

# UK Trade Policy Observatory - Written Evidence (CCA0003)

## UK Trade Policy Observatory

The UKTPO is a partnership between the University of Sussex and Chatham House that initiates, comments on and analyses trade policy proposals for the UK and trains British policy-makers, negotiators and other interested parties through tailored training packages. The UKTPO is committed to engaging with a wide variety of stakeholders to ensure that the UK's international trading environment is reconstructed in a manner that benefits all in Britain and is fair to Britain, the EU and the world.

*"The Committee is interested in hearing UKTPO's assessment of the agreement, particularly regarding any differences with the EU-Canada agreement and the economic impacts on the UK"*

### 1. Introduction:

In order to review the possible economic impacts on the UK of the UKCanada Agreement on Trade Continuity (ATC) it is important to first consider the nature of the economic relationship between the UK and Canada. The charts and tables at the end of this submission provide more detail but the key points are:

- The share of the UK's total exports and imports of goods and services to/from Canada is around 1.7% and 1.5% respectively (see Fig.1). The share of Canada in UK imports of both goods and services has risen since 2017 from just over 1.1%. It is not clear what is driving this but it could be the rise in the price of gold over this period which is one of the key products imported from Canada. If we consider goods only, and excluding the EU, then in 2019 Canada was the 8th most important export destination (1.5% of UK exports) and the 5th most significant supplier of imports (2.4%).<sup>1</sup> ***Given the relatively small share of Canada in the UK's trade the aggregate economic impacts of any 'deal' will be small.***
- The share of goods (as opposed to services) in UK imports from Canada has been relatively stable over time at around 75% (Figure 2). On the other hand, the share of goods in UK exports to Canada has been falling from 63% in 1999 to 50% in 2019 at a compound yearly rate of -1.2%. ***This reflects the growing importance of UK services exports to Canada, and therefore the importance of ongoing and future market access.***
- Focussing on goods trade (Fig. 3) the principal sectors exported to Canada are: machinery and transport equipment, chemicals, and fuels. The principal imports are in unspecified goods (e.g. gold),

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<sup>1</sup> Source: Comtrade

machinery and transport equipment, and manufactured materials. ***This would suggest that the main manufacturing sectors in which the UK has both offensive and defensive interests in its trading relations with Canada are machinery, transport equipment, and chemicals.***

- Focussing on services trade (Fig 4) the principal exports are in insurance, financial services, other business services and travel. ***Hence on the basis of existing flows maintaining and increasing access in these sectors is likely to be important for the UK.*** The principal imports are other business services, travel, and financial services.
- The preceding is reinforced by looking at information on the economic operations of foreign direct investment-based enterprises between Canada and the UK (Tables 1 & 2). The value and share of UK inward Foreign Direct Investment (FDI) accounted for by Canada declined over the period 2010–2017, and was 1.7% in 2017. The share of UK FDI going to Canada has fluctuated a bit more over the same time period, but on average is fairly constant at around 3% of UK FDI outflows.<sup>2</sup>
- Canadian investment in the UK appears to be primarily in manufacturing (accounting for 35% of Canadian activity in the UK by employment), and in services concentrated in information and communications services (20.1% of employment) and financial services (13.1%). Conversely if we consider UK activity and investment in Canada the principal sectors are manufacturing (17.9% of employment), finance and Insurance (13.9%) and mining and quarrying (11%).

## **2. Assessing the UK-Canada Agreement**

- The UK-Canada agreement is very much a continuity agreement which is reflected in its short form nature. It is important to note that the ATC is for one year (which could be extended) and the UK and Canada are supposed to start negotiating a new agreement in that time and conclude that within three years. So, the agreement is explicitly intended to be 'temporary'.
- We have looked carefully at the provisions and in almost all regards the ATC essentially replicates the EU-Canada Agreement (CETA) extremely closely. There are some very minor changes but nothing substantive. So, in terms of the question posed by the committee as to any differences with EU-Canada and the implication

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<sup>2</sup> Source: Eurostat inward and outward FATS statistics.

for the UK, the short answer is that there are almost no differences and the impacts, in comparison to CETA will be negligible.

Nevertheless, and as in the government's own summary document (Continuing the Trade Relationship with Canada<sup>3</sup>), the outcome is clearly better than without the ATC. With no ATC in place then UK access to Canadian markets (and vice versa) would have been impeded with both tariffs and non-tariff barriers to trade.

- The main changes in the ATC in comparison to CETA appear to be:
  - Rules of Origin: Under CETA there was bilateral cumulation of rules of origin which meant that the EU, the UK and Canada could use each other's intermediate inputs and count those inputs as originating in order to obtain preferential (tariff free) access to each other's markets. As the UK is no longer part of the EU, to maintain this arrangement would have required diagonal cumulation between all three parties – the EU, the UK and Canada. However, as the agreement is bilateral – between the UK and Canada – the best that could be negotiated is a partial form of diagonal cumulation. Hence, the UK can use EU inputs and count these as originating in its exports to Canada, and similarly Canada can also use EU inputs. However, when exporting to the EU, Canadian inputs used by UK firms, and UK inputs used by Canadian exporting firms will not count. On balance it is unlikely that this will have much of an impact on UK exports to the EU, but there may be sectors, or products where the share of Canadian inputs is high and which might be affected.

Note that the partial diagonal cumulation which has been allowed for will cease to apply after three years (although this period could be extended). Hence, there is a modest incentive here for both parties to re-negotiate a deal.

- There is an issue with UK cheese exports to Canada and maintaining these. This has been resolved by a transitional arrangement which allows the UK to continue exporting under the EU reserve of Canada's WTO cheese TRQ until December 31st 2023, and, which is designed to maintain current levels for the next few year. Arrangements after this are still to be negotiated. So, there is some uncertainty and concern for UK cheese producers.
- CETA included a provision for investor-state dispute settlement - the Investment Court System – but details have not yet been worked out and it has not been operationalised. The ATC does

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<sup>3</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/943176/ccs1220696908-trade-agreement-canada-accessible.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943176/ccs1220696908-trade-agreement-canada-accessible.pdf)

not have this but is meant to be subject to a 'comprehensive' review within three years. It is therefore less clear how investor state disputes are to be resolved. Presumably, as the agreement is intended to be temporary and replaced by a deeper and more comprehensive FTA, the intention is to address this issue then.

- There are also adjustments to the various quotas (agriculture, textiles) and the rule of origin quotas. These appear to have been done proportionately on the basis of UK, EU and Canadian trade flows, which seems the least contentious way to proceed and a pragmatic solution given the limited time available for the negotiations. As with the diagonal cumulation of rules of origin the quotas also cease to apply after three years – once again creating an incentive for renegotiation of a new / better deal between the parties.
- Hence the gains from the ATC (relative to no ATC) are essentially those of CETA: for the UK they stem from the widespread reductions in tariffs, from possible reductions in non-tariff barriers (e.g. stemming from the provision for the possibility of mutual recognition of conformity assessment in a range of sectors, but which is not automatic<sup>4</sup>), and from the relatively modest liberalisation in services, where for example financial services and transport services remain relatively closed, and there is no agreement on the mutual recognition of professional qualifications.<sup>5</sup>
- Firms adjust their sales according to changes in relative costs across markets. Since the signing of the UK-Canada ATC, we now have an agreement (known as the TCA - Trade and Cooperation Agreement) between the UK and the EU. The UK-EU TCA has notably reduced the degree of access of UK service firm providers to the EU market. While the UK-Canada ATC was not particularly deep with regard to services liberalisation it is nevertheless better than that agreed

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<sup>4</sup> Mutual recognition of conformity assessment is provided in: (a) Electrical and electronic equipment, including electrical installations and appliances, and related components; (b) Radio and telecommunications terminal equipment; (c) Electromagnetic compatibility (EMC); (d) Toys; (e) Construction products; (f) Machinery, including parts, components, including safety components, interchangeable equipment, and assemblies of machines; (g) Measuring instruments; (h) Hot-water boilers, including related appliances; (i) Equipment, machines, apparatus, devices, control components, protection systems, safety devices, controlling devices and regulating devices, and related instrumentation and prevention and detection systems for use in potentially explosive atmospheres (ATEX equipment); (j) Equipment for use outdoors as it relates to noise emission in the environment; and (k) Recreational craft, including their components.

<sup>5</sup> See Winters & Magntorn-Garret (2018), "Can CETA plus solve the UK's services problem?" <https://blogs.sussex.ac.uk/uktpo/publications/can-ceta-plus-solve-the-uksservices-problem/>

between the UK and the EU. There is therefore some possibility of 'services trade diversion' towards Canada. However, the extent to which this might be the case and identifying the sectors where this is most likely would require deeper analysis than we can do at present.

### **Summary and recommendation**

It is positive that the UK government agreed an ATC with Canada in terms of maintaining levels of market access and providing a little more certainty and stability. That certainty and stability however is fairly short term because of the provision in the ATC (Article IV) to (re)negotiate a new agreement with Canada and to commence those negotiations within a year. This opens up the opportunity for the UK government to negotiate a deeper agreement with Canada and to obtain greater opening up of the Canadian market to UK exports in both manufacturing and services. In manufacturing, the key issues to be addressed in those future negotiations are likely to be around mutual recognition of conformity assessment in a wider range of industries and in achieving mutual recognition in the already agreed sectors, and in services we note the importance of financial services and business services, and the mutual recognition of professional qualifications.

### **Data Appendix:<sup>6</sup>**

Figure 1: Exports and Imports of goods and services, share of UK total.  
Source: ONS Pink Book

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<sup>6</sup> All data used for trade in goods and services figures come from the ONS Pink Book Chapter 9.

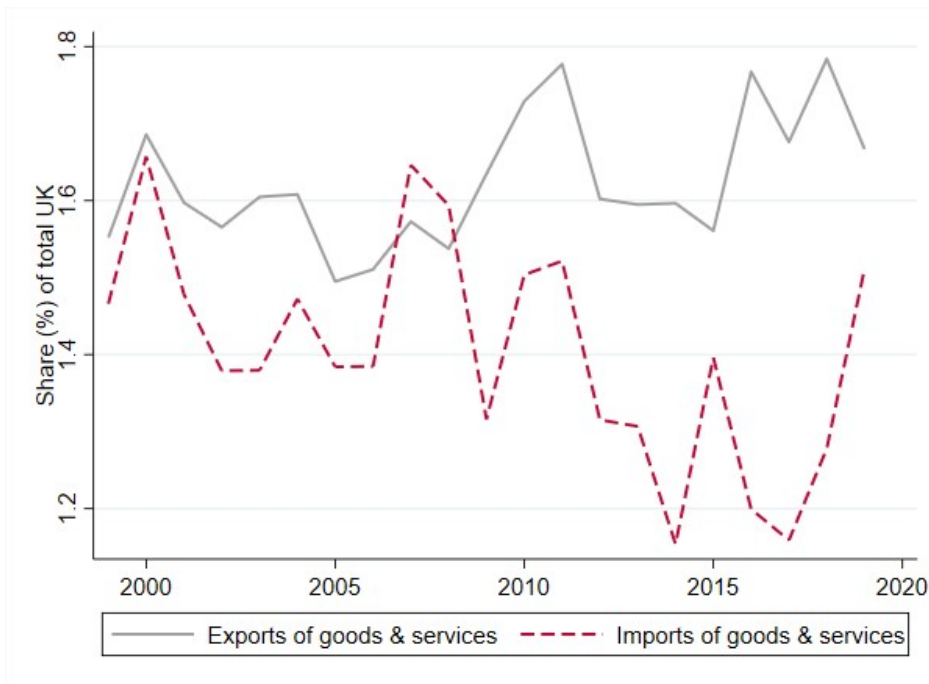
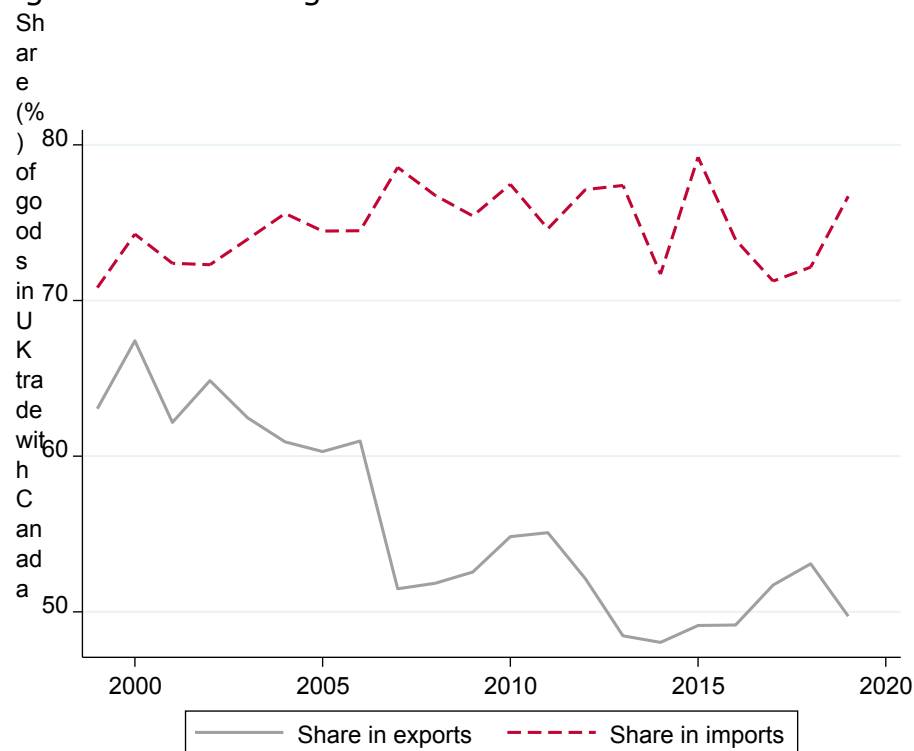
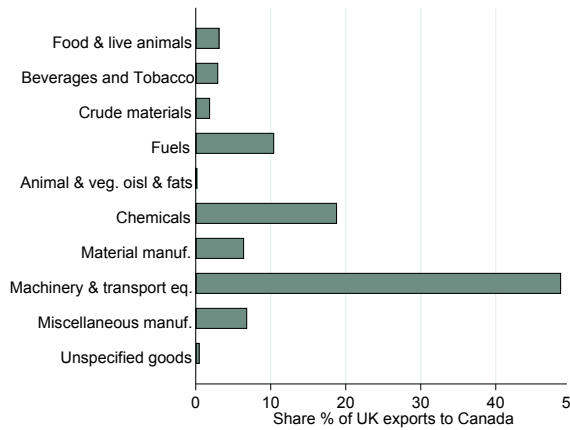


Figure 2: Share of goods in UK trade with Canada

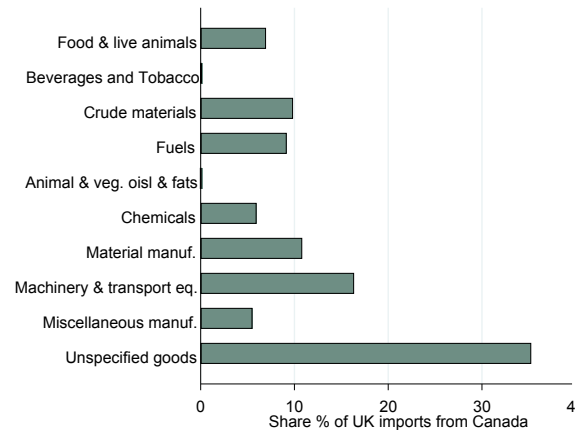


The figure below plots the share SITC products in total goods trade (exports and imports, respectively). For imports, the “Unspecified goods” (SITC 9) is large, and this is mainly due to 2019 where SITC 9 accounted for almost 50% of UK imports.

Figure 3: Share of SITC in goods trade, average 2018-19



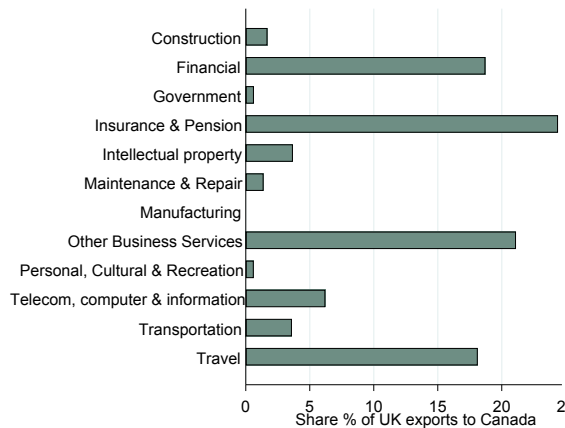
(a) Exports



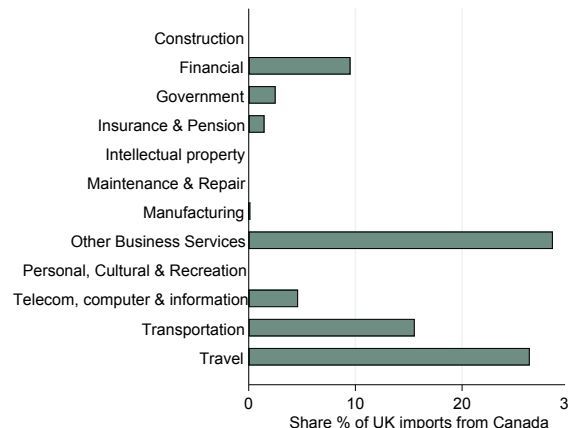
(b) Imports

The figure below shows the share of sectors in UK services trade with Canada as an average over 2018-19. Some data are suppressed due to confidentiality (these sectors are those with no bar). Shares are computed on the reported totals and not on the sum of the non-missing sectoral values.

Figure 4: Share of services sectors in services trade, average 2018-19



(a) Exports



(b) Imports

## Activity of Multinationals

All data used here come from Eurostat FATS database.

Table 1: Canadian firms in the UK by NACE sections, average 2011-17

NACE r2	NACE r2 description	Persons employed		Enterprises	
		number	share %	number	share %
B	Mining and quarrying	1,332	2.1	8	2.6
C	Manufacturing	21,308	35.1	77	19.1
D	Electricity, gas, steam and air	13	0.0	2	0.1

	conditioning				
E	Water supply; sewerage, waste management	346	0.4	4	1.1
F	Construction	594	1.0	16	3.9
G	Wholesale and retail trade; repair of motor v.	5,046	6.8	69	17.6
H	Transportation and storage	2,082	3.5	11	3.1
I	Accommodation and food service activities	2,695	2.5	1	0.2
J	Information and communication	12,136	20.1	104	23.2
K	Financial and insurance activities	7,845	13.1	6	1.6
L	Real estate activities	934	1.1	12	2.4
M	Professional, scientific and technical activities	4,791	8.8	77	16.6
N	Administrative and support service activities	3,464	5.3	41	8.0
S	Repair of computers and household goods	19	0.0	1	0.4
B-N,S	Total	52,209		427	

Source: Eurostat inward FATS (fats\_g1a\_08). Shares are computed for years when data on sector K are not suppressed. These are 2012-13 and 2015-17 for persons employed and 2011-13 for the number of enterprises.

Table 2: UK firms in Canada by NACE sections, average 2010-17

NACE r2	NACE description	Persons employed		Enterprises	
		number	share %	number	share %
B	Mining and quarrying	20,348	11.0	107	12.7
C	Manufacturing	26,476	17.9	122	19.3
D	Electricity, gas, steam and air conditioning supply	367	0.1	2	0.1
E	Water supply; sewerage, waste management	0	0.0	0	0.0
F	Construction	1,221	0.5	11	0.5
G	Wholesale and retail trade; repair of motor v.	6,167	5.4	53	8.5
H	Transportation and storage	35,09	2.6	11	1.4
I	Accommodation and food service activities	1,460	0.2	13	1.1
J	Information and communication	1,360	0.9	25	3.5
K	Financial and insurance activities	14,806	13.9	91	15.3
L	Real estate activities	317	0.2	7	0.7
M	Professional, scientific and technical activities	5,541	5.2	62	12.2
N	Administrative and support service activities	7,581	7.6	28	5.3
P	Education	0	0.0	0	0.0
Q	Human health and social work activities	0	0.0	0	0.0
R	Arts, entertainment and recreation	8	0.0	1	0.1
S	Other service activities	6,086	2.9	11	1.5



B-S ex.

O Total

108,076

528

Source: Eurostat outward FATS (fats\_out2\_r2). The series present breaks in years 2013, 2014 and 2015, hence shares should be more representative for time series comparison.

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**January 2021**