



Make UK response to the Economy, Trade and Rural Affairs

Committee call for evidence on the UK-Australia Free Trade

Agreement

About Make UK

Make UK, the manufacturers' organisation is the representative voice of UK manufacturing, with offices in London, Brussels, every English region, and Wales. Collectively we represent 20,000 companies of all sizes, from start-ups to multinationals, across engineering, manufacturing, technology, and the wider industrial sector, who altogether employ approximately 1.2 million people. Everything we do – from providing essential business support and training to 11 championing manufacturing in the UK and the EU – is designed to help British manufacturers compete, innovate, and grow.

Make UK welcomes the opportunity to respond to the Economy, Trade and Rural Affairs Committee call for evidence on the UK-Australia Free Trade Agreement. We would be happy to provide further detail on any of the issues raised in this response.

a) How will this Agreement impact you, your business, or your organisation?

Trade in Goods

- 1) Free Trade Agreements (FTA) are a constructive mechanism to improve the flow of trade between two parties, helping to remove barriers to international trade and establish co-operative arrangements that assess and provide for further market opening and innovation in how trade in goods and services is undertaken.

The key aim of the UK- Australia FTA is to enforce the UK's emerging trade policy development across the wider Southeast Asia Region. The FTA agreement with Australia is not just unique in that it is the inaugural comprehensive agreement completed by the UK since the departure from the European Union (EU) but adds to the UK's ongoing resolve across the Region evident by its wish to conclude an FTA with New Zealand, the conclusion to the Digital Economy Agreement with Singapore and the UK's ambition to conclude accession to the membership of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

- 2) Regarding the impact on **Trade in Goods (manufactured goods)** there is a positive change in market access barriers for respective exports and imports to/from the UK. The reductions in market access barriers in manufactured goods come from the liberalisation in tariffs and in non-tariff measures. On tariffs, the FTA is comprehensive with tariff elimination on 98 per cent of exported goods products as soon as the agreement enters into legal force. Some products from the UK will have a longer phase in period such as metals exports for five years.
The commercial sectors that will gain the most from the agreement is in manufactured goods including vehicles (motor vehicles and parts), followed by other machinery and equipment. These sectors have led UK wide exports to Australia though trade data suggests that exports in these categories only contribute 1-2% of the total UK product export for these categories.
- 3) To benefit from the tariff liberalisation measures, firms must be able to satisfy or meet **Rules of Origin** requirements stipulated in the agreement. **Rules of Origin** require a qualifying level of manufacturing in the country of export to access zero tariffs. This ensures only goods produced in the countries party to the FTA (the UK or Australia) benefit from zero tariffs. So, in relation to this agreement, it is important to assess whether the qualifying levels of economic activity on goods (i.e., the nature and value of the manufacturing type activity undertaken to produce a finished good) are set a level that is more or less likely that firms will be able to take advantage of the tariff preferences. The agreement provides for **Rules of Origin** that is based on the bilateral cumulation between UK and Australia only. It would be hoped the agreement could be extended for diagonal cumulation (i.e., to include the EU) to broaden the range of qualifying materials. To provide for diagonal cumulation, would also require a mutual harmonisation to the cumulation approaches.
On the face of the agreement, the product specific **Rules of Origin** appear to be relatively helpful and provide opportunities for increased preferential exports from Wales and the UK.
- 4) On the matter of **Technical Barriers to Trade**, the agreement commits both parties to working cooperatively to increase acceptance of equivalent technical regulations. This is of potential opportunity particularly as equivalence could be a useful tool to reduce trade friction. It is important to recognise however, that the UK and Australia operate two different regulatory environments and operate different respective approaches to the legal status accorded to standards.

Trade in Services

- 5) The UK-Australia FTA contains some of the most progressive provisions in digital trade and innovation of all the agreements that the UK currently is party too.

In particular, the digital trade chapter is positive and strong. Provisions go further than existing commitments contained in the agreement between UK-Japan, and in the agreements that the UK were historically connected with through EU membership. The chapter ensures the free flow of trusted data and standards for personal data protection, which is vital for manufacturing as it seeks further commercial development in Australia.

- 6) The agreement also includes provisions that ban data localisation requirements (i.e., the practice of keeping data within the region it originated from) or requirements to transfer source code. The agreement also ensures the legal recognition of electronic contracts, signatures and various electronic trust services which will assist with the evolution of commercial contractual practices in the sale of goods. There are also provisions on regulatory cooperation in digital identities to promote compatibility, as well as provisions committing parties to open government data. On data innovation, there are several interesting commitments on cooperation on data-sharing projects, regulatory cooperation

on data mobility and sharing research and best practice. Unique to the agreement, is an Innovation Chapter. Both parties have committed to a process to discuss the impact of innovation on trade, including on regulatory approaches, commercialisation of new technologies and supply chain resilience.

- 7) Finally, the provisions on 'business mobility' are also welcomed to a manufacturing sector that relies on its employees to travel to customers for the purposes of business sales, product integration, installation, maintenance, and service. The agreement provides for professional bodies and regulators to establish and maintain sectoral Mutual Recognition Agreements. This has the potential to deliver significant benefits, but it will rely on the ambition and speed of the respective professional organisations and regulators. It will certainly be important to work through adequate provisions that limit the influence of academic and domestic professional qualifications that restrict current market access conditions to provide service supplies. The agreement establishes that executives located in one nation can relocate to the other's territory for up to four years and that they may bring their spouses and children with them.

What is the likely impact of the agreement on the economy and specific sectors in Wales?

- 8) In overall terms, the economic impact of this agreement is expected to be small, though we are not able to be able to predict the impact at this stage. The historic trading data between UK/Wales and Australia shows that the share of Australia in the UK's exports and imports of both goods and services in 2020 was only 1.6% and 0.8% respectively. This is confirmed in the analysis provided given by the UK Government in its own assessments of the impact. The agreement is likely to have a gradual impact, with companies being able to take advantage of the FTA provisions from once it comes into force, while some other benefits will take longer to show and assess. Despite this broad assumption, the agreement does provide for reductions in market access barriers in goods which come from tariff reductions and other non-tariff measures, and in the services sector with reductions in regulatory barriers.
- 9) With the Welsh manufacturing sector strong on the automotive sector and other machinery, these are the sectors that may gain the most from the agreement. Other sectors likely to gain the most from the decrease in barriers to trade are iron and steel, and other electronic goods on the reverse, the sectors in Wales that might not see output improvements are semi-processed foods and agriculture.

What are the likely social and environmental impacts of the Agreement?

- 10) We are not able to be able to predict the impact at this stage, though as a general comment the Environment Chapter would seem to be wide-ranging in its coverage, and while many commitments are aspirational, there are commitments to implement international environmental agreements and the inclusion of cooperation on the transition to a circular economy.

What are the likely impacts of the Agreement's provisions on trade in agricultural products on the agricultural and food sector in Wales?

- 11) We are not able to be able to predict the impact at this stage.

What support will your business or organisation need from the Welsh and UK governments to respond to and prepare for the implementation of the Agreement?

- 12) We report that the UK Government and Welsh Government provides useful resources for firms looking to scale up internationally. However, we believe more can be done to help the industry understand the benefits of recent and upcoming trade agreements. The phase after negotiating agreements will need to be given just as much importance as ensuring the key objectives for the manufacturing sector are reflected throughout the negotiation process.

Translating policy commitments into real-life understandable commercial opportunities that companies can take advantage is an important step, especially given the current trade negotiation roadmap that the UK Government is adopting and the number of agreements that are expected to be reached in the short to medium term. In essence a clear need for practical guidance on how business can engage in trade with third country agreements and for more informative activities with the business community across Wales (trainings, seminars, workshops, roadshows, etc.) which can help amplify the reach of practical information and provide support to business.

The direct interaction of the UK administrations including the Welsh Government and business representative groups can be an asset for an effective trade implementation strategy. Increasing awareness about trade agreements through more practical information is critical, but equal attention needs to be paid by policy makers to the fact that businesses need the right conditions and support to help them integrate effectively into international supply and value chains. An effective use of all relevant domestic funding programmes can assist create the conditions for a more competitive Welsh economy and businesses able to reap the benefits of agreements.