

Welsh Government Report on the UK-Japan Comprehensive Economic Partnership Agreement

1. Executive Summary

- 1.1 The UK has left the EU and the transition period will end on 31 December 2020, after which EU trade agreements, such as the EU-Japan Free Trade Agreement (FTA) will cease to apply to the UK. The UK is seeking to reproduce the effects of existing EU agreements in place with some 70 countries for when they no longer apply to the UK.
- 1.2 Although continuity is being sought with the majority of these countries, the UK and Japan decided that, rather than simply 'rolling over' the EU-Japan agreement, they would use the EU-Japan Economic Partnership Agreement (EPA), which came into force in February 2019, as the basis for a future UK-Japan free trade agreement (FTA). It was agreed that this 'continuity plus' approach would allow for the EPA to be maintained in effect, whilst allowing scope for both parties to seek enhancement in areas of mutual interest.
- 1.3 Negotiations started on 9 June, and the agreement was formally signed on 23 October, allowing for both parties to begin their formal domestic ratification procedures. The UK's ratification procedure began on 2 November when the agreement text and an explanatory memorandum were laid in parliament under the Constitutional Reform and Governance Act (commonly referred to as the CRaG process). The agreement is expected to be ratified after 21 sitting days on 7 December, unless either of the Houses of Parliament chooses to pass a motion stating that it should not be ratified. On the Japanese side, we are not aware of anything that will delay their ratification process.
- 1.4 The UK-Japan CEPA is approximately 80% the same as the EPA, but it goes further in a number of areas. Some of the key enhancements from the perspective of the Welsh Government include, but are not limited to:
 - Japan has agreed ambitious digital provisions with the intention of reducing barriers to digital trade by promoting regulatory cooperation, enabling the two-way free flow of data and minimising costs associated with digital trade. Online protection for businesses and consumers is a key feature of these provisions. On Financial Services a focus on regulatory cooperation, clarity for business and increased transparency for short term business travel should benefit both UK and Japanese financial service suppliers and investors.
 - There have been some alterations to existing chapters we support including sanitary and phytosanitary (SPS) provisions and a new chapter on Trade and Women's Economic Empowerment.

- Rules of Origin arrangements have provided continuity for UK exporters that are utilising the EU-Japan EPA arrangements in their exports to Japan, especially with the securing of the extended cumulation arrangements to allow for the use of EU materials and processing to count as originating within the UK. Some removal of the less restrictive Product Specific Rules when compared to the EU-Japan Agreement may offer more opportunities for manufacturers of both Parties in certain goods to source the raw materials they need from other countries in their exports to one another.
- The liberalisation timetable of tariffs in cars and car parts not being accelerated beyond the timetable as agreed in the EU-Japan EPA which provides a degree of continued security for domestic manufacturers of these products.

1.5 Overall, the Welsh Government supports CEPA and recognises that it provides the continuity with the EPA we sought. For example it was important that CEPA replicated the EPA where ratification of the agreement was contingent on parties adhering to the Paris Climate Accord¹. The Senedd was the first Parliament in the world to declare a climate emergency and it was key that CEPA did not undermine our ability to regulate in order to transition to a low carbon nation and meet our climate targets² as well as supporting the Welsh low carbon goods and services sectors and ensuring a level playing field where we do not simply ‘export’ our emissions to Japan (a globally responsible Wales³).

1.6 Failure to reach and ratify an agreement by the end of the transition period would have led to the UK ‘falling out’ of the EPA. This would mean UK businesses already exporting to Japan would have reverted to trading on Most Favoured Nation (MFN) terms under World Trade Organization (WTO) rules as of 1 January 2021. The resultant imposition of barriers to trade (tariff and non-tariff) compared to our current arrangements would have put at risk the strong trading and investment links that have been developed:

- Trade - in 2019 goods exports to Japan were worth £296 million.
- We currently have approximately 65 Japanese-owned businesses based in Wales employing over 8,000 staff. Many of these companies are important to our manufacturing and automotive sectors.

¹ Eckhardt, J 2020, *An assessment of the EU-Japan EPA and its implications for a UK-Japan Free Trade Agreement*. National Assembly for Wales.

² Welsh Government have accepted the UK Committee on Climate Change’s recommendation to increase Wales’s 2050 target to 95% and have requested further advice on how the new 2050 target affects the interim targets and carbon budgets set in 2018. We expect to receive the CCC’s advice in December and will ask the Senedd to update the emissions reduction pathway in Spring 2021.

³ ‘A globally responsible Wales’ is one of the seven well-being goals put in place by The Well-being of Future Generations (Wales) Act 2015: <https://www.futuregenerations.wales/a-globally-responsible-wales/>

2. Trade between Wales and Japan

- 2.1 In 2019, Welsh goods exports to Japan were valued at nearly £296m and imports from Japan valued at just over £639m⁴.
- 2.2 In 2019, Japan was the 11th largest export market for Wales accounting for around 1.7% of Welsh exports of goods, and the 6th largest import market with around 3.5% of Wales' total goods imports coming from Japan.
- 2.3 Latest estimates of Welsh trade in services show imports and exports of services were valued at £5.3bn and £7.4bn respectively in 2018⁵. No country breakdown is currently available, therefore it is not possible to estimate the value of Welsh trade in services with Japan.
- 2.4 Further details on trade between Wales and Japan can be found in Annex A.

3. Welsh Government Involvement in the UK-Japan Negotiations

- 3.1 Although only the UK Government has the power to conclude international agreements that bind the whole of the UK, the Welsh Government has a responsibility to make representations to the UK Government about those agreements given our strong interest in them, particularly where they touch on devolved matters. In addition, the Senedd has the power to pass laws relating to the observation and implementation of international obligations, meaning that the Welsh Government and the Senedd have a legitimate and crucial interest in the negotiation and terms of any international agreements which will require Welsh implementation.
- 3.2 In *Trade Policy: the issues for Wales* the Welsh Government set out the importance of developing deep and sustained co-operation mechanisms between the Devolved Governments and UK Government on trade. We called for the establishment of a Ministerial Forum as well as meaningful consultation and a memorandum of understanding that all could sign up to. For our part the Welsh Government committed to being a constructive partner, sharing analysis and working with UKG to provide leadership on stakeholder engagement.
- 3.3 We have since worked closely with the Department for International Trade (DIT) to develop a constructive working relationship. DIT have this year established the Ministerial Forum for Trade which we fully support. However, although working relationships with DIT remain positive we have failed to formalise these relationships through a concordat. Discussions on the concordat have been ongoing now for around two years. Despite the fact that

⁴ HMRC Regional Trade Statistics, 2019

⁵ [ONS International trade in services by subnational areas of the UK: 2018](#)

DIT are working to the spirit of the concordat, we believe it is essential to finalise the governance arrangements to enable us to feed in appropriately to the important trade negotiations which are already underway.

- 3.4 In terms of the CEPA, the UK Government shared draft text of chapters relating to devolved matters with the Welsh Government throughout the negotiations and before finalisation and then all legally agreed text after it had been 'legally scrubbed'. Welsh Government lawyers and policy officials have considered aspects of these chapters throughout the negotiations.

4. Analysis of CEPA Text and Impact Assessment

- 4.1 The UK Government has published an Impact Assessment on the deal, based on economic modelling which was externally commissioned.
- 4.2 The DIT modelling suggests that over 15 years the agreement could result in a 0.05% to <0.15% impact on Gross Value Added (GVA) in Wales, which is similar to other nations of the UK. Point estimates of the associated monetary value suggest a gain of around £34m for Wales, although this should be interpreted as an indicative order of magnitude rather than a precise estimate. The Welsh Government's economic assessment, which is based on the UK Government's modelling, is attached at Annex A.
- 4.3 Economic modelling is used to show us the estimated impact of tangible changes, including tariff and non-tariff changes. These changes will be minimal, as our tariffs were already very low under the EU-Japan agreement. Although assumptions are made to capture the long term impacts of removing non-tariff barriers, these so called 'softer' benefits are more difficult to accurately measure.

5. Impact of CEPA on Key Sectors and/or Industries in Wales

- 5.1 Below we consider the key areas of difference between CEPA and EPA for Wales. Our economic analysis is largely based on the UK impact assessment which used results derived from Computable General Equilibrium (CGE) modelling⁶. CGE can provide a useful indication of the potential magnitude of economic impacts resulting from policy changes, however, results should not be treated as economic forecasts.

⁶ This type of modelling is appropriate when there is a significant change in trade policy and an assessment of the impacts on the whole economy is needed. The model considers linkages between domestic markets within each economy and provides impacts at a sectoral and aggregate level. It also considers the knock-on consequences to trade flows of third parties, reflecting trade creation and trade diversion effects, as well as the allocation of resources within an economy.

5.2 Given the complexity of producing robust estimates at lower levels of aggregation, CGE modelling results do not consider the impact of CEPA on individual sectors below the UK level. For Wales, results have only been provided at the whole economy level showing the estimated change to Gross Value Added (GVA) compared to the baseline of trading with Japan on WTO terms. These results have been produced by apportioning the UK level results to each UK nation based on employment. Whilst there are limitations associated with this approach, data limitations means that this is the most suitable option currently available to us.

5.3 In terms of the sectors considered below, where applicable we provide:

- The UK Government Impact Assessment GVA estimates for the sector UK-wide. Unless otherwise stated we have concluded that there is no evidence to suggest this impact would be different in Wales.
- Our assessment of the most relevant issues for Wales.

Automotive

UK Impact Assessment

5.4 **UK Impact Assessment Conclusion: Negative impact of between -0.05% and <-0.5% on UK GVA associated with the manufacture of motor vehicles over 15 years.**

Most relevant issues for Wales

5.5 The agreement confirms that the liberalisation of auto tariffs and parts will continue on the basis of the timetable agreed in the EU-Japan deal but not be accelerated. Approximately 5 years remain before import duties are reduced from 10% to 0% (1 February 2026 is the end date).

5.6 We are content that this is the best possible outcome that could have been achieved in these negotiations, as it provides continuity until at least 2026 for Japanese companies that own Welsh automotive plants. If tariffs on Japanese cars and car parts had been reduced at a faster rate, this could have encouraged Japanese firms to on-shore their manufacturing operations, and sell cars and car parts directly to the UK before 2026. This could have threatened the short-term viability of Wales-based automotive plants owned by Japanese companies. An increase in competition from Japanese imported cars and parts would also have had a wider negative impact on the Welsh automotive sector as a whole.

5.7 The agreement will also see two UK import tariffs covering electrical control units, which are often used in the production of cars, being eliminated at entry

into force, instead of in 2024 as agreed in the EU-Japan Agreement. The elimination of these two tariffs should be beneficial for the Welsh automotive industry based on available data, as it would help reduce the cost in importing these electrical components for use in the production of certain cars and car parts.

- 5.8 The CEPA also replicates the EPA in relation to the convergence of standards and regulations for motor vehicles and parts. This is especially important in helping to reduce regulatory barriers for the sector between the two Parties, as well as helping to facilitate trade with the EU going forward.

Rules of Origin

Most relevant issues for Wales

- 5.9 The ROO arrangements agreed as part of CEPA help to provide continuity for Welsh exporters that are utilising the EPA arrangements, with additional benefits achieved in some areas.
- 5.10 It has been agreed that EU materials and processing can be recognised (i.e. cumulated) in UK and Japan exports to one another for all products that currently rely on EU inputs to access preferential tariffs.
- 5.11 The UK and Japan have also agreed a provision that seeks to ensure continuity for UK exports to the EU which contain Japanese inputs. Welsh Government welcomes this provision, but recognises that it will only come into effect if a similar provision is included in the UK-EU trade deal.
- 5.12 There have also been positive changes to Product Specific Rules (PSR) which will be less restrictive than the EU-Japan Agreement for certain goods. For example, on various agriculture goods (such as pet food, sugar confectionary, baked goods), and other goods including certain textiles, the CEPA removes certain restrictions from the rules contained in the EPA. This will allow Welsh exporters of those goods to import key ingredients from other countries and use them in their exports to Japan. This opens up new opportunities for our exporters that previously may have not been able to access the EPA Agreement due to the strict rules for those goods.

Agriculture and Food and Drink

UK Impact Assessment

- 5.13 **UK Impact Assessment Conclusion:** Small positive impact of between 0.05% and <0.5% on UK GVA associated with the agri-food sector over 15 years.

Most relevant issues for Wales

- 5.14 Geographical Indications (GIs) are names used on products that have a specific geographical origin and possess qualities or a reputation that are due to that origin. They can raise consumers' awareness and help pave the way for exporting businesses to attract and inform overseas customers.
- 5.15 The UK Government has secured:
- continuity of effect with the EU-Japan EPA, maintaining protection for three products (none of which are Welsh).
 - a provision that stipulates that as soon as practically possible after entry into force, each Party shall consult and provide a list of GIs to the other Party for addition to the Agreement, subject to examination and opposition procedures.
- 5.16 The UK Government has publicised that it will provide Japan with a list of up to 70 additional GIs in January 2021, almost the entire register of the UK's protected products, and that these products will go through examination and opposition procedures set out in Japanese domestic law. Unless there are circumstances where a Japanese producer of a competitor product opposes a GI, the UK Government advises that this process will take approximately 5 months. Fifteen of the products the UK has said it will seek to register in Japan are of Welsh origin and include Welsh lamb and Anglesey sea salt.
- 5.17 These provisions could have a slightly positive, albeit limited, impact on Wales' food and drink sector in the long-term depending on the extent they are used by Welsh businesses.
- 5.18 The SPS chapter represents near continuity with the EU-Japan Agreement with some amendments to a few provisions. Although we are supportive of the provisions made in the chapter we were disappointed that the UK Government was unable to secure additional provisions on Anti-Microbial Resistance, which is a priority area for Welsh Government.

Data and Digital

UK Impact Assessment

- 5.19 **UK Impact Assessment Conclusion:** most services sectors associated with data and digital are found to have a small positive impact of between 0.05% and <0.5% on UK GVA over 15 years.

Most relevant issues for Wales

- 5.20 The CEPA contains a number of new and forward looking provisions acknowledging the increasing volume and complexity of digital trade.
- 5.21 The Trade in Services, Investment Liberalisation and Electronic Commerce chapter of the CEPA focusses on building an open, secure and trustworthy online environment. It does this by supporting the improved two way cross border flow of data whilst at the same time protecting domestic regulatory and national security laws and regulations.
- 5.22 Provisions beneficial to Welsh business include providing assurances on the omission of onerous restrictions for two way UK-Japan cross border data transfer and support for the publication of machine-readable datasets to increase governmental transparency.
- 5.23 It is difficult to model how these provisions could lead to long-term economic benefits. However, we believe that these provisions will be positive for Wales' digital and cyber security cluster companies looking to export services to Japan.

Financial Services

UK Impact Assessment

- 5.24 **UK Impact Assessment Conclusion:** Small positive impact of between 0.05% and <0.5% on UK GVA associated with financial services over 15 years.

Most relevant issues for Wales

- 5.25 There are a number of benefits, particularly relating to commitments on promoting regulatory and legal transparency and cooperation between both Parties that should increase certainty and clarity for UK financial services providers operating in Japan and vice versa.
- 5.26 In addition, the UK and Japan have committed to improved business mobility arrangements. This provision is likely to prove of particular benefit to the financial and professional services sector, as it will allow for the easier

temporary movement of highly skilled professionals and family members between the two nations. Specifically, more transparent visa arrangements will be put in place with technical modifications to permitted lengths of stay and an expanded definition of intra-corporate transferees. This should help to improve business mobility across several professional services sectors.

- 5.27 The agreement also contains safeguards on the use, storage and processing of financial data. In practice, this means that companies setting up subsidiaries in Japan will not be obliged to store financial data in Japan. This will eliminate the barrier to trade caused by additional costs involved in setting up and maintaining computer servers in multiple markets.
- 5.28 Whilst it is difficult to understand the extent to which these sectoral benefits will accrue to Wales, we have a strong and highly innovative financial services sector that is well-positioned to exploit the benefits. A range of Welsh financial services suppliers either already exporting services to Japan or seeking to do so, could benefit from these provisions which could deliver a long-term positive economic impact to Wales.

Welsh Consumers

UK Impact Assessment

- 5.29 The UK Government's Impact Assessment shows that Wales imports around 7% of the UK's total imports from Japan. Whilst the modelling estimates a potential saving of up to £4m for Welsh consumers, the evidence directly linking tariffs to consumer prices is mixed and we expect the scale of the savings to be linked to the extent to which savings from lower import costs are passed onto final users.
- 5.30 The UK impact assessment modelling also estimates an increase in the long run average real wage⁷ in the UK of around 0.09% (£0.8 billion). This is found to be consistent across most types of occupation apart from service workers (0.08%). Indicative estimates of the long run impacts on the composition of employment in UK sectors suggests the largest negative impact will be felt in the chemical, rubber and plastic sector (below -0.5%), followed by manufacture of motor vehicles, machinery & equipment, and other services sectors (-0.05 to <-0.5%). The largest positive impact will be within the textiles, apparel and leather sector (above 0.5%).

Most relevant issues for Wales

- 5.31 Consumer protection is woven throughout Chapter 8 on Trade in Services, Investment Liberalisation and Electronic Commerce. Provisions beneficial to consumers include extending online protection to cover commercial activities.

⁷ nominal wages adjusted for impact of inflation

The CEPA also contains a new article on the adoption of a legal framework to protect the personal information of users of e-commerce. In line with its forward leaning ambitions the chapter supports activity at multilateral level and seeks to facilitate cooperation in emerging technologies, Artificial Intelligence (AI) and the Internet of Things (IoT).

Cross-cutting Issues – Social, Labour, Environmental and Animal Welfare

Most relevant issues for Wales

Climate Change and the Environment

- 5.32 The UK-Japan CEPA largely replicates the Trade and Sustainable Development (TSD) chapter in the EU-Japan Agreement, including those related to the environment and climate change. We are supportive of these provisions.
- 5.33 Modelled estimates suggest the UK-Japan CEPA is not expected to have significant impacts on Greenhouse gas emissions (CO₂ and Non-CO₂), energy usage, trade-related transport emissions and wider environmental impacts such as air quality, biodiversity, and water use/quality. The agreement is estimated to increase domestic greenhouse gas emissions marginally by 0.028% compared to projected levels in 2035. However, this does not take into account future policy measures to reach net zero by 2050.

Social and labour provisions

- 5.34 The UK-Japan CEPA largely replicates the Trade and Sustainable Development (TSD) chapter in the EPA. References to labour laws and conventions have been included throughout the TSD chapter which is consistent with the EPA.
- 5.35 The agreement provides for the establishment of a bilateral UK – Japan joint dialogue with civil society and a panel of experts to sit, which is similar to the EU – Japan processes established by the EPA. A difference is that the UK and Japan governments have two years to establish a committee and a list of experts whereas the EU and Japan agreed to establish a committee and panel in one year.
- 5.36 We are awaiting clarification from the UK Government on how the domestic advisory group would work and clarification about the role of the devolved governments.
- 5.37 The UK-Japan CEPA has a new, additional chapter on Trade and Women’s Economic Empowerment which the EU-Japan Agreement did not contain.

The chapter establishes channels between the two nations to cooperate on furthering opportunities for women in roles as business owners and workers. A Working Group will support and oversee the delivery of cooperation activities. We are supportive of these provisions.

- 5.38 In terms of enforcing commitments within the CEPA, the UK-Japan CEPA mostly replicates the effects of the dispute settlement provisions in the EPA, but SPS provisions are not subject to the provision detailed. Both Parties agreed to seek to resolve any differences on SPS matters amicably through regular conversations and technical discussions and if these processes should fail, any dispute will then be settled using the WTO system.

Animal welfare provisions

- 5.39 Animal welfare provisions are identical to provisions made in the EU-Japan Agreement, with a commitment to establish a technical working group on animal welfare. We are broadly supportive of this provision, but as animal welfare is a devolved issue, we await further clarification from UK Government on the role we will have in the working group.

Subsidies

- 5.40 With the exception of the removal of references to the European Union, the Subsidies Chapter of UK-Japan CEPA is largely identical to EU-Japan.
- 5.41 Although Devolved Governments are not within scope of the Chapter, Welsh Government considers subsidies to be a devolved matter, and as such has a particular interest in this Chapter. We are content that the provisions provide continuity of the existing subsidies arrangements with Japan.