



Ein cyf/Our ref: IM/FM -/

Rt Hon Dr Liam Fox MP
Secretary of State for International Trade and
President of the Board of Trade

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Dear Liam

I am writing to provide the Welsh Government's views on your proposed trade negotiations with Australia, New Zealand, and the USA and the proposed accession to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). I would like to stress that this response is by no means our final thoughts and I would request that your officials engage closely with mine so that we are able to continue to feed in as your thinking on these trade negotiations develops.

Whilst we recognise that international trade policy is not a devolved matter there is a clear interplay between trade and many aspects of devolved competence such as economic development, agriculture, environment, health skills and qualifications. It is critically important that the Devolved Governments are closely engaged in the development of trade policy going forward.

Trade Policy: the issues for Wales stated very clearly that Wales is an outward facing, globally trading nation and we fully support the benefits of rules based international trade¹. Additionally in *Prosperity for All: economic action plan* we highlight our belief that there is significant untapped potential for trade with the rest of the world and we want to proactively support this². However it is important to stress that the vast majority of Welsh trade is transacted with the EU and not the countries highlighted in this consultation exercise. 60% of Welsh goods exports go to the EU and just under half of our imports are from the EU. In comparison, data for the year to

¹ <https://beta.gov.wales/sites/default/files/2018-01/180202-trade-policy-the-issues-for-wales.PDF>

² <https://gov.wales/docs/det/publications/171213-economic-action-plan-en.pdf>

Quarter 2 2018 shows that exports to New Zealand were just 0.1% and to Australia 0.9% while CPTPP countries accounted for 6.7%.

The UK's membership of the European Union has led to business, supply chain and trading patterns which have built up slowly and profitably over more than four decades. These relationships will not be easily changed overnight and we should be mindful of the potential damage that could be done to key sectors of our economy in the transition to any new trading agreements.

Of the countries you are consulting on the USA is by far the most important in terms of current Welsh trade flows. 13.2 % of Welsh exports are to the US but even this is modest in comparison with the importance of the EU market. Moreover, it is likely that these figures overstate the true value to the Welsh economy of trade with the US since a significant proportion of these exports were in oil related products where little additional processing is undertaken in Wales to add value.

Trade gravity helps explain why Wales trades more with Europe than the rest of the world. It is very unlikely that, in the short term, free trade deals with these countries – even the USA- could compensate for the loss of full and unfettered access to the Single Market. Any such suggestions would need to be supported by convincing evidence; evidence that we have yet to see. We would also like to propose that much can be done to improve trade with these countries outside of a formal Free Trade Agreement (FTA), for instance we would like to see the UK Government prioritising gaining access for UK beef and lamb to the US market.

As you will know, the Welsh Government's position is that we must retain full and unfettered access to the EU Single Market and remain in a customs union, at least for the foreseeable future. We have still not seen any evidence from the UK Government that leaving a customs union would be in the economic interests of Wales. The business community in Wales has been very clear that they urgently need clarity and certainty from the UK Government to avoid any disruption to existing trade flows. There is already evidence in Wales of delayed investment decisions and investment being made in the EU rather than Wales to protect access to the EU market. In simple terms this translates to lost job opportunities in Wales, something that is simply unacceptable.

Participation in CPTPP is therefore of particular concern given that we can not currently see how it is compatible with an EU deal that retains full and unfettered access to the single market.

More generally, the fact that our exports to the countries where FTAs are under consideration are generally small does not mean that such agreements would have no impact on Welsh businesses. Negotiated in the wrong way, FTAs with Australia and New Zealand could have severely detrimental effects on our agri-food businesses and consequently on social and environmental conditions of communities across the whole of Wales.

As a Government we have consulted widely with stakeholders across Wales, be they large multinationals or Small and Medium Enterprises (SMEs), and many of the important messages they have fed back to us are reflected in the evidence we submit to you today. What is clear is that any agreements with the proposed priority countries should not be to the detriment to our trading relationship with the EU – in other words, these proposed FTAs should be seen as complimentary to and not substitutes for our trading relationship with the EU. The messages from our stakeholders support the economic concept that countries trade more with near neighbours than countries further afield. With this in mind it is difficult to see why the UK Government is prioritising this list of countries for new trade deals; the immediate focus should be on securing a good trade deal with the EU.

Furthermore, many companies based in Wales are part of integrated supply-chains across the EU and Wales' success in attracting Foreign Direct Investment (FDI) over many decades is largely based on access to the EU market. Removing barrier-free access to a market of 500 million consumers risks imposing a serious impediment to the UK and Wales attracting new FDI and indeed retaining current branch plants – again this can only be a negative for the economic prospects of the UK and Wales.

Additionally there are some very significant regional 'pockets' of manufacturing activity in Wales where individual firms support significant proportions of the local community through extensive supply chain employment and large multiplier effects. This includes for example Airbus in Flintshire and Ford in Bridgend. We can not have a situation where these potential Free Trade Agreements put these communities at risk.

In more general terms, the Welsh Government remains deeply concerned about the UK Government's lack of collaborative inter-governmental working in developing trade policy – and the general lack of regard for the role of the devolved institutions as an integral part of the governance of the United Kingdom.

We were not asked for our views on what the priorities for future trading relationships should be prior to these consultations being launched, despite the clear potential impacts on the Welsh economy. We have also not been involved in any of the informal discussions which are taking place with third countries – the so called 'working groups'. The information accompanying the consultations makes little reference to devolved areas of competence: indeed, Wales, Scotland and Northern Ireland are included as "regions" along with English counties.

There is an urgent need for the UK's trade policy to be developed on the basis of a proper understanding of the devolved institutions' role in UK governance. Policy areas such as economic development, health, environment, food safety, animal health and welfare, agriculture and fisheries have all been devolved to each of Wales, Scotland and Northern Ireland following democratic votes by the relevant electorates. Trade policy should not be a "back door" to re-centralising control in

Westminster. For this reason we have asked for a new inter-governmental ministerial forum to be established, to agree joint approaches to UK trade policy. It is surely far better for the UK Government to work with the devolved administrations to identify risks and concerns at an early stage, and be able to go into trade negotiations with an agreed mandate, rather than attempt to operate in a vacuum and come up with policy that may not work for the whole of the UK.

Our fear is that a failure to construct a robust and comprehensive future trade discussion mechanism between governments of the UK will lead to businesses and, ultimately, communities in Wales and other parts of the UK feeling shut out from decisions over future trading agreements, potentially risking new and damaging resentments building up at a UK level. This is something I am sure neither of us would want to see.

Finally, the Welsh Government remains adamant that there should not be a “race to the bottom” in regulatory standards post-Brexit. The current EU environmental, social, food and animal health and welfare policy frameworks have provided important employment, social and environmental rights and protections for our citizens. New trade deals should not open the way for reducing standards and putting people, animals or the environment at risk. They should also not be used to flood the UK with cheap and high carbon products produced to different standards not based on our regulatory values, for both ethical reasons and the practical reason it could put Welsh producers at an unfair disadvantage. The Welsh Government is committed to policy making which is evidence based and safeguards the interests of future generations. Trade policy should be used to support, not undermine this approach.

There follows our assessment on a sector basis of the threats and opportunities for Wales from the proposed trade deals under consideration.

Yours sincerely

Carwyn Jones AC/AM
Prif Weinidog Cymru/First Minister of Wales

SECTOR SUMMARY

AGRICULTURE, FORESTRY AND FISHERIES

Agriculture, fisheries, environment and forestry are devolved competences for the Welsh Government and the other devolved governments in the UK, meaning we have powers to make primary legislation in these areas. Wales is relatively specialised in agri-food with a higher proportion of the population employed in agriculture, forestry or fisheries than the rest of the UK. For some regions within Wales up to 16% of the population are employed in these sectors. In these regions alternative employment opportunities are not readily available and any decline in employment in these sectors would have a severe impact. Furthermore, rural communities are a vital part of the culture and landscape of Wales with many other industries such as tourism and food processing reliant upon them – through the multiplier effect the agriculture, forestry and fisheries sectors support other rural businesses and this should not be underestimated. Any negative impact on agricultural industries in the UK would therefore have a disproportionate impact on Wales. Clearly any new trade relationship which covers agriculture, fisheries, environment or forestry areas will need to be developed in conjunction with the devolved governments.

There are considerable concerns around our future trade agreement with the EU from the agri-food industry. The EU represents by far the largest export market for our food producers with nearly 80% of Welsh food exports going to the EU. All new trade deals should be seen as secondary to needing to secure our future trade relationship with the EU first. The regulatory environment we sign up to with the EU will have important implications for any new trade deal. These issues cannot be treated in isolation. For meat products, there is no viable substitute to the EU market in the mid or long term. Maintaining regulatory alignment with the EU on goods to allow as frictionless trade as possible is therefore crucial.

It is important that in any future trade relationship with other countries the integrity of the Welsh brand for food and drink must be maintained and promoted. There is a strong desire amongst Welsh producers to access markets overseas however the financial and regulatory barriers often mean that it is not commercially viable for them to do so. On non-tariff barriers, free trade agreements must provide exporters with consistency and predictability around rules and regulations, and clear and transparent customs procedures. Signing free trade agreements is only one part of the picture in encouraging trade. There are lots of ways of encouraging links between countries without a free trade agreement and once an agreement is in place there needs to be awareness raising and support for exporters to take advantage of it.

Wales, in line with the other UK countries, is a country with high animal welfare and health standards, with a focus on sustainability. We should promote the recognition of our high animal health (including combatting antimicrobial resistance) and welfare standards, traceability systems, protected names of origin and quality of product. Our livestock industry adheres largely to assurance schemes and is highly regulated, much more than our potential trade partners across the oceans. The markets most important to us are those looking for a high quality fresh product and are located in the EU. There are important links between trade in agrifood products and the risks for human and animal health. We should reject any negotiations taking us down the path of increased disease risks, accepting lower environmental and animal welfare standards.

We also rely on trade deals signed by the EU with third countries; for example South Korea is a large market for shellfish from Wales. The seafood sector in Wales, although relatively small, is nonetheless an important industry in many communities in rural Wales, and is wholly dependent on exports and with little value added post catch.

BUSINESS SECTORS

The Welsh economy has undergone significant structural change over time. Up until the later decades of the 20th century, the Welsh economy was comprised of agriculture and heavy industry – coal mining, oil refining and traditional manufacturing were the most important industries in the region. As with most European regions, the heavy industry component has declined and services have increased. Nevertheless, manufacturing in 2016 still made up 10% of total employment (down from 15% in 2001)³ and contributed to around 18% of Welsh Gross Value Added (compared to 10% for the UK)⁴. In recent years, sector focus has shifted towards higher-tech sectors such as aerospace, automotive and electronic. Overall, the Welsh economy is still relatively more reliant on manufacturing than the UK as a whole, as illustrated in Table 1. Here it is shown that Wales is around three times more reliant on employment within manufacturing related activities than the UK as a whole.

³ Stats Wales - <https://gov.wales/statistics-and-research/work-place-employment-industry/?lang=en>

⁴ Stats Wales- <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Regional-Accounts/Gross-Value-Added-GDP/gvainwales-by-industry>

Table 1: Specialisation by sector in Wales (2015)⁵

Location Quotients by SIC2 Industries, Wales, 2015		
Most specialised		
24	Manufacture of basic metals	3.7
32	Other manufacturing	3.0
39	Remediation activities and other waste management services	2.4
01	Crop and animal production, hunting and related service activities	2.1
75	Veterinary activities	2.0
30	Manufacture of other transport equipment	1.9
27	Manufacture of electrical equipment	1.9
38	Waste collection, treatment and disposal; materials recovery	1.7
65	Insurance and pension funding	1.7
33	Repair and installation of machinery and equipment	1.7
84	Public administration and defence compulsory social security	1.6
29	Manufacturing of motor vehicles, trailers and semi-trailers	1.5
36	Water collection, treatment and supply	1.5
21	Manufacture of basic pharmaceutical products and preparation	1.5
02	Forestry and logging	1.5
10	Manufacture of food products	1.5
55	Accommodation	1.5
20	Manufacture of chemicals and chemical products	1.4
50	Water transport	1.4
42	Civil engineering	1.4
87	Residential care activities	1.4
17	Manufacture of paper and paper products	1.4
25	Manufacture of fabricated metal products	1.3
18	Printing and reproduction of recorded media	1.3

Note: figure for Mining and coal and Lignite has been excluded from Table 4 as an outlier due to its small scale

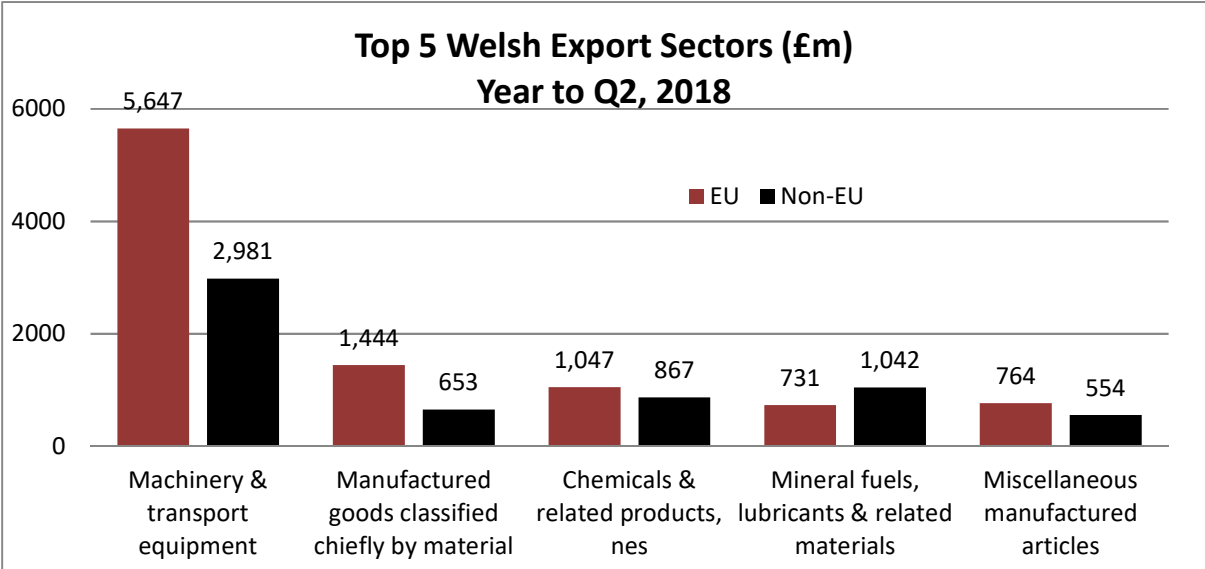
Source: ONS

The importance of manufacturing to the Welsh economy is also reflected in Figure 2 which shows that Welsh exports are dominated by Machinery & Transport equipment (52%), followed by Manufactured goods classified chiefly by material (13%). The importance of EU markets for the Welsh manufacturing sector is also highlighted with 65% and 69% respectively of the above sub-sectors going to the EU. Of the top 5 Welsh export sectors, only Mineral fuels, lubricants & related materials have a higher

⁵ The location quotient shows the relative intensity of employment in Wales compared to the UK as a whole. A ratio of one indicates that Wales has the same share of employment in the sector as the UK as a whole. A figure of, for example two, indicates that Wales has twice as high a share of employment in the sector as the UK, while a figure of 0.5 indicates a Welsh share of employment that is half that for the UK as a whole. Figures for mining etc have been excluded as an outlier and due to the small scale of the industry.

proportion going to non-EU countries than EU countries. Exports within this sub-sector are driven by Petroleum and petroleum products, for which the scope for value added activity in Wales tends to be limited.

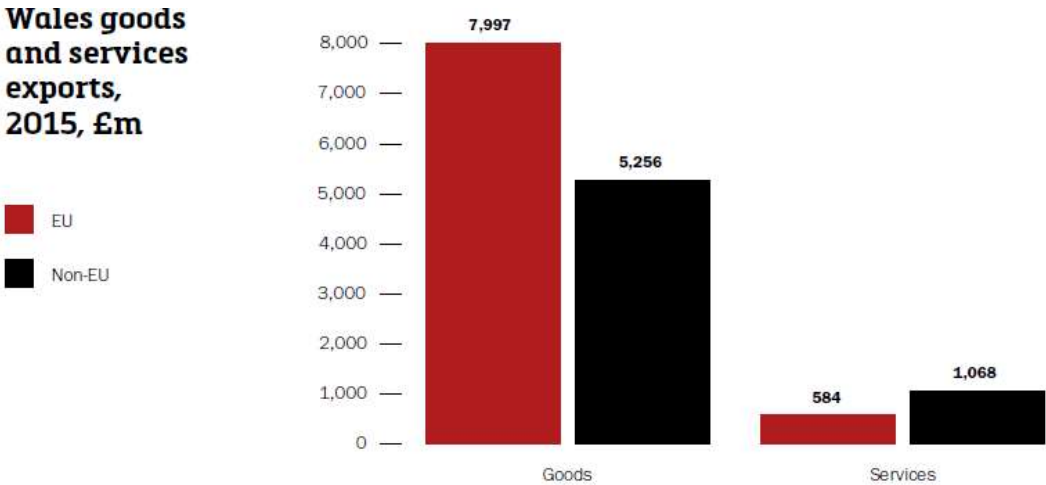
Figure 2: Top 5 Welsh Export Sectors



Source: Welsh Government analysis of HMRC Regional Trade Statistics

Whilst data on the exports of services from Wales is limited, the ONS have produced experimental statistics for which the latest available data broken down by destination is 2015. Figure 3 reflects the scale of Welsh exports of services (for the sectors where data is available), compared with goods (which are dominated by manufacturing), again highlighting that manufacturing is relatively more important for Wales than the UK.

Figure 3: Welsh Goods and Services exports, 2015 £m⁶



⁶ 2015 data has been used as this is the latest data available where trade in services is broken down by destination. This data is only available for some sectors, therefore it is not possible to provide the total value of services exports to each country.

Overall, Wales has some significant regional variations in economic structure and performance, with certain regions highly reliant on one firm or industry. This makes whole communities vulnerable to significant changes in the fortunes of sectors. Data on exports is not available below the all-Wales level, but the extent of the dependency of an area on the manufacturing industry is likely to provide a broad indication of vulnerability. Figure 4 reflects the share of the workforce in each local authority area in Wales that works in the production sector (which comprises mainly of the manufacturing industry).

Figure 4- Workforce in the production sector 2016 (%)

Flintshire	24
Caerphilly	22
Blaenau Gwent	21
Wrexham	21
Neath Port Talbot	20
Torfaen	17
Merthyr Tydfil	16
Rhondda Cynon Taf	15
Bridgend	14
Newport	14
Carmarthanshire	12
Isle of Anglesey	12
Vale of Glamorgan	11
Powys	10
Monmouthshire	9
Denbighshire	8
Pembrokeshire	7
Cardiff	7
Gwynedd	7
Swansea	6
Ceredigion	5
Conwy	4

Source: Welsh Government

We would urge the UK Government to consider the regional impacts of future FTAs. There are some very significant regional ‘pockets’ of manufacturing activity in Wales where individual firms support significant proportions of the local community through relatively large multiplier effects. This includes for example Airbus in Flintshire and Ford in Bridgend for instance. We can not have a situation where Free Trade Agreements with these proposed countries risks putting these communities at risk.

To emphasise this point, consider aerospace as an example – it employs 10,000 people in Wales and GVA (classified as “other transport equipment”) has increased from £559m in 2012 to £1.1bn in 2016. The rapid growth in sector GVA is also reflected in the value of exports from the sector in Wales which have grown from £2.3bn in 2013 to £4.4bn in 2017 (89% increase). Imports in 2017 were £692.1m. The significance of

putting this sector at risk can not be overestimated – the impact on communities, the people that live and work there could be devastating if the UK gets these FTAs wrong. This is just one of many examples in Wales and we would like the UK Government to ensure that it sets up clear lines of dialogue with us to ensure that this and other key sectors are considered.

Related to our manufacturing sector is the manufacturing services sector which employed around 6,000 people in Wales in 2016 – this includes services linked to the repair and maintenance of aircraft and spacecraft (the largest subsector, employing around 3,000 people), the repair of fabricated metal products and machinery and equipment. This activity is highly specialised in Wales compared to the UK as a whole. GVA in this sector has increased steadily since 2012, and was an estimated £1.3bn in 2016. Exports of Manufacturing Services from Wales were nearly £1.2bn in 2016, and this was the second-largest single function category listed by the ONS in its estimates of services exports. Manufacturing services exports were around 21% of total services exports from Wales in 2016. Manufacturing services are intrinsically connected to the manufacturing sector in Wales.

We would be concerned that any of the FTAs did not take in to account the embedded nature of services and manufacturing in modern manufactured products. This is a key issue for Wales. Failing to understand the linkages here could have devastating consequences for exports in Wales.

As with the agri-food industry there are considerable concerns around our future trade agreement with the EU from our key sectors in Wales. The EU is our largest export market, dominated by our manufacturing sector, as is seen in chart 2. As we have repeated through-out this response, all new trade deals should be seen as complementary too, not as a substitute for our future trade relationship with the EU.

Our manufacturing sector relies heavily on ‘just in time’ supply chains with the EU, a stable European regulatory environment and the free flow of goods and embedded and stand alone services. We have yet to see how the circle can be squared in relation to regulatory alignment and recognition of standards with the EU and an FTA with the US. These two goliaths in terms of trade and negotiations have quite different views on these. Our stakeholders have been clear that the priority should be in securing the relationship with the EU before any deal with the US is discussed.

Steel is an important sector in Wales and is a critical employer to certain regions within Wales. It is challenging to assess what impact potential new trade deals might have and much will depend on how US Section 232 is considered in any deal and whether the UK adopts the current EU safeguards against these US tariffs. We are expecting the zero import tariffs on many steel products to continue post Brexit - as a result of a zero-for-zero deal between the major developed countries agreed during the Uruguay Round – this includes the USA, Canada, Japan and South Korea (US Section 232 aside).

However, there is of course the potential for indirect impacts through steel consuming products such as the automotive sector. This can be highlighted by the recent example of a downturn in the Chinese car market and the resultant impact on the UK automotive manufacturing sector and resultant supply chains. We would urge the UK Government to work more closely with Welsh Government to understand more clearly many of the potential indirect impacts that might be felt from such trade deals, particularly in relation to the supply chains within the UK internal market.

Although the Welsh economy is more reliant on manufacturing than the rest of the UK, the importance of services should not be underestimated and this is likely to be the area where there is most potential assuming that the movement of people is not curtailed in any FTA.

Exports from Wales of Insurance and pension services were the highest services exporting sector in 2016, estimated to be worth around £1.4bn and accounting for 26% of total. Further to this, Welsh exports of Financial services were estimated to be over £1bn in 2016. This represents around 18% of services exports from Wales and is the third highest services exporting sector. The future trade relationship with the EU is an important risk factor for this sector.

The financial, insurance and pensions services sector is an important part of the UK economy and a growth sector in Wales. New trade deals are however unlikely to be of significant impact on these sectors in Wales. Many companies in this sector already trade globally and have established subsidiaries overseas to facilitate their activities, the US for example, but also a growing number are now setting up subsidiaries in the EU. For these sectors the provisions on free movement of people and equivalence/recognition of professional qualifications in any future FTAs are of prime importance.

PUBLIC HEALTH

Health-related Regulation

Trade agreements could potentially impact against health-related regulation, such as against asbestos, or on tobacco or food labelling. These may restrict the extent to which the UK and devolved governments can regulate for health. Agreements may allow existing regulatory measures as a baseline, but make more market restrictive or tighter regulations harder to impose in future. Any deals must ensure both that existing health-related regulations are protected, and that there is the necessary policy space to regulate further if necessary.

Restrictions on the Marketing of products

Public health measures frequently place restrictions on the marketing of products with safety or health concerns. Health promotion measures seek to educate consumers to reduce their consumption of unhealthy products. The European Union (EU) has previously stressed the importance of the precautionary principle, which would allow further measures irrespective of trade implications, if there are reasonable grounds for concern that potential hazards may affect the environment or human, animal or plant health.

An agreement could also open up the risk of corporate challenges and compensation claims from legitimate public health regulation, health protection and health promotion policy measures. For example, expropriation claims have already been used by the tobacco industry to challenge Australia plain packaging law.

Food Safety

The UK's domestic production of food has been steadily declining since the early 1980s; self-sufficiency is now, by value, only about 60%. The UK supplied less than half (49%) of its unprocessed food in 2016. A no deal withdrawal could adversely affect public health, consumer protection, animal welfare and environmental sustainability, as other countries begin to produce food for the UK to replace imports from the EU.

The EU and UK have world leading food safety and animal by-product standards in place, which helps to protect consumers. Any changes could potentially impact upon trade with the EU, where any erosion of current standards could lead to the UK not being able to trade with the EU. There are also potential risks to public health and safety, where for example:

- The US reports higher rates of illness from foodborne illness than in the UK. Annually, 14.7% (48m) of the US population suffer from an illness, versus 1.5% (1m) in the UK.
- The US reports slightly higher rates of deaths from foodborne illness than in the UK. The annual death rate in the US is 3000 per annum, versus 500 in the UK. The US population is about 5 times that of the UK.

Chlorinated chicken - Some anti-microbial washes for poultry have been assessed by the European Food Safety Authority (EFSA), which concluded that they would not present a safety concern. However, none of these substances have been approved for use in the EU. Only potable water can be used to remove surface contamination from poultry carcasses in EU countries. The current rules will most probably remain in place in the short term after the UK leaves the EU. US chicken has been banned in the EU since 1997 because of this chlorine washing process. EU rules dictate that food manufacturers should focus on overall hygiene to eliminate microorganisms, instead of using a single chemical decontamination step. The FSA would apply a rigorous risk assessment to any potential change in the rules, with the absolute priority being the protection of public health.

Genetically Modified Organisms (GMO) - GM plants and foods cannot be marketed in the EU without official authorisation. This involves a rigorous pre-market safety assessment to ensure that the product does not present a risk to human health or the environment. The FSA's general view is that regulation in this area should be science-based and proportionate.

Pesticides - pesticides are sprayed more frequently and more widely in US agriculture than in the UK and EU. The maximum residue levels of pesticides in the US are often substantially higher than those permitted in the EU.

Ractopamine - a drug called ractopamine which is given to pigs is currently banned under EU law, which increases their muscle tissue and reduces fat. In 2009, the European Food Safety Authority concluded there was 'not enough data to show that it is safe for human consumption at any level'. In the US, however, the Food and Drug Administration deems the "benefits" of using ractopamine to outweigh the risks.

Chicken Litter - The incorporation of "chicken litter" (poultry bedding material mixed with chicken faeces) into animal feed, including feed intended for poultry, is currently banned in the EU. In the US, the use of poultry litter in cattle feed is unrestricted. The UK's experience with BSE (mad cow disease) showed what can occur when animal wastes are incorporated into animal feeds.

Food additives - US food contains a wider range of additives than are permitted in the EU, and at higher levels of usage. For example, potassium bromate and azodicarbonamide are authorised for use in US bread-making as 'dough improvers', but deemed unacceptable in the EU.

Food Labelling

Some countries (such as the USA) have reduced food labelling standards to provide consumers with far less information than is the case in the EU. Should the UK be obliged to accept food that complies with other legislation and regulations this could risk a reduction in UK food safety standards in exchange for a FTA. Future deals could also undermine the UK's voluntary Front of Pack nutrition labelling scheme, which supports consumers in making healthier food choices.

Nutrition/ obesity

FTA may have a negative impact on public health policies seeking to reduce levels of population obesity, or to improve nutritional status, such as through mandatory fortification.

There is the potential for the entry of global food company products which are nutritionally poor, calorie dense, and high in saturated fat, salt, and sugar. The low cost and widespread availability of such products, together with targeted advertising and shifting cultural attitudes, could influence food consumption patterns at a population level. Excessive caloric intake has been related to high-fat foods, increased portion sizes, and diets high in both simple sugars such as sucrose and in high-fructose corn syrup (HFCS) as a source of fructose. There is greater use of HFCS in products within the US, for example, which may pose a risk if the UK market relaxes controls on such products. Further expansion, without regulation, risks undermining efforts to control non-communicable diseases, including obesity.

The UK (in compliance with existing EU legislation) currently bans the advertising of first infant formula to the general public, in order to promote the positive benefits of breastfeeding. Any trade deal would need to protect this position.

Tobacco/ Alcohol

Trade agreements may influence health protection and prevention policies such as the regulation of tobacco products and nicotine inhaling products. The UK has some of the strongest tobacco control legislation in the world and so any FTA should not undermine this. As mentioned above, expropriation claims have already been used by the tobacco industry to challenge Australian plain packaging law. In the UK, tobacco product packaging is also standardised and trade deals may seek to circumvent these rules as a perceived barrier to trade. This would impact on the effectiveness of the policy which seeks to encourage existing smokers to quit and prevent non-smokers, particularly children and young people, from starting through enlarged health warnings and the elimination of with promotional features. There could also be implications for the track and trace system which comes into force in the UK on 20th May 2019. This new system is one of the tools preventing counterfeit goods entering the UK. An FTA with another country that has standardised packaging of tobacco products may still be problematic if the packaging requirements differ to UK requirements.

Electronic cigarettes and other nicotine inhaling devices are regulated to ensure their safety for the user and to be child- and tamper-proof to protect against health risks due to the toxic nature of nicotine-containing liquid. Health warnings are also required on products sold in the UK to protect against use by unintended persons and there are rules on their labelling / packaging to provide information on their content and use, and so as not to mislead the consumer. Any trade deal would need to protect this to ensure consistency of quality, safety and messaging on these products.

Similar to tobacco, the main concern for alcohol would be to ensure any trade agreements do not undermine existing alcohol legislation. One of the main concerns would be in regards to alcohol labelling, and insuring any free trade agreement complied with existing labelling regulations.

Environment

Regional Trade Agreements (RTAs) could alter the scope and scale of production through trade, Foreign Direct Investment (FDI) and subsequent competition with domestic firms⁷. Such an increase in the nature of production “*may have additional consequences for the environment via pollution and climate change*”. In the case of Wales and the UK, any such consequences arising from an FTA would continue to be regulated by domestic legislation which includes EU legislation which is currently incorporated into the law of England and Wales.

Most UK environmental legislation and policy has been driven by the EU and subject to EU enforcement mechanisms. EU membership has provided regulatory safeguards that promote public health, thereby helping tackle long term demands on the NHS. In the public health domain, EU rules on matters such as transport safety, food and product safety, air and water quality, waste, workplace health and safety and tobacco regulation – have had tangible effects on population health. The use of free trade agreements could potentially impact against this health-related regulation. In any free trade agreement, we will have to make sure that standards remain attentive to health.

PROCUREMENT

This response is predicated on the basis that the proposed free trade agreements (FTA's) would have procurement chapters. As the Welsh Government has been provided with no detail in relation to what has been proposed for inclusion in these chapters it is difficult to respond in a meaningful way to the consultation.

Procurement agreements in the proposed FTA's would have to include agreed processes in relation amongst other things thresholds, coverage, fair and transparent award procedures, non-discrimination and dispute resolution procedures. This is not an exhaustive list.

Coverage will be a particularly important aspect; that is, what procurement markets will be open to Welsh businesses, and vice versa? We have no detail as to what UK Government proposes in relation to coverage and so any other threats and opportunities that might arise can only be assessed once those details have been provided.

⁷ “The Health impact of trade and investment agreements: a quantitative systematic review and network co-citation analysis” published in Global Health, March 2017.

Country Summary

USA

The USA is the 2nd largest exporter of goods and services in the world and the number one largest importer. The size of this market would on the face of it suggest there are significant opportunities for Welsh firms. However, barriers exist – be that non-tariff barriers (such as the array of different rules and regulations by states) or even access to the market itself (such as UK lamb and beef).

The Welsh Government fully supports the merits of international trade and we fully accept that there are significant trading opportunities outside of Europe and we are committed to working with businesses to promote Wales around the world. But we do not believe this should be at the expense of our trading relationship with our closest integrated neighbours. We are keen to explore ways of improving access to the USA market and reducing barriers to trade, however, we should be realistic about the potential benefits especially given the renewed protectionism we have seen from the current administration. For some businesses it has made more commercial sense to establish within the USA and sell from there rather than try to export from Wales. We would argue that at this stage we do not need a Free Trade Agreement (FTA) with the US to reduce the barriers to trade for Welsh companies in the US.

The USA's current approach to climate change is a concern for the Welsh Government. We have introduced the Well-being of Future Generations (Wales) Act 2015 which requires Welsh Ministers to take account of environmental sustainability in all policy matters. We are concerned that any new trade relationship with the USA does not inadvertently undermine this policy objective by enabling USA producers to sell products into the UK market which have not been subject to the same requirements regarding carbon emissions.

The USA has previously attempted to insert Investor-State-Dispute-Settlement (ISDS) mechanisms into trade deals. This was particularly controversial during the negotiations on the Transatlantic Trade and Investment Partnership (TTIP) between the EU and USA when there was significant public outcry at the proposed ISDS clauses which would oblige nation states to compensate foreign investors who lost out due to changes in public policies. The concern was that the clauses would in effect force future governments to maintain policies which were advantageous to foreign investors or pay large compensation sums. This was seen as undemocratic as it could bind the hands of future governments to change policy position. It is unclear whether the USA would want to take a similar approach to ISDS again. The recent US-Mexico-Canada Agreement has taken a softer approach so may show some signs of a change in approach. The Welsh Government would be very concerned about the inclusion of any ISDS clauses which could limited the ability of the Government to make, or change, public policies which are within our devolved competence such as health, education, economic development, agriculture, fisheries and environment.

AGRICULTURE, FOOD AND FISHERIES

The USA has a strong agri-food sector and can produce much of its own food domestically rather than import. There is a strong farming lobby in the USA which is keen to protect domestic producers and reduce competition from international suppliers. Whilst the USA is potentially an important market there have been difficulties in achieving market access for Welsh food products and we would prefer that the UK Government prioritised securing access to the US market for UK beef and lamb products before thinking of an FTA with the US .

Welsh producers have been active in marketing products into the USA with relatively marginal success so far. The total food and drink exports to the USA from Wales in 2017 were £16.5 million⁸, which is approximately 3% of total Welsh food & drink exports. Regulatory barriers to accessing the USA market have been an issue for Welsh exporters. Complying with these standards as well as UK standards creates complexity for producers, for example products have to be tested for different strains for e-coli and there are different requirements for pasteurisation.

Wales has a specialisation in producing lamb products. Historically sheep meat has been a relatively small market in the USA compared to beef and chicken products; however there are opportunities. There could also be opportunities for high-quality Welsh Beef but global beef exports are dominated by producers such as Australia and Brazil and the US is already a highly competitive market. Access agreements in themselves may not by themselves mean that exports necessarily follow; the Republic of Ireland agreed a beef exports deal with the USA a few years ago but very little beef has been exported.

In terms of fisheries, export is the only viable sales channel for Welsh shellfish due to there being no significant demand in the UK, however, we do not see the USA as a viable market due to the distances involved. There have been successes in accessing the organic market for certain specialist products and it is important that equivalence agreements on organic standards are maintained in future. For forestry, the USA is not a significant market for Welsh products. In terms of timber imports from the USA we would want to see existing protections on plant health maintained as well as protections for state-owned forestry.

The US market for alcohol and beverages is highly regulated; the regulatory barriers for alcohol in particular can be prohibitive. The US quota and licences system is extremely limiting⁹. Businesses in the UK also have to export via a quota-holding

⁸ Welsh Government analysis of HMRC regional trade statistics

⁹ (A Liquor Code imposes a quota, or limit, on the number of licenses that may be granted allowing the retail sale of liquor, wine and malt and brewed beverages. In Pennsylvania, for example, there may be only one license for every 3,000 inhabitants in any county.)

importer or intermediary, and cannot export directly. To add to the complexity, there are different regulations in different states.

We have a number of concerns about the potential impact of a trade deal with the USA on Welsh food producers. The USA has historically opposed Geographical Indicators which are very important protections for Welsh producers e.g. Welsh Lamb. It is important that any trade relationship with the USA does not undermine existing Geographical Indicators.

The regulatory standards for food production in the USA are very different in the UK. Genetically modified food is much more widespread in the USA agricultural industry than in the UK. The use of growth hormone in the production of meat is allowed and the use of antibiotics is much higher. Animal welfare legislation and regulations in the UK mean that our livestock enterprises have to comply with detailed farming, transport and slaughter welfare requirements and associated inspections and paperwork. As well as the possible impacts on health, the difference in standards alongside the scale of their operations means that USA producers are able to produce low cost food compared with UK producers.

This means there is not a level playing field between UK and USA producers. A trade deal with the USA would risk the UK market being flooded with low cost food produced to different standards which would stand poor comparison with our own domestic regulatory requirements. We would want to see the same regulatory framework imposed on importers to the UK as are currently placed on domestic producers. The impacts on public health are covered later in this submission.

The Wales Animal Health and Welfare Framework (AH&W Framework) sets high standards and firm commitments to raise standards of animal health and welfare in Wales. The way that animals are bred, reared and cared for throughout their life, the health and welfare and policies introduced to manage disease risks can have major implications for the environment and society as a whole. This is achieved, for example, through Animal Health Planning with direct veterinary involvement, underpinned by the principle that “prevention is better than cure” which has synergistic and cumulative benefits across a wide range of areas, lowering the risks to animals, public, farm businesses and the environment.

Linked with the AH&W Framework is the Well-being of Future Generations (Wales) Act, mentioned above. It requires public bodies in Wales to think about the long-term impact of their decisions, to work better with people, communities and each other, and to seek to prevent persistent problems such as poverty, health inequalities and climate change. We want to keep farmers on the land and therefore anything that affects the

implementation of our goals for animal health and welfare would be detrimental in many ways to this complex ecosystem.

BUSINESS SECTORS

We know that the USA is a seasoned and experienced negotiator and has expectations in any new free trade agreement to pursue tariff reductions as well as reducing non-tariff barriers. Under the current Administration it is committed to 'America First' and negotiations that achieve substantive results for its citizens and businesses.

As we detail in Doc 1 the Welsh economy has manufacturing embedded at the centre of it. This is evident in our trade data, with Wales exporting more goods than services. Tariffs on industrial goods, globally, are already very low compared to the agricultural sector, and hence the reduction of tariffs in the industrial sector with the US is unlikely to offer large gains to Welsh manufacturers in terms of trade. The issues lie largely with regards to market access and technical barriers to trade in particular. Exporting to the US is not as simple as exporting to the EU – its 50 states are not bound together in the way EU nation states are to various rules and regulations. It is not clear to us how an FTA would address the issues with states and access to them all. We would be keen to understand your thinking on this.

There are a number of generic technical barriers to trade issues that our businesses face when exporting to the US, including but not limited to different regulations, standards and testing procedures as well as different environmental standards. Whereas in principle we accept that an FTA with the USA could help with these issues we are very clear that this can not come at the sacrifice of the trading relationship with the EU. There would be issues with trying to adhere to both the EU's regulatory framework and that of the USA's where there are conflicts between the two. Welsh manufacturers already compete with the US on a global scale and there is a substantial flow of industrial goods between the US and Wales. Trade gravity helps explain why Wales trades more with Europe than the rest of the world. It is very unlikely that, in the short term, an FTA with the US could compensate for the loss of full and unfettered access to the Single Market. Any such suggestion would need to be supported by convincing evidence, evidence we have yet to see.

The top five goods imports of the US are very similar to Wales' top exports, highlighting the strong industrial heritage of both nations. This is highlighted in Figure 1.

Figure 1: Potential similarities between key US import sectors and Welsh export sectors (using latest available data)

US Import Rank	Commodity	Import Value (\$Bn)	Percentage of total US imports	Welsh Export Rank	Commodity	Export Value (£m)	Percentage of Total Welsh Exports
1	Electrical machinery, equipment	356.8	14.8%	2	Power generating machinery & equipment	1.9	11.2%
2	Machinery including computers	349.1	14.5%	2	Power generating machinery & equipment	1.9	11.2%
3	Vehicles	294.6	12.2%	7	Road vehicles (including air cushion vehicles)	0.6	3.5%
4	Mineral fuels including oil	204.2	8.5%	3	Petroleum, petroleum products & related materials	1.7	10.3%
5	Pharmaceuticals	96.4	4.0%	6	Medicinal & pharmaceutical products	0.7	4.0%

As we have highlighted in the section above, we can not accept an FTA that means that Welsh firms are opened up to competition from US firms, yet they are not competing on a level playing field – for example different decarbonisation regulations and targets mean stricter rules for Welsh manufacturers than US ones, potentially putting US firms at a competitive advantage.

PROCUREMENT

The UK is seeking to join the GPA and the USA is already a member. The Welsh Government would like clarification on the UK Government’s proposals in relation to the procurement chapter in any FTA with the USA; for example, would it be on GPA terms as they exist between our two countries? If not, on what terms? The potential opportunities and threats of an FTA with the USA can only be assessed when further detail is provided.

PUBLIC HEALTH

We refer you to our sector response (Doc 1) and in particular our concerns around food safety and labelling. Doc 1 details the specific issues we have in relation to a potential FTA with the USA.

AUSTRALIA AND NEW ZEALAND

The distance between Wales and Australia and New Zealand poses clear challenges for exporters from Wales. The population of Australia is 25m and the population of New Zealand is just 4.7m making these small potential markets. Australia and New Zealand are currently in trade negotiations with the EU which is a much larger potential market for them and as such they are likely to prioritise that trade deal over one with the UK. We see dangers in prioritising countries where there are relatively small gains to be had from a trade deal, but significant risks in relation to the agri-food sector. These countries are also seasoned negotiators and the UK should not be fooled in to thinking that their relatively small size makes these deals easy to negotiate.

AGRICULTURE, FOOD AND FISHERIES

Australia and New Zealand are both food exporting countries rather than importers. There are stringent biosecurity measures in place in both New Zealand and Australia which make it difficult to access these markets. We fail to see the potential benefit from a trade deal with both countries as anything other than fairly limited.

Welsh agri-food businesses have clear concerns about trade deals with Australia and New Zealand. If such FTAs were to open up the UK market to more products from these countries without levelling the playing field in relation to animal health & welfare and environmental regulations (as a minimum) then there could be significant negative impacts on Welsh businesses and communities. It would be unfair to make Welsh producers compete with suppliers from these countries where we believe the regulations on producers are much less stringent. For example there are different requirements on the traceability of individual livestock or electronic identification and the regulations on disposal of animal by-products and fallen livestock are much less strict.

There is currently a sheep meat Tariff Rate Quota in place with New Zealand which provides access to the UK market. The quota is not always filled however it is important to note that the market has shifted from importing carcasses which are low value/ high volume to importing cuts of sheep meat which are high value/ low volume. This means that the quota is not necessarily filled but there is still strong competition for the market in high value products. The seasonality of lamb allows for a complementary partner for the supply of red meat, however, due to a longer growing season in New Zealand, there is more scope to compete with the UK domestic markets, particularly when exports to China are reduced. Any trade agreement should take into consideration this

seasonal difference which is not currently present. This would present a good compromise position for both sides. We are also interested in working with New Zealand on marketing Welsh lamb into other markets such as US during their off-season and vice versa. There are concerns from the Welsh dairy and beef industries regarding the potential implications of opening up the UK market for greater access from New Zealand and should be considered in any negotiation.

There are also Tariff Rate Quotas in place in relation to Australia, these quotas are usually filled and there may be interest from Australia in further opening up the UK market to greater meat imports. This would be of great concern to Welsh farmers. Similarly for New Zealand, we would want to see an equitable compliance to our animal welfare, food and environmental standards to ensure there was a level playing field for Welsh producers.

BUSINESS SECTORS AND TRANSPORT

As we state above, the distance between Wales and Australia and New Zealand poses clear challenges for exporters from Wales, especially in bulky manufactured products.

On the face of it there would appear to be opportunities for Welsh exporters with both Australia and New Zealand being importers of finished goods. Both countries have relatively small manufacturing sectors. However, the trade gravity argument holds true in this instance too as does the fact that some of its large Asian neighbours commanding strong comparative advantages in these areas. Tourism might be one area where there is some potential however this would not be dependent on a trade deal.

PROCUREMENT

Australia is applying to join the GPA and NZ is already a member. The Welsh Government would like clarification on the UK Government's proposals in relation to the procurement chapter in any FTA with Australia and New Zealand. The potential opportunities and threats of an FTA with can only be assessed when further detail is provided.

CPTPP

Trade between Wales and the members of the CPTPP is relatively small, representing just 6.7% of Welsh goods exports. By far the biggest markets within CPTPP for Wales are Canada and Japan. It is worth noting that the EU already has trade agreements in place with both these countries, Mexico, Singapore and

Vietnam, and is also in the process of negotiating trade agreements with Australia and New Zealand which are also part of CPTPP. We understand there is an attempt to “roll over” existing trade agreements with the EU. Surely the priority here should be to try to retain the existing market access we already have through the existing agreements rather than take a scattergun approach to agreeing trade deals with these countries. The EU had much more heft in negotiating these agreements than the UK will ever have. Given limited capacity to negotiate new trade deals it would be better to focus on the “roll over” agreements first.

Given that the CPTPP agreement has been signed there appears to be little scope for the UK to negotiate special terms from the deal. This is concerning given that we have had no involvement at all in negotiating the terms of the deal. The deal is very complex and it is difficult to assess the “real-world” impact. There should be much more thorough and transparent analysis provided from the UK Government on our offensive and defensive interests from the agreement. The analysis should cover sector impacts including at a Wales level. The CPTPP is largely based on the TPP which was heavily influenced by the USA (before it withdrew). Therefore the regulatory approach taken within CPTPP is much more aligned with the USA’s than the EU’s. This could create tensions in future trade negotiations with the EU if some of the provisions we sign up to are incompatible with the EU.

The CPTPP arguably removes the ‘precautionary principle’. This principle means that a country can take a ‘safety first’ or precautionary approach to protecting the public from harm even when there is scientific uncertainty or the scientific evidence is insufficient or inconclusive. The precautionary principle forms the basis of a number of EU bans or restrictions on products, in particular from the US (e.g. hormone-treated beef).

The EU strongly supports the precautionary principle and the principle is reaffirmed in Sanitary and Phytosanitary (SPS) Chapters in EU FTAs such as CETA. The WTO SPS Agreement clearly sanctions the use of the precautionary principle although the term itself is not explicitly used (Article 5.7). The principle was originally developed in the context of environmental policy and is not restricted to SPS. It has been progressively consolidated in international environmental law and has since become a fully-fledged and general principle of international law.

Animal health and welfare statuses vary significantly across this wide range of countries within CPTPP. Wales and the UK will be at the very top of this pyramid and some of these countries may pose unacceptable risks to us if, for SPS reasons, they are treated as a whole. Each of these countries would have to be assessed individually and these risks taken into account in the detail of SPS measures, with involvement of Welsh Government.

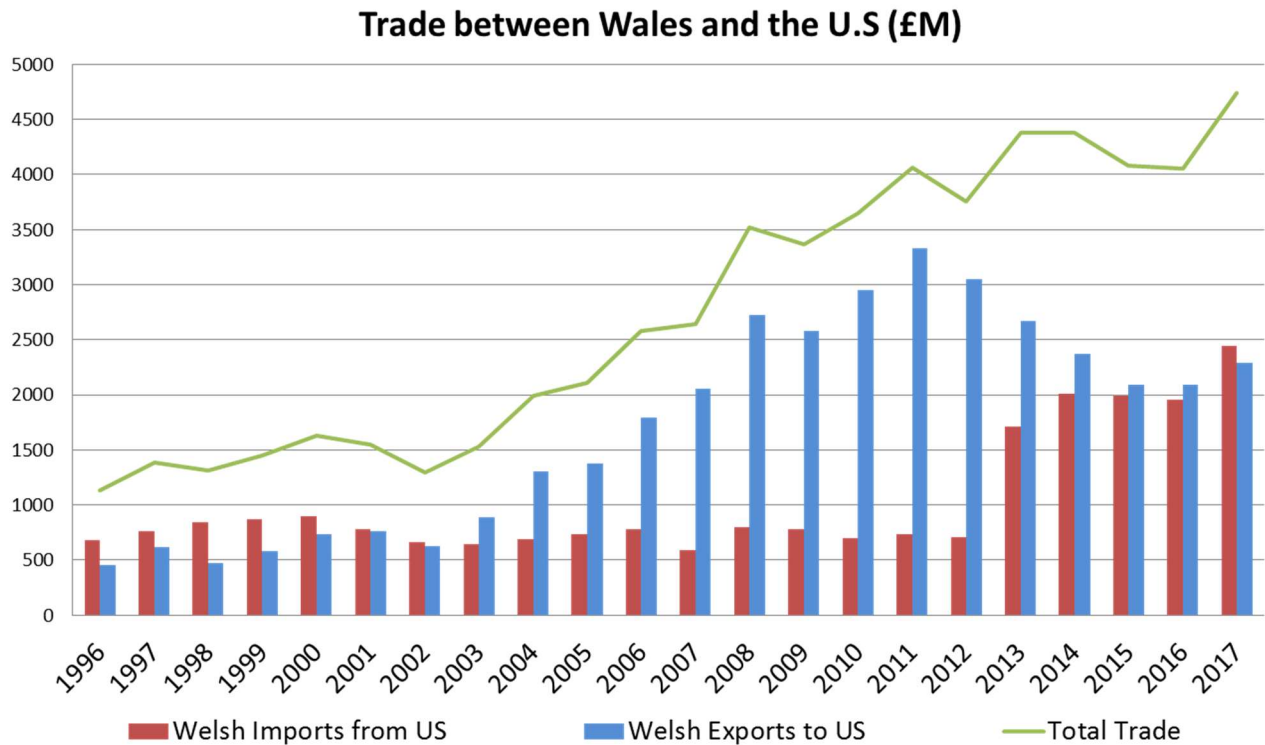
In terms of forestry Canada is a large exporter of timber. We need to understand what the potential implications might be for the forestry industry in Wales, specifically any restrictions on state owned forestry.

The CPTPP includes Investor-State-Dispute–Settlement clauses. We would have real concerns about any Investor State Dispute Settlement procedures which would restrict the ability of devolved governments to make or change domestic regulations in future. These clauses can be used in trade agreements to require governments to pay compensation to foreign investors for a change in public policy which damages their business, for example, increasing environmental protections. It is very important that the Welsh Government is able to make and change public policy to protect the population without the threat of having to pay large amount of money to foreign investors. Again we would welcome more transparent analysis from the UK Government about what exactly they are intending to agree to.

Trade and Investment between Wales and US

Trade and Investment between Wales and U.S

Trade in Goods



Source: HMRC regional Trade Statistics

Please note that due to a methodology change, data for 2013 and beyond are not comparable with pre-2013 data.

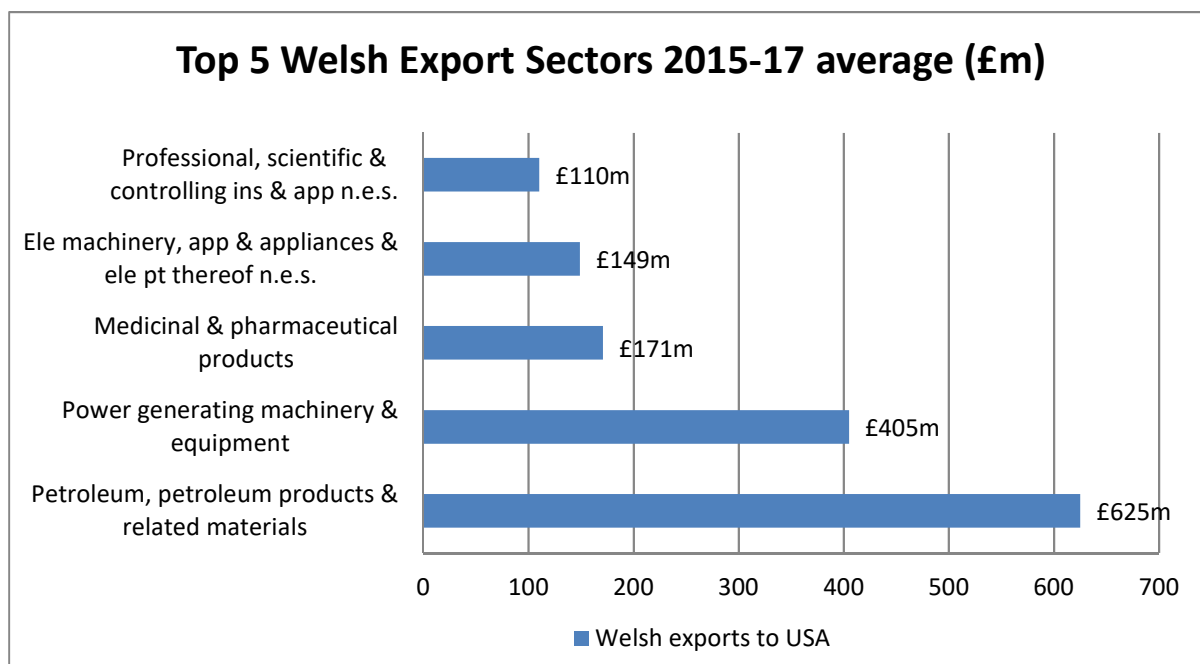
Trade in goods between the US and Wales has followed a broadly upwards trend since 1996, reaching £4.9bn in the year to Q2 2018 when imports and exports totalled £2.7bn and £2.2bn respectively.

Value of Goods Exports to US (£m), 2013-2017

Year	Wales	% change	UK	% change
2013	£2671.1	-14.3%	£38812.8	17.8%
2014	£2370.2	-3.4%	£37595.0	17.9%
2015	£2086.9	9.7%	£44000.1	3.9%
2016	£2095.1	9.2%	£45136.4	1.3%
2017	£2288.6	-	£45734.8	-

Source: WG Analysis of Regional Trade statistics, HMRC

Note: percentage change shown is between that year and 2017. For example: the value of Welsh exports between 2013 and 2017 has increased by -14.3%



Source: HMRC regional trade statistics

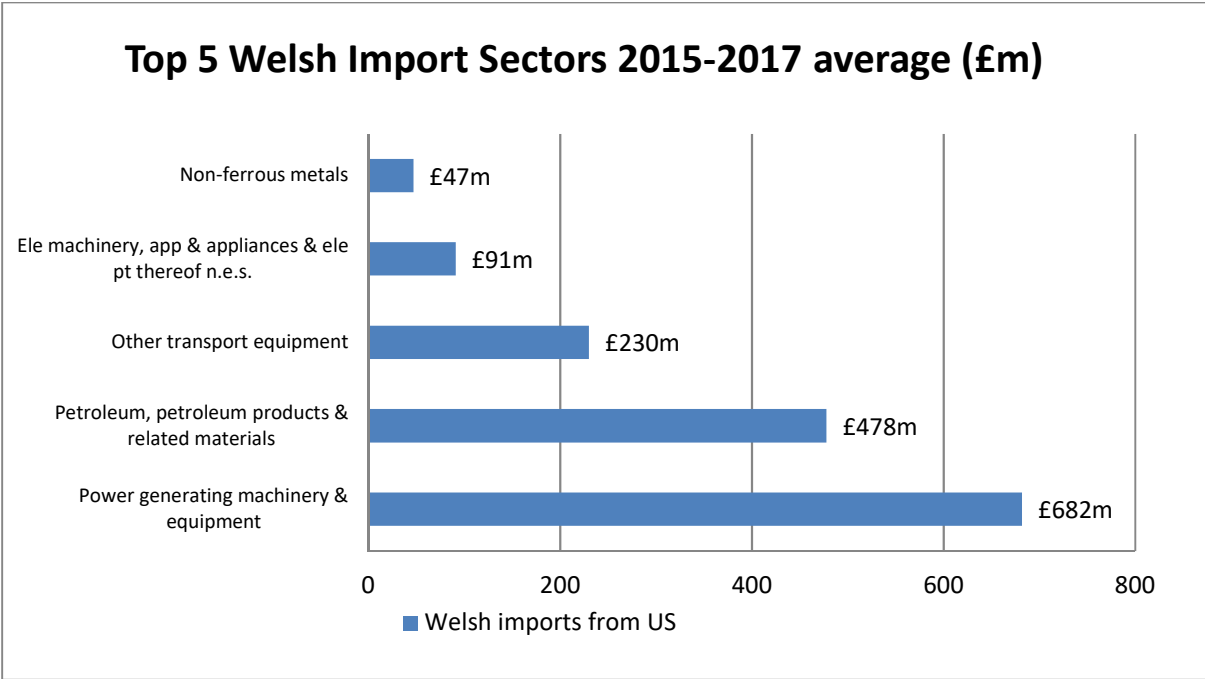
Exports to the US accounted for 13.2% of total Welsh goods exports in the year to Q2 2018. Over the last three years (2015-2017), 'Petroleum, petroleum products & related materials' and 'Power generating machinery and equipment' together dominated around 48% of Welsh exports to the US.

Value of Goods Imports from US (£m), 2013-2017

Year	Wales	% change	UK	% change
2013	£1711.7	42.9%	£29652.5	25.2%
2014	£2009.7	21.7%	£29154.4	25.8%
2015	£1996.3	22.6%	£31079.7	19.4%
2016	£1957.5	25.0%	£35600.8	4.3%
2017	£2446.7	-	£37120.3	-

Source: WG Analysis of Regional Trade statistics, HMRC

Note: percentage change shown is between that year and 2017. For example: the value of Welsh Imports between 2013 and 2017 has increased by 42.9%



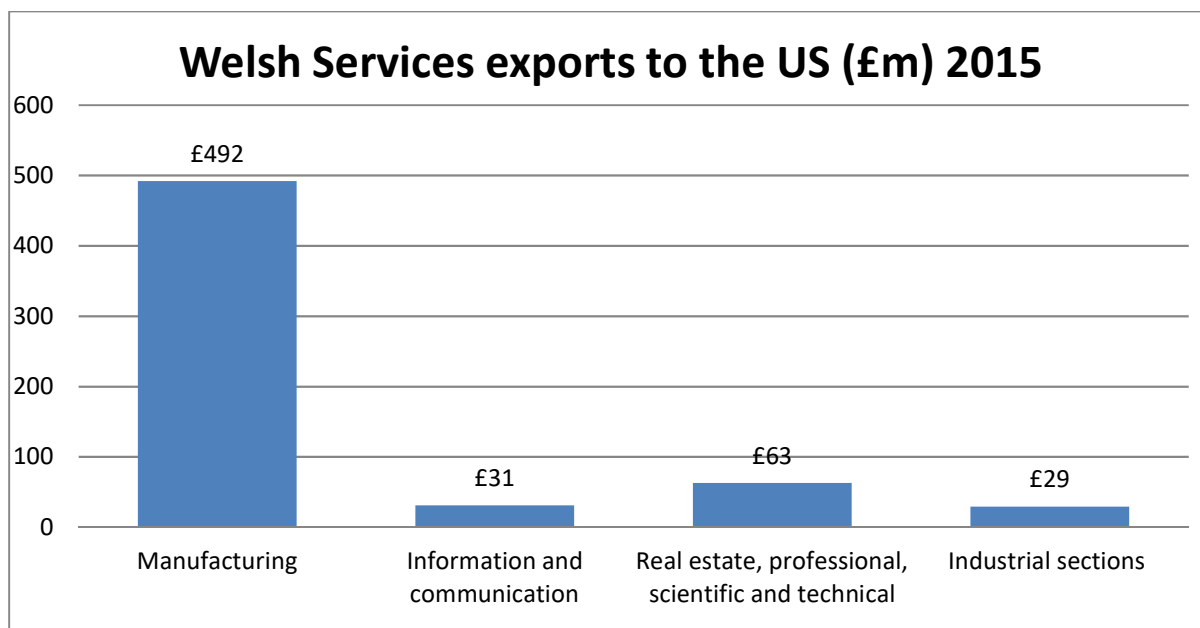
Source: HMRC regional trade statistics

Imports of goods from the US accounted for 15.2% of total Welsh good imports in the year to Q2 2018. Over the last three years (2015-2017), ‘Power generating machinery and equipment’ and ‘Petroleum, petroleum products & related materials’ together dominated around 54% of Welsh imports from the US.

Trade in Services

According to ONS’ experimental statistics¹⁰, Welsh exports of services in 2015 totalled £5.0bn. The available data provides partial information on the value of Welsh service exports to the US in some, but not all sectors.

¹⁰ 2015 is the latest year for which trade in services data broken down by destination is available.



Source: ONS Trade in Services experimental statistics (2015)

Foreign Direct Investment (FDI)

There are 270 US owned companies active in Wales. These are distributed across various Welsh sectors as follows:

Number of US owned companies	Sector
110	Advanced Materials and Manufacturing
3	Construction
9	Creative Industries
22	Energy & Environment
35	Financial & Professional Services
8	Food & Farming
36	Information & Communication Technology
28	Life Sciences
4	Retail & Logistics
1	Tourism
14	Other
270	Total

Source: Welsh Government

Trade and Investment between UK and U.S

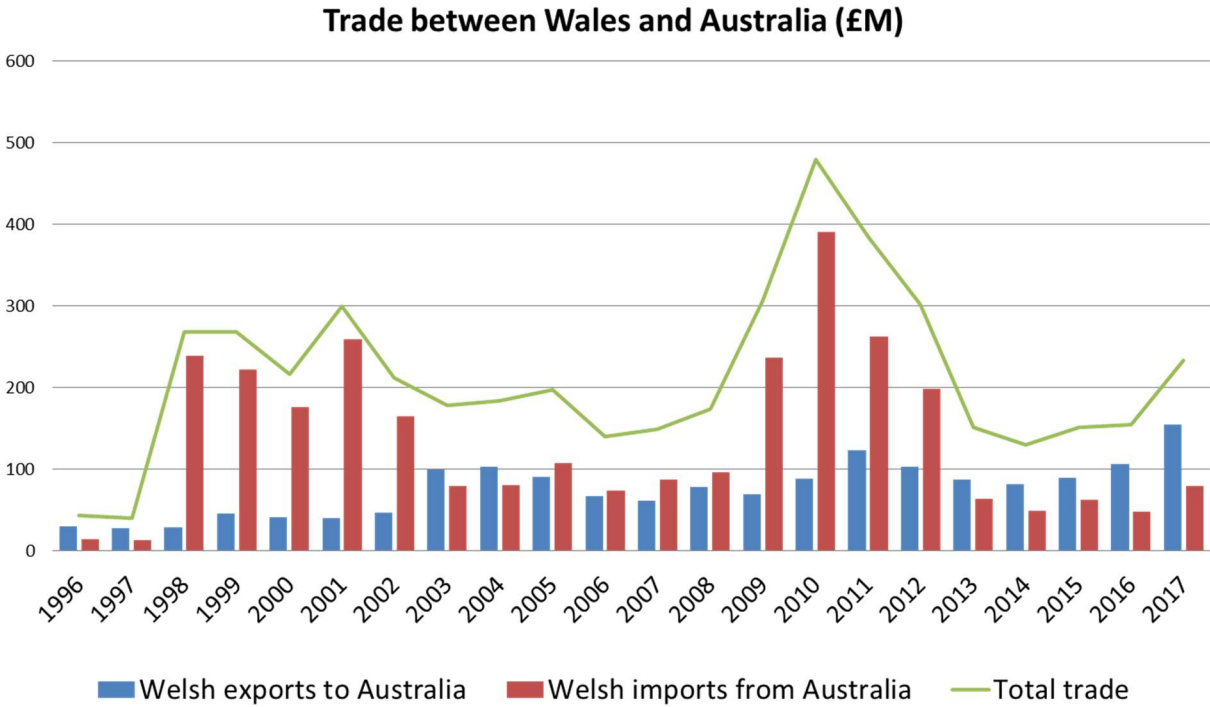
According to ONS statistics,

- in 2016 the US was the UK's largest single bilateral trading partner, accounting for 15% of total UK trade.

- the US was also the UK's largest single export market, accounting for 18% of all UK exports. The US was the UK's second largest single source of imports.
- total trade in goods and services (exports plus imports) between the UK and the US reached £181.2 billion in 2017, an 8.0% increase from 2016.
- of all UK exports to the US in 2017, 45% was made up of goods and 55% in services. This compares to UK exports to the EU being 61% goods and 39% services.
- in 2017, 53% of the UK's imports from the US were goods compared to 47% services.

Trade and Investment between Wales and Australia and New Zealand

Australia



Source: HMRC regional Trade Statistics

Please note that due to a methodology change, data for 2013 and beyond are not comparable with pre-2013 data.

Since 2014, total Welsh trade with Australia has followed an upwards trend, driven by an increase in Welsh exports. This follows a steep drop in trade from a peak of £478 million in 2010. This decrease was driven by a sharp decline in ‘Coal, coke & briquettes’ imports from Australia which was somewhat counteracted by a relatively modest increase in ‘Machinery and Transport equipment’ exports.

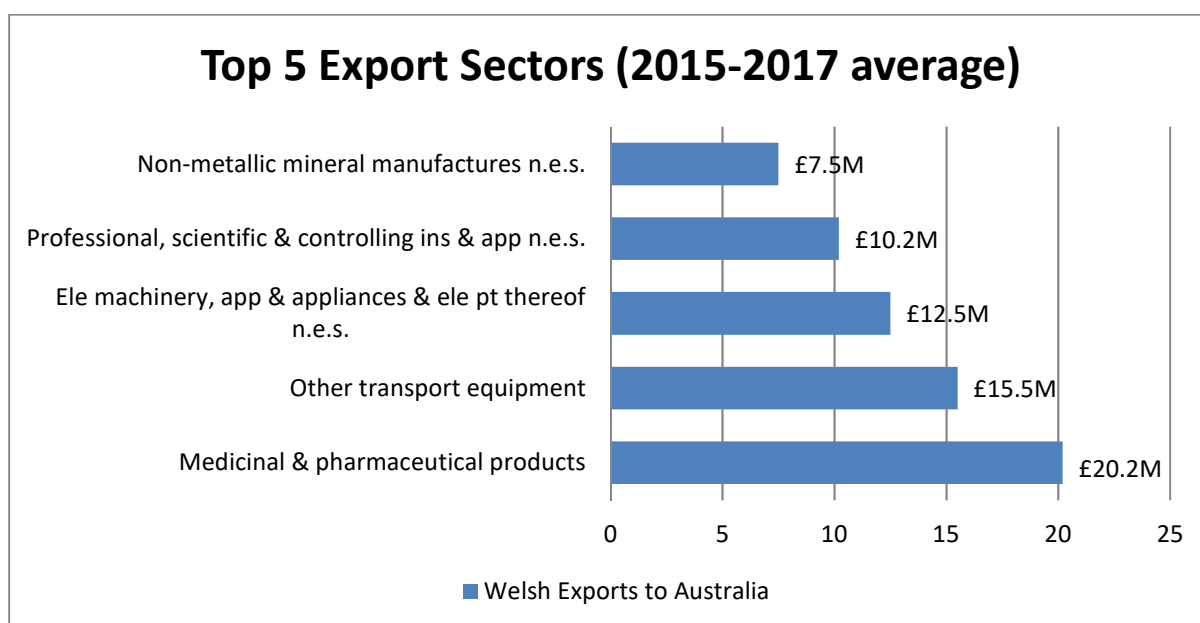
More recently, in 2017, Welsh exports to Australia reached a high of £155 million, primarily drive by growth in ‘other transport equipment’ exports which was the largest contributor to total exports that year. Welsh imports from Australia stood at £78 million in 2017 and were dominated by imports of ‘Coal, coke and briquettes’ valued at £40.2 million.

Value of goods Exports to Australia (£m), 2013-2017

Year	Wales	% change	UK	% change
2013	£87.1	77.5%	£3795.3	17.7%
2014	£81.1	90.7%	£3529.5	26.6%
2015	£89.6	72.6%	£3663.8	21.9%
2016	£106.3	45.5%	£3834.2	16.5%
2017	£154.7	-	£4467.0	-

Source: WG Analysis of Regional Trade statistics, HMRC

Note: percentage change shown is between that year and 2017. For example: the value of Welsh exports between 2013 and 2017 has increased by %



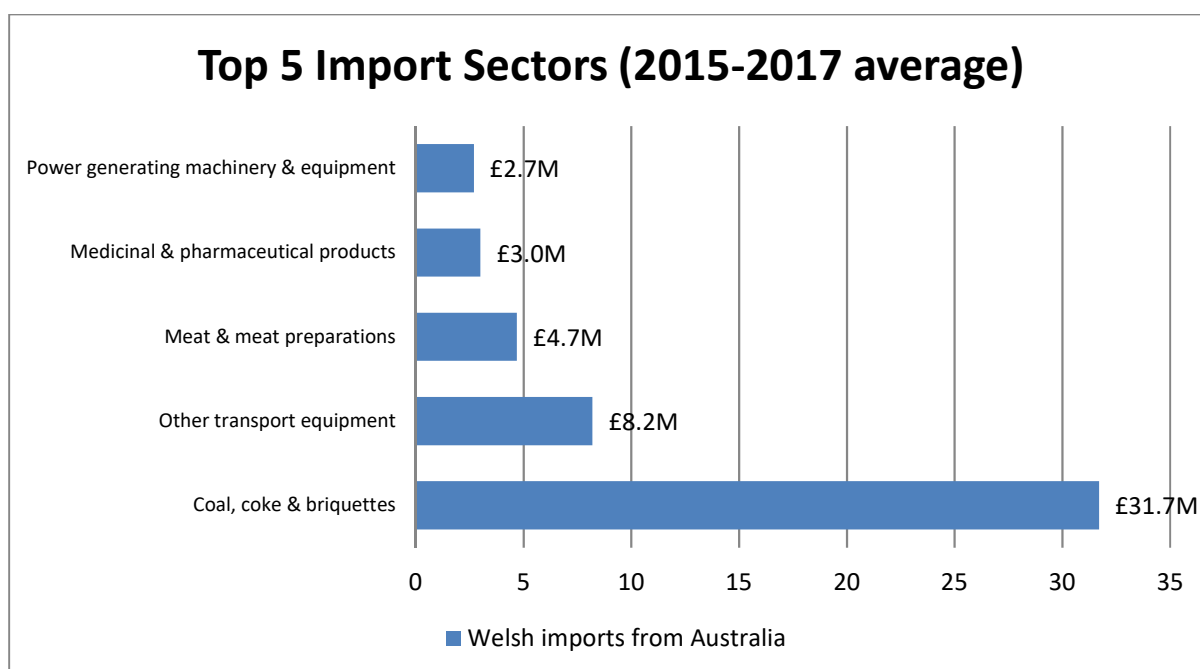
Source: HMRC regional trade statistics

Value of goods Imports from Australia (£m), 2013- 2017

Year	Wales	% change	UK	% change
2013	£63.6	23.4%	£2059.8	9.6%
2014	£48.2	62.9%	£1636.8	37.9%
2015	£61.6	27.4%	£1888.6	19.5%
2016	£47.9	63.9%	£1825.2	23.7%
2017	£78.5	-	£2257.4	-

Source: WG Analysis of Regional Trade statistics, HMRC

Note: percentage change shown is between that year and 2017. For example: the value of Welsh Imports between 2013 and 2017 has increased by 23.4%



Source: HMRC regional trade statistics

Trade in Services

Whilst the ONS have produced estimates of Welsh services exports to Australia, published as experimental statistics in 2015¹¹, the figures for Australia have been suppressed due to disclosure rules. To date, there are no available data sources on service imports for Wales.

FDI

There are 18 Australian owned companies active in Wales. These are distributed across various Welsh sectors as follows:

Number of Australian owned companies	Sector
3	Advanced Materials and Manufacturing
2	Construction
1	Creative Industries
4	Energy & Environment
4	Financial & Professional Services
1	Information & Communication Technology
1	Life Sciences
2	Retail & Logistics
18	Total

Source: Welsh Government

¹¹ 2015 is the latest year for which trade in services broken down by destination is available.

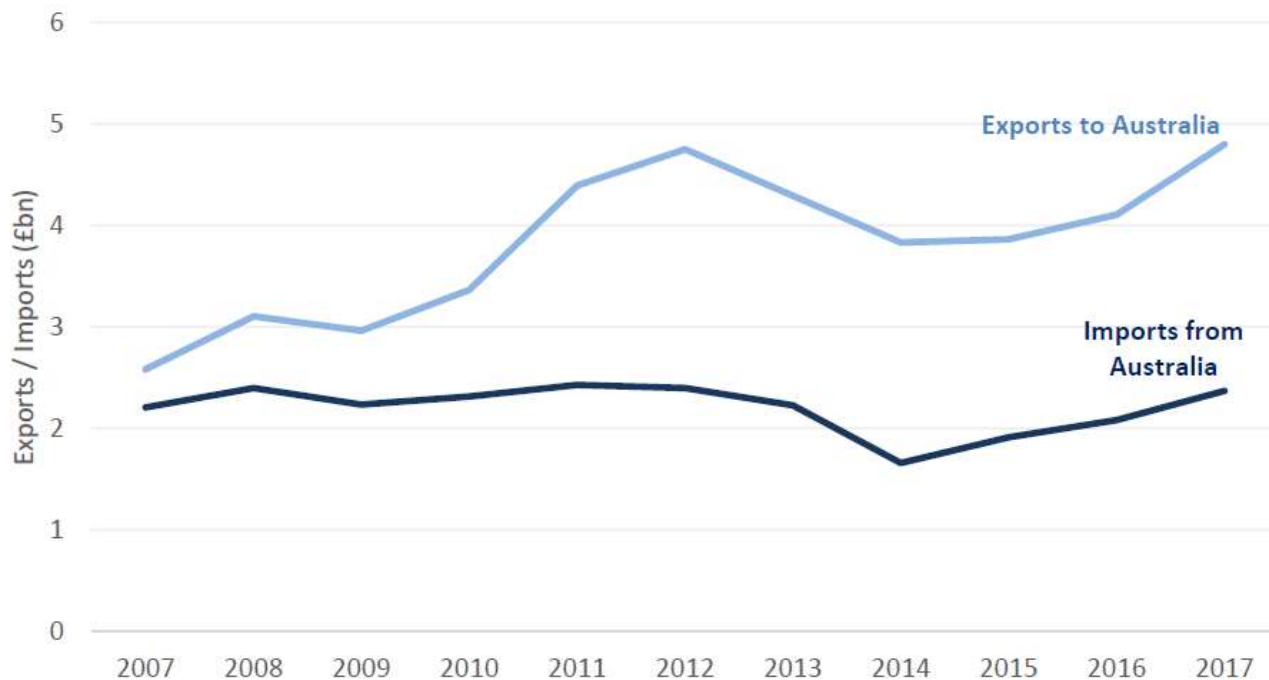
Trade between the UK and Australia

According to ONS statistics:

- total trade in goods and services (exports plus imports) between the UK and Australia was £13.1 billion in 2016, a 0.8% decrease from 2015.
- of all UK exports to Australia in 2016, 48% were goods and 52% in services. This compares to UK exports to the EU in which 61% were goods and 39% services.
- of all UK imports from Australia in 2016, 46% were goods and 54% were services.

Trade in Goods

UK goods exports and imports to and from Australia (2007-2017)

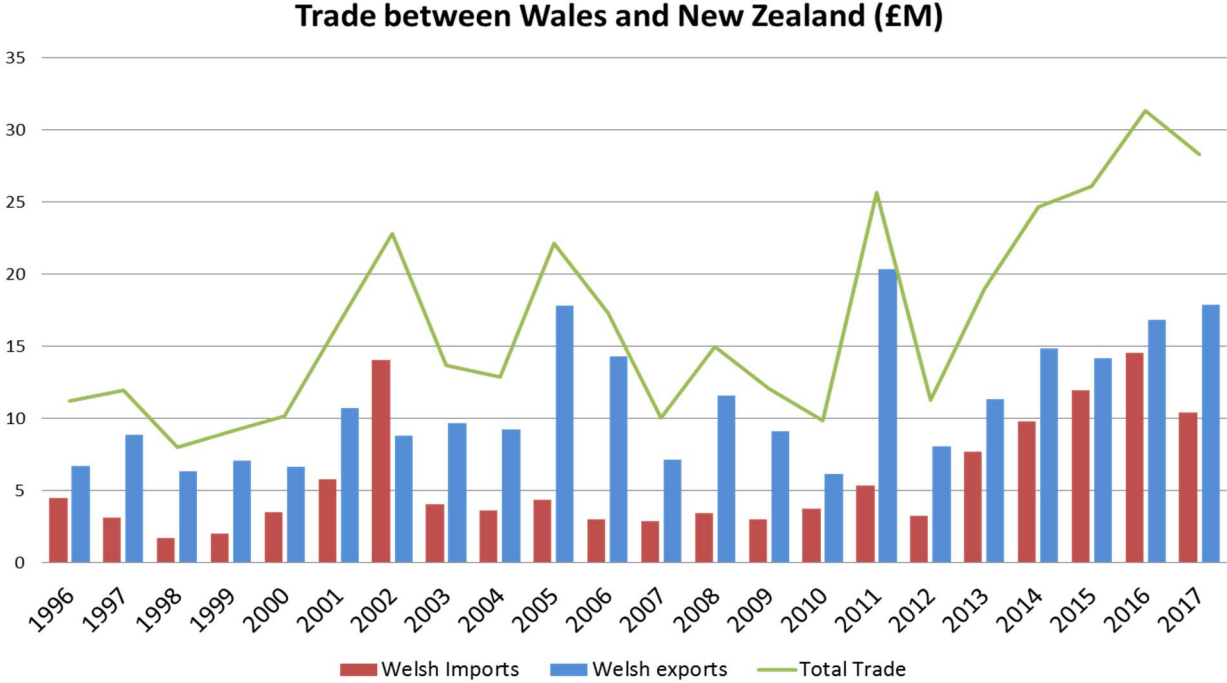


Source: Office for National Statistics, UK Trade (March 2018), values in current prices

The UK exports a higher quantity of goods than it imports from Australia, leading to a trade surplus on goods. This trade surplus has been gradually increasing over the past ten years as growth in the UK's goods exports to Australia has exceeded growth in goods imports from Australia.

New Zealand

Trade and FDI Between UK/Wales and New Zealand



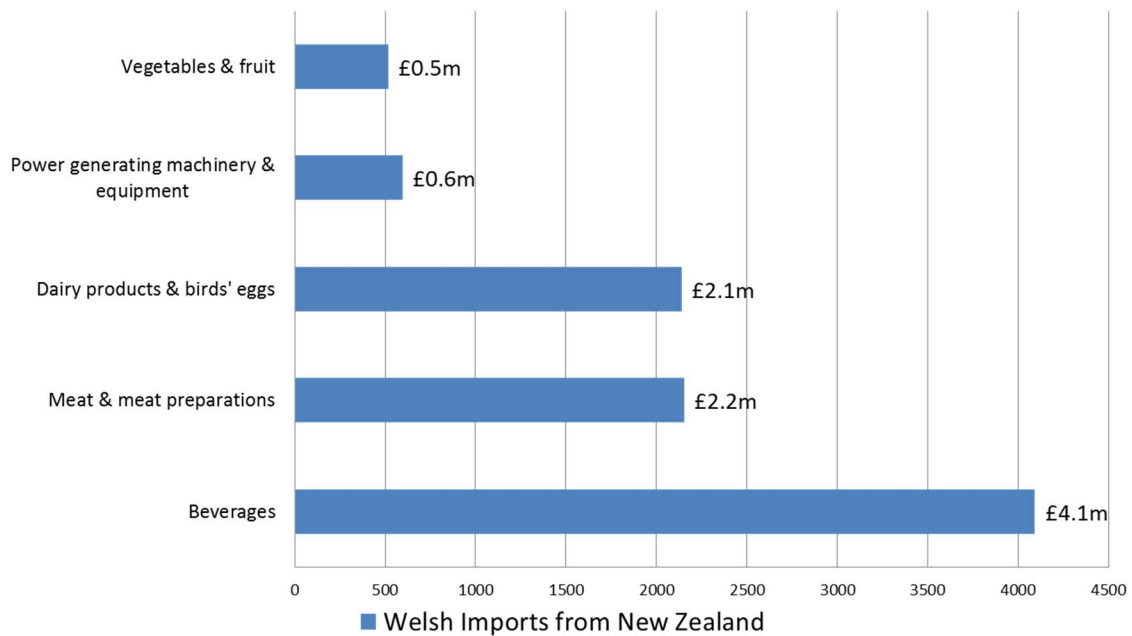
Source: HMRC Regional Trade Statistics

Please note that due to a methodology change, data for 2013 and beyond are not comparable with pre-2013 data.

Trade between New Zealand and Wales has been volatile since 1996 mainly due to large spikes in Welsh exports. Total trade was worth £31m in the year to Q2 2018 when imports and exports totalled £11.2m and £20.2m respectively.

Top Import and Export Sectors

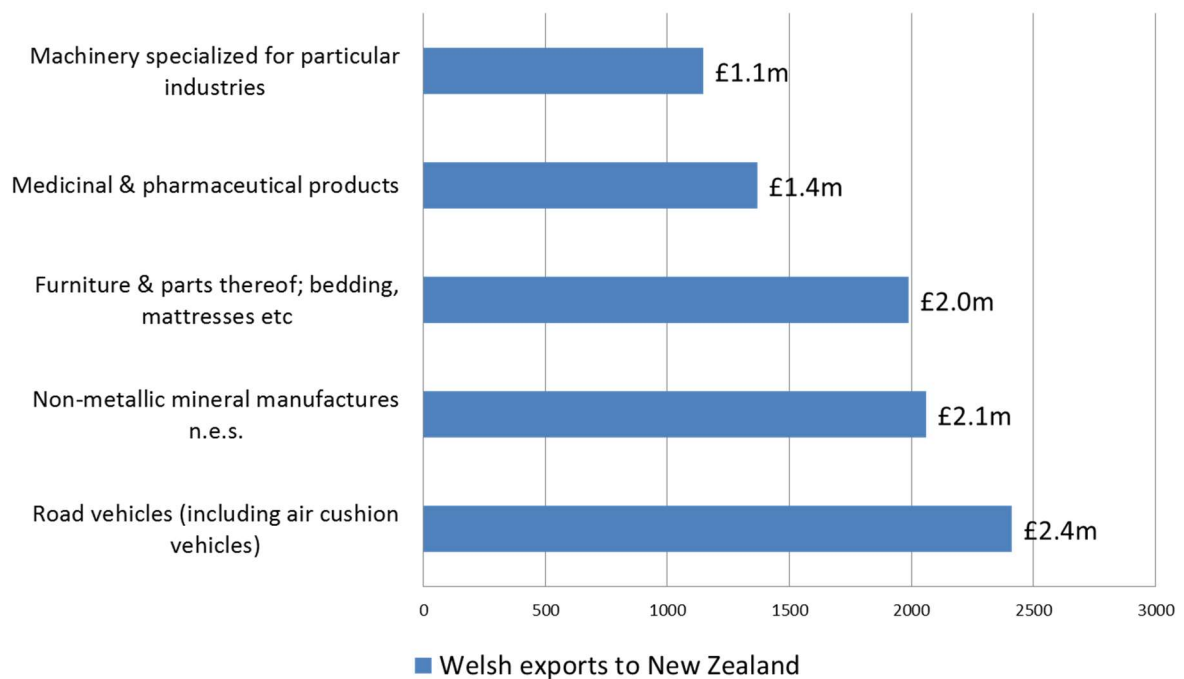
Top 5 Import Sectors (2015-2017 average)



Source: HMRC Regional Trade Statistics

Looking at a three year average, 'Beverages', 'Meat & meat preparations' and Dairy products & birds' eggs' together dominate around 65% of Welsh imports from New Zealand.

Top 5 Export Sectors (2015-2017 average)



Source: HMRC Regional Trade Statistics

Looking at a three year average, 'Road Vehicles', 'Non-metallic mineral manufactures' and 'Furniture & parts thereof: bedding, mattresses etc' together account for around 39% of Welsh exports to New Zealand. This suggests Welsh exports to New Zealand are not dominated by a specific sector.

Top 10 goods exports from Wales to New Zealand for 2013-2017 £m, by SITC2

SITC2 Description	2013	2014	2015	2016	2017
Road Vehicles (Including Air Cushion Vehicles)	1.4	1.8	1.9	2.8	2.5
Non-Metallic Mineral Manufactures not Elsewhere Specified	0.1	0.2	1.5	2.2	2.4
Furniture and Parts Thereof; Bedding and Mattresses etc.	0.4	1.9	2.1	2.1	1.8
Manufactures Of Metal not Elsewhere Specified	0.6	0.7	1.0	0.9	1.4
Machinery Specialized For Particular Industries	0.7	1.1	0.8	1.3	1.4
Medicinal and Pharmaceutical Products	0.5	0.6	1.2	1.6	1.3
Electric Machinery, Apparatus and Appliances and Electric Parts Thereof not Elsewhere Specified	0.7	1.0	0.7	0.8	1.2
Miscellaneous Manufactured Articles not Elsewhere Specified	0.8	0.9	0.7	0.9	0.8
General Industrial Machinery and Equipment and Machine Parts not Elsewhere Specified	1.3	0.8	0.4	0.6	0.8
Plastics In Non-Primary Forms	0.2	0.4	0.4	0.4	0.4

Source: WG Analysis of Regional Trade statistics, HMRC¹²

Value of goods Exports to New Zealand (£m), 2013-2017

Year	Wales	% change	UK	% change
2013	£11.3	58%	£583.8	48%
2014	£14.9	20%	£626.9	38%
2015	£14.1	27%	£550.9	57%
2016	£16.8	6%	£700.2	24%
2017	£17.9	-	£865.6	-

Source: WG Analysis of Regional Trade statistics, HMRC

Note: percentage change shown is between that year and 2017. For example: the value of Welsh exports between 2013 and 2017 has increased by 58%

¹² Note: The table above shows a time series for the SITC descriptions of the top 10 good exports in 2017. The top 10 good exports for previous years may not be the same as those in the table.

Value of goods Imports from New Zealand (£m), 2013-2017

Year	Wales	% change	UK	% change
2013	£7.7	36%	£845.8	7%
2014	£9.8	6%	£887.5	2%
2015	£12.0	-13%	£903.1	0%
2016	£14.5	-28%	£860.0	5%
2017	£10.4	-	£903.7	-

Source: WG Analysis of Regional Trade statistics, HMRC

Note: percentage change shown is between that year and 2017. For example: the value of Welsh exports between 2013 and 2017 has increased by 58%

FDI

There are three New Zealand companies active in Wales:

- Opus International is an engineering consultancy with offices in Cardiff and Wrexham.
- Pingar API is an ICT company which provides information analytics services from its base at Swansea University.
- Techion UK Ltd, based in Aberystwyth, is an on-site diagnostic technology company within the agricultural industry. Techion opened its UK operation last year.

In 2012, Wrexham headquartered Money Penny took the decision to locate in New Zealand in order to offer a 24 hour service. Demand for this service had been growing steadily, particularly among some of the company's larger clients. With New Zealand 12 hours ahead, Money Penny staff normally based in Wrexham are still working day shifts but provide late-night cover when colleagues in Wales finish their shifts.

Trade and Investment between Wales and CPTPP

Background Information

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a relatively deep and comprehensive plurilateral Free Trade Agreement between 11, economically diverse members, among them some of the region's fastest-growing economies. It is signed, but not yet in force and is currently comprised of members located in or around the wider Asia-Pacific region. The current members represent 13-14% of global GDP¹³, 6.7% of Welsh exports (7.9% imports) and are home to around 500m people. They are:

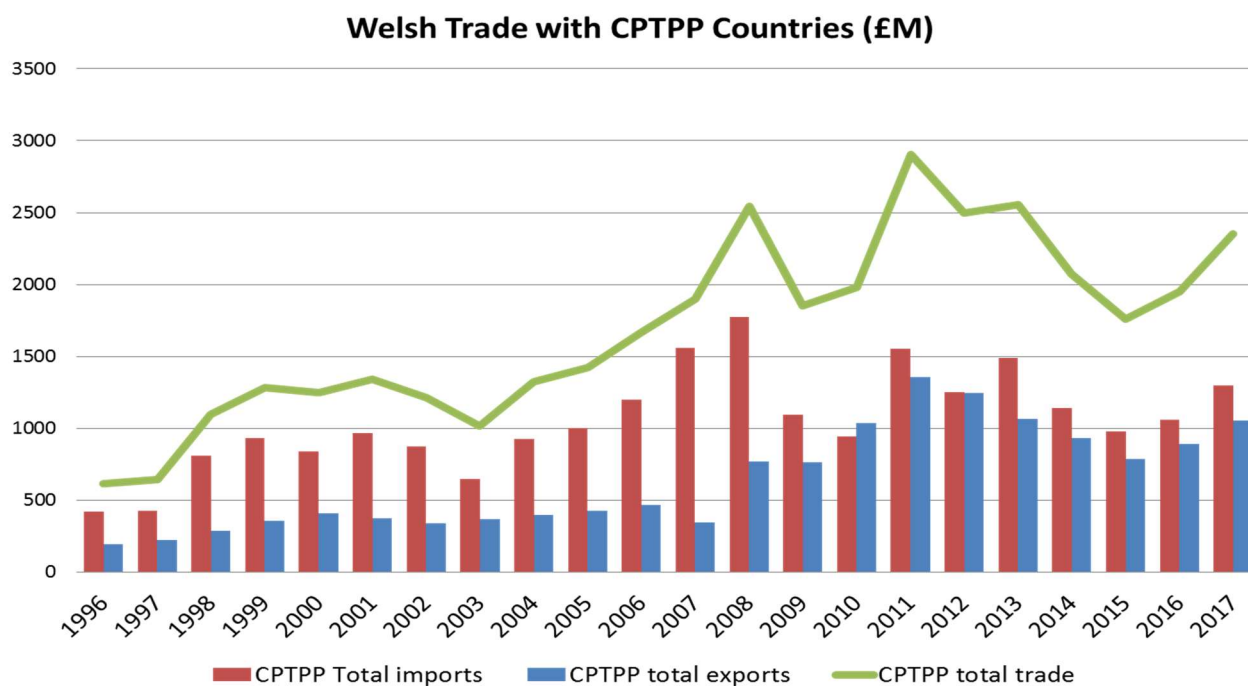
- Australia
- Brunei
- Canada
- Chile
- Japan
- Malaysia
- Mexico
- New Zealand
- Peru
- Singapore
- Vietnam

The agreement will seek to strengthen standards in such areas as environmental protection, anti-corruption, and workers' rights, set policies for digital trade and SMEs, and completely eliminate tariffs on 95% of goods traded between its members.

The agreement was formerly known as the Tran-Pacific Partnership but was renamed following the US's withdrawal from negotiations last year.

¹³ In 2017, CPTPP members constituted 13.3% of global GDP (Nominal GDP, IMF World Economic Outlook, April 2018)

Trade and FDI between Wales and CPTPP Countries



Source: HMRC regional Trade Statistics

Please note that due to a methodology change, data for 2013 and beyond are not comparable with pre-2013 data.

Trade between CPTPP countries and Wales has followed a broadly upwards trend since 1996, reaching £2.4bn in the year to Q2 2018, when imports and exports totalled £1.4bn and £1.1bn respectively. During this time, Wales has consistently imported more goods from than it has exported to these countries, although exports have increased in recent years.

Value of goods Exports to CPTPP (£m), 2013-2017

Year	Wales	% change	UK	% change
2013	£1063m	0.8%	£21297m	17.4%
2014	£934m	13.0%	£19618m	27.5%
2015	£783m	34.6%	£19580m	27.7%
2016	£893m	18.1%	£21870m	14.4%
2017	£1055m	-	£25008m	-

Source: WG Analysis of Regional Trade statistics, HMRC

Note: percentage change shown is between that year and 2017. For example: the value of Welsh exports between 2013 and 2017 has decreased by 0.8%

Over the last five years, the value of both Welsh and UK exports to CPTPP countries decreased. Welsh exports reached their lowest point in 2015 before

increasing by 34.6% to 2017, recovering to broadly the same level as that seen in 2013.

Value of goods Imports to CPTPP (£m), 2013-2017

Year	Wales	% change	UK	% change
2013	£1491	12.8%	£24281m	17.6%
2014	£1140	14.0%	£21799m	31.0%
2015	£978	32.8%	£21727m	31.5%
2016	£1057	23.0%	£24831m	15.0%
2017	£1300	-	£28566m	-

Source: WG Analysis of Regional Trade statistics, HMRC

Note: percentage change shown is between that year and 2017. For example: the value of Welsh Imports between 2013 and 2017 has decreased by 12.8 %

Welsh imports also followed a similar trend, decreasing to a five year low in 2015, before increasing by 32.8% to 2017, although falling short of the value previously seen in 2013.

Which of the CPTPP countries are particularly important for Wales?

Canada and Japan are both amongst Wales' top 10 import and export partners and make the largest contributions of all the CPTPP countries to Welsh trade.

Welsh and UK Exports to CPTPP Countries- Year to Q2 2018

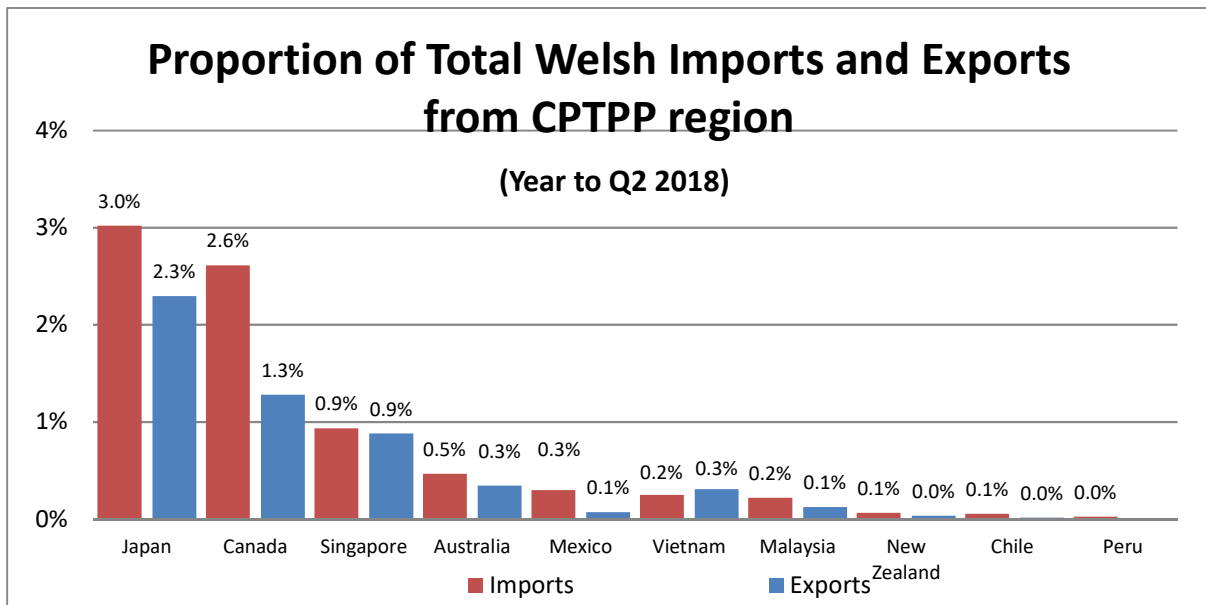
Country	Value of Welsh Exports (£000)	% of total Welsh exports	Value of UK exports (£000)	% of Total UK exports	percentage of UK exports
Japan	226783	1.37%	5877264	1.77%	3.86%
Canada	380154	2.29%	5237540	1.58%	7.26%
Singapore	211787	1.28%	4841549	1.46%	4.37%
Australia	145788	0.88%	4531158	1.37%	3.22%
Mexico	56861	0.34%	1559314	0.47%	3.65%
Vietnam	11547	0.07%	582190	0.18%	1.98%
Malaysia	50612	0.31%	1375396	0.42%	3.68%
New Zealand	20166	0.12%	903482	0.27%	2.23%
Chile	5442	0.03%	612616	0.18%	0.89%
Peru	2458	0.01%	170224	0.05%	1.44%

Source: HMRC Regional Trade Statistics

Welsh and UK Imports from CPTPP Countries- Year to Q2 2018

Country	Value of Welsh Imports (£000)	% of total Welsh imports	Value of UK imports (£000)	% of Total UK imports	Welsh imports as a percentage of UK imports
Japan	534565	3.02%	9194516	1.96%	5.81%
Canada	462216	2.61%	4815381	1.02%	9.60%
Singapore	165056	0.93%	3063546	0.65%	5.39%
Australia	82090	0.46%	2081108	0.44%	3.94%
Mexico	52593	0.30%	1258691	0.27%	4.18%
Vietnam	43486	0.25%	4329869	0.92%	1.00%
Malaysia	38326	0.22%	1769925	0.38%	2.17%
New Zealand	11243	0.06%	886863	0.19%	1.27%
Chile	9082	0.05%	822090	0.17%	1.10%
Peru	4312	0.02%	335051	0.07%	1.29%

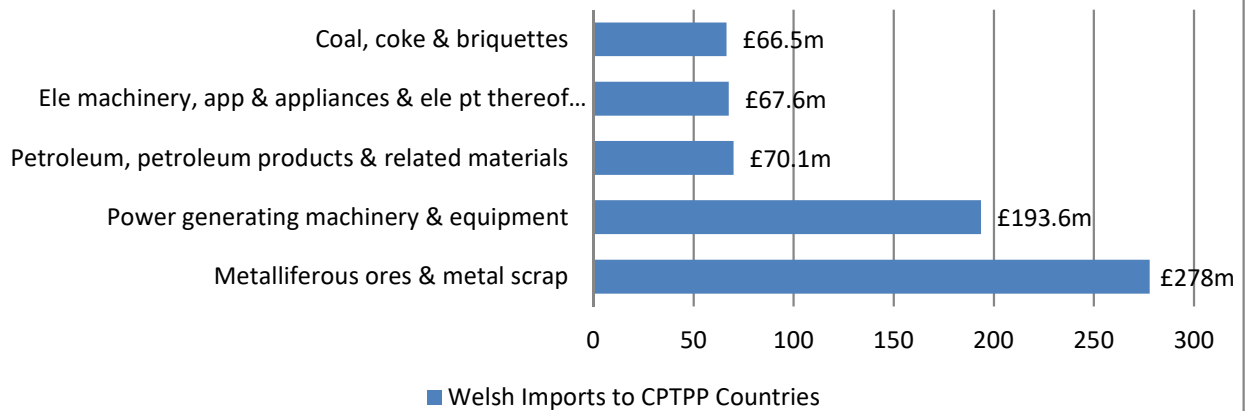
Source: HMRC Regional Trade Statistics



Source: HMRC regional trade statistics

Of the CPTPP countries, Japan and Canada dominate in terms of importance for Welsh trade, both in terms of imports and exports. 2.3% of total Welsh exports are exported to Japan and around 1.3% to Canada, whilst Wales relies on Japan and Canada for 3% and 2.6% of its imports respectively.

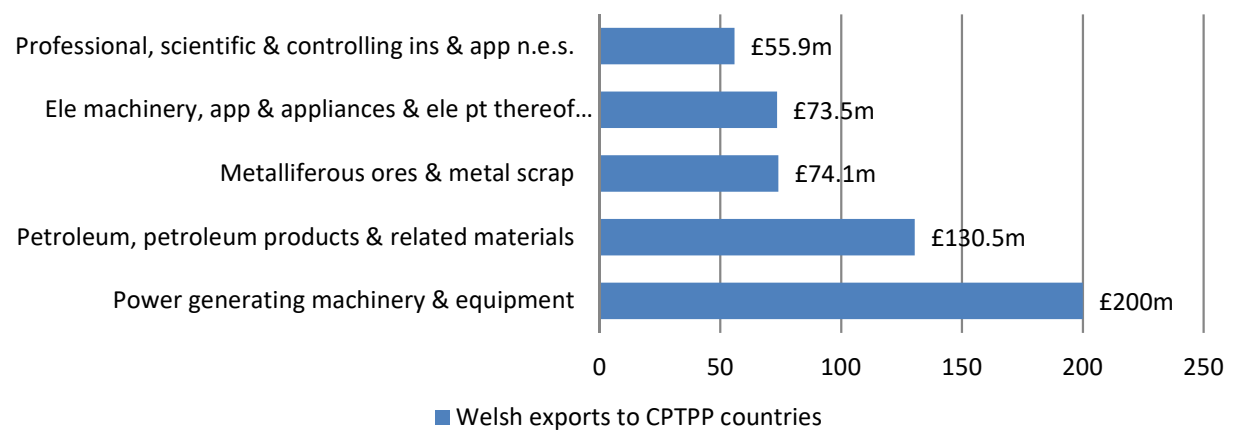
Top Welsh Import Sectors from CPTPP Countries 2015-2017



Source: HMRC regional trade statistics

In the last three years Welsh good imports from CPTPP countries were dominated by Metalliferous ores & metal scrap worth an average of £278m a year, followed by Power generating machinery & equipment worth a £193.6m a year.

Top Welsh Export sectors to CPTPP countries 2015-2017



Source: HMRC Regional Trade Statistics

In the last three years Welsh good exports to CPTPP countries were dominated by Power generating machinery and equipment worth an average of £200m a year, followed by Petroleum, petroleum products and related materials worth a £130.5m a year.

Trade in Services

Whilst the ONS have produced estimates of Welsh services exports to CPTPP countries, published as experimental statistics in 2015¹⁴, figures are only available for Canada and Japan (for some but not all sectors). For the remaining CPTPP countries, the data is either not available or is suppressed due to disclosure rules. To date, there are no available data sources on service imports for Wales.

FDI

There are 127 active companies in Wales owned by CPTPP countries. These are distributed across various Welsh sectors as follows:

Number of CPTPP owned companies	Sector
45	Advanced Materials and Manufacturing
5	Construction
5	Creative Industries
17	Energy & Environment
14	Financial & Professional Services
8	Food & Farming
15	Information & Communication Technology
6	Life Sciences
5	Retail & Logistics
4	Tourism
3	Other
127	Total

Source: Welsh Government

¹⁴ 2015 is the latest year for which Welsh trade in services data broken down by destination is available.