



House of Commons  
International Trade Committee

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**UK-Japan  
Comprehensive  
Economic Partnership  
Agreement:  
Government Response  
to the Committee's  
Second Report of  
Session 2019–21**

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**Second Special Report of  
Session 2019–21**

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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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### Committee staff

The current staff of the Committee are Jasaron Bajwa (Assistant Clerk), Matthew Chappell (Committee Operations Manager), Ruth Cahir (Committee Specialist), Professor Tony Heron (POST Parliamentary Academic Fellow), Saminah Turk (Committee Operations Officer), David Turner (Committee Specialist), Emily Unell (Second Clerk), Joanna Welham (Clerk), Jesse Williams (Assistant Committee Specialist), Joe Williams (Media Officer).

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## Second Special Report

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The Committee published its Second Report of Session 2019–21, [UK-Japan Comprehensive Economic Partnership Agreement](#) (HC 914), on 19 November 2020. The Government response was received on 18 January 2021 and is appended to this report.

## Government Response

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The International Trade Committee published its report on the 19 November 2020. This is a Government response to that report.

### Introduction

1. The Government welcomes the committee's report published on the 19 November, and for allowing advance sight of this report.
2. The Government welcomes the overall assessment made by the committee on the UK-Japan Comprehensive Economic Partnership.
3. The UK-Japan Comprehensive Economic Partnership Agreement, or CEPA, is the first major trade deal that the UK has struck as an independent trading nation.
4. This British-shaped deal is the first agreement that the UK has secured that locks in the benefits of an existing EU deal and goes beyond it, with enhancements in areas such as digital and data, financial services, food and drink, and creative industries.
5. On the 25 and 26 of November, CEPA was debated in the House of Commons and House of Lords respectively. A wide range of key areas of the agreement were discussed at length. Both Houses welcomed the continuity that the deal will provide businesses and recognised some provisions that went beyond the EU-Japan EPA.
6. The CRaG process for parliamentary scrutiny concluded on 7 December. The Japanese parliamentary process concluded on 4 December. Both sides have now taken the necessary action to implement the agreement and the agreement entered into force on 1 January 2021.
7. The Committee made a number of comments and recommendations in the report. The Government has below provided a response to those comments where clarifications were required.

### The Government's responses to recommendations in the Committee report

#### The Agreement and Our Scrutiny

8. **Comment 1 - (pg. 5, para. 10) - Future agreements will be much less of a known quantity than this one. Moreover, they are likely to be significantly more controversial. In order to give future agreements the rigorous scrutiny that they deserve, it is important that we have the time and access to expertise that this task requires. In respect of the**

process, we would welcome the opportunity to review with the Secretary of State the arrangements that have been in place for our scrutiny of CEPA, and to consider any improvements that may be necessary for our scrutiny of future agreements.

### *Government Response*

9. Our approach to transparency and openness to scrutiny by Parliament and other stakeholders is at least as strong as any other Westminster-style democracies such as Canada, Australia and New Zealand. However, we remain open to reviewing how we can further support Parliament in its scrutiny role. We welcome the opportunity to continue to work closely with the International Trade Committee in these endeavours.

## Trade in Goods

### Tariffs

10. **Comment 2 - (pg. 6, para. 14) - In respect of Japanese tariffs, the tariff lines on which duties are to be eliminated over time are the same under CEPA as under JEEPA. As regards scheduling, Japan will completely remove duties on nine tariff lines relating to leathers and hides in 2026, rather than in 2028 (Article 2.8; Annex 2-A). It will also remove duties on industrial ethanol immediately on entry into force, rather than in 2028—although this simply reflects the fact that, since JEEPA came into effect, Japan has set at zero its Most Favoured Nation tariff (that which applies to goods from countries with which Japan has no trade agreement) on industrial ethanol. The economic significance of these provisions in respect of Japanese tariffs has not been fully quantified.**

### *Government Response*

11. We do not expect these accelerations to have a noticeable economic impact. The UK did not expend negotiation capital in order to get these tariff liberalisations.

### Rules Of Origin

12. **Comment 3 - (pg. 7, para. 15) - CEPA provides for (extended) cumulation of EU inputs in both UK and Japanese goods, for trade between the UK and Japan, where those EU inputs are currently necessary to meet a Rules of Origin threshold (Article 3.5; Annex 3-C). It has been suggested that this arrangement may be liable to challenge under WTO rules (specifically Articles I and III of the General Agreement on Tariffs and Trade), but there are different views about whether this is the case. Although some US trade lawyers have argued that there may be grounds for a WTO complaint it is unclear which state or states would be sufficiently motivated to bring a case.**

### *Government Response*

13. The UK is committed to complying with its international obligations, including international agreements to which it has entered in to, such as the General Agreement on Tariffs and Trade. DIT considered these obligations when developing our approach to cumulation.

14. **Comment 4 - (pg. 7, para. 17–19) - CEPA also provides for (diagonal) cumulation arrangements in EU-UK and EU-Japan trade—but achieving this will depend on securing the EU’s agreement (Article 3.10 and 3.11). We heard in evidence that, in the event of a UK-EU “tariff-free deal that accepts that cumulation will not be essential”, lack of such cumulation would not be problematic in the short term for UK automotive exporters. However, in the longer term, third-country cumulation could become crucial with the shift to electric vehicles, which use batteries that are manufactured in Japan and Korea. Witnesses were uniformly sceptical about the likelihood of the EU agreeing to third-country cumulation in an agreement with the UK. However, it was pointed out to us that JEEPA does state that, if the EU and Japan conclude similar agreements with the same third country, they should instigate a discussion on cumulation, specifically in relation to automotive products.**

15. **CEPA differs from JEEPA in relation to the originating content threshold in respect of certain automotive products (Annex 3-B; Appendix 3-B-1). However, we were told that this provision involved a very specific product and only had a marginal effect, meaning it was unlikely to have a material effect on trade.**

### **Government Response**

16. The extended cumulation arrangement in CEPA allows EU materials and processing to be recognised (i.e. cumulated) in UK and Japan exports to one another for all products that rely on EU inputs to access preferential tariffs. The majority of product groups, comprising £688.9 million worth of UK exports will be eligible for extended cumulation. A further £88.2 million will see a change in their Product Specific Rules (PSRs).

17. In our negotiations with Japan, we included a provision that seeks to recognise Japanese inputs that are contained in UK goods that are exported to the EU. While this specific arrangement was not included in the Trade and Cooperation Agreement (TCA) between the UK and the EU, there are other measures agreed that provide continuity for UK businesses, such as the staged approach of value-added rules on automobiles.

### **Tariff Rate Quotas**

18. **Comment 5 - (pg. para 20–26) - Under CEPA, UK exporters will have access to 10 of the 25 Tariff Rate Quotas (TRQs) available under JEEPA, in respect of any surplus volume not utilised by EU exporters in each year (Annex 2-A, Part 3 Section B). In the UK’s first agreement as an independent trading nation, its access to preferential duties under TRQs relies on the extent to which those quotas are utilised by the EU.**

19. DIT states that, of the 15 TRQs under JEEPA to which the UK will no longer have access, 14 were not used by UK exporters in the 2019 financial year and one (TRQ23, relating to certain dairy products, including butter and milk powder) had minimal usage. We heard in evidence that, while loss of access to this quota was detrimental to UK producers, its practical effect was likely to be modest. DIT has informed us that “For butter, milk and milk powders, where there was TRQ usage, UK exporters will continue to have access to the Japanese market via Japan’s WTO TRQs.”

20. The TRQ scheme will be operated on a deferred-duty basis, with Japanese importers being able to import UK goods without paying duty in the first instance

and duty being levied retrospectively on the basis of the amount of “headroom” that remains at the end of the year (Annex 2-A, Part 3 Section B). There would seem to be a risk that, these arrangements notwithstanding, Japanese importers may prefer to buy from EU suppliers rather than UK ones, because of uncertainty over whether UK goods will qualify for the preferential duty under the quota.

### **Government Response**

21. The EU-Japan Agreement includes 25 TRQs covering a range of different agricultural products although in the 2019 financial year, the UK utilised only five of the TRQs making up less than 0.1% of the UK’s overall exports to Japan.<sup>1</sup> Under CEPA, we will continue to have access to the same preferential tariff rate for 10 priority TRQs. For 15 of the EU-Japan TRQs the UK will no longer have access. 14 of these TRQs had no utilisation in the 2019 financial year and one had minimal usage (certain butter products). Based on historical trade volumes, this is not expected to have a significant impact on trade flows.

22. These arrangements are a bridge to the UK’s eventual membership of the Trans-Pacific Partnership (CPTPP). The UK expects there will continue to be enough surplus volume in the EU TRQs until around 2024, by which time we expect to have joined CPTPP. As part of UK-Japan CEPA discussions, Japan has committed (via a Ministerial side letter) to support the UK’s quick accession to CPTPP and provide the UK meaningful market access to similar products to those covered by TRQs in the EU-Japan deal.

23. To support promotion of the TRQ scheme, on 30 November we published comprehensive business guidance on Gov.uk, including a technical notice which sets out how the TRQ scheme will operate. In December 2020 both the UK and Japan conducted further targeted engagement with stakeholders in the agri-food sector to publicise the TRQ scheme and support uptake.

24. **In a side-letter (which is not legally binding), Japan commits to take “all reasonable steps” to maximise the utilisation of the scheme, including by publicising it, responding to requests for information and providing data on imports under the scheme. In addition, if exports of UK cheese under the scheme (in relation to TRQ25) fall in any given year, Japan undertakes to participate in a review of the scheme in relation to cheese imports with a view to ensuring improved UK market access. It is not clear to what extent, if any, this guarantees continued UK market access.**

### **Government Response**

25. Both the UK and Japan will monitor the effectiveness of the implementation of the CEPA TRQ scheme. Japan has provided a Ministerial side letter committing to work closely with the UK to ensure the effective operation of the new scheme such that the UK receives unfettered access to any under-utilised EU quota for the 10 TRQs covered by the scheme. The Cheese TRQ in the EPA was relatively complex (compared to other TRQs). Recognising its importance to the UK, Japan has provided additional assurances in the Ministerial side letter with regard to the design of the scheme and any impacts for future UK Cheese exports under the new quota scheme.

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1 Calculations based on data covering April 2019 and March 2020 from JP customs (<https://www.customs.go.jp/kyotsu/kokusai/toukei/>). Please note this was shortly after EIF of the agreement so the figure might be expected to rise in future.

26. **The Secretary of State indicated to us that the TRQ scheme is intended as an interim arrangement only, pending UK accession to CPTPP, which would give access to CPTPP quotas. The Government expects adequate headroom under these quotas to last until 2024, by which time it expects the UK to have joined CPTPP. This raises the question of the effect on the UK’s access to quotas if accession to CPTPP takes longer than the Government is envisaging—or if accession to CPTPP, for whatever reason, ceases to be a high-priority objective of UK trade policy.**

### **Government Response**

27. These arrangements are a bridge to the UK’s eventual membership of the Trans-Pacific Partnership (CPTPP). The UK expects there will continue to be enough surplus volume in the EU TRQs until around 2024, by which time we expect to have joined CPTPP. As part of UK-Japan CEPA discussions, Japan has committed (via a Ministerial side letter) to support the UK’s quick accession to CPTPP and provide the UK meaningful market access to similar products to those covered by TRQs in the EU-Japan deal.

28. The Department has engaged with all eleven member countries at both ministerial and official level, an approach that aligns with the accession process for new CPTPP members, and all CPTPP members have welcomed our interest in accession. We continue to have discussions on CPTPP accession with member countries at official level as this is part of the preparatory engagement expected of aspiring economies before applying to accede.

29. **Ms Truss also told us that less documentation could be required to access the TRQ scheme than under JEEPA, involving two documents rather than potentially six. It remains unclear to us which particular provision of CEPA was being referred to by the Secretary of State.**

### **Government Response**

30. The paperwork requirements for accessing TRQs are not set out in a particular provision in either the EU-Japan EPA or the UK-Japan CEPA. The EU-Japan TRQ scheme requires importers to apply for a license and in doing so they have to provide substantive evidence about the viability of the volume of imports they are applying for. However, given that the Preferential Import Certificate scheme in UK-Japan CEPA doesn’t require an importer to get a license there is no need for the same extensive documentation proving the viability of the import. Under the UK arrangement Japanese importers of UK products only need to provide two customs documents, rather than the six potentially required by the EU agreement.

31. **UK malt exports are not covered by a TRQ under CEPA. In a side-letter (which is not legally binding), Japan states that UK exports will, though, continue to have access to Japan’s global malt TRQ, which DIT has said is “more generous and easier to access than the EU quota”. Witnesses told the committee that this quota is open to all countries and operates on a non-discriminatory basis—meaning that the UK already has access to it and continuation of that access is not dependent on CEPA. The Department has pointed out that the global malt quota, unlike the EU malt quota, “does not require additional documentation providing evidence of originating status.”**

**Unlike the EU malt quota (which Japan is obligated to maintain under the terms of JEEPA), the global malt quota can be unilaterally changed or removed by Japan without violating its legal obligations under either WTO rules or CEPA.**

### ***Government Response***

32. UK exporters will continue to benefit from access to Japan's duty-free global TRQ for Malt. Instead of receiving continued access to a country-specific TRQ for malt, Japan provided a Ministerial side letter guaranteeing that the UK will continue to have access to Japan's duty-free global TRQ. Other countries do not have this additional guarantee. Unlike a country-specific TRQ, this does not require additional documentation providing evidence of originating status and is historically much larger than the TRQ in the EU-Japan EPA. This arrangement from Japan will provide for continuity for UK exports of malt to Japan.

### **Agricultural safeguards**

33. **Comment 6 - (pg. 9, para. 27) - While UK exports will not count towards the EU total for the purposes of triggering the Agricultural Safeguards provided for in JEEPA (in respect of a small number of products), under CEPA UK exports will be added to the EU total for the purpose of triggering the Safeguards (Article 2.5; Annex 2-A Part 3, Section C). Our evidence suggests that this gives EU producers a modest advantage compared to the UK.**

### ***Government Response***

34. For Japan's agricultural safeguards, the UK will be no worse off than it was when the EU-Japan Agreement applied to the UK.

35. Japan has retained safeguards on beef, pork, processed pork, whey and oranges. Japan may trigger the safeguard to apply to the UK only if the combined total of imports from the UK and the EU exceed the trigger volumes determined in the EU-Japan Agreement for that given safeguard period.

36. For racehorses, the safeguard (which is price triggered) is identical in design and function as the safeguard in EU-Japan Agreement. All the safeguards are synchronised in terms of timing with those in the EU-Japan Agreement so that when the safeguards expire in the EU-Japan Agreement, they also expire in the UK-Japan CEPA.

## **Trade in services, Investment Liberalisation and Electronic Commerce**

### ***Digital and data***

37. **Comment 11 - (pg. 12, para. 38) - Witnesses from the technology and services sectors strongly welcomed the digital and data provisions on the Agreement. However, other evidence we received suggests that CEPA marks an unwelcome shift away from the EU's approach to data protection and could affect the EU's adequacy decision in respect of the UK. Others, however, are of the view that the EU regime is restrictive,**



and possibly even protectionist, in this regard. We also heard concerns that the provisions relating to cross-border data flows, and banning requirements in relation to data localisation and access to source code could have negative implications for the NHS. Our evidence also raised issues concerning algorithm accountability in light of recent controversy around the potential for bias and unfairness in algorithms used by automated decision-making systems.

### *Government Response*

38. The Government has now published an explanatory document on Gov.uk to address the concerns that have been raised regarding personal data. A link to this document can be found here: <https://www.gov.uk/government/publications/uk-japan-cepa-how-your-data-is-protected>

39. The UK and Japan have agreed a number of cutting-edge rules that reflect our status as technology leaders, and that go far beyond the EU-Japan deal.

40. This includes a commitment to uphold world-leading standards of protection for individuals' personal data when data is being transferred across borders. UK data protection laws are not undermined or changed by the deal with Japan—any transfers of personal data to Japan must satisfy the UK's high standards of data protection. The UK is committed to maintaining high standards of protection for personal data, including when it is transferred across borders. The rights of UK users are not impacted by the deal with Japan and data protection standards will not be lowered as a result of the deal. UK data protection rules—enshrined in the Data Protection Act 2018—will continue to apply. Moreover, CEPA does not interfere with the high level of protection afforded to personal data which is transferred out of the UK under the UK's data protections laws.

41. The Agreement provides protection for source code of software, and algorithms expressed in that source code, by prohibiting the forced transfer or disclosure of these valuable trade secrets as a condition of market access. The Agreement appropriately balances the need to encourage and protect innovation with that of governments to protect citizens and ensure compliance with domestic law. UK authorities will maintain the right to scrutinize how Japanese technology entering the UK market works in order to ensure compliance with domestic law.

### **Investment**

42. **Comment 13 - (pg.12–12, para. 40–41) - CEPA, like JEEPA, contains no comprehensive chapter on investment; and the investment liberalisation provisions in the two agreements are the same (Chapter 8, Section B). Consequently, there are no provisions in CEPA on investment protection, just as there are none in JEEPA.**

43. **Our evidence suggests that investment is an area where the UK could have gone further in negotiations, but was unable to do so due to time constraints and the likelihood of public controversy over investment protection provisions. The latter point is underlined by the fact that some of our evidence expressed concern at the prospect of Investor State Dispute Settlement provisions and welcomed their absence from CEPA. It is further notable that DIT continues to lack a fully worked-out position on this important aspect of trade policy.**

### **Government Response**

44. The EU-Japan Agreement already reflects an ambitious baseline for an agreement on investment, and we have transitioned these far-reaching provisions into the UK-Japan CEPA. In doing so, we continue to provide legal certainty to UK and Japanese investors on the open and stable investment environments in the UK and Japan.

45. The EU-Japan EPA does not include provisions on investment protection or investor state dispute settlement and, in line with the continuity approach taken for the majority of investment related provisions, the UK-Japan agreement does not include these provisions either. However, we recognise the importance of provisions relating to investment protection and investor-state dispute settlement to the UK-Japan investment relationship and have agreed to continue discussions on these topics when appropriate. To that end, we have included language in Article 8.5 (3) that provides for future discussions if necessary.

### **Protected Geographical Indications**

46. **Comment 15 - (pg. 13, para. 43 and 44) - The seven existing UK protected Geographical Indications (GIs) under JEEPA will continue to be protected under CEPA (Annex 14-B). In addition, in a provision that is not contained in JEEPA, the parties commit “as soon as practically possible” to exchange lists of proposed new GIs and complete their respective domestic examination and opposition procedures (allowing relevant domestic producers the opportunity to object). The Committee on Intellectual Property constituted under the Agreement will then recommend to the parties’ Joint Committee names of new GIs to be added to the list of GIs protected under the Agreement (Article 14.34.5). The Joint Committee will have to agree to this new list before it is adopted, which may happen once the GIs listed in Annex 14-B have been considered by the Parties in accordance with their domestic GI processes (Articles 14.34.1 and 14.34.5) DIT states that, if an application is not opposed, it should take five months to be dealt with. The UK intends to put forward over 70 proposed new GIs as soon as the Agreement enters into force.**

47. **The Government states that this arrangement is “significantly better” than the GI provisions under JEEPA. However, there has been some dispute as to how far this is actually the case. Some communication by the Government on the provisions relating to GIs has not been sufficiently clear, giving the inaccurate impression that CEPA automatically and immediately provides protection to additional GIs.**

### **Government Response**

48. Seven UK GIs are already covered in the agreement.

49. The UK-Japan CEPA includes a new provision allowing more world-famous UK products to receive protected recognition in Japan, such as Scotch beef, Welsh lamb, and English sparkling wine.

50. The provision (Article 14.34 para. 5) sets out an improved process for the addition of new GIs. Under CEPA, it has been agreed that Parties can exchange lists of GI products as soon as practicable after the agreement has entered into force. From this list, all eligible UK GIs will be put through Japan’s domestic GI approval process.

51. This arrangement is significantly better than the terms of the EU-Japan EPA, under which the EU was not able to put forward any new products for protection without explicit Japanese agreement. Japan has not approved any further EU GIs since the EU-Japan EPA was signed.

52. This will allow many additional UK products to be put forward for protection in Japan next year. This would not have been possible under the EU EPA because Japan would have not been obliged to progress all the GIs that were put forward. The EU must negotiate each new GI individually on a case-by-case basis.

53. The Government has published an explainer on GOV.UK which gives an overview of what has been agreed with Japan and the process for additional UK GIs to gain protection in Japan:

<https://www.gov.uk/government/publications/uk-japan-cepa-geographical-indications-explainer>

## Agreement implementation and governance

54. **Comment 16 - (pg. 14, para. 45) - The Agreement will be reviewed every five years. There will also be reviews on specific topics. As in JEEPA, there is no “sunset” clause. Committees will be established to monitor functioning of the agreement, but there will be no formal joint review of implementation.**

55. As part of the agreement, the UK and Japan will meet each year in a Joint Committee, which will oversee the implementation of the agreement, and provide an opportunity to discuss key issues.

56. As part of DIT’s transparent and inclusive approach to monitoring and evaluation, the Department will be conducting ongoing monitoring and evaluation of the UK-Japan Comprehensive Economic Partnership Agreement. As set out in the impact assessment, DIT will publish a monitoring report every two years following entry into force of the agreement and a comprehensive ex-post evaluation within 5 years of entry into force of the agreement.

## SMEs

57. **Comment 18 - (pg. 14, para. 48) - The Agreement replicates the dedicated SMEs chapter in JEEPA regarding information-sharing and contact-points for SMEs (Chapter 20). An additional provision provides for cooperation between the parties to support SME trade and investment, giving examples of possible measures, including developing and promoting seminars for SMEs or exchanging best practices in supporting exporting SMEs (Article 20.2). Although inclusion of this Chapter sends a welcome signal about the importance of FTAs offering benefits to SMEs, some witnesses questioned the significance of the practical impact the SME-specific provisions will have.**

## Government Response

58. The CEPA will support SMEs through a dedicated SME chapter that ensures that UK SMEs are provided with the tools and resources necessary to seize the opportunities of exporting to Japan, creating new opportunities for the UK's 6 million small and medium-sized businesses to trade with Japan.

59. The CEPA sets out how the UK and Japan will exchange information on vital rules and regulations, including through the use of an SME website and a searchable database. This commitment also includes making information on doing business in Japan available to UK SMEs in English.

60. Through CEPA the UK and Japan have agreed to undertake and strengthen cooperation to support SME trade and investment between the Parties, including developing and promoting seminars and workshops, exchanging best-practice in supporting SMEs and emphasizing the importance of involving the private sector in cooperation initiatives. CEPA states that a central point of contact will be established to facilitate this cooperation with Japan on issues specifically relating to SME trade.

61. Customs costs can often be a burden to UK SMEs looking to export. The customs provisions in the CEPA minimise costs and administrative burdens, meaning that Japanese consumers can get more of the British products they enjoy and UK SMEs benefit from simple and predictable customs procedures.

62. On 30 November, we published information on Gov.uk to support businesses prepare for new trading arrangements with Japan under the CEPA, including a dedicated page on SMEs with information on product-specific and country-specific information on tariffs, rules of origin and regulations that currently apply to UK trade in goods. That page can be found here:

<https://www.gov.uk/guidance/summary-of-the-uk-japan-comprehensive-economic-partnership-agreement>

## Competition, Subsidies and State-Owned Enterprises

### Sustainability, labour and environment

63. **Comment 19 - (pg. 15, para. 51–52) - The scope of the chapter on Trade and Sustainable Development is the same as that in JEEPA. The climate change commitments in CEPA are also the same as those under JEEPA (Chapter 16). However, the opportunity to review elements of the trade and sustainable chapter that existed under JEEPA has been removed in CEPA. While the review function was of uncertain impact, it has been suggested to us in evidence that this takes away a means of ensuring that joint action on climate change remains aligned with international developments.**

64. **The provisions on civil society dialogue have been slightly amended relative to those under JEEPA (Article 16.16). It has been suggested to us in evidence that this provision appears to have been slightly watered down in comparison with its equivalent under JEEPA.**

## Government Response

65. The Trade and sustainable development chapter review clause was removed because it duplicates the functions of the Committee on Trade and Sustainable Development as set out in Article 16.13. The removed JEEPA provision even explicitly refers its function back to 16.13.

66. Minor amendments have been made to the articles on Joint Dialogue with Civil Society and the Panel of Experts to ensure they operate appropriately and more flexibly in the bilateral context. These changes though will not affect our ability to provide adequate monitoring and implementation of the chapter.

## Impact Assessment

67. **Comment 22 - (pg. 17, para. 58–60) - While we did not take formal evidence on the Government’s Impact Assessment in relation to CEPA, we met with the Chief Economist at the DIT, Richard Price; and two members of the RPC, which undertook independent evaluation of the Impact Assessment, namely Stephen Gibson and Jonathan Cave. The RPC’s published Opinion on the Impact Assessment found that it was “fit for purpose”, but pointed to a number of areas where it could have been improved.**

68. **The Impact Assessment uses Computable General Equilibrium modelling to attempt to gauge the effect of CEPA against a baseline of there being no trade agreement between the UK and Japan, and, therefore, the two countries trading under WTO rules alone (which would be the default position from 1 January 2021 in the event of no new agreement being in place). The RPC accepted that the methodology and baseline used were both appropriate. In relation to the core baseline (measured against WTO trading), which assumes there will be a future relationship agreement between the UK and the EU, the Impact Assessment estimates that CEPA will have the effect of increasing UK annual GDP by 0.07% in the long run. However, measured against the current largely similar JEEPA arrangement, no GDP gain figure has been provided in the Impact Assessment. A sensitivity analysis in the Impact Assessment suggests that, in the case of there being no agreement on the UK-EU future relationship, CEPA would increase UK annual GDP by 0.09%. The Impact Assessment suggests this is due to “higher barriers to trade between the UK and the EU provid[ing] higher potential for gains from trade with Japan”. We would welcome clarification from the Government as to whether this increase is in part also attributable to negative impacts on UK GDP growth from the EU and UK not concluding a *trade agreement*.**

69. **Given that the Government has stated that CEPA secures benefits for the UK above and beyond those conferred under JEEPA, it is regrettable that DIT has not provided any assessment of the value of those additional benefits. We do, though, appreciate that carrying out such a comparison could have been difficult to achieve, given the limitations of the available data and the current modelling approach. *In producing its Impact Assessments on future Free Trade Agreements, the Government should give consideration as to whether using a variety of modelling scenarios would provide helpful information to experts, stakeholders and parliamentarians seeking to understand the impact of an agreement.***

## ***Government Response***

### ***Clarification on the WTO sensitivity***

70. The modelling assumes that the UK and EU trade on the basis of a free trade agreement, with stylised assumptions such as zero tariffs or quotas, and non-tariff costs in line with the evidence based on historical FTAs. The modelling assumptions for the UK-EU trading relationship are in line with DIT's previously published Scoping Assessments and drawn from the Government's EU Exit analysis published in November 2018.

71. The impact of the UK-Japan agreement is also assessed against a baseline where the UK and EU trade on WTO terms in the long-run. The sensitivity analysis suggests that under an alternative WTO baseline, the impact of a UK-Japan CEPA could be 0.09% (equivalent to £1.9 billion based on 2019 GDP values). This is higher than under the core baseline included in the assessment, as higher barriers to trade between the UK and the EU provide higher potential for gains from trade with Japan. The modelling results do not allow us to disaggregate what drives the difference in results between the two baseline scenarios

### ***RPC and ITC feedback***

72. We value recommendations for areas of improvement, we will explore incorporating these into our analysis of future agreements where possible and appropriate to the context of any given agreement.