

Angus Brendan MacNeil MP  
Chair of International Trade Committee  
House of Commons  
London  
SW1A 0AA

9<sup>th</sup> February 2022

Dear Angus,

Many thanks for meeting with me on Monday 7<sup>th</sup> February to discuss the RPC's role in providing independent scrutiny of the quality of evidence and analysis of "new" FTA impact assessments. So far, the RPC has opined on the impact assessments for the UK-Japan CEPA and the UK-Australia FTA and is currently considering the IA for the UK-New Zealand FTA.

We discussed the modelling specifications and results presented for these agreements – this is summarised below. However, please note, the RPC does not review the analysis in the scoping assessments, nor do we comment on the quality or scope of the negotiated outcomes that may affect the estimated impacts.

		<b>Scoping Assessment</b>	<b>Final IA</b>
<b>Japan</b>	Specification	Armington	Armington
	Estimated change on baseline (UK GDP)	0.07%	0.07%
<b>Australia</b>	Specification	Melitz	Armington
	Estimated change on baseline (UK GDP)	0.01-0.02%	0.08%

Pages 25 and 59 of the published [UK-Australia FTA](#) discuss the rationale and impacts of changing the modelling specification between the scoping assessment and final IA, however, the differences in the numbers are not broken down and since we did not review the scoping assessment it was not part of our consideration in our opinion.

You asked about why the Australian and Japanese impacts are roughly the same size even though the Japanese economy is much larger than the Australian economy; the IA notes (page 59) that the results for Japan and Australia are not directly comparable, even though the Armington specification is used in both final IAs. The modelling choices are also discussed in detail by the independent trade modelling review expert panel, who recently published a [report](#) on the matter.

Further, we discussed the baselines used in each of the impact assessments. It is important to note that the modelling assumptions for the baselines are updated accordingly to account for existing FTAs (i.e. the results for Australia FTA would account for the CEPA). I can confirm the baselines used for Japan and Australia include scenario where an FTA does not exist bilaterally, for Australia, this means trading on “most favoured nation” or MFN terms. In our opinion on the UK-Japan CEPA, we noted the following with respect to using an appropriate baseline:

*“The IA sets out that the impacts of the CEPA are assessed against a baseline where the UK and Japan do not have a FTA, representing the ‘do nothing’ scenario (the outcome that would happen without ratification). Although this can be considered an appropriate comparator, there is a practical difficulty arising from the fact that the UK has recently been trading under the EU-Japan EPA. It is therefore difficult to separate trade effects from the EU-Japan EPA and WTO terms. The IA tests the stylised assumptions for the ‘do nothing’ and presents alternative estimates by changing these assumptions. However, in using recent 2019 data to estimate the magnitude of impacts, these data reflect the existing EU-Japan EPA. This may therefore be seen as an inconsistency and should be clarified.”*

If you have any further questions, please do not hesitate to contact me or the RPC Secretariat.

I look forward to working closely with the International Trade Select Committee in the future.

Yours sincerely,



Stephen Gibson

**Stephen Gibson**  
Chair, Regulatory Policy Committee