

# International Trade Committee: UK trade negotiations – Agreement with New Zealand

## Federation of Small Businesses (FSB) written evidence 31 March 2022

1. FSB is a non-profit making, grassroots and non-party political business organisation that represents 160,000 members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.5 million small businesses, micro businesses and the self-employed.
2. FSB welcomes the opportunity to respond to the International Trade Committee's call for evidence on the UK-New Zealand Free Trade Agreement. We would be happy to provide further detail on any of the issues raised in this response.

### **How might the UK-New Zealand FTA affect you, your business or organisation, or those that you represent? If possible, please describe the current situation and what you expect to change as a result of this agreement.**

3. FSB believes that the FTA will deliver significant benefits for small businesses that are currently or considering trading with New Zealand. New Zealand is an important market for FSB members – according to FSB research around a third (30 per cent) of UK small firms who trade internationally already do so with New Zealand and around a quarter (23 per cent) indicated that New Zealand is important for their exporting ambitions.
4. Although the majority of the world's businesses are SMEs, they are under-represented in international trade. Small businesses, which generally operate on tight margins, are likely to take a more cautious and ad-hoc approach to internationalisation compared to their larger counterparts as they are disproportionately impacted by barriers to trade flows and relatively small changes in duties or tariffs.
5. Both tariff and non-tariff barriers are taken into account by small businesses when deciding where to export to or import from. Previous FSB research has found that nearly one in three small businesses (29 per cent) say that tariffs play a major role in where they trade while more than half stated that non-tariff barriers play a role in where they choose to export (53 per cent) or import (59 per cent).
6. FSB research has also shown that small firms report that preferential trade agreements would one of the most useful factors in increasing their export ambitions. FSB therefore welcomes the commitments made in the FTA that will tackle the barriers to small business international trade, particularly with regard to trade facilitation, digital trade, and the mutual recognition of relevant regulations and professional qualifications.

### **What opportunities or potential costs does this agreement present for particular sectors of the UK economy?**

7. Free Trade Agreements are an important means of removing barriers to international trade, providing greater predictability and stability – but the capacity of small businesses to understand FTAs and their access to information is one of

the central barriers preventing smaller firms from utilising FTAs when exporting or importing. FSB has long championed the inclusion of provisions in FTAs that will help small firms understand and take advantage of the opportunities of these agreements.

8. FSB therefore welcomes the inclusion of a dedicated SME chapter which sets out commitments around the sharing of information and best practice. The establishment of an SME Contact Point that will be a single point of information for SMEs and provide recommendations to the Inclusive Trade Sub-Committee on matters relating to small businesses is a positive development.
9. Small businesses often lack the necessary resources and expertise to navigate complicated customs procedures but are highly dependent on moving goods across borders quickly, especially those that are part of a 'just in time' supply chain or business model. The commitments in the FTA to facilitate trade, including the adoption of simplified customs procedures and a single window arrangement that will allow businesses to submit customs information through a single electronic entry point, are particularly beneficial for small firms.
10. Similarly, FSB supports the provisions set out in Chapter 15 that will promote paperless trade, such as the acceptance of electronic trade documents, electronic contracts and e-signatures and to ensure the interoperability of electronic invoicing systems. Moving away from a reliance on physical paperwork and wet-ink signatures will generate enormous time and cost benefits for smaller firms. According International Chamber of Commerce research, moving to a fully digital system at a global level could generate £25 billion in new economic growth by 2024 and significantly increase business efficiency for SMEs<sup>1</sup>.
11. FSB also supports the commitment not to introduce tariffs on electronic transmissions, providing certainty at a time when there are ongoing discussions at multilateral level on whether the WTO moratorium on this issue will be renewed.
12. Data localisation requirements can generate significant costs relating to setting up servers or storing data, and can limit small firms' access to cost effective cloud computing systems. FSB therefore welcomes both parties' commitments to remove unjustified data localisation requirements.
13. Mutual recognition of technical standards and conformity assessment can generate important cost savings for SMEs. FSB is pleased to see provisions establishing a framework for exchanging information and facilitating acceptance of conformity assessment results, and would encourage the governments and relevant regulatory bodies in both parties to move forward quickly with discussions in this area.
14. The FTA allows each Party to encourage professional bodies and regulators to establish Mutual Recognition Agreements. This model has the potential to deliver significant benefits to professional service providers – and particularly the self-employed – but it will rely on the ambition and speed of the respective professional organisations and regulators. FSB encourages the relevant bodies in both parties to work quickly to implement these provisions for maximum benefit.

**Are there any opportunities which have been missed, or could have been taken further?**

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<sup>1</sup> Creating a Modern Digital Trade Ecosystem: The economic case to reform UK law and align to the UNCITRAL Model Law on Electronic Transferable Records; United Kingdom International Chamber of Commerce; 2021.

15. The success of the FTA will rest on its effective implementation and enforcement. FSB would encourage the UK and New Zealand governments to move forward in a timely manner with the implementation of arrangements that will further facilitate trade in areas such as the mutual recognition of professional qualifications or conformity assessment.
16. FSB would have liked to see further commitments around the mobility of young people. As set out the 2020 report *A World of Talent*<sup>2</sup>, youth mobility schemes with key trade partners will play an important role in the UK's future immigration system especially in supporting small businesses. Nonetheless we welcome the parties' commitment to establishing a mobility dialogue outside the FTA and would encourage the parties to use this dialogue to explore extending the upper age limit of any youth mobility scheme to 35.
17. Many self-employed small business owners delivering Mode 4 services fall into the category of independent professionals or contractual service suppliers. FSB welcomed the inclusion of provisions relating to the temporary movement of contractual service suppliers but is concerned that the restrictiveness of these provisions may limit their use by smaller firms.
18. For instance, the provisions relating to contractual services suppliers are narrow in scope and apply to a limited number of services, and are subject to economic needs tests. Further, an individual seeking to supply such services must comply with other conditions including holding a tertiary degree and at least six years' experience.

**Are there any barriers which you anticipate would prevent you, your business or organisation, or those you represent from taking full advantage of the agreement? If so, what might help you overcome these barriers?**

19. FSB research has shown that a relatively small proportion (18 per cent) of small businesses that export to countries outside the EU Single Market have made use of the preferential terms of access already available to them in FTAs. Administrative costs, a lack of resources and low levels of information about foreign markets, together with a lack of communication around the practical benefits of FTAs for small firms can all contribute to this low uptake.
20. There is therefore clear potential to increase the number of small businesses making use of FTAs which could be achieved through dedicated promotional and support initiatives, and FSB would encourage both parties to look to other countries for examples of best practice in this space. The Canadian Government developed a promotion strategy around the EU-Canada Comprehensive Economic and Trade Agreement including a three-month regional roadshow and training workshops which resulted in participants reporting increased knowledge of the FTA as a direct result<sup>3</sup>.

**How well has the Government communicated its progress in negotiations – and how much has it listened to stakeholders during those negotiations?**

21. The Government has taken a proactive and collaborative approach to engaging with stakeholders during the negotiations of the FTA, and FSB has welcomed the

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<sup>2</sup> FSB, *A World of Talent* (2020), p. 12: t <https://www.fsb.org.uk/resource-report/a-world-of-talent.html>

<sup>3</sup> Audit of trade commissioner service advice and guidance on optimizing free trade agreements; Global Affairs Canada and Office of the Chief Audit Executive; December 2018: <https://www.international.gc.ca/gac-amc/publications/audits-verification/2018/audit-tcs-sdc.aspx?lang=eng>

regular updates provided by ministers and officials through dedicated briefings and the Trade Advisory Groups.