rees MS

Chair of the External Affairs and Additional Legislation Committee

Croesewir gohebiaeth yn Gymraeg neu Saesneg.

We welcome correspondence in Welsh or English.

