

Vaughan Gething MS
Minister for Economy
Welsh Government

25 November 2022

Dear Minister,

UK-New Zealand Free Trade Agreement - impact on Wales

The Committee undertook a short inquiry into the likely impact of the UK-New Zealand Free Trade Agreement (FTA) on Wales following its signing in February 2022. Thank you for attending Committee on 15th June to discuss the FTA with Members.

The Committee welcomes the publication of the Welsh Government's report which provides commentary and analysis on the potential impacts of the FTA on Wales. However we note that the report was published after the Committee's evidence session with you on 15 June, and we were therefore unable to refer to its findings in our questioning.

The Committee took evidence via a public consultation which ran from 25th March to 25th April. We also took evidence from the farming unions (FUW and NFU Cymru), the Minister for Rural Affairs and North Wales, and Trefnydd on 15 June. Finally, the Committee took evidence from UK trade experts Sam Lowe and Emily Rees on 13 July. We are grateful to all who contributed to our inquiry.

Our main findings and recommendations are set out below. As negotiating and signing trade agreements with other countries is a reserved matter, this letter is 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 House of Commons Environment, Food and Rural Affairs Select Committee. We trust that our



findings will inform the scrutiny of the FTA during the ratification process in the UK Parliament. I have also copied in the Minister for Rural Affairs and North Wales, and Trefnydd.

Impact on Wales

New Zealand is Wales's 48th largest export market and 63rd largest import market. Data for 2021 show that Welsh exports to New Zealand were valued at £22.4m (mainly manufactured goods and machinery and transport equipment) and imports were valued at £12.1m (mainly food and live animals and beverages & tobacco).

The UK Government's impact assessment estimate that the FTA will result in an increase in Gross Value Added (GVA) for Wales of 0.02% (£16m) over 10-15 years after implementation.

The UK Government's impact assessment recognises significant uncertainties when estimating the impacts of the FTA as the modelling is based "on certain assumptions about the global economy and the UK-New Zealand trade relationship". The modelling used also results in a 'high degree of uncertainty' when estimating the impacts of the FTA on different nations and regions across the UK.

In her evidence to the Committee on the UK-Australia FTA, Emily Rees stated that the UK Government's impact assessment does not outline the potential sub-sectoral impacts well, including at a regional level. In relation to the UK-New Zealand FTA, Emily Rees suggested that to better understand the impact of the FTA on Wales, you would need to use sectoral modelling, such as agriculture in Wales, which would then provide a more 'precise' and 'granular' estimate of the FTA's impacts on nations and sub-sectors. She further stated that "without sectoral modelling [it is] very difficult to look into the granularity of the winners and loser of the trade deal".

FUW noted its disappointment that the impact assessment for this FTA appeared to have 'even less granular' detail than that of the UK-Australia FTA, and would have liked to see more geographical and sectoral impacts outlined. The FUW also stated it would like to see impact assessments which look at a broader range of trading scenarios, including fluctuations in exchange rates and the impacts of that in the short and longer term, and on different sectors and geographical areas.

We note that the Welsh Government's analysis on the potential impacts of the FTA on Wales states that it has been unable to conduct or commission its own modelling of the FTA due to challenges, including the availability of data. However, the Committee is



pleased that work is being undertaken by the ONS and Welsh Government to improve the availability of trade data for Wales. We also note the Welsh Government's view that modelling of this kind is likely better undertaken within a wider UK model due to the close integration of the economy in Wales with the rest of the UK.

The Committee remains concerned that the UK Government's impact assessments do not provide sufficient information to fully understand the likely impacts of the UK's trade agreements on Wales. Although the likely economic impact of this FTA is small, the UK is currently negotiating trade agreements with partners where the economic impacts are likely to be far more significant.

It is therefore imperative that governments and businesses have a clear understanding of the differential impact FTAs have on different nations and sectors within those geographic areas, in order to understand trade-offs, and put in place policies and steps to mitigate impacts and maximise opportunities presented by specific agreements.

In our letter to the Welsh Government on the UK-Australia FTA, we recommended that the Welsh Government make representations to the UK Government to request that a full assessment of the likely impacts on sectors and sub-sectors within the UK's nations and regions is included in impact assessments for future trade agreements. We also asked that the Welsh Government keep the Committee informed of any discussions it has with the UK Government on these issues.

Recommendation 1: The Welsh Government should make the same representations in relation to the New Zealand trade agreement as the Committee recommended in relation to the UK-Australia FTA. The Committee also asks that it be informed of any past and future discussions the Welsh Government has with the UK Government on this issue.

Opportunities for Wales

New trade deals often produce 'winners and losers' which can vary from sector to sector and area to area. Although the likely impact of the UK-New Zealand FTA on Wales on an aggregate level is relatively small, witnesses and stakeholders did highlight some new opportunities presented by the FTA for businesses.

The Federation of Small Businesses told us that the FTA will deliver "significant benefits for small businesses" currently or considering trading with New Zealand. Its research has shown around a third (30%) of UK small firms who trade internationally already do so with New Zealand and around a quarter (23%) indicated that New Zealand is important for their exporting ambitions.



Sam Lowe stated that the FTA includes “quite accommodating” rules-of-origin provisions which go further than other agreements, making it easier for firms to qualify for tariff-free trade under the FTA. Emily Rees also pointed to the ‘cumulation of origin’ aspect of this FTA alongside other FTAs, leading to a greater tolerance of non-originated materials.

Sam Lowe also pointed out that alongside negotiations on the UK joining the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), the FTA lays the foundation for reducing duplication around conformity assessments and certification between the UK and New Zealand.

Commitments in the agreement that help facilitate cross border trade in services, including a new commitment to allowing service suppliers to temporarily stay in New Zealand for the purposes of providing a service, are welcome. Also welcome are provisions to facilitate data flows that may benefit financial services businesses.

Both Sam Lowe and Emily Rees highlighted the strong role for government in identifying and highlighting the potential opportunities for businesses, especially SMEs, to trade with New Zealand under the FTA. This also includes providing the necessary support to businesses to understand New Zealand’s regulatory regime, as well as support through trade fairs and export finance.

Emily Rees noted that given how far away New Zealand is, opportunities for Welsh companies will lie mostly in exporting products that are already being traded with non-EU countries. She further stated that there were particular opportunities for industries where Welsh specialisms have been developed such as power-generating materials in the growing renewable energy market, aeronautics, electric machinery and parts, and the medical and pharmaceutical sectors. She also identified potential opportunities for Wales in positioning itself as an innovation hub to supply high tech, high added-value products to the wider Asia-Pacific market using New Zealand as a launch pad. Sam Lowe also pointed to potential opportunities in high-end steel, expertise in applying off-shore wind technology, and in fin-tech.

Recommendation 2: We recommend that the Welsh Government works with businesses to identify and exploit opportunities presented by the FTA, including the sectors referred to by the trade experts in their evidence to the Committee.

The Agri-Food sector

As with the UK-Australia FTA, output is estimated to fall in the agriculture, forestry and fishing, and semi-processed foods sectors as a result of the FTA with an estimated long

run reduction in output of £48 million and £97 million respectively. This is driven by increased import competition for some agricultural products, especially sheep meat and beef.

The farming unions and Meat Promotion Wales expressed their concerns about the FTA and its impacts on the agri-food sector, including that any increased imports of premium cuts from New Zealand could impact the 'carcasses balance' and profitability of Welsh producers, and that the FTA comes at a time where the industry is already facing other challenges such as inflationary pressures, increase in input costs and labour shortages.

Meat Promotion Wales also called for greater support for the Welsh red meat sector and that "it is essential that high profile, clear labelling of any imported product where the country of origin is obviously stated on packaging and/or menus is made a legal requirement and is rigorously enforced."

The Welsh farming unions said they expected the impact to be increasingly negative as quotas are raised and ultimately abolished over time, but that there were too many uncertainties with global trading patterns and exchange rates to allow for an accurate assessment.

NFU Cymru noted the disparity in market size and that New Zealand farmers predominantly produce for the export market, whereby 90% of the beef they produce is exported. NFU Cymru said it was difficult to see where the reciprocal benefit was for Welsh farmers. The Minister for Rural Affairs and North Wales, and Trefnydd, told the Committee that she saw some small benefits around services, but mostly "very limited opportunities for agri-food", with only some "minor opportunities for foodstuffs such as baked goods and sauces and prepared cereals."

Sam Lowe said "my view is that there is going to be some competition, but I think their [agri-food producers] concerns have been over-egged slightly, with the caveat that I could be wrong."

The Committee also received a joint submission from Beef and Lamb New Zealand Ltd and the Meat Industry Association Inc, which stated that "the extent to which the trade facilitated by the FTA in agricultural products may affect the maintenance of Welsh economy generally and the agricultural sector specifically is limited." It pointed to shared values and 'synergies', and the benefits of close cooperation on regulatory and policy issues such as food standards, animal welfare and agricultural reform. It considered Welsh farmers' concerns that the FTA would result in increased imports from New Zealand to be



“unfounded” given the under-utilisation of New Zealand’s WTO quota with the UK for sheep meat and because most of its sheep meat is already exported to the US and China.

They also addressed concerns that had been raised by UK farmers that New Zealand will dramatically increase its agricultural production:

“(…) with increasing pressures on the New Zealand farming and processing industries, the sector cannot produce substantially more product. Environmental policy, population growth, land-use change, and labour shortages constrain the sector’s capacity to grow.”

The Committee recognises the concerns raised by the agri-food sector in Wales, especially given that the agriculture sector in Wales represents a greater contribution to Wales’ economy in GVA terms than it does for the UK as a whole. The Committee is also concerned that the two UK trade agreements that we have considered in detail so far will likely negatively impact the agri-food sector in Wales.

Monitoring Mechanism and Cumulative Impacts

As was the case with the UK-Australia FTA, the Committee shares the concerns raised by the Welsh agri-food sector regarding the potential impact of geopolitical events on trade flows and again stresses the importance of ensuring effective monitoring mechanisms are in place.

The Committee has noted the Minister’s response to our previous recommendations made in relation to the UK-Australia FTA. We welcome Welsh Government continuing to work with other governments across the UK, and with the agri-food sector in Wales, to ensure effective market monitoring mechanisms are in place. We also note that Welsh Government is working with stakeholders to identify cumulative impacts and continues to make representations to the UK Government on the need to understand the cumulative impacts of FTAs on the Welsh economy.

Given the uncertainties surrounding the likely impacts of the FTA on sectors in Wales, the Committee reiterates its view that effective market monitoring mechanisms are vital to ensure governments and businesses are able to respond effectively to any adverse effects resulting from the FTA.

Recommendation 3: The Committee requests that it receive regular updates from the Welsh Government on monitoring activities related to the FTA. The Committee also requests an update on discussions it has had with the UK Government following its request for more detailed trade data for Wales to aid analysis in this area.



Animal welfare

The Animal Welfare chapter in the Agreement includes non-regression and non-derogation clauses. The legal text for the non-regression clause provides that both parties shall use their "*best endeavours* not to weaken or reduce the protection afforded to the welfare of farmed animals in its animal welfare laws and regulations, in a manner materially affecting trade or investment between the Parties." The chapter further provides that "*neither Party shall waive or derogate* from its animal welfare laws and regulations in a manner materially affecting trade or investment between the Parties".

The language used in the Agreement is consistent with non-regression and non-derogation provisions used in other Free Trade Agreements. However, it goes further than the equivalent provisions included in the UK-Australia Free Trade Agreement's Animal Welfare chapter which provided that "*each Party shall endeavour* to ensure that it does not waive or otherwise derogate from...its laws regulations and policies in a manner that weakens or reduces its level of animal welfare protection as an encouragement for trade or investment between the Parties".

Stakeholders welcomed the inclusion of an animal welfare chapter in the FTA. The RSPCA Cymru told the Committee that "unlike Australia...the UK has similar legal animal welfare standards to New Zealand, which means that the New Zealand FTA is, aside from the Trade and Cooperation Agreement with the EU, the only FTA the UK is negotiating where animal welfare standards are broadly equivalent, but with some discrepancy".

The Committee's findings in relation to the UK-Australia FTA included concerns expressed about the animal welfare provisions of that agreement, and it received assurances from the Minister for Rural Affairs and North Wales, and Trefnydd that conditionality around animal welfare standards was something the Welsh Government was pushing for in future negotiation mandates.

The Minister told the Committee that she also welcomed the animal welfare chapter and that it 'is an improvement' from the Australia FTA and represented a 'more ambitious' approach. The Minister also stated that this was an area the Welsh Government had pushed hard to get included in the FTA and also highlighted the importance of using the Animal Welfare Working Group established under the FTA to continue cooperating on these matters.

We also note that the Welsh Government's analysis of the FTA states:



(...) whilst there are similar objectives between the two countries around the approach taken for animal welfare and the commitment for each country to improving and advancing the protection afforded to the welfare of farmed animals in its animal welfare laws and regulations, we welcome the commitment to retaining the right to regulate our own standards as well as commitment to non-derogation of welfare standards.

The Committee welcomes the inclusion of an animal welfare chapter in this FTA and believes that similar commitments should be included in future UK trade agreements.

Recommendation 4: The Committee calls on the Welsh Government to make immediate representations to the UK Government to ensure it has representation on the Animal Welfare Working Group established under the FTA, and that the Committee be kept informed on the work of this group.

Engagement during the negotiations

As stated in our letter regarding the UK-Australia FTA, 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.

The Committee welcomes the fact that engagement between the UK and Welsh governments during the negotiations of the UK-New Zealand FTA were positive. This included engagement at a Ministerial level through meetings of the Ministerial Forum for Trade, as well as at official level where draft text of chapters in devolved areas were shared.

We are also pleased to note that there had been improvements made in engagement compared to the UK-Australia FTA negotiations and that the Welsh Government has now become "better embedded into the negotiation life cycle".

However, we regret that UK Government engagement with the Welsh Government during the negotiations remained limited to engagement on areas that the UK Government believes are wholly devolved policy areas rather than all areas that may have a material impact on devolved areas of responsibility. This distinction is important and the Committee hopes that broader engagement takes place in future.

Recommendation 5: The Committee asks that it be kept updated on discussions relating to expanding UK Government engagement with the Welsh Government during the

negotiations so that they also include engagement on areas that may have a material impact on devolved policy areas.

Geographical Indicators

The FTA does not include any additional protections for UK Geographical Indicators (GIs). The FTA includes a commitment that if New Zealand enters into an international agreement which requires it to protect GIs, or introduces a bespoke GI scheme for agricultural products or foodstuffs in the future, the UK will be able to put forward GIs for potential protection. In their evidence, the NFU highlighted their disappointment at this stating that:

"NFU Cymru believes that ensuring GIs receive protection in all third countries must be a priority for UK negotiators.

"Welsh producers are proud of their products and the heritage which comes along with them. PGI Welsh lamb and beef are recognised around the world for their quality and provenance. The use of Geographical Indicators would have allowed us to differentiate our product from the world market, access a premium and increase profitability."

The Minister for Rural Affairs and North Wales, and Trefnydd, pointed to the importance of recognition of GIs for Welsh products in trade agreements, and said it was important to push really strongly to ensure Welsh GIs are included in any scheme adopted by New Zealand in the future.

The Committee notes that on 30 June, the EU and New Zealand concluded negotiations for a free trade agreement. The EU-New Zealand FTA included provisions which provide protections for specific EU and New Zealand GIs, including the recognition of the EU's agri-food GIs.

In light of the provisions on GIs included in the EU-New Zealand FTA, urgent discussions should now take place between the UK and New Zealand to ensure GIs are to be included in the UK-New Zealand FTA.

Recommendation 6: The Committee requests that it be updated on any discussions and representations made by the Welsh Government to the UK Government on the matter of agreeing new GIs with New Zealand.

Governance

The Welsh Government previously stated that it was interested in engaging in the governance arrangements for the UK-Australia FTA, however it is not clear yet what involvement you will have. In your evidence to the Committee you said that it was not clear how the working groups and committees were going to work, that the Welsh Government needs 'to understand how we're going to be engaged' and that it was a cause of 'some frustration' that this had not happened yet.

The Committee is concerned that uncertainty remains regarding the Welsh Government's role in both the Australia and New Zealand FTAs' governance arrangements.

We reiterate the recommendation made in our letter to you on the UK-Australia FTA which called for representations to be made to the UK Government to ensure Welsh Government is given a role in the FTA's governance arrangements.

Recommendation 7: We ask that the Committee be updated on any progress made in agreeing a role for the Welsh Government in the governance arrangements of the Australia and New Zealand FTAs.

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.



Senedd Cymru
Welsh Parliament