

## ITC INQUIRY: UK TRADE NEGOTIATIONS

### WRITTEN EVIDENCE FROM THE DEPARTMENT FOR INTERNATIONAL TRADE

1. The Government welcomes the International Trade Committee's inquiry into the UK's free trade agreement (FTA) negotiations.

Trade is essential to the UK economy - equivalent to 62.4% of GDP in 2019<sup>1</sup>. New free trade agreements (FTAs) will open new markets for UK businesses, bringing investment, better jobs, higher wages, and more choice and lower prices for consumers.

3. The Government is committed to a transparent and inclusive trade policy. In line with this we are committed to publicly consulting on proposed new FTAs and publishing negotiating objectives and initial economic scoping assessments for each new negotiation.
4. To date, the Government has published objectives for, and launched negotiations with, the USA<sup>2</sup>, Japan<sup>3</sup>, Australia<sup>4</sup> and New Zealand<sup>5</sup>. On 17 June we also published an update on the UK's approach to joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership<sup>6</sup> (CPTPP).

#### The Government's objectives

5. The Government's overarching objective is to secure agreements that drive UK prosperity by delivering opportunity and unleashing the potential of every part of the United Kingdom and for businesses of all sizes including Small to Medium-sized Enterprises (SMEs). That means seeking comprehensive agreements that promote increased trade in goods and services and greater cross-border investment, whilst ensuring high standards and protections for UK consumers and workers.

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<sup>1</sup> Figures to year ending March 2020. ONS Balance of Payments, UK: January to March 2020 <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/balanceofpayments/januarytomarch2020>. And ONS GDP quarterly national accounts, UK: January to March 2020 <https://www.ons.gov.uk/releases/gdpquarterlynationalaccountsukjanuarytomarch2020>

<sup>2</sup> The UK's approach to trade negotiations with the US <https://www.gov.uk/government/publications/the-uks-approach-to-trade-negotiations-with-the-us>

<sup>3</sup> The UK's approach to negotiating a free trade agreement with Japan: <https://www.gov.uk/government/publications/uks-approach-to-negotiating-a-free-trade-agreement-with-japan>

<sup>4</sup> The UK's approach to negotiating a free trade agreement with Australia: <https://www.gov.uk/government/publications/uks-approach-to-negotiating-a-free-trade-agreement-with-australia>

<sup>5</sup> The UK's approach to negotiating a free trade agreement with New Zealand: <https://www.gov.uk/government/publications/uk-approach-to-negotiating-a-free-trade-agreement-with-new-zealand>

<sup>6</sup> An update on the UK's position on accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP): <https://www.gov.uk/government/publications/uk-approach-to-joining-the-cptpp-trade-agreement>

6. Our trade agreements will strengthen economic partnerships, focussing on technology, innovation, and research. They can also increase the resilience of our supply chains and the security of our economy overall through diversifying trade. And they can be future proofed in line with the Government's ambition on climate and in anticipation of rapid technological developments, such as Artificial Intelligence (AI).
7. The Government has been clear that the National Health Service (NHS), including the price it pays for drugs, will not be on the table. We will also not compromise on the UK's high environmental protection, animal welfare and food safety standards.

### **Current negotiations**

8. To date, the Government has published objectives for, and launched negotiations with, the United States<sup>7</sup>, Japan<sup>8</sup>, Australia<sup>9</sup> and New Zealand<sup>10</sup>. On 17 June we also published an update on the UK's approach to joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership<sup>11</sup> (CPTPP).
9. We are negotiating high-quality FTAs with these partners in parallel to our negotiations with the EU. Taken together, these agreements will provide a significant boost to the UK economy. The sooner these agreements can be put in place the sooner businesses, consumers and citizens across the UK will feel the economic benefits. In delivering our ambitious trade agreements programme, DIT works closely with other Government departments to ensure a coordinated approach to EU and rest-of-world FTA negotiations. Key decisions across both sets of negotiations are taken collectively at Cabinet level, informed by respective negotiating teams and chief negotiators.
10. As demonstrated by the scoping assessment we published on 2 March, an FTA with the United States (US) could offer wide ranging opportunities to all regions of the UK.
11. The US is the largest economy in the world and one of the most dynamic, with high standards and high wages. It is the UK's largest single trading partner, with total trade reaching over £230.3bn in 2019, an increase of 14.2% over 2018<sup>12</sup>. 36,900 UK

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<sup>7</sup> The UK's approach to trade negotiations with the US

<https://www.gov.uk/government/publications/the-uks-approach-to-trade-negotiations-with-the-us>

<sup>8</sup> The UK's approach to negotiating a free trade agreement with Japan:

<https://www.gov.uk/government/publications/uks-approach-to-negotiating-a-free-trade-agreement-with-japan>

<sup>9</sup> The UK's approach to negotiating a free trade agreement with Australia:

<https://www.gov.uk/government/publications/uks-approach-to-negotiating-a-free-trade-agreement-with-australia>

<sup>10</sup> The UK's approach to negotiating a free trade agreement with New Zealand:

<https://www.gov.uk/government/publications/uk-approach-to-negotiating-a-free-trade-agreement-with-new-zealand>

<sup>11</sup> An update on the UK's position on accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP): <https://www.gov.uk/government/publications/uk-approach-to-joining-the-cptpp-trade-agreement>

businesses exported £49.2bn worth of goods to the US in 2018, and 44,300 UK businesses imported over £44.5bn worth of US goods<sup>13</sup>.

12. We are also each other's biggest investors, creating high-skilled jobs and growing our economies. We had more than £700 billion stock invested in each other's economies in 2018<sup>14</sup>.
13. Given the high volume of trade between the UK and US, there is significant benefit to be gained even from a small reduction of trade barriers between the UK and US, though we aim to achieve much more. An ambitious trade agreement with the US could directly increase UK Gross Domestic Product (GDP) in the long run<sup>15</sup> by the equivalent of £3.4bn<sup>16</sup>.
14. There are major opportunities for small businesses from a US FTA and the Government has already made good progress on its stated objective of securing a dedicated SME chapter as part of the negotiations.
15. An FTA with Japan, the third largest economy in the world in 2018, also represents significant opportunities for the UK economy from agriculture to digital, and to increase the resilience of our supply chains and the security of our economy. The UK and Japan are major investors in each other's economies, ranking fifth and sixth respectively for inward foreign direct investment.
16. The total value of trade between the UK and Japan in 2019 was just over £31 billion<sup>17</sup>. A UK-Japan FTA could increase trade between both countries by £15.2 billion in the long run<sup>18</sup> (compared to 2018) and increase UK workers' wages by £800 million<sup>19</sup>.
17. Removing trade barriers with Japan could deliver huge gains, both for the 8,000 UK small and medium-sized (SMEs) across the UK already exporting goods with Japan as well as those making plans to enter the Japanese market. For example, total annual tariff reductions on goods exports to Japan could be worth around £33 million per year in the long run.

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<sup>12</sup> ONS UK total trade: all countries, non-seasonally adjusted.

<sup>13</sup> HMRC and ONS data, 2016-18 annual averages

<sup>14</sup> ONS, Foreign direct investment involving UK companies 2018:

<https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/foreigndirectinvestmentinvolvingukcompanies/2018>

<sup>15</sup> The long run is generally assumed to mean 15 years from the implementation of the agreement

<sup>16</sup> These analyses relate to the long term, and implicitly assume that by that period the economy would have recovered from any impacts of the coronavirus. At this point, it is too early to identify whether or how the estimated impacts in this document might be affected by the current situation

<sup>17</sup> ONS Total Trade statistics 2019

<sup>18</sup> The long run is generally assumed to mean 15 years from the implementation of the agreement.

<sup>19</sup> These analyses relate to the long term, and implicitly assume that by that period the economy would have recovered from any impacts of the coronavirus. At this point, it is too early to identify whether or how the estimated impacts in this document might be affected by the current situation

18. Sectors set to benefit from a deal include textiles, agriculture, and the services industry. Now that we have left the EU, we can also make more progress in areas such as the free flow of data, which will support emerging fields such as artificial intelligence (AI) and the UK's position as a technology centre of excellence.
19. Free Trade Agreements with Australia and New Zealand will also bring benefits for UK businesses and consumers. These agreements will also strengthen the position of UK businesses in the Asia Pacific region and would be an important step towards eventual accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The UK had more than £110 billion-worth of trade in 2019<sup>20</sup> with the 11 countries in the CPTPP and membership will help us diversify our trade and join a strong, modern trade agreement between countries committed to free and fair trade in the Asia-Pacific region and beyond.

### **Determining the impacts of our agreements**

20. The Government is taking a robust approach to determining the potential impacts of all proposed FTAs. Before negotiations commence, we will publish economic scoping assessments, drawing on robust evidence and the best tools available for assessing the impacts of an FTA. These assessments have already been published for negotiations with the US<sup>21</sup>, Japan<sup>22</sup>, Australia<sup>23</sup> and New Zealand<sup>24</sup>. The analysis will be updated to reflect the final negotiated deal and a final impact assessment will be published when the deal is laid in Parliament prior to ratification. However, it should be noted that this analysis is not intended to be an economic forecast for the UK economy.
21. The Government's approach uses a range of tools to estimate the potential impacts of FTAs, including Computable General Equilibrium (CGE) modelling, and econometric modelling and techniques. These will explore potential impacts on UK nations and regions, business, protected groups and the environment. The modelling is further supported by insight from external stakeholders. This approach follows international best-practice. CGE modelling is used extensively in trade analysis globally as it is widely considered to be the best available framework for analysing the long-run macroeconomic impacts of changes to trading relationships. Additionally, econometric gravity modelling is used to transform Non-Tariff Measures (NTM) and regulatory restrictions to services – which are not directly observable – into trade costs for the Computable General Equilibrium (CGE) model.

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<sup>20</sup> ONS, UK total trade: all countries, non-seasonally adjusted

<sup>21</sup> UK's approach to trade negotiations with US: <https://www.gov.uk/government/publications/the-uks-approach-to-trade-negotiations-with-the-us>

<sup>22</sup> UK's approach to trade negotiations with Japan: <https://www.gov.uk/government/publications/uks-approach-to-negotiating-a-free-trade-agreement-with-japan>

<sup>23</sup> The UK's approach to negotiating a free trade agreement with Australia: <https://www.gov.uk/government/publications/uks-approach-to-negotiating-a-free-trade-agreement-with-australia>

<sup>24</sup> The UK's approach to negotiating a free trade agreement with New Zealand: <https://www.gov.uk/government/publications/uk-approach-to-negotiating-a-free-trade-agreement-with-new-zealand>

22. The results of this CGE modelling are used to inform further analysis of impacts on specific areas of interest, including the UK nations and regions, UK businesses and consumers, protected groups in the labour market and the environment.
23. The Government has recently launched a review<sup>25</sup> into the trade modelling, supported by a panel of external academics, to ensure that the Government's approach takes into account the latest techniques and insights to make sure it remains best in class.

### **Transparent and inclusive trade agreements**

24. The Government is committed to an inclusive and transparent approach to trade negotiations.
25. While trade negotiations are a reserved matter, conducted by the UK Government on behalf of the whole UK, we recognise that modern trade agreements are wide in scope and touch on many areas of devolved interest. The Government is working with DAs to ensure their interests are represented. This includes Ministerial engagement through DIT's dedicated Ministerial Forum for Trade (MFT) and Senior Officials Group (SOG). As FTA negotiations progress, the Government will continue to engage closely with the DAs to ensure our trade agreements deliver for every part of the UK.
26. The involvement of stakeholders in the English Regions is also of vital importance as they make a huge contribution to our trading performance. The Government has held events across the United Kingdom<sup>26</sup> as well as consultation launches and webinars where regional stakeholders, including local government, have been present. The Local Government Association has regular meetings with government officials and has met with Parliamentary Under Secretary of State, Graham Stuart.
27. The Government carried out public consultations on trade negotiations with the US, Australia and New Zealand and potential accession to CPTPP, as well as a *Call for Input* to inform our approach to our future relationship with Japan. These received over 600,000 responses, one of the largest responses in government history. The Government published its response to the consultations before the launch of FTA negotiations with these countries. Consultation responses have and will continue to inform the Government's overall approach to potential negotiations with partner countries.
28. The Government has also set up comprehensive engagement mechanisms to allow stakeholders the opportunity to feed into trade policy on an ongoing basis. These include the Strategic Trade Advisory Group (STAG) which provides a forum for high-level strategic discussions on trade policy matters between government and

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<sup>25</sup> The Department for International Trade launches modelling review to support economic recovery: <https://www.gov.uk/government/news/the-department-for-international-trade-launches-modelling-review-to-support-economic-recovery>

<sup>26</sup> Includes Leeds, Manchester, Birmingham, Reading, Exeter, Norwich, Nottingham, Durham, Derby, Cardiff, Edinburgh, Belfast and London

stakeholders. Membership is made up of businesses, civil society organisations, academia, and business representatives and is chaired by Parliamentary Under Secretary of State for International Trade, Ranil Jayawardena.

29. The Government also hosts the cross-government working level Expert Trade Advisory Groups (ETAGs) which facilitate technical policy exchanges with stakeholders on specific sector and thematic policy issues to ensure that the UK's trade policy is backed up by evidence at a detailed level. There are currently 17 ETAGs covering a range of sector and thematic policy areas. Membership of these working groups varies and may include stakeholders from industry, consumer groups, business associations, trade unions and/or NGOs. Since September 2018, the network of ETAGs has met 75 times.
30. The Government is committed to strengthening its engagement with stakeholders and has been reviewing its mechanisms such as the STAG and ETAGs to see how they can be made even more effective.
31. The Department for International Trade has also announced a new Trade and Agriculture Commission which has been set up to act as an advisory board to the International Trade Secretary. The Commission will have a fixed term to consider trade policies that Government should adopt to secure opportunities for UK farmers, producers and exporters. The Commission will ensure the sector remains competitive and that animal welfare and environmental standards in food production are not undermined. At the end of its work, the Trade and Agriculture Commission will produce an advisory report which will be presented to Parliament by the Department for International Trade.

## Parliamentary Scrutiny

32. The Government is committed to ensuring that Parliament can effectively scrutinise our trade policy. We have made – and delivered on - extensive commitments to share information and engage with Parliament at every stage of negotiations. This includes:
  - Notifying Parliament of our approach to each negotiation by publishing comprehensive information, including our objectives and initial economic scoping assessments, prior to talks commencing.
  - Providing regular updates throughout negotiations, for example the Written Ministerial Statements made after each of the first two rounds of talks with the US<sup>2728</sup>
  - Working closely with the International Trade Committee and the Lords International Agreement Sub-committee, as the dedicated scrutiny committees for trade agreements. This includes private briefings and, where practical, ensuring there is time for the Committees to produce a report on an agreement before it is laid before

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<sup>27</sup> <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2020-05-18/HCWS238/>

<sup>28</sup> <https://hansard.parliament.uk/commons/2020-06-30/debates/20063012000006/NegotiationsOnTheUKSFutureRelationshipWithTheUSUpdate>

Parliament under the procedures set out in the Constitutional Reform and Governance Act 2010 (CRAG).

- Publishing an updated impact assessment once negotiations have concluded, reflecting the terms of the negotiated deal.
33. This approach is in line with many other comparable countries and our negotiating partners, especially those with Westminster-style structures of parliamentary democracies (for example Australia, New Zealand and Canada).
  34. Parliament will play its statutory role in scrutinising agreements prior to ratification, as set out in CRAG. CRAG provides an effective framework for scrutiny of relevant treaties, consistent with the UK's constitutional arrangements.
  35. Further, international treaties cannot, of themselves, amend domestic legislation. Where an FTA requires domestic legislation in order to be implemented, Parliament will have an opportunity to scrutinise this legislation in the normal way.