

Federation of Small Businesses

Consultation response - UK-New Zealand Free Trade Agreement

Consultation by the Economy, Trade and Rural Affairs Committee

Who we are

FSB Wales is the authoritative voice of businesses in Wales, thousands of members from every part of Wales and across the UK. FSB campaigns for a better social, political, and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

FSB welcomes the opportunity to respond to the Committee's call for views. Free Trade Agreements are a powerful means of removing barriers to international trade for small businesses, and FSB has long championed the inclusion of provisions that will help small firms understand and take advantage of the opportunities that FTAs create. In particular, FSB supports the inclusion of SME-specific provisions, as well as trade facilitation provisions and measures to promote digital trade.

FSB's response to the UK-New Zealand Free Trade Agreement follows our wider response to FTAs. As such members of the committee may be familiar with much of the detail included here from our response to the committee's consultation on the UK-Australia Free Trade Agreement. The FTA deal mirrors the Australian FTA closely. We include this detail again for the ease of committee members' access to the information across different inquiries.

As with the Australian FTA, FSB is pleased that the final UK-New Zealand FTA deal includes a dedicated SME chapter, as well as commitments on mobility, digital trade, and measures to tackle non-tariff barriers for goods.

Mitigation measures on any impact to Welsh food industry and systems should be closely monitored and policy mitigations be put in place quickly for any difficulties as this a key sector for the future food systems and supply chains in Wales affecting many of our SMEs.

- **How will this Agreement impact you, your business or your organisation?**

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.

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.

The success of the FTA will ultimately depend on its implementation and enforcement. FSB would have liked to see included in the FTA provision for an SME committee, which would ensure adequate representation of SME interests in the implementation of the deal. Issues arising for particular sectors or economic geographical areas with specific needs and challenges within specific FTAs may also be dealt with in this way. It is also important that there is buy in to an approach across all devolved nations and UK Government and so a 'four nations' collegiate approach should be taken as appropriate.

Given the current issues affecting trade in general it is important that FTAs are implemented quickly to allow for an increase in trade in new areas, and to ensure that SMEs are confident in their ability to trade globally and build their business for growth.

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

FSB research has shown that a relatively small proportion (18 per cent) of UK 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.

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 result¹.

Tariff and non-tariff barriers are both crucial factors considered 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%) say that tariffs play a key role in where small business exporters trade while more than half of small firms stated that non-tariff barriers play a role in where they choose to export (53%) or import (59%).

FSB therefore welcomes the commitments made in the FTA that will tackle these barriers, particularly with regard to trade facilitation, digital trade, technical barriers to trade and mobility.

Trade facilitation

Small businesses generally adopt a more cautious and ad-hoc approach to trade than larger counterparts as they are disproportionately impacted by barriers to trade flows and relatively small changes in duties or tariffs. Small businesses often do not have the necessary resources or expertise to comply with complicated customs procedures. However, they are highly dependent on moving

¹ 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>

goods across borders quickly, especially those who are part of a 'just in time' supply chain or business model.

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.

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.

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.

Digital trade

FSB welcomes commitments in the FTA to promote the acceptance of electronic trade documents, electronic contracts, payments, e-signatures and to ensure the interoperability of electronic systems.

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.

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 .

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.

Technical barriers to trade

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.

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.

FSB would encourage both parties to identify suitable technical regulations and processes and to agree mutual recognition agreements quickly, as Mutual Recognition Agreements can remove significant costs and barriers for smaller firms.

Mobility

FSB would have liked to see further commitments around the mobility of young people. As set out in the 2020 report *A World of Talent*², 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.

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.

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.

Wales and export

Of the £16.5bn exports of goods during the 2017-18 financial year, 70% could be identified with large firms, leaving £5bn as unidentified. Some of this will be large firm exporters that have not been located, but SME exporters will account for a proportion, with the majority more likely to be from medium as opposed to micro or small firms.

SMEs based in Wales that only have domestic customers grow at 8%, compared to 20% for those that export abroad. 40% of businesses that export are start-ups or new firms and so it is an area that can be developed dynamically and quickly with new entrants, who are also likely to help Welsh economic growth.

20% of Welsh SMEs state that concerns about cash flow or lack of working capital limit the extent to which their business exports internationally. Given Wales's reliance on exports on large companies, and the untapped potential of exports for SME growth in Wales, an SME chapter and focus on all trade deals has potentially more relative benefits to Wales than elsewhere.

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

The Economic Intelligence Wales Quarterly Report in November 2021 illustrated that total exports of goods recorded a positive quarterly change, driven almost entirely by increasing exports to EU countries. According to the Welsh international goods trade data, the value of goods exported from Wales was £13.5 billion for the year June 2021, a fall of 13% compared with the year ending June 2020. During the year to June 2021, there was a decrease of almost 12% in the value of exports from Wales to the EU and an almost 15% decrease in non-EU exports.

In 2020, FSB Wales highlighted the significant knowledge gap about support available:

- Less than one quarter of exporting SMEs had sought export advice.
- Over 85% of SMEs that currently exported did not use any specific export finance products, such as the UK export finance guarantee.
- Of SMEs not currently using export finance, around 30% were interested in export finance products, including working capital loans, bond support for overseas contracts, insurances/guarantees to cover non-payment risks and foreign exchange support to guard against currency fluctuations.

BEIS' Longitudinal Small Business Survey estimated that Wales had the lowest proportion of exporting SMEs across the UK's devolved nations in 2019, with 13% exporting goods or services, compared to a UK average of 20%. The breakdowns show that SMEs in Wales exported a similar proportion of goods, but exported a much smaller proportion of services when compared against the average SME in the UK.

SMEs are not fulfilling their export potential, due to several barriers. In 2019, it was estimated that 19% of SMEs believed they could export but opted not to. While this data was collected ahead of the recent unprecedented challenges – notably the pandemic and supply chain disruption – this sentiment is indicative of the unlocked potential that should focus the minds and efforts of decision-makers, as we hopefully shift to a phase of economic recovery.

The 'Longitudinal Small Business Survey: SME Employers 2020' indicated that the UK exit from the EU was mentioned as an obstacle to growth by 23% of UK SME employers.

The BICS survey for the period between 9 and 22 August 2021 showed that around 7% of responding Welsh firms had made changes to their supply chains during the Brexit transition period, with almost 57% deciding to use more UK suppliers. The new UK-EU trade agreement was the main cause for these changes for half of the responding Welsh businesses. More than six in ten responding Welsh businesses faced extra costs because of the end of the EU transition period (being above the UK average that was 56%).

According to Economic Intelligence Wales report on 'Export Finance in Wales' of February 2019, barriers to SMEs increasing overseas trade included:

- transportation costs
- the levels of overseas competition
- poor knowledge of overseas markets
- foreign exchange risk
- lack of finance to help with exporting.

The UK Government's recent commitments in this space – particularly in relation to addressing FSB's concerns around SME's lack of expertise in overseas markets – are to be welcomed. The Welsh Government is also engaged in business export support activity, notably through its Business Wales service. FSB would welcome assurances that the UK and Welsh Governments are working constructively together on these issues, in the interests of Welsh SMEs, and avoiding unnecessary duplication of activity.

The role of FTAs in providing new opportunities and balancing for possible loss of other markets in the last few years is important and raising SMEs in Wales's awareness of these opportunities and building capacity to take advantage of them will be key in any economic strategy. Ensuring read across from these FTAs and business support and sharing information is key to making use of their potential for growing SMEs through internationalising SMEs in Wales.

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

The UK and the Welsh governments have noted the possibility that the deal could have a detrimental effect on the agricultural and food sector, and there is a need to ensure that it does not impact on standards and the vital role food products have in Wales in terms of economy, local food systems, and in terms of their importance to the Wales brand, which then has indirect impact (for example) on the wider tourism and hospitality sector. It is important that a domestic food strategy mitigates where possible any possible impact on this vital industry, and looks to promotion of local products throughout its strategy. The import of New Zealand lamb is a clear concern, alongside the fear that lamb exports may fall for Welsh agriculture.

Any detrimental impact on agriculture and agricultural businesses would likely be felt within the supply chains of SMEs which depend upon and service that sector, which would be a matter of concern.

Necessary mitigation measures on any impact to Welsh food industry and systems should be closely monitored and policy mitigations be put in place quickly for any difficulties as this a key sector for the future food systems and supply chains in Wales affecting many of our SMEs.

- **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?**

As noted, the inclusion of an SME chapter in all FTAs is important to address SME needs, and provides the framework for business support aimed at internationalising SMEs in Wales. How it is implemented and the framework to ensure that there is a 'think small first' to building businesses towards export will be key to success. FSB Wales have outlined an approach, including an arm's length regional development body 'International Wales' to ensure a coordinated approach across governments and in engaging Welsh business on opportunities and support to move to export.³

³ Internationalising Welsh Businesses: Trade, Export and Investment (FSB Wales: 2020), at <https://www.fsb.org.uk/resources-page/final-internationalising-welsh-businesses---trade--investment-and-export-pdf.html>