

Vaughan Gething MS
Minister for Economy

3 May 2022

Dear Minister,

UK-Australia Free Trade Agreement - impact on Wales

The Committee has undertaken a short inquiry into the likely impact of the UK-Australia Free Trade Agreement (FTA) on Wales, following its signing in December 2021.

As this is the first trade deal the UK has negotiated and finalised 'from scratch' since EU-exit, the Committee was keen to scrutinise the deal and seek stakeholder views on its likely economic, environmental and social impacts. This includes the likely impacts on the Welsh agri-food sector, and what support businesses or organisations need from the Welsh and UK governments to prepare for implementation.

We received seven responses to our public [consultation](#) which ran from 21 January to 28 February. We then took evidence from a panel of UK trade experts (Professor Michael Gasiorek, Sam Lowe and Emily Rees) on **3 March**, and from the National Farmers Union (NFU Cymru), Farmers Union of Wales (FUW), and Meat Promotion Wales (MPW), on **17 March**, as well as discussing the FTA with you and the Minister for Rural Affairs and North Wales in general scrutiny at that same meeting. We would like to thank everyone that has contributed to the Committee's inquiry.

Below are the Committee's main findings and recommendations. We look forward to your response as we look ahead to scrutiny of the UK-New Zealand FTA in the summer term, following the announcement on 28 February that negotiations on that deal have concluded.

Negotiating and signing trade agreements with other countries is a reserved matter. This letter is therefore being copied to the Chair of the House of Commons International Trade



Committee, the Chair of the House of Lords International Agreements Committee and the Chair of the Environment, Food and Rural Affairs Select Committee. We trust that our findings will inform their scrutiny of the Agreement during the ratification process in the UK Parliament.

I have also copied in the Minister for Rural Affairs and North Wales, and Trefnydd, as certain issues raised by sector representatives, for example taking account of the impact of the deal in relation to the forthcoming Welsh Agriculture Bill, fall within her portfolio.

Impact Assessment

The Committee carefully considered the information provided in the UK Government's impact assessment of the FTA. Professor Michael Gasiorek points out that the level of detail about the potential impact of the Agreement on the Welsh economy is very small and that "more could be done" to assess its regional impacts. Emily Rees said that what the impact assessment does not do very well is outline the potential sub-sectoral impacts, including at a regional level. She also referred to modelling used by the European Union in its impact assessments of trade agreements as an example of how this can be done.

The UK Government's impact assessment estimates that the Agreement will lead to "a reduction in gross output of around 3% for beef and 5% for sheep meat". The FUU says this would equate to a fall in the gross output of Wales's cattle and sheep sectors of £29 million (£13 million for the cattle industry and £16 million for the sheep industry).

The FUU also emphasise that *"...such adverse impacts may well be concentrated and inflated in Welsh communities, given the particular reliance of Wales on the beef and sheep industry and the upland nature of much of Wales, which makes alternative forms of agriculture impossible."*

The NFU also refer to UK Government figures which show that the primary agriculture and semi-processed foods sectors are expected to experience a reduction of around 0.7% (£94m) and 2.65% (£225m) in their GVA respectively, relative to baseline growth in the sectors.

The [Welsh Local Government Association](#) shares these 'grave concerns' of the farming unions that agreements signed to date *"undermine UK farming and food security in return for negligible benefits to the economy."*

The NFU and WLGA have also called for a Wales-specific impact assessment, however we note that the UK Government has previously rejected this. We also note that the Welsh Government is conducting its own analysis of the agreement and intends on publishing a

Wales-focused assessment, though that assessment has not yet been published at the time of this letter being sent.

Maximising opportunities for Welsh SMEs and manufacturing

The Federation of Small Businesses (FSB) generally welcomes the “tremendous benefits” the agreement presents for smaller firms already trading with Australia or considering doing so. It says 31 per cent of FSB members engaged in international trade have indicated that Australia will be important for their exporting ambitions over the next three years. However it states that success ultimately depends on implementation and enforcement. The FSB also said it would have liked to see provisions for the establishment of an SME committee in the FTA to represent its interests and deal with issues arising for particular sectors or geographical areas.

The FSB stated that: *“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.”*

Make UK’s evidence pointed to the longer-term benefits to the manufacturing sector in Wales of reduced barriers to trade, but that *“more can be done to help the industry understand the benefits of recent and upcoming trade agreements.”*

Sharing of Trade Data

We note the Minister for Rural Affairs’ disappointment that detailed trade data held by DEFRA and the UK Government has not been shared with Welsh Government. We were told that this data would provide Welsh Government with additional insight into potential impacts on the agriculture sector in Wales.

This is disappointing given that food and agriculture are devolved areas within the legislative competence of the Senedd, and as such mitigating any adverse impacts on devolved areas will likely be the responsibility of the Welsh Government. It is imperative therefore that Welsh Government has full access to the data in order to understand where support is needed and allow for more specific and equitable policy interventions. It would also allow the Welsh Government to produce a more detailed analysis of the impact of trade deals on specific sectors in Wales as part of its Wales-focused assessment.

The Committee does not believe that the UK Government impact assessment provides sufficient information to fully understand the likely impacts of the FTA on Wales, and on individual sectors and sub-sectors. We believe that future impact assessments, as well as

pre-negotiation scoping assessments, should include more detailed information on the likely impacts of a trade agreement on specific sectors in Wales.

Recommendation 1. We recommend that the Welsh Government makes representations to the UK Government through the Ministerial Forum for Trade, or any other forum it deems appropriate, to:

- a) request full access to the trade data held by the UK Government, in order to provide Welsh Government with additional insight into potential impacts of the UK-Australia FTA on sectors in Wales; and
- b) provide a full assessment of the likely impacts on sectors and sub-sectors within the UK's nations and regions in impact assessments for future trade agreements.

We expect the Welsh Government to keep the committee informed of any discussions it has with the UK Government on these issues, including any progress made or any implications for the Welsh Government if it is unable to progress these issues.

Recommendation 2: In order to ensure the Committee is able to consider Welsh Government's Wales-focussed assessments of future trade agreements as part of its scrutiny, we recommend that the Welsh Government complete and publish its assessments in advance of agreements being laid before the UK Parliament.

Agri-food sector

Tariff Rate Quotas and safeguard measures

The Committee heard a range of views on the potential impact of the tariff liberalisation provisions in the FTA on the agriculture sector. NFU Cymru, the FUW and Meat Promotion Wales expressed concerns about the impact of the FTA on Welsh farmers and the red meat sector. In particular, they noted concern at Welsh beef and sheep meat losing market share in the UK due to increased competition as a result of the elimination of UK tariffs on Australian agricultural goods.

Huw Thomas of NFU Cymru also said that the thresholds set for the safeguard mechanisms – designed to protect the sector - are so high that *"by the time the safeguards are triggered I would suggest that the industry would be in some pretty dire straits."*

Trade experts did not identify an immediate negative impact from the FTA, when considered in isolation. Professor Michael Gasiorok stated that the impact of the UK's new

trading relationship with the EU and changes to agricultural support schemes are likely to have bigger impact on the sector in Wales than the FTA.

Sam Lowe stated that the FTA will result in some increased competition for Welsh producers, however it is unlikely to result in 'huge inflows' of Australian imports of agricultural produce. Professor Gasiorek and Sam Lowe acknowledged the Agreement's quota is bigger than the current import level, however they said data for recent years show Australia has rarely fulfilled its existing quota with the UK. You told the Committee that the increases in tariff-rate quotas represent a future risk for the agriculture industry in Wales, a view shared by both Welsh farming unions.

Meat Promotion Wales noted its disappointment at the lack of 'future-proofing' to protect the farming industry from changes in trade volumes. They further stated that production in antipodean countries (Australia and New Zealand) has been low due to drought over recent years and that forecasts for production to increase over the next five years are "*a very significant worry*" for the rural economy and rural communities in Wales.

The NFU stated that although most Australian agri-food exports are currently destined to China, factors such as geopolitical tensions, worsening of diplomatic relations and currency movements could result in changes to future trade flows.

Cost of production

NFU Cymru have stated that "*in signing this agreement, the UK Government is asking Welsh farmers to go toe-to-toe with some of the most competitive and export focused farmers in the world.*" It further stated that "*the cost of production for Australian beef farmers is around 2.5 times less than UK farmers and Australian sheep farmers can produce sheep meat for 65% less than in the UK.*"

Monitoring Mechanism

FUW emphasised the importance of monitoring mechanisms, and that it was essential for those to be in place in the text of the deal "*to be able to act on changes in market prices or agricultural output, or imports and exports.*" Huw Thomas of NFU Cymru pointed to the market monitoring group set out under the Agricultural Support Common Framework as a potential vehicle, with support from levy bodies and the farming unions. Huw Thomas also noted that some of the data sets that could be used were "*..lagging indicators, so damage may already have been done to the industry by the time we get the data through.*"

We note the points made by trade experts that it is unlikely the tariff liberalisation provisions will lead to 'huge inflows' of Australian imports of agricultural produce, at least in the short-term.

However, we also share the concerns raised by the Agri-food sector regarding the potential impact of geopolitical events on trade flows, as has been shown by the war in Ukraine.

Monitoring the impact of this agreement on trade flows between the UK and Australia is vital in order to support the agriculture and other sectors of the Welsh economy. In order to monitor the ongoing impacts of trade agreements after implementation, the Committee would like to see market monitoring mechanisms strengthened and given more prominence in the work around future trade deals.

Recommendation 3. The Committee urges the Welsh Government to continue working with other governments across the UK, and with the agri-food sector in Wales, to ensure effective market monitoring mechanisms are in place. This approach should also be adopted for other sectors of the economy as well.

Cumulative impact of trade deals

A big concern expressed by Welsh Government and the agri-food sector is the cumulative impact on Wales's agricultural sector as a result of a number of free trade agreements that will be signed by the UK, and the precedent set by the market access provisions in this FTA for future agreements. You described the challenge of the UK-Australia deal setting "*a baseline not a ceiling*" for other trade deals.

FUW told the Committee that it estimates a fall in the gross output to Wales's beef and sheep sectors at £29 million for this FTA. However, it expects that the cumulative impacts from trade deals with New Zealand and others within the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to be much greater in the longer term.

The Committee notes that Welsh Government is working with stakeholders to identify these impacts. We also note that the Minister for Rural Affairs and North Wales was not aware of any intention by the UK Government to conduct its own analysis.

Given the large number of trade agreements the UK Government aims to conclude over the coming years, the Committee believes it is important that assessments are regularly conducted on the cumulative economic impacts of the UK's free trade agreements.

Recommendation 4. We recommend that the Welsh Government establish mechanisms for keeping the cumulative impacts of FTAs on the Welsh economy under review. It should consult different sectors on how this work should be developed and periodically publish findings from these assessments.

Recommendation 5. We recommend that the Welsh Government also makes representations to the UK Government to ensure that an analysis of the cumulative impact of trade deals is undertaken on a regular basis to inform on-going and future trade negotiations

Animal welfare

The Committee notes the provisions in the Agreement relating to animal welfare. The former Minister of State for the Department for International Trade, Greg Hands MP previously stated that the UK Government has agreed a “ground-breaking non-regression clause on animal welfare”, which would mean that neither country could lower their animal welfare standards to undercut the other.

However, based on the evidence the Committee has received it is questionable whether the non-regression provisions go far enough. Emily Rees stated that upon consideration of the legal text the provisions do not amount to non-regression provisions. The UK and Australia will be required to “endeavour” to ensure that they are not waiving or otherwise derogating from laws and regulations in a way that would reduce the protection of animals.

Conditionality around animal welfare standards

Evidence received from RSPCA Cymru and Four Paws highlights there are no guarantees around the equivalency of standards for products being imported into Wales and the rest of the UK from Australia. They cite examples of Australian animal welfare standards prohibited in Wales, including long distance transport of animals and hot branding. It has been suggested to the Committee that the UK Government could have insisted on making tariff liberalisation conditional on meeting certain animal welfare rules. For example, no sheep that have been subject to practices such as ‘mulesing’, or ‘hot branding’ of cattle would qualify for tariff-free trade under the Agreement. Sam Lowe told the Committee that including conditionality requirements could have been a UK Government negotiation position “because of how good the UK's offer is”, but it would have made the process of negotiating the FTA longer.

The Minister for Rural Affairs and North Wales told us that this was something the Welsh Government was pushing for in future negotiation mandates. You also told us that you were disappointed that differential in standards was not seen as “a real risk” by the UK Government in light of current tariff quota uptake.

The Committee notes Welsh Ministers’ position on including conditionality around animal welfare standards in future trade negotiations.

Labelling standards

The Minister for Rural Affairs and North Wales expressed concerns regarding the labelling of meat and seafood. In particular, she stated that Australian meat could find its way into ready meals where the same labelling requirements do not apply. The NFU identified this as a big risk to the Welsh agricultural sector with a lot of Australian meat destined for the foodservice sector for hospitality and ‘out of home’ consumption.

Meat Promotion Wales noted the need for improved labelling regulation in the UK to allow consumer choice. RSPCA Cymru is also urging both the UK and Welsh governments to introduce clear labelling on all imported products to give consumers certainty on where their food originated.

The Committee notes the role of the provisional Common Framework on Food Compositional Standards and Labelling, published in March 2022, which will establish a mechanism for the UK and devolved governments to work together and manage divergence regarding food labelling.

The Committee supports further discussions between the UK and Welsh governments on the issue of labelling for food and drink products imported and sold in the UK, including in the foodservice sector.

Recommendation 6. The Committee requests that it be updated by the Welsh Government on any discussions which take place around labelling of imported food and drinks, including in the food service area.

Engagement with Welsh Government

The Committee notes that the UK Government has stated that the devolved governments were consulted regularly after each negotiation round and that their priorities were registered throughout the process. We also note that the Treaty text and the impact assessment were also shared before signature, as well as an embargoed copy of the final Treaty text.

We welcome your reporting of some “really positive and constructive engagement” between the Department for International Trade and the Welsh Government in some areas. However we note the your concerns that earlier engagement and involvement in future trade negotiations would allow issues impacting on devolved responsibilities to be identified and dealt with constructively at an earlier stage.

The Committee shares the Welsh Government’s view that there should be increased engagement between the UK and devolved governments at an earlier stage in trade negotiations. This should also include active engagement during the formulation of negotiating objectives for future trade agreements.

Governance

The Committee notes that the FTA establishes a number of committees and joint working groups to support its implementation. We heard from trade experts who in their view believed the Welsh Government should be engaged in the FTA’s governance arrangements where they relate to areas of devolved competence.

The Committee also notes the Welsh Government’s interest in engaging in the FTA’s governance arrangements. You told us that Welsh Government was still seeking clarity on implementation arrangements.

Recommendation 5. The Committee recommends that the Welsh Government make representations to the UK Government to ensure it is engaged in the FTA’s governance arrangements. The Committee also asks the Welsh Government to keep it updated on decisions relating to this, including any attendance at, or engagement with, the various committees and working groups established by the FTA.

I look forward to your response on the issues raised by our inquiry.

Kind regards,



Paul Davies MS

Chair: Economy, Trade and Rural Affairs Committee

Croesewir gohebiaeth yn Gymraeg neu Saesneg | We welcome correspondence in Welsh or English.