



Llywodraeth Cymru
Welsh Government

UK-Australia Free Trade Agreement: A Welsh Government Perspective

2022

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Mae'r ddogfen yma hefyd ar gael yn Gymraeg.
This document is also available in Welsh.

Ministerial Foreword

The UK's exit from the EU means that the UK government must now look to negotiate and agree new Free Trade Agreements (FTAs) with trading partners across the world. The UK-Australia FTA marks the first, in what I expect to be a long line, of entirely new trade deals.

The Welsh Government has always supported maintaining strong links with our EU neighbours, and while our exit from the EU is an area in which we have often disagreed with the UK government, we have engaged as constructively as possible on the programme of work for new trade agreements.

Broadly speaking, I remain supportive of what the UK government is aiming to achieve with its negotiation programme. Whilst striking new deals will in no way compensate for the economic loss and disruption caused by leaving the EU, these deals can create opportunities for businesses in Wales and can also be used to support wider policy priorities in areas such as climate change and gender equality.

Although only the UK government can enter the whole of the UK into trade deals, these deals are significant for us here in Wales in a number of ways, impacting on businesses and consumers and creating new obligations which will need to be implemented in devolved areas. This report is intended to break down the final deal and discuss where we believe it will impact on Wales.

Many of these observations, and the feedback we give to the UK government, are supported by the conversations we have with stakeholders in Wales. I am grateful to all those who have found time to work with us on this agenda, including our Trade Policy Advisory Group.

It is important to stress that the Welsh Government is not responsible for what was ultimately agreed. Our role in negotiations is to ensure that the UK government understands where deals can create opportunities, risks or challenges for Wales. For this reason, we were pleased to see some of the provisions in the deal, such as those that will create more mobility for service providers wishing to operate in Australia or those restating the importance of combating climate change.

However, we have always been concerned about the decision to increase market access for Australian agricultural goods and the potential impact that this could have on our own producers. We repeatedly called for the UK Government to ensure that any agreement maintains a level playing field for producers here and are disappointed that these calls were ignored.

Going forward, I hope that the UK-Australia FTA will be the grounds on which engagement for future FTAs will build. We have been able to provide a unique insight into how trade deals impact on Wales. I am hopeful our willingness to act as a constructive partner to the UK government in negotiations should lead to future deals that benefit the whole of the UK.



Vaughan Gething MS
Minister for the Economy

1. Executive summary

- 1.1 On the 16 December 2021, the United Kingdom and Australian governments formally signed a free trade agreement. The UK-Australia Free Trade Agreement ('the Agreement') is the first new trade agreement that the UK has concluded in over 40 years and the first fully new trade agreement signed since the United Kingdom left the European Union.
- 1.2 According to their own estimates, the UK government expect the deal to unlock around £10.4¹ billion of additional trade, boosting the economy and increasing wages across the UK, whilst eliminating tariffs on 100% of UK exports.
- 1.3 From a Welsh perspective, Australia is our 18th largest export market and our 43rd largest import market. Total goods trade with Australia in the year ending December 2021, amounted to £190.7m and the latest services trade data for 2019 estimate Welsh services exports to Australia were valued at around £181m, whilst imports of services from Australia were valued at around £53m
- 1.4 Support in Wales for a trade agreement with Australia is high; around 69% of respondents to the Public Attitudes to Trade Tracker² were in favour of an agreement. The deal may also bring some specific benefits for Wales, particularly in the areas such as services and mobility. There are however areas for concern, including those around the increased market access for our agriculture industry, where 29% of respondents to the Public Attitudes to Trade Tracker acknowledged that protecting UK farmers should be a high priority. This is an area that we have repeatedly raised concerns over.
- 1.5 The Agreement consists of 32 chapters, excluding annexes and sub-chapters, and these chapters cover a range of topics; from Rules of Origin (RoO) and Innovation, to financial services.
- 1.6 There are also a number of 'side letters', which are not part of the main agreement. Examples of side letters agreed between the parties include; Medicines and Medical Devices, Public Health Cooperation, government data, sharing of export data, mobility and for agriculture and agribusiness workers. The UK government have also produced a 'final impact assessment' looking at the economic impacts of the Agreement
- 1.7 The main analysis of the text is contained in Chapter 4 of this report. The table below provides an overview of the chapters considered and in which sections of this report you can find the analysis.
- 1.8 Most goods will be tariff-free upon entry into force of the Agreement between the two countries if relevant rules of origin arrangements are met. Where tariffs are already 0%, the Welsh Government would not expect a significant improvement in trading dynamics.
- 1.9 The Agreement commits both parties to rules of origin that take into account modern production processes, as well as existing and future global supply chains, but does not allow for the cumulation of third-party materials and inputs in goods exports to either country (unless specific processing or value rules are met).

1 [UK and Australia sign world-class trade deal - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/uk-and-australia-sign-world-class-trade-deal)

2 [Public attitudes to trade tracker \(PATT\): wave 4](#)

- 1.10 The UK and Australia have a separate Mutual Recognition Agreement (MRA) in place to help ease non-tariff barriers to trade. Provisions around regulations, standards and conformity assessment procedures in the Agreement are predominantly around cooperation between the two parties.
- 1.11 Welsh Government has devolved responsibility for setting domestic Sanitary and Phytosanitary (SPS) strategy and policy in Wales. As such, we propose to ensure any actions taken in this area do not conflict with the provisions in the Agreement and to work with the UK government towards that end. Similarly, the Welsh Government will work with the UK government towards ensuring that devolved policy for Wales does not cause any Technical Trade Barriers (TBT) issues according to the terms of the Agreement.
- 1.12 In relation to services, the Agreement gives greater access and certainty for services companies to the Australian market meaning it will be more straightforward for Welsh services providers to trade with Australia. There are also new commitments for insurance and portfolio management sectors, in addition to locking in existing financial access. For Cross Border Trade in Services (CBTS) there is greater access for services companies and investors to the Australian market. Welsh Business in certain sectors will be able to send UK staff to Australia without being subject to the Australian Skilled Occupation List. There are also greater opportunities for UK business travel and for UK service providers and investors to live and work temporarily in Australia.
- 1.13 There are expanded opportunities for UK firms to trade digitally with Australia.
- 1.14 For our Agricultural sector, the Agreement commits to a phased approach to the full liberalisation of tariffs on beef and sheep meat imports over a period of 10 years, and over 5 years for dairy products. The UK government's analysis of the impact on agriculture, forestry, and fishing sector across the UK as a whole, shows 0.70% reduction in Gross Value Added (GVA).³
- 1.15 There are a number of additional chapters included in the Agreement, including on the Environment. Addressing climate change is a key priority for the Welsh Government and the references to the UNFCCC and the Paris agreement are welcome. Cooperation can lead to both partners achieving the goals required, providing there is a way to monitor what progress is made in key areas.
- 1.16 Overall the deal appears to provide opportunities for Welsh businesses in some areas, particularly around services and mobility. There are also provisions in the deal that the Welsh Government would want to see replicated in other deals. However, there are also risks, more significantly those to our agricultural producers.

³ GVA is a measure of output. It reflects the value of an industry's outputs less the value of intermediate inputs used in the production process.

2. The Well-being Goals and Free Trade Agreements

2.1 The Well-being of Future Generations (Wales) Act 2015⁴ 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 prevent persistent problems such as poverty, health inequalities and climate change. The Act is about improving the social, economic, environmental and cultural well-being of Wales.

2.2 The Act established seven well-being goals that public bodies in Wales, including the Welsh Government, must work to achieve as well as five ways of working. While only the UK government has the power to conclude international agreements, any trade agreement will likely have long-term impacts on the economic and social wellbeing of Wales and therefore the link between the well-being goals and international trade is important.

National well-being goals

2.3 The seven established national well-being goals relate to the UN Sustainable Development Goals. The Well Being of Future Generations Act requires policymakers in Wales to put the sustainable development principle into practice:

“Act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs”

2.4 Underpinning these goals is the principle of sustainable development incorporated into the foundation of devolution in Wales from 1998.

2.5 The Well-Being of Future Generations Act also includes five ways of working intended to demonstrate best practice and to support the well-being of future generations. These are integration, collaboration, long term, involvement and prevention.

2.6 As the UK government is not accountable to the Well-being of Future Generations Act, the final Agreement did not have to consider any impact on the seven well-being goals, nor does the UK government have to use the five ways of working when developing its own trade policy or negotiating deals. However, the well-being goals are important to how the deal is analysed in Wales.

Trade policy development in Wales

- 2.7 Historically trade negotiations have focused narrowly on the economic benefits of developing closer trading relationships with other trading partners. However, more recent free trade agreements have expanded to include a wider set of cross-cutting areas, such as small and medium enterprises (SMEs), female economic empowerment, labour and climate change. The impact of trade agreements on wider policy areas cannot be overlooked and if not considered fully trade deals can have unintended consequences in a range of areas. Trade and trade agreements have the potential to affect how we live, including our social and built environment, what we eat, the things we buy, and the services we use. They also have the potential to affect communities and jobs, our physical and mental wellbeing⁵ and our ambitions around sustainability and environment.
- 2.8 Trade agreements create international obligations which, in principle, bind future generations. Those obligations may diverge over time from domestic policy aspirations and can be complex and time-consuming to renegotiate.
- 2.9 Trade agreements are negotiated settlements. They do not necessarily contain all the key policy objectives of one trading partner but are an agreed compromise. This can mean that parties to free trade agreements experience different and asymmetrical benefits and risks. For example, if one country enforces high environmental standards whilst another does not, then the country with higher standards could see its economy and society undercut by increased imports of lower quality or lower standard goods. If this were to be the case for Wales, there could be detrimental impacts on Welsh businesses and environmental regulations.
- 2.10 Therefore, the potential impact that trade policy could have on our wellbeing goals, whether through affecting businesses, consumers, communities, domestic policy or the impact that we have globally, is at the forefront of our minds. This impacts on both the views we give the UK government during negotiations and how we analyse the proposed and the final agreed text in the agreements. In Wales we consider trade policy through a Wellbeing of Future Generations lens, rather than in purely economic terms.
- 2.11 The analysis conducted on the Agreement for this report has been done through this Well-being of Future Generations lens, taking into account how chapters of the agreement relate to the national wellbeing goals, see Table 1. The link between the terms of the Agreement, its short, medium and long-term impact once implemented and the Well-being of Future Generations Act is not always straightforward, however the following section outlines just some of the examples of where we see the Agreement impacting and/or aligning with our seven national well-being goals. In some instances, potential impacts are discussed under one goal but are likely to impact on multiple goals, for example the potential economic impact on agriculture, could have knock on impacts across all goals.

A Prosperous Wales⁶

2.12 The potential of increased trade and GDP growth generated by the Agreement could serve to increase employment opportunities for people in Wales. However it is worth noting that according to UKG own impact assessment ⁷, growth in GDP will be small (0.08% for the UK by 2035). We also need to consider in what sectors we could expect employment to grow and whether these fall under the definition of the 'decent work' that the Prosperous Wales goal intends. At the same time, we believe the deal could represent a risk to our agricultural sectors, given the size and type of agricultural quotas included in the Agreement. At the same time, there are many variables and unknown factors at play, such as technological developments and utilisation rates of the Agreement. Therefore, we cannot say with any certainty at this point whether the deal will truly support this well-being goal.

A Resilient Wales⁸

2.13 This goal includes a focus on maintaining biodiversity in our natural environment and thereby protecting and promoting resilience that enables Wales to function as a diverse economic and agricultural ecosystem. Nothing in the Agreement should directly affect our ability to maintain and enhance our biodiverse natural environment and our environmental resilience.

2.14 Although the Agreement could have better reflected UK ambitions on the global environment and climate change and been used to further action in this area, the deal does include cooperative arrangements which are welcomed and, depending on the level of cooperation and agreement moving forward, could help both parties move towards a low carbon society that aligns with our goal in this area. However, there is the possibility that increased trade flows

with Australia, and the geographical distance involved, could lead to environmental harm and more carbon emissions due to haulage of goods and additional packaging. There is also the risk that the deal could lead to importing goods when there are products that are produced using lower carbon emitting processes made closer to home

2.15 The Agreement does not affect the UK's right to regulate on environment and climate change, nor does it incentivise or lock in any commitments around areas like carbon emissions targets. Therefore, this can offer both opportunities and risks that affect this well-being goal depending on how parties choose to use this freedom going forward.

A Healthier Wales⁹

2.16 The exceptions and exclusions for the NHS from the Agreement are welcomed.

2.17 Overall, the Agreement itself appears to ensure that our ability to regulate and deliver on health matters will not be adversely affected through obligations or commitments made with Australia. The UK can continue to regulate on areas such as medicines, food and product and in Wales we can continue to ensure our high standards on Sanitary and Phytosanitary measures and measures to combat anti-microbial resistance are maintained and improved without being negatively affected by the terms of the Agreement.

6 Prosperous – an innovative, productive and low carbon society which recognises the limits of the global environment and therefore uses resources efficiently and proportionately; and which develops a skilled and well-educated population in an economy which generates wealth and provides employment opportunities, allowing people to take advantage of the wealth generated through securing decent work

7 **Impact assesmenet of the Free Trade Agreement between the United Kingdom of great Briatain and Northern Ireland and Australia**

8 Resilient – a nation which maintains and enhances a biodiverse natural environment with healthy functioning ecosystems that support social, economic and ecological resilience and the capacity to adapt to change.

9 Healthier – a society in which people's physical and mental well-being is maximised and in which choices and behaviours that benefit future health are understood.

2.18 It is worth noting that people's health and well-being is also affected by the wider determinants of health, such as financial security, housing, education, employment and relationships with others. Therefore, the agreement, and the impacts that we have considered under other goals, may have broader impacts for health and well-being in addition to direct impacts on health and care services.

A More Equal Wales¹⁰

2.19 The Agreement contains provisions on labour and gender equality to recognise and address the potential adverse effect that trade and investment has in these two areas. The focus and breadth of the Agreement can make it difficult to ensure all parts of society are considered fully, but the Agreement should allow both parties to develop their own domestic policies around equality and inclusion.

2.20 More broadly, some sectors are likely to face risks from this deal, where others are not. We do not believe that trade deals should create opportunities for some parts of the UK at the expense of others and we have made this view clear to the UK government.

A Wales of Cohesive Communities¹¹

2.21 Certain communities may be affected by the Agreement, for example the inclusion of schemes to enable youth mobility and business to business mobility could promote diversity and global responsibility in our future generations. Although it is important to note that mobility does not equal permanent settlement and employment in another country, it is about short-term movement across borders for specific business or other defined purposes, and at this stage it is difficult to quantify how much these new opportunities will be used.

2.22 In addition to the direct impact of mobility, we have been clear in discussions with the UK government that deals which have a disproportionate negative impact on particular sectors would inevitably impact on the communities around them. For example, agriculture is particularly important to rural communities, providing economic activity and employment. The same is true for other areas that have a high reliance on one particular sector. Wider employment opportunities, as well as health considerations (noted under 'prosperous' and 'healthier' above) will also have an impact on communities.

A Wales of Vibrant Culture and Thriving Welsh Language¹²

2.23 Nothing in the Agreement will affect our ability to deliver our initiatives and programmes aligned to this well-being goal. Our vibrant export programme focusses on the strength of Welsh culture and national identity as positive factors in encouraging trade and inward investment.

2.24 Culture and national identity are considered sensitive issues between trading partners, and as such are rarely affected by the terms of any FTAs. Where there is the potential for impact – such as on any commitments and obligations made on the audio-visual industry (creative industry), parties agree to exclude the industry from the scope of trade agreements. This Agreement follows a similar approach in excluding the audio-visual industry from the scope of the services oriented obligations.

2.25 We are aware that some sectors may be integral to supporting Welsh culture and Welsh language speaking communities, for example agriculture. We have taken this into account in both our engagement with the UK government and our analysis of the deal.

¹⁰ Equal – a society that enables people to fulfil their potential no matter what their background or circumstances

¹¹ Cohesive Communities – attractive, viable, safe and well-connected communities

¹² Culture and Welsh Language – society that promotes and protects culture, heritage and the Welsh Language, and which encourages people to participate in the arts, and sports and recreation

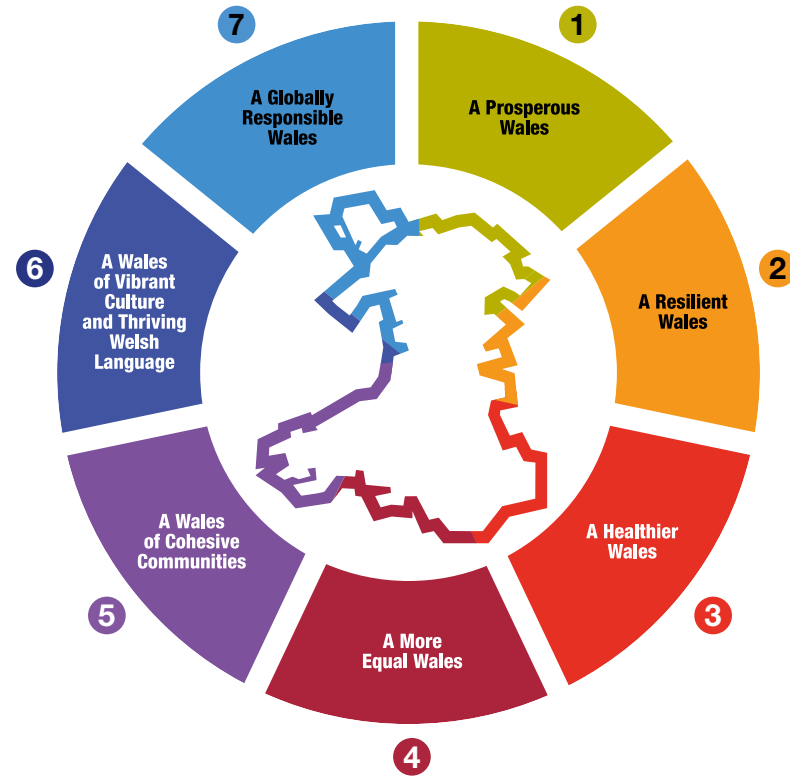
A Globally Responsible Wales¹³

- 2.26 Although the Agreement is negotiated and concluded by the UK Government, we have continued to consider how trade agreements can support our globally responsible well-being goal. Specifically, we have been clear with the UK government that we would have wanted to see more ambition in addressing the global climate change emergency with Australia, as well as wanting to see more commitments around sustainability, firmer commitments to improved animal welfare standards and more ambitious provisions addressing the global threat of anti-microbial resistance.
- 2.27 We also need to consider what products may now be easier to import into the UK, or may be imported at a greater volume, as a result of the deal and how this impacts on this well-being goal.
- 2.28 The Agreement raises other issues, such as with potential trade diversion, global supply chains (which could impact on developing countries), and greenhouse gases, which we have not included in the scope of this report. It also raises issues around the precedent this deal will set for future deals, which could multiply some of the concerns we do have. However, given these deals have not yet been agreed it is impossible for us to say at this point, exactly how this deal will influence future negotiations.
- 2.29 The above only covers some of the examples of the high level analysis of where trade policy links to the Well-being of Future Generations Act. Whilst we have not included a narrative on every potential impact, we have tried to consider all elements of the deal through this lens. The diagram below provides further detail to exactly which main well-being goals considered when looking at specific chapters of the agreement.

¹³ Globally Responsible – a nation which, when doing anything to improve the economic, social, environmental and cultural well-being of Wales, takes into account of whether doing such a thing may make a positive contribution to global well-being.

Table 1: List of Chapters & Analysis

01 Initial Provisions and General Definitions	
02 Trade in Goods	1 2 3 4 5 6 7
03 Trade Remedies	1 4 7
04 Rules of Origin	1 4 7
05 Customs	1 4
06 SPS	2 3 7
07 TBT	1 2 3 4 6 7
08 Cross Border Trade Services	1 2 4
09 Financial Services	1 2 4
10 Professional Services and the Recognition of Professional Qualifications	1 2 4 5
11 Temporary Entry for Business Persons	1 2 5
12 Telecommunications	1
13 Investment	1 2 4
14 Digital trade	1 2 4
15 Intellectual Property	1 2 3 4 7
16 Government Procurement	1 5 6 7
17 Competition Policy and Consumer Protection	1 4
18 State-Owned Enterprises and Designated Monopolies	1 4 7
19 Small and Medium-Sized Enterprises	1 4 5 6 7
20 Innovation	1 4 7



21 Labour	4 7
22 Environment	1 3 4 7
23 Development	4 7
24 Trade and Gender Equality	1 4 7
25 Animal Welfare and Antimicrobial Resistance	1 2 3 7
26 Good Regulatory Practice	1 2 3 4 6 7
27 Co-operation	1 2 3 4 6 7
28 Transparency and Anti-Corruption	1 2 7
29 Administrative and Institutional Provisions	
30 Dispute Settlement	1 2 7
31 General Provisions and Exceptions	3
32 Final Provisions	1 2 3 4 5 6 7

3. Welsh Government involvement during the negotiations

- 3.1 Only the UK government has the power to conclude international agreements that bind the whole of the UK. However, the Welsh Government does have the power, under Section 62 of the Government of Wales Act 2006¹⁴, to make representations about any matter affecting Wales. Given the impact trade agreements can have across society, we consider it our responsibility to make representations to the UK government about these agreements, particularly where they intersect with devolved matters.
- 3.2 In addition, the Senedd has the power to pass laws relating to the observation and implementation of international obligations, meaning the Welsh Government and the Senedd both have legitimate and crucial interests in the negotiation and terms of any international agreements that require Welsh implementation.
- 3.3 The Welsh Government always seeks to be a constructive partner in trade negotiations, sharing analysis and working with UK government to ensure the representation of Welsh interests in negotiations. The Welsh Government have worked closely with the Department for International Trade (DIT) to develop this constructive working relationship.
- 3.4 During the negotiations with Australia, engagement was predominately positive, particularly in areas where the UK government understand and accept there is an interaction with devolved policy. At a Ministerial level, discussions have taken place through the Ministerial Forum for Trade, as well as through separate bilateral meetings. At an official level draft text of chapters in devolved areas were shared throughout the negotiations and officials were able to discuss negotiations on a regular basis, including with specific policy teams and the negotiation team itself.
- 3.5 Although engagement relating to devolved areas was largely positive, information sharing relating to areas viewed as ‘reserved’ by the UK government, such as market access, was restricted, despite these areas often having a disproportionate impact on Welsh producers.
- 3.6 Without access to detailed information on the UK governments approach to ‘reserved’ matters or adequate discussions on market access offers, meaningful engagement on these issues is limited. even if matters are considered reserved by UKG they can have direct and indirect impacts on devolved areas and therefore engagement is crucial to enable us to understand the full impact of the UK government negotiating intentions and outcomes
- 3.7 For future deals, the Welsh Government will continue to ask that devolved governments need to be involved in all areas of negotiations that could impact on them, regardless of whether decisions in these areas are considered ‘reserved’.

4. Assessment of the Agreement text

Trade in Industrial Goods

Overview

- 4.1 Latest figures for the year ending December 2021¹⁵, show the value of goods trade to be £190.7m, of which imports and exports were worth £58.5m and £132.2m respectively. This is up from £158.4m in 2020 and is largely driven by the recovery in goods trade following the COVID-19 pandemic. The latest data shows Australia was the 18th largest export market for Wales accounting for around 0.9% of Welsh goods exports, and the 43rd largest import market with around 0.4% of Wales' total goods imports coming from Australia.
- 4.2 According to the latest data for the year ending December 2021, Wales exported the lowest value of goods to Australia of all UK nations, with £132.2m worth of goods exported, equivalent to around 0.9% of Wales total goods exports.
- 4.3 It is important to note the context for this agreement, in terms of geography. Whilst we have analysed the provisions in the deal, feedback from Welsh industry has highlighted that the geographical distance between the UK and Australia will make manufacturing processes and supply chains difficult, especially for businesses operating under 'just-in-time' processes. However, it is difficult

to assess at this stage, exactly what impact this will have in practice. The distance between the two countries also means that transportation costs are high, with components and parts taking months rather than days/weeks to arrive.

Introduction

- 4.4 The Agreement may help improve the flow of industrial goods between Australia and Wales and may provide new opportunities for Welsh businesses.
- 4.5 Both parties to the Agreement reaffirm their commitment to the national treatment principle under Article III of the General Agreement on Tariffs and trade¹⁶ (GATT), and that article is incorporated into the Agreement. Broadly speaking Article III requires imported goods to be treated on an equal basis to their domestic equivalent in similar circumstances. The Agreement reaffirms the parties' commitment to not adopt or maintain any type of export subsidy¹⁷ on any goods, or place tariffs on goods that are re-entering the country after repair or alteration.

15 From 31 December 2020, the way HMRC collects trade in goods statistics changed, resulting in a break in the time series for published UK to EU export statistics from January 2021. This affects the final three months of the latest annual data, and therefore historic comparisons should be treated with caution. Detailed notes of these effects can be read in the [HMRC Commentary](#) on these statistics.

16 [Article III*: National Treatment on Internal Taxation and Regulation](#)

17 An export subsidy is a government incentive to encourage the export of goods by producers, rather than domestic consumption. Export subsidies tend to lead to increased domestic pricing due to limited domestic supply being available

Chapter 2 – Trade in Goods (Tariffs)

- 4.6 Under the terms of the Agreement, Australia has agreed to remove tariffs on all goods that qualify as originating from the UK (i.e. by meeting the agreed rules of origin arrangements), but with some staging arrangements in place where tariffs will be gradually reduced over time. The UK has also agreed to remove tariffs on the majority of goods that qualify as originating from Australia, with the exception of pork, and most poultry and egg products (i.e. the UK will still apply tariffs on the import of these goods from Australia). To help protect sensitive goods, the UK has in place specific tariff treatments such as staging arrangements, tariff rate quotas and product specific safeguards. The UK also has specific tariff treatments in place for sensitive agricultural goods which differ from Australia.
- 4.7 Most industrial goods will be tariff-free upon entry into force of the trade deal between the two countries if relevant rules of origin arrangements are met.
- 4.8 However, certain UK steel products will be subject to staging arrangements where Australia have agreed to liberalise and eliminate tariffs on those products over a period of 5 years. Further to this, the liberalisation will only apply when the UK removes its global safeguards on Australian steel¹⁸.
- 4.9 Unlike agricultural goods, the deal does not put in place any Tariff Rate Quotas (TRQs) or Product Specific Safeguards on any industrial goods coming into the UK.
- 4.10 As Australian Most Favoured Nation (MFN¹⁹) tariffs are already generally low on industrial goods (between 0-5%), the benefits of securing tariff-free trade for Welsh industrial goods exports are expected to be small. For those Welsh goods where tariffs did exist, such as perfumery and cosmetics; machinery; transport equipment; and medicines and pharmaceuticals, these can now be exported to Australia tariff free providing they comply with rules of origin. Although these products make up a considerable part of the value of Welsh industrial goods exports to Australia, generally low Australian MFN tariffs on industrial goods (between 0-5%) and the small reduction in tariffs is unlikely to lead to any significant increase in their trade with Australia, especially if non-tariff barriers (which can be more costly) still exist.
- 4.11 For industrial goods where the Australia MFN tariffs were already 0%, we would not expect the new FTA to improve trading dynamics. In reality, businesses and individuals may choose not to use the FTA for these goods, especially given they will need to undertake additional administration to demonstrate and comply with the rules of origin arrangements to benefit from the 0% tariffs. Companies do not need to comply with the preferential rules of origin arrangements in the Agreement if they continue to trade with Australia under World Trade Organisation (WTO) MFN terms.
- 4.12 Welsh automotive supply chain companies could potentially see a benefit from the Agreement as UK end-product manufacturers look to take advantage of the tariff liberalisation by Australia on UK originating vehicles through increasing their domestic production to export to Australia. Other Welsh supply chain companies in other sectors may also experience a similar outcome. Manufacturing companies in Wales that have a service embedded or included as part of their product e.g. a service contract or embedded digital element ('Mode 5' products), could also find it easier to trade due to the new mobility arrangements for services providers elsewhere in this Agreement.
- 4.13 The Agreement however does not address the current Luxury Car Tax (LCT) imposed by Australia. The LCT is a tax on cars with a total value above a certain threshold set by the Australian Taxation Office (ATO) and applies to the sale of cars that are two years old or less.

18 Global safeguards are arrangements put in place by governments to protect a domestic industry from an increase in imports of any product which is causing, or which is threatening to cause, serious injury to the industry.

19 MFN – Most Favoured Nation – tariffs that are applied to all nations on imports to a country, unless there is a trade agreement or customs union in place between the respective parties concerned.

A car's value is determined by the retail price, including Goods and Services Tax (Australia's version of VAT) and any customs duties/tariffs, dealer delivery and extra items applied to the car before delivery.

Chapter 3 - Trade Remedies

- 4.14 The inclusion of the trade remedies Chapter is welcomed, offering further protection for Welsh industries against unfair trading practices, or an unexpected influx of Australian imports of goods that cause serious harm or injury to domestic producers or manufacturers.
- 4.15 Much of the provisions replicate and reinforce provisions found in the WTO Agreement on Anti-Dumping, the WTO Agreement on Subsidies and Countervailing Measures, and the WTO Agreement on Safeguards.
- 4.16 It is important that Welsh industries actively report and escalate any concerns to relevant trade bodies and authorities, if they feel that the trade deal with Australia is affecting negatively on their business. This can be as a result of unfair practices (such as unfair subsidies issued by Australia), or through particularly high volume of imported goods (although some increased competition from imports should be expected).
- 4.17 This general bilateral safeguard mechanism aims to prevent serious injury on domestic industries as a result of increases in imports of any given good or product. As the safeguard mechanism needs to be considered and applied by reference to the UK-wide domestic industry, if only a particular region of the UK industry is at risk of serious injury (then the safeguard mechanism may not be available to assist),

Chapter 4 - Rules of Origin (RoO)

- 4.18 Both the UK and Australia have agreed to tariff free trade for all industrial goods. Only originating industrial goods that meet the rules of origin arrangements will qualify for these arrangements. Industrial goods that cannot demonstrate they originate from the country concerned by complying with the agreed originating rules, will be traded under WTO MFN terms and tariffs.
- 4.19 Rules of origin are one of the main non-tariff barriers to trade. They can have a significant impact on how businesses trade internationally and, if not agreed appropriately, can limit the ability of businesses to utilise trade agreements. For some products, businesses may not use FTAs, especially where MFN tariffs are that same as the tariffs in the FTA. Trading in this way can make sense because preferential rules of origin that must be met under an FTA are likely to be more burdensome than non-preferential rules of origin applied by WTO members when offering MFN tariff rates.
- 4.20 Although the Agreement commits both parties to rules of origin that may take into account modern production processes, as well as existing and future global supply chains, it does not allow for non-restrictive cumulation of third party materials and inputs in goods exports to either country. This means that materials and processing from other countries and regions outside of the FTA will not automatically count towards originating status for goods being exported.
- 4.21 The Agreement does contain a provision that allows non-originating materials to be used, as long as they meet various requirements set out in the Chapter. The UK and Australia have also agreed to 'Product-Specific Rules of Origin' (PSRs) which allow third country materials and inputs to count as originating, but only if they have undergone certain changes in tariff classifications, or certain other kinds of changes, or if the regional value content in the overall finished goods meets certain thresholds.

- 4.22 For example, Welsh producers can use EU materials or inputs and have goods qualify as originating in exports to Australia, as long as the way EU materials are used complies with the rules.
- 4.23 For industrial goods, the UK has been able to secure PSRs that allows for finished vehicles being exported from the UK to Australia to have a regional value content (RVC) of 25%, but have the whole vehicle count as being of UK origin for the purposes of accessing the preferential tariff rates. However, for intermediate components and parts, such as gears and brakes, the RVC is 40%.
- 4.24 RVC PSRs mean that a finished product must include a certain percentage of originating content, before it can be determined as originating for the purposes of accessing preferential tariffs.
- 4.25 Businesses will need to be able to determine the RVC of their goods according to the methods and arrangements as outlined in the rules of origin chapter.
- 4.26 To provide more flexibility, businesses can also use an alternative product-specific rule such as CTH (change in heading) or CTSH (change in subheading) rather than RVC. This is when the materials and components have been significantly processed so that the finished product is in a completely new tariff heading from the original materials and components used.
- 4.27 In simple terms, the Agreement provides for more emphasis in ensuring the production/manufacturing of a particular good is carried out in the UK or Australia, rather than looking at where the components and ingredients have originated from. For example, Welsh cakes made in Wales with ingredients, imported from different countries can still qualify as originating and can be exported tariff-free to Australia as the emphasis needs to be on the final product being the originating product not the ingredients²⁰. This often applies to industrial goods as well, as long as components and parts used are processed and manufactured into becoming a different product.
- 4.28 RoO and PSRs are likely to place increased administrative and financial burdens on businesses wishing to access the preferential tariff arrangements under the agreement. Evidence shows²¹, some businesses are struggling with RoO, and more needs to be done by the UK government around the implementation of FTAs and ensuring they are understood by businesses. This is something the Welsh Government will also take account of when engaging with businesses.
- 4.29 Industry and businesses will need to ensure that they are familiar with the arrangements around how origin must be declared and documented; including the agreed length of time for record keeping and the processes around verification of origin by respective customs authorities. Cases of non-compliance, incorrect documentation and/or inaccurately declared origin are subject to potentially high penalties by respective parties.
- 4.30 This analysis has been carried out at a high level and may not consider any unique arrangements on specific goods. Therefore, due to the overall complexity of RoO, industry and businesses should always seek expert advice and guidance on how the specific arrangements affect their particular product if they wish to make use of preferential tariffs under this Agreement when exporting to or importing from Australia.

Chapter 5 - Customs

- 4.31 Australia and the UK have committed to having simpler and more efficient and transparent customs procedures as part of the FTA that should help to make trade easier between the two countries.

²⁰ Rules of Origin in the UK-Australia Free Trade Agreement

²¹ [Business Insights and Conditions Survey](#)

- 4.32 The Agreement sees both sides committing to release goods within 48 hours of their arrival (as long as all requirements are met), with some goods (e.g. perishables and fast tracked) being released within 6 hours.

Chapter 7 - Technical Barriers to Trade

- 4.33 The Technical Barriers to Trade (TBT) Chapter of the Agreement reinforces the principles of the WTO TBT Agreement (which both the UK and Australia need to comply with as WTO members), whilst including additional provisions to help ensure that regulations introduced by either Party are non-discriminatory and do not create unnecessary trade barriers.
- 4.34 It also contains provisions that preserve both parties right to regulate for the purposes of national interest, including for the protection of health, safety and the environment. It includes commitments from both countries to increase the level of cooperation in the development of technical regulations, standards and conformity assessments²², with a view to removing duplication of processes and market access approval. Most importantly, the agreed provisions do not seek to change the way the UK considers risks in the development of regulations, or in the way the UK develops standards and accredits conformity assessment bodies²³.
- 4.35 The cooperative nature of the provisions secured in the Agreement under the TBT chapter are unlikely (in the short to medium term) to result in any immediate significant non-tariff barriers in trade for businesses between the UK and Australia, especially as the UK and Australia already have a Mutual Recognition Agreement (MRA) in place to help ease non-tariff barriers to trade.
- 4.36 The MRA is a separate agreement independent of the UK-Australia Agreement that aims to reduce the administrative and financial burden for businesses on certain goods. Goods covered by the

MRA can be tested domestically against the regulations of the other country, before being sold overseas without additional testing.

- 4.37 The UK-Australia MRA is a rollover of the EU-Australia MRA agreed between the EU and Australia on 11 November 2005. Similar to the EU-Australia MRA, the UK-Australia MRA covers: automotive products; electromagnetic compatibility (EMC); low voltage equipment; machinery; medical devices; pressure equipment; telecommunications terminal equipment; and good manufacturing practice (GMP) for pharmaceuticals.
- 4.38 It is important to highlight that the TBT Chapter only applies to regulations, standards and conformity assessment procedures made by the central level of government, i.e. the UK government. Regulations, standards and conformity assessment procedures developed, and implemented, by the Welsh Government will not need to abide by the obligations set out and agreed in the TBT Chapter (although the UK government is obliged to take reasonable measures to ensure the Welsh Government and other devolved governments comply with the chapter). However, as many regulations on goods are reserved – including on product safety and standards – the provisions agreed in the Chapter will impact on the types of goods manufactured by Welsh businesses and purchased and consumed by Welsh consumers.
- 4.39 Furthermore, the TBT Chapter contains a provision that sees the potential for the UK to accept certain Australian regulations as equivalent to UK regulations, which could help to further reduce non-tariff barriers to trade between the two parties. Although this provision could be considered low risk, as the requirement is on the two parties to only give consideration to accepting each other's regulations as equivalent, rather than a requirement to actually accept them, it is not yet known how this provision will take into account (if at all) regulations developed by devolved governments.

²² Technical regulations are mandatory and required by governments before goods are allowed on the market; standards are voluntary requirements but are used to underpin most technical regulations; and conformity assessments refers to the testing and certification of goods to meet the technical regulations and standards

²³ Conformity assessment bodies (CAB) are accredited bodies approved to assess (test) conformity against a particular set of regulations and standards.

There is the potential that such a provision could lead to the reduction in the effect of regulations that the Welsh Government have developed in devolved areas for the purposes of protecting public health and other devolved matters, especially if the Welsh Government is not party to any discussions between the UK and Australia regarding equivalency of regulations.

- 4.40 Finally, although the Chapter contains a provision which states that neither Party can use the terms agreed under the Dispute Settlement Chapter for any disputes arising out of the TBT chapter, it does not mean that dispute settlement is not available to either Party. In the absence of a formal dispute resolution procedure under the Chapter it is presumed that either Party will seek to resolve issues under the TBT committee that will be established to oversee this chapter; and it will be open to either Party to seek to resolve disputes via the WTO if they also fall within the remit of the WTO Dispute Settlement Understanding.

Side Letter on Medicines and Medical Devices

- 4.41 The inclusion of the Side Letter on Medicines and Medical Devices does seek to provide for some form of regulatory cooperation between the two parties, although the areas highlighted are broad and offer no strong commitments to ease trade.

Side Letter on Public Health Cooperation

- 4.42 The Side Letter on Public Health Cooperation secured with Australia is of particular interest to the Welsh Government given our devolved powers in this area, and we look forward to working closely with the UK government to ensure Welsh views are considered with our Australian counterparts.
- 4.43 Public health is a key concern, and the Welsh Government shares the objectives of addressing key health challenges.

Chapter 17 - Competition Policy and Consumer Protection

- 4.44 Given the similarities between the UK and Australia, the inclusion of the competition policy and consumer protection Chapter is a way of reinforcing the shared values and expectations in this area by both countries.
- 4.45 The provision agreed in this Chapter requires the UK and Australia to have laws which forbid anticompetitive agreements, anticompetitive practices by entities that have substantial market power, and addresses mergers that may have substantial anticompetitive effects. It requires each Party to have an operationally independent national competition authority to enforce these laws, and to provide a right of redress where a person's business or property is injured as a result of a breach of competition laws.
- 4.46 The Chapter also protects consumers by requiring the UK and Australia to have laws to prohibit fraudulent, deceptive and unfair practices, and to provide rights to consumers with regard to the fitness, quality and description of goods, and the quality and skill of services.
- 4.47 It should be noted; that competition provisions are not only restricted to this Chapter and can be found in other parts of the Agreement (such as in the State Owned Enterprises Chapter).

Chapter 26 - Good Regulatory Practice (GRP)

- 4.48 Devolved governments are not in scope of the GRP Chapter. However, all devolved governments have GRP frameworks in place that align with the commitments made between the UK government and the Australian government.
- 4.49 The GRP Chapter puts in place provisions for both parties to promote good regulatory practices in the process of planning, designing, issuing, implementing and reviewing regulatory measures.

The Chapter and the associated provisions create a strong precedent for future FTAs. The UK and Australia have agreed to ensure that they have transparent, predictable and stable regulatory frameworks in place that provides exporting businesses and investors with the confidence and stability they require for trade.

Chapter 31 - General Provisions and Exceptions

4.50 Aside from the provisions included in this Chapter that preserve both parties' rights to regulate, the Agreement also contains an article emphasising the exceptions and exclusions contained in specific Chapters of the Agreement that are applicable to the NHS (and Australian Health Service). The Welsh Government will continue to request that the UK government honours its commitment to exclude the NHS in the negotiation of any future FTAs. This includes excluding any provisions in FTAs that could impact on the price the NHS pays for medicines and the services that the NHS provides.

Trade in Agriculture

Overview

4.51 Data from the year ending December 2021 shows that agricultural trade²⁴ between Wales and Australia represented £8.2m, with £4.1m of imports and £4.1m of exports.

Introduction

4.52 A free trade agreement with Australia does not offer any significant opportunities for Welsh agricultural producers as Australia is not seen as a market from which Welsh producers can seek to benefit. The Agreement does, however, present a number of concerns including increased market access granted to Australian producers that have the potential to impact on Welsh producers.

Agricultural market Access

Beef and Sheep Meat

- 4.53 The Agreement provides for a phased approach to the full liberalisation of tariffs on beef and sheep meat imports over a period of 10 years and over 5 years for dairy products. Over this 10 year transition phase, new Tariff Rate Quotas (TRQs) will be applied and imports within this quota will be duty free.
- 4.54 This phased approach to tariff liberalisation includes an immediate increase to the tariff-free quota for Australian imports of beef, sheep meat and some dairy products. Imports of Australian sheep meat are currently at zero tariff up to the limit of the existing TRQ of 15,349 tonnes and utilise a 20% tariff for beef with a TRQ of 4,669 tonnes. From Year 1, both products will benefit from zero tariff TRQs of 35,000 tonnes for beef and 25,000 tonnes for sheep meat. As sheep meat already benefits from a zero tariff TRQ of 15,349 tonnes, each annual TRQ increase in the agreement will be in addition to this initial quota for products that meet the preferential rules of origin in the Agreement.
- 4.55 From years 11 to 15 a product-specific safeguard will come into effect, allowing ad valorem tariffs to be increased to 20% for beef and sheep meat if imports rise above a volume threshold. The volume thresholds are significant and the Welsh Government have doubts that these thresholds will ever be reached. As such, it is unlikely that these tariffs would ever come into effect.
- 4.56 Table 2 shows the TRQs for sheep meat as detailed in Section 2B of the final UK-Australia Agreement. For comparison, the UK imported approx. 9,090 tonnes of sheep meat from Australia in 2021 (against a TRQ of 15,349 tonnes).

24 Agricultural trade is defined as SITC 00, 01, 02, 04, 05.

- 4.57 For sheep meat, an additional product specific safeguard will apply throughout the 15-year period. If imports reach 95% of the TRQ for two successive years in years 1-10 then a 25% reduction is applied to the following year's TRQ. If Australia later fills its product specific safeguard volumes, then all outstanding safeguard trigger volumes will be reduced by 25%, this applies for years 11-15 of protections.
- 4.58 The TRQ increases for beef are both proportionally and by volume significantly larger than for sheep meat. The levels at which these increases have been set are high and the Welsh Government have requested analysis from the UK government to understand why such increases were agreed. For comparison, the UK imported approx. 914 tonnes of beef from Australia in 2021, against a TRQ of 4,669.
- 4.59 The UK government's own analysis²⁵ of the impact of the agreement models a 0.70% reduction in Gross Value Added (GVA) for the agriculture, forestry, and fishing sector across the UK as a whole.
- 4.60 Welsh agriculture sectors may be at risk from any increased tariff free market access. This analysis further shows that UK government modelling has a best estimate of a reduction in gross output of around 3% for beef and 5% for sheep meat as a result of liberalisation.
- 4.61 The Welsh Government have asked the UK government for a Welsh specific impact assessment for all FTAs and have requested early access to the UK government's impact assessments outlining the economic impacts for Wales. A better understanding of the cumulative effects of the various trade agreements under consideration by the UK government would allow for a greater degree of analysis and consideration. The Welsh Government have continued to request sight of any cumulative impact modelling the UK government have undertaken, but at present, are unaware that any such modelling work exists.

Table 2: Sheep Meat TRQ

Year	Quantity (MT)
1	25,000
2	30,556
3	36,111
4	41,667
5	47,222
6	52,778
7	58,333
8	63,889
9	69,444
10	75,000
11	85,000
12	95,000
13	105,000
14	115,000
15	125,000

²⁵ [Impact assessment of the Free Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and Australia](#)

Table 3: Beef TRQ

Year	Quantity (MT)
1	35,000
2	43,333
3	51,667
4	60,000
5	68,333
6	76,667
7	85,000
8	93,333
9	101,667
10	110,000
11	122,000
12	134,000
13	146,000
14	158,000
15	170,000

4.62 The Agreement grants market access based on ‘product weight’ rather than ‘carcass weight equivalence’. By including this provision Australia is free to maximise their full TRQ limits with particular cuts of high value beef or lamb meat. This could add to the potential risks faced by the agriculture sector and was something that Welsh Government advocated against during negotiations.

Dairy Products

4.63 The Agreement offers immediate duty free tariff rate quotas across a range of dairy products including butter and cheeses. Imports of dairy products from Australia to date have been limited, however this trade deal will create zero tariff TRQs for both butter and cheese, leading to full liberalisation over a five-year period.

4.64 During negotiations, the Welsh Government made calls for market access offers that recognised the risks that large increases in imports could pose to Welsh producers who must meet high animal welfare and environmental standards. The final deal is therefore not reflective of our views.

Chapter 6 - Sanitary and Phytosanitary

4.65 Overall the Welsh Government are supportive of the provisions made in the SPS Chapter including retaining the right to regulate our own SPS standards and provisions which allow the UK to determine the equivalence of the measures and standards in place for any products imported from Australia. There is also a commitment to ongoing cooperation and collaboration in multilateral fora to develop international standards, guidelines and recommendations for SPS.

Chapter 25 - Animal Welfare and Anti-microbial Resistance

- 4.66 The Agreement includes a standalone chapter on Animal Welfare and Anti-microbial Resistance. Producers in Wales meet some of the highest animal welfare regulatory standards in the world. FTA agreements being negotiated by the UK government could commit potential trading partners to improving their own standards for exported products to ensure that our producers are competing on a level playing field. This agreement does not achieve that with the provisions included for Animal welfare.
- 4.67 The animal welfare standards of Australia are not equivalent to those in Wales and some of the practices do not align with our domestic standards or commitment to animal welfare. While some of the provisions that promote ongoing cooperation between the UK and Australia and welcome, others should have sought binding and more ambitious commitments to improving standards of animal welfare.
- 4.68 Anti-microbial resistance (AMR) is acknowledged as one of the largest threats to public health and the Welsh Government sought more ambitious text and firmer commitments to the phasing out of the use of antimicrobial agents for non-medicinal purposes, including use as growth promoters. The Welsh Government welcomes the provisions on cooperation in the realm of AMR but the establishment of a joint working group could achieve more

Trade in Services

Overview

- 4.69 Trade in services is an important component of overall Welsh trade. Latest estimates of Welsh trade in services show that imports and exports of services were valued at £5.3bn and £6.7bn respectively in 2019²⁶. Latest estimates of Welsh trade in services show that Wales' total trade in services with Australia was valued at £234m in 2019.

	Value (£m)	% of Total
Exports to Australia	£53m	1.0%
Imports from Australia	£181m	2.7%

Introduction

- 4.70 The Agreement provides Welsh services providers and investors already operating or considering starting to operate in Australia with greater certainty on rules, regulations, necessary documentation and short-term movement of people for business purposes and market access.
- 4.71 There is a focus on the liberalisation of service provision for investors and service providers and security for service providers and consumers, including when operating digitally. In addition, there are standalone chapters on financial services, professional and business services and recognition of professional qualifications and, in a first for free trade agreements, an innovation chapter.
- 4.72 To understand the terms of the Agreement, the provisions summarised below need to be considered in conjunction with exceptions outlined in the following annexes of the agreement, these include:
- Annex I and II Schedules of Non-Conforming Measures for Services and Investment,

- Annex III Schedules of Non-Conforming Measures for Financial Services, and
- Annex IV Schedules of Non-Conforming Measures for Temporary Entry for Business Persons.

4.73 There are also a range of non-legally binding side letters including provisions on government data sharing of export data, mobility and for agriculture and agribusiness workers.

Chapter 8 - Cross Border Trade in Services (CBTS)

- 4.74 For Cross Border Trade in Services (CBTS) the Agreement gives greater access for services companies and investors to the Australian market. Welsh services providers in certain sectors will be able to send UK staff to Australia without being subject to the Australian Skilled Occupation List. The Agreement also means that Welsh (and UK) service suppliers will not have to establish an office in Australia to be able to supply a service from the UK.
- 4.75 Non-discrimination provisions ensure that Australia cannot discriminate in favour of its own service providers against UK service providers. In addition, should the UK negotiate more liberal services market access in any future trade agreements with other countries these terms will be extended to the UK-Australia trade agreement ensuring the Agreement is continually locking in increased liberalisation.

4.76 There are new commitments on express delivery services and international maritime transport services likely to benefit a range of sectors; for instance, communication services (including postal, courier services and telecommunications), distribution services and transport services. Service sectors such as construction and related engineering services, environmental services and tourism and travel-related services may also benefit from the service provisions within the Agreement. This demonstrates the cross-cutting nature of trade in services – impacts on one sector often affect another.

Chapter 9 - Financial Services

- 4.77 Financial services and financial technology (FinTech) are important and growing sectors for Wales. The Agreement includes new commitments for insurance and portfolio management sectors, as well as locking in existing financial access.
- 4.78 It supports the growth of new FinTech, makes progress on improvements for new and emerging technology and builds on the existing UK-Australia Fintech Bridge.
- 4.79 The Agreement also includes novel approaches recognising the importance of allowing financial service suppliers to offshore their back-office functions whilst avoiding the imposition of performance requirements on those functions. There is supportive text on the development and uptake of sustainable finance but without any legal commitments.
- 4.80 Annex 9c on Financial Services Regulatory Cooperation, aims to “promote and develop regulatory cooperation in financial services”²⁷ by working bilaterally and in international bodies; in addition, the parties will establish a ‘Joint Financial Regulatory Forum’.

27 Article 9.24: Financial Services Regulatory Cooperation

Chapter 10 - Professional Services and Recognition of Professional Qualifications

- 4.81 Professional Services is an important sector for both the UK and Australia. For the purposes of this Agreement “Professional services include accountancy and auditing services, architectural services, engineering services, legal services, and other types of professional services”. The definition allows some flexibility for both parties as there is little consensus on what a professional service is that is outside the core definitions listed above. The Agreement encourages a range of developments in professional services between the parties to facilitate the sharing of knowledge, standards and regulations between relevant bodies.
- 4.82 The Chapter makes specific provision about legal services. It prevents the UK and Australia requiring each other’s lawyers to requalify in order to be able to provide some kinds of advisory and other legal services in the fields of international and foreign law.

Chapter 11 - Temporary Entry for Business Persons

- 4.83 The Agreement builds on the expanded access to the Australian market, providing greater opportunities for UK business travel and for UK service providers and investors to live and work temporarily in Australia. There are new requirements for UK companies to enable sponsorship of Australian professionals (under certain visas) without needing to prove first that no British national could undertake the role.
- 4.84 There are specific commitments on business visitors for establishment purposes, short term business visitors including investors, temporary entry of skilled personnel, guaranteed access for managers and for specialists on temporary visas as ‘intra-corporate transferees’ (ICTs) to bring their dependents to the UK, obtain work rights for partners and to stay for three years.

Side Letter on Mobility

- 4.85 The Agreement includes new Working Holiday Maker and Youth Mobility schemes (due to start within two years of entry into force of the agreement), and an Innovation and Early Careers Skills Exchange (with an associated visa route due to start within one year of entry into force of the agreement).
- 4.86 The Working Holiday and Youth Mobility Schemes mean that UK citizens aged 18-35 will be able to travel and work in Australia using the Working Holiday Maker Visa for up to three years. Young people will no longer have to work on a farm to use this visa to live and work in Australia. The Innovation and Early Careers Skills Exchange will apply to UK citizens who are graduates, aged between 21 and 45, enabling them to undertake a workplace exchange of up to one year and to highly experienced and skilled citizens in all sectors enabling them to undertake workplace exchange for up to three years.

Chapter - 13 Investment:

- 4.87 UK investors will benefit from more access to the Australian market with guaranteed rights to invest across the Australian economy. There are further potential investment improvements²⁸ for the Australia market that are subject to domestic consultations. These improvements and timescales are locked into the agreement. Most-Favoured Nation (MFN) applies to investment provisions; meaning that if the UK or Australia provide more generous access for investment from other countries, this will also be extended to UK and Australian investors.

Chapter 14 - Digital Trade

- 4.88 The Agreement expands opportunities for UK firms to trade digitally with Australia. It includes a number of commitments to support and promote the free flow of data between the parties. There are provisions on preventing unjustified and costly data localisation, while respecting each of the parties' domestic laws on data protection and provisions supporting digital trade, online safety and cyber security.
- 4.89 There are also commitments to prevent the forced transfer of source code and encryption keys, subject to legitimate scrutiny by appropriate authorities in both countries.

Chapter 15 – Intellectual Property

- 4.90 The Agreement lists a range of international intellectual property (IP) agreements ratified or acceded to by the UK and Australia and affirms that these still apply. It includes provisions on trademarks, domain names, patents and data, registered industrial designs, copyright and related rights of performers, trade secrets, enforcement including in the digital environment and with respect to intellectual property rights.
- 4.91 The intellectual property agreement provisions do not include any immediate protections for UK Agri-Food Geographical Indicators (GIs) such as Welsh Beef or Welsh Lamb as Australia does not have a system which recognises GIs. The provisions allow that if Australia enters into an international agreement with a third party which includes obligations in relation to a system of protection for GIs, then the UK and Australia will enter into consultations with a view to amending the UK-Australia Agreement to include provision which is no less favourable. If this has not happened within two years of the UK-Australia deal entering into force a formal review process will be triggered with a view to considering whether a GI protection system should be introduced into the UK-Australia Agreement.

- 4.92 This Chapter also includes provisions so that if Australia enters into an international agreement with a third party which protects specific GIs for spirits, agricultural products or foodstuffs to a new standard of protection then the UK will automatically be able to put forward any number of UK GIs in those areas to undergo Australia's GI procedures with a view to amending the UK-Australia Agreement to include protection for those of the UK GIs which pass Australia's requirements.

Chapter 20 – Innovation

- 4.93 This agreement marks the first time that innovation has been included as a standalone section in a free trade agreement. It recognises the importance of innovation to the economy and global trade. The Agreement promotes cooperation on artificial intelligence (AI) and acknowledges emerging technologies. It aims to encourage innovation across sectors as diverse as agriculture, health and energy.
- 4.94 The Agreement also establishes a Strategic Innovation Dialogue to encourage cooperation and collaboration and the development of new international standards, regulations and conformity assessment procedures to govern new and emerging technologies.

Chapter 30 - Dispute Settlement

- 4.95 A dispute settlement process is included with provisions that commit both Parties to effective and timely dispute settlement and a clear avenue to arbitration if required. Dispute settlement does not apply uniformly throughout the Agreement so it is necessary to check specific parts of the Agreement to establish where it does and does not apply.

Additional Considerations

Chapter 16 – Government Procurement

- 4.96 The Agreement opens up some sectors of Australian government procurement for UK businesses, whilst also protecting key sectors of UK government procurement such as the National Health Service.
- 4.97 There may be some opportunities for businesses in Wales to take advantage of the provisions included in the government procurement agreement. In particular some service businesses may be able to explore some of the opportunities available. The Welsh Government is, overall, satisfied with the provisions that were agreed and was able to ensure that some Welsh interests in procurement were protected during the engagement with DIT.
- 4.98 While there may be some potential benefits for Welsh businesses these will, of course, only become apparent when the Agreement is implemented.

Chapter 19 – Small & Medium Enterprises (SMEs)

- 4.99 SMEs are a vital part of the Welsh economy and make up around 99% of the total number of private sector businesses. Therefore, we are supportive of the commitments and provisions contained in the SME chapter, which have been designed to help SMEs to take advantage of the Agreement between UK and Australia.
- 4.100 Commitments from both parties on having publicly accessible websites containing information about the UK-Australia Agreement which is specifically designed for SMEs should prove useful for both experienced and new SMEs looking to export to Australia, especially if the information explains customs and other technical information that are often difficult for SMEs to navigate due to resource limitations.

- 4.101 The commitment on having an electronically searchable database to allow SMEs to find information on tariff rates, rules of origin arrangements, and other relevant trade measures will be particularly useful for Welsh SMEs.
- 4.102 Both sides will also have dedicated contact points to address matters related to SMEs as part of this Agreement.
- 4.103 The Welsh Government will look to work with the UK government once the Agreement is in force to ensure that the needs of Welsh SMEs are appropriately reflected in the implementation of these commitments. In particular, the Welsh Government will ascertain from the UK government how it will be included in the various cooperation activities agreed with Australia to support and assist SME trade (such as SME training programmes, SME trade education and SME trade finance etc.)
- 4.104 Both parties have agreed to provide a description of the provisions found across the whole Agreement considered to be relevant to SMEs. However, more details on precisely how those provisions help SMEs would have been welcomed (especially if those provisions are technical in nature).
- 4.105 Although outcomes like the elimination of tariffs and increased opportunities in the procurement market can increase SME trade, the administrative and technical elements for compliance can often hinder SMEs. For example, SMEs will need to be able to verify rules of origin arrangements to take advantage of any tariff liberalisation, which can require additional resource. Since rules of origin differ from trade agreement to trade agreement, this creates financial and administrative burden that SMEs will need to consider before deciding on whether or not to use the terms of any trade agreement.

Chapter 21 - Labour

- 4.106 The Agreement maintains high labour protections with enforceable and binding provisions. The Welsh Government is supportive of these measures.
- 4.107 In addition, there are provisions that commit the UK and Australia to maintain and enforce domestic laws and labour standards, as well as provisions recognising each country's right to regulate. These provisions enable each country to establish its own levels of domestic labour protection and priorities relating to labour, and to establish, adopt or modify its labour laws and policies accordingly.
- 4.108 The Agreement also contains provisions reaffirming the parties' obligations as members of the International Labour Organization (ILO), including those stated in the ILO Declaration on Fundamental Principles and Rights at Work and its follow-up (1998) and provisions on tackling modern slavery in supply chains and recognising the importance of gender equality and non-discrimination in employment.

Chapter 22 - Environment

- 4.109 The environment chapter is broad and includes elements that are of particular importance for the Welsh Governments' policy priorities such as recognising the need for action on climate change and biodiversity loss. There is however a strong focus on co-operation rather than firm and specific commitments to action.
- 4.110 Whilst the Welsh Government agree that cooperation can lead to both partners achieving the goals required, there will be a need to monitor what progress is made in key areas. The governance arrangements detailed for the environment Chapter should support this (e.g.) the establishment of an Environment Working Group to review and monitor the implementation and operation of the

provisions of the chapter. The Welsh Government will be seeking assurances from the UK government that devolved governments will be engaged in that group to provide meaningful challenge and support.

- 4.111 There is a strong focus on conservation in the Agreement. Although wording could have been stronger in some areas, there are references to high levels of environmental protection and continued improvement. Provisions are also included on sustainable forest management, air quality, marine litter, fisheries, and the circular economy, the links between invasive non- native species and trade and confirming commitments to tackle the illegal wildlife trade.
- 4.112 Addressing climate change is a key priority for the Welsh Government and we welcome the reference to the UNFCCC and the Paris Agreement. However, the Agreement does not contain specific reference to limiting temperature change and The Agreement could have included more ambitious commitments in these areas.
- 4.113 The Welsh Government made it clear that the Agreement should reflect clear links between the different articles in terms of supporting our environmental ambitions. This was reflected in the article on sustainable forest management where its contribution to addressing climate change and biodiversity loss was detailed. However, this was not picked up in the specific biodiversity and trade article.
- 4.114 The Agreement should not be seen as the end of the process, there are a number of areas for continued co-operation that will need to see mutual monitoring of commitments to make the Agreement meaningful.

Chapter 24 - Trade and Gender Equality

- 4.115 The Agreement acknowledges the importance of advancing gender equality for inclusive economic growth and contains provisions for cooperation on furthering opportunities for women to participate equitably in the domestic and global economy.
- 4.116 The Agreement builds on the precedent set by the UK-Japan Comprehensive Economic Partnership Agreement (CEPA) which included a Chapter on Trade and Women's Economic Empowerment. The UK-Australia Agreement goes further and includes stronger language, firmer commitments and specific proposals for co-operation activities in a broader range of areas. For example, activities include developing trade missions for businesswomen and women entrepreneurs, as well as promoting financial inclusion and strengthening digital skills. We recognise the importance of these activities and are supportive of increased co-operation in the areas listed.
- 4.117 The Agreement also refers to commitments made in the Joint Declaration on Trade and Women's Economic Empowerment at the World Trade Organisation WTO Ministerial Conference in Buenos Aires in December 2017.
- 4.118 In addition to the specific Chapter on Trade and Gender Equality there are provisions included in other chapters of the Agreement which seek to advance gender equality in the context of trade including in relation to services, small and medium sized enterprises, financial services, procurement, labour and digital trade. The Parties also commit to developing gender-specific data and gender focused analysis of trade policies including through co-operation, joint activities and the sharing of data and best practice. We welcome the inclusion of these provisions throughout the Agreement.

- 4.119 The Agreement also establishes a Dialogue on Trade and Gender Equality composed of government representatives from the UK and Australia. We will be asking the UK government that the Devolved Governments be engaged in this dialogue, and that, when there is wider communication and engagement with stakeholders, women workers, business owners and entrepreneurs from Wales are involved.
- 4.120 This section is not subject to the dispute settlement process and the Welsh Government are supportive of this.

Next Steps

- 4.121 It is important to note that the analysis in this report is only an initial review of the text in the Agreement and a consideration of how Welsh businesses may be affected. The Agreement can only be fully assessed once it is implemented, and once Welsh business are able to take advantage of any opportunities afforded to them by the agreement. We will continue to speak to businesses over time to understand if, and how, they utilise new trade deals. We will also work to ensure that businesses are aware of new trade agreements and how they can be utilised.
- 4.122 In addition, should the Agreement have a negative impact, such as unfair subsidies made by Australia to help their businesses, or through a particularly high volume of imported goods, it is important that Welsh business report, and escalate, any concerns to relevant trade bodies and authorities. We will continue to monitor any adverse impacts through contact with businesses.

Annex 1 – Economic Analysis

Section 1: Introduction

Most of the results reported within this analysis are derived from Computable General Equilibrium (CGE) modelling undertaken by the Department for International Trade (DIT). This type of modelling is appropriate when there is a significant change in trade policy and an assessment of the impacts on the whole economy is needed. The model considers linkages between domestic markets within each economy and provides impacts at a sectoral and aggregate level. It also considers the knock-on consequences to trade flows of third parties, reflecting trade creation and trade diversion effects, as well as the allocation of resources within an economy.

CGE analysis can provide a useful indication of the potential magnitude of economic impacts resulting from policy changes. CGE results should not, however, be treated as a forecast or prediction of the future. In addition, the estimates produced from the modelling show the difference between a UK-Australia FTA and no agreement in place over the long term- they do not account for any other impacts that might affect economic performance.

In addition to this, other modelling approaches are also used including partial equilibrium modelling focussed on assessing the impact of the trade agreement on agri-food sectors. This type of modelling benefits from greater disaggregation and is more specific to the market under consideration, however unlike CGE, it fails to consider the linkages between agri-food sectors and the rest of the economy.

The results are presented in 2019 prices, however DIT have also applied these results to their projections for trade growth to provide estimates that incorporate the projected growth in trade by 2035 irrespective of the trade agreement.

Given there is currently limited economic modelling capability for Wales of the type used for this assessment²⁹, the Welsh Government has been unable to conduct or commission CGE modelling of the final deal and its direct impact on Wales for this report. However, if this capability was available to us, it's unlikely the outputs would vary significantly from those produced at the UK level- although it is possible that additional sensitivity analysis would be undertaken. We also believe the results should be presented within a wider context, whereby the potential benefits associated with a UK-Australia FTA are compared with the losses from the UK's exit from the EU.

To this end, DIT's CGE analysis for the UK, from which there are some limited results on the high level impacts on Wales, can be drawn upon. At the more detailed level, the impacts on Wales can be inferred by considering what portion of the net benefits estimated for the UK could be attributed to Wales.

²⁹ Economic modelling for Wales poses a number of challenges. Most of these are related to data availability. There are some improvements in train here, led by both the ONS and the Welsh Government (including the experimental Trade Survey for Wales). However, the close integration of the economy in Wales with the wider UK means that modelling of the economy in Wales would probably need to be "nested" in a wider model of the UK. This kind of modelling would be relatively novel and unlikely to deliver robust results in the near term.

In order to provide the necessary context, it's important to note that the UK Government's analysis presents the impacts of a UK-Australia FTA compared to a scenario whereby the UK has no trade agreement with Australia. Central estimates are presented together with sensitivity analysis which aim to reflect the uncertainty associated with estimating the long term impact of the agreement.

As shown by the UK Government's [own economic modelling](#), securing FTAs with third countries will do little to compensate for the loss of access to EU market, increasing UK GDP by less than 1% compared to a loss of up to 10% had the UK failed to reach a deal with the EU ³⁰. In simple terms, this would leave the Welsh economy worse off over the long term (15 years). Whilst the UK-Australia FTA is a welcome step for facilitating increased trade between Wales and Australia, the evidence is clear that the impact of this agreement is minimal when compared with the loss of access to the EU market, of which Wales' goods exports are particularly reliant on. Having said that, even a small percentage change in GDP is equivalent to a considerable amount in £ terms and could be of substantial benefit to Welsh importers and exporters that trade with Australia.

Section 2: What will be the effect on economic well-being?

Benefits of trade

Countries engage in trade because it is mutually beneficial and can lead to several benefits to businesses, consumers and the wider economy. Businesses gain from greater revenue and profit which can lead to more investment, productivity and innovation. Consumers gain from greater choice in the variety and quality of goods and services, potentially lower prices through increased competition, higher real wages and living standards. Trade allows countries to allocate their resources to activities

in which they are more productive. Increasing openness through trade is also found to have a dynamic benefit in that it drives increased domestic productivity through greater competition and contestability. The complexity in capturing this through economic modelling may therefore lead to an underestimation of the benefits of trade.

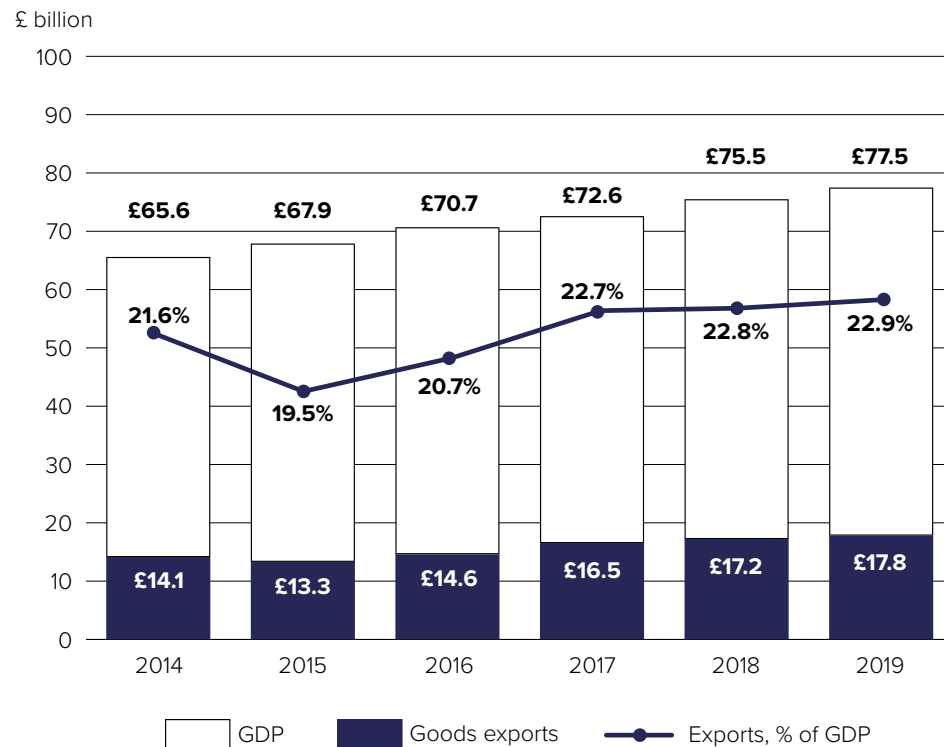
Domestic policies may reduce trade flows between countries and the associated benefits. The most common policy measures are tariffs, tariff rate quotas (TRQs) and subsidies, but can also include complex regulations (for example, health and safety, packaging, labelling and product regulations) and customs procedures. These restrict free trade, which distorts the market price, lowering competition and reducing choice for consumers.

Given the benefits of free trade, liberalisation generally has a positive impact on GDP and citizens' welfare. However, changes in the pattern of trade does lead to some sectors expanding and some sectors declining in response to increased international competition.

Wales as a trading nation

Trade is a vital part of ensuring the prosperity of Welsh people through fuelling the economy, generating jobs and providing choice for consumers at the most competitive prices. According to latest data, goods exports make up a considerable part of the Welsh economy, equivalent to nearly 23% of Welsh GDP in 2019.

30 [Welsh Government analysis of the UK Government's proposals for EU exit](#)

Chart 1 - Wales' goods exports as % of GDP (2019)

Source: WG analysis of ONS and HMRC RTS

International exports provide an important market for Welsh firms, and imports provide inputs to businesses and goods for consumers, usually keeping prices down and increasing choice. In 2019, Welsh goods exports were £17.8bn and service exports were £6.7bn. During this time, 61% of goods exports and 32% of services exports went to the EU. However, since then trade has been impacted by both the end of the EU transition period and the Covid-19 pandemic, meaning that in the year ending December 2021, Welsh goods exports had fallen to £15.2bn³¹.

Between 2015 and 2019³², goods exports have on average, consistently accounted for a higher proportion of GDP for Wales than any other part of the UK. This suggests Wales may be more exposed to economic shocks from changes in trading relationships than elsewhere in the UK.

Table 4: Goods exports as % of GDP for UK countries (5 year average)

Devolved Government	Goods exports as % of GDP (2015-19 average)
Wales	21.7%
Scotland	18.1%
Northern Ireland	18.1%

Source: WG analysis of ONS and HMRC RTS

Latest data for the year ending December 2021 shows the majority (around 60%) of Wales' goods exports continue to be destined for the EU market, the second highest of all UK nations, behind Northern Ireland who share a land border with the EU. Wales' dependence on the EU market reflects how deeply embedded within EU supply chains Welsh businesses are, indicating that a trade agreement with Australia is likely to have only a minimal impact on Wales' overall exporting performance.

³¹ The recovery path of Wales' trade is currently uncertain, and likely to be highly dependent on external factors including the likelihood of further Covid-19 related restrictions.

³² 2019 is the latest available data for Wales' GDP

Table 5: Goods exports to the EU by UK nation 2019 (£bn and %)

	Goods Exports to EU (£bn)		EU exports as % of all international goods exports	
	2019	Year ending Q4, 2021	2019	Year Ending Q4, 2021
Wales	£10.8 bn	£9.1bn	60.6%	59.8%
Northern Ireland	£5.4 bn	£4.9bn	59.1%	63.0%
Scotland	£16.7 bn	£14.5bn	49.6%	53.8%

Source: HMRC Regional Trade in Goods

Analysis of Wales' comparative advantage in goods, suggests Wales' top exporting strengths lie within transport equipment, Power generating machinery & equipment, and Iron & steel. In comparison, Australia is found to have a specialisation in 'Energy', 'Agriculture' and 'Semi-processed foods'³³. Despite there being differences across key areas of specialisation for both countries, lack of detailed product level data means we are unable to identify whether the specific products produced by each country are economically complementary or not.

Analysis by DIT³⁴ estimates that in 2016, around 196,000 FTE jobs in Wales were supported by exports of both goods and services, equivalent to around 6.3% of all jobs. Of all the UK nations and regions, Wales was found to have the lowest proportion of its jobs supported by exports, slightly below the North East and Northern Ireland. Further to this, it was estimated that around 3.0% of the UK's jobs supported by exports were within Wales.

In 2016, the top three sectors where the most jobs were directly supported by exports in Wales were: security and investigation activities (13,000), accommodation and food service activities (9,000), and retail trade (8,000). Jobs in Wales indirectly supported by exports were primarily found within security and investigation activities (7,000 jobs), and retail trade (5,000 jobs).

Section 3: Trade between Wales and Australia

Evidence shows that support for an FTA with Australia was highest in Wales of all the UK nations, with 69% of respondents in Wales saying that they would support a FTA with Australia, according to wave 4 of DIT's Public Attitude to Trade Tracker. Only 3% of respondents in Wales opposed. The top three considerations Welsh respondents thought that the UK government should give the highest priority to when negotiating an FTA with Australia were: protecting UK farmers (29%), maintaining current food standards (28%), and protecting existing jobs in the UK overall and creating new ones (25%).

Table 6: Welsh respondents' views on priorities for FTA with Australia

Top priorities	Lowest priorities
1. Protecting UK farmers (29%)	Protecting human rights in Australia (43%)
2. Maintaining current UK food standards (28%)	Ensuring that people in the UK and Australia have the same rights to live and work in each other's countries (35%)
3. Protecting existing jobs in the UK overall and creating new ones (25%)	Promoting investment in each other's countries (27%)

Source: DIT Public Attitudes to Trade Tracker (Wave 4)

33 DIT calculations (2020)

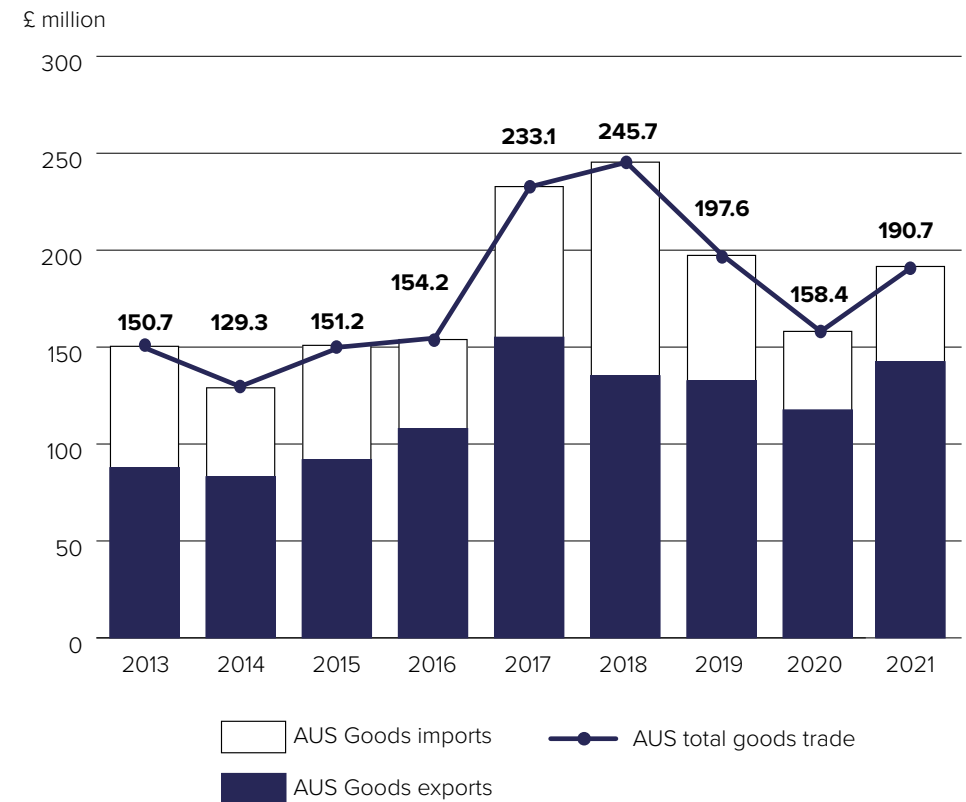
34 DIT, [Estimating the relationship between exports and the labour market in the UK](#)

Respondents from the other UK nations agreed with at least two of Wales' top priorities, where Scotland thought that creating new jobs in the UK overall was also important, and Northern Ireland thought that protecting rights for UK workers was also important. Similarly, the other UK nations also agreed with Wales in their lowest priorities.

Trade in goods:

- In 2020, Welsh trade in goods with Australia was valued at £158.4m, of which imports and exports were worth £42.5m and £115.9m respectively.
- However, 2021 latest figures for the year ending December 2021³⁵, show a fall in the value of goods trade to £190.7m of which imports and exports were worth £58.5m and £132.2m respectively. This increase is likely to be from the recovery from the COVID-19 pandemic.
- This latest data shows Australia was the 18th largest export market for Wales accounting for around 0.9% of Welsh goods exports, and the 43rd largest import market with around 0.4% of Wales' total goods imports coming from Australia.
- In 2021, of the 2,053 Welsh businesses that exported goods to non-EU countries, around 469 (22.8%) exported goods to Australia. Around 149 (2.0%) of the 7,610 Welsh businesses that imported goods from non-EU countries did so from Australia.

Chart 2 - Trade in goods between Wales and Australia (£m)



Source: HMRC RTS

³⁵ From 31 December 2020, the way HMRC collects trade in goods statistics changed, resulting in a break in the time series for published UK to EU export statistics from January 2021. This affects the final three months of the latest annual data, and therefore historic comparisons should be treated with caution. More detailed notes of these effects can be read in the HMRC Commentary on these statistics.

Trade in Goods

The following tables provide the top 5 imports and exports goods sectors, averaged over three years to reduce the impact of trade volatility:

Table 7: Wales' top 5 goods export sectors over the last three years (2019-2021)

Goods Exports to Australia (2019-21 average)	Value	% of total goods exports to Australia
Medicinal & pharmaceutical products	£25.5m	20.1%
Non-metallic mineral manufactures n.e.s.	£13.5m	10.7%
Essential oils & perfume materials; toilet preps etc	£9.6m	7.5%
Ele machinery, app & appliances	£9.4m	7.4%
Road vehicles (including air cushion vehicles)	£7.9m	6.2%

Source: HMRC RTS

Table 8: Wales' top 5 goods import sectors over the last three years (2019-2021)

Goods Imports from Australia (2019-21 average)	Value	% of imports from Australia
Coal, coke & briquettes	£27.6m	49.7%
Medicinal & pharmaceutical products	£5.0m	9.1%
Iron & steel	£3.6m	6.5%
Meat & meat preparations	£3.5m	6.3%
Power generating machinery & equipment	£2.8m	5.0%

Source: HMRC RTS

Trade in Service

Latest estimates of Welsh trade in services show Wales' total trade in services with Australia was valued at £234m in 2019, of which imports and exports were valued at £53m and £181m. These account for around 1% of Wales' total services imports and around 2.7% of Wales' total services exports respectively.

Around half (nearly 51%) of our services imports from Australia were within Travel, whilst our exports to Australia were dominated by Financial and insurance activities which accounted for nearly 63% of our total services exports to Australia.

Table 9: Wales' top 5 service export sectors in 2019

Service Exports to Australia (2019)	Value	% of total goods exports to Australia
Financial and Insurance activities	£114m	63.0%
Other service industries	£19m	10.5%
Transportation and storage	£14m	7.7%
Accommodation and food service activities	£10m	5.5%
Information and communication	£4m	2.2%

Source: ONS subnational trade, 2019

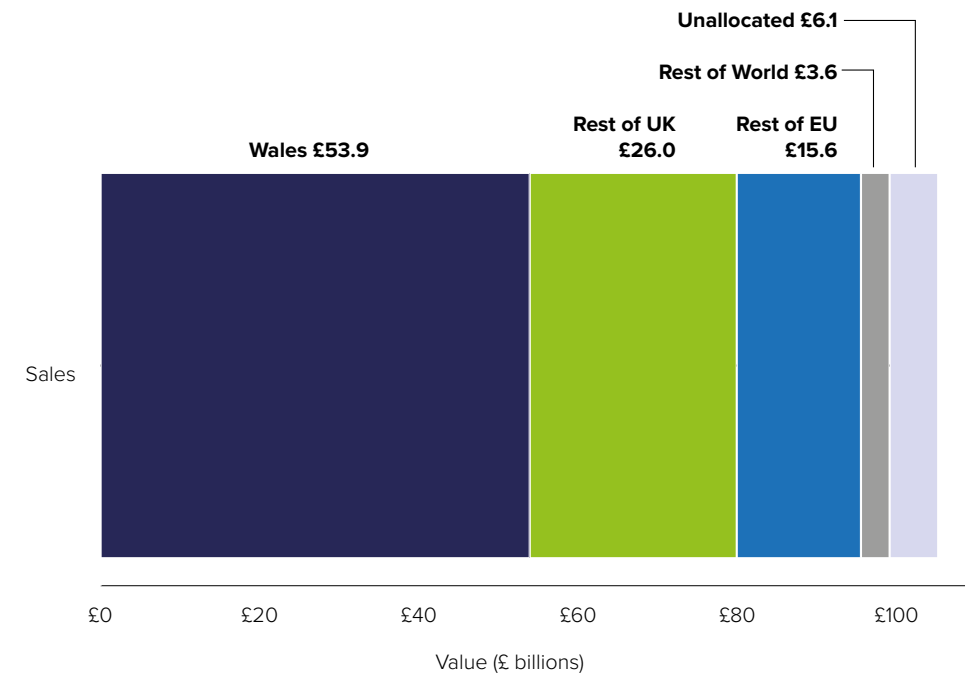
Table 10: Wales' top 5 service import sectors in 2019

Services Imports from Australia (2019)	Value	% of total Services Imports from Australia
Travel	£53m	51.0%
Financial and Insurance activities	£11m	20.8%
Transportation and storage	£3m	5.7%
Professional, scientific, and technical activities	£3m	5.7%
Information and communication	£2m	3.8%

Source: ONS subnational trade, 2019

Indirect trade through other parts of the UK

In addition to the direct impact on Welsh businesses, there will also be indirect impacts through supply chains. Given the close proximity to the border with England, the Welsh economy is deeply embedded within the wider UK economy and plays a key part in UK supply chains. Latest experimental estimates from our **Trade Survey for Wales** indicate that nearly 25% (£26.0bn) of the value of all sales from businesses in Wales went to the rest of the UK, of which nearly 79% (£20.7bn) of these sales were to England. This suggests Wales could also be exposed to impacts which are not captured by the CGE results, given the cross-border nature of our supply chains.

Figure 1 - Total Welsh Sales by destination, £bn (2019)

Source: Trade Survey for Wales, 2019 (TSW)

This also reinforces the trade gravity theory that suggests countries trade with partners who are geographically closest to them, and highlights the relatively limited impact securing a free trade agreement with such a geographically distant country such as Australia can truly have on Wales' economy.

Section 4: Computable General Equilibrium (CGE) modelling results

The scale of the macroeconomic and sectoral impacts is estimated using Computable General Equilibrium (CGE) modelling undertaken by the Department for International Trade. Further details on the methodology can be found in the annexes included within [DIT's impact assessment](#).

It should be noted that due to technical developments in the economic modelling used, the results presented within DIT's impact assessment are not comparable with those presented within their 2020 scoping assessment. In addition, these results are not comparable with those presented within the impact assessment for the UK-Japan CEPA published in 2020. Lack of comparability between the assessments published by DIT makes it difficult to assess the estimated impacts of each FTA relative to others. It is also a barrier in understanding the cumulative impacts of the various FTAs the UK Government are in the process of negotiating. The Welsh Government will continue to make the case to the UK Government for the need to model the cumulative impacts of FTAs, but are present not aware that any such modelling has been undertaken.

Section 5: UK, Wales and Australia Macroeconomic impacts

Table 11: Summary of estimated long-run³⁶ macroeconomic impacts of UK-Australia FTA compared to baseline

Impact	Metric	Percentage change on baseline	£ change on baseline (compared to 2035 in 2019 prices)	£ change on baseline (compared to 2019 in 2019 prices)
GDP	Change in GDP	0.08%	£2.3bn	£1.8bn
Trade	Change in UK exports to Australia	44.2%	£6.2bn	£5.4bn
	Change in UK imports from Australia	66.1%	£4.2bn	£4.3bn
	Change in total UK exports	0.43%	£3.1bn	£3.0bn
	Change in total UK imports	0.36%	£3.0bn	£2.6bn
Real Wages	Change in real wages	0.10%	Not available	£0.9bn

Source: DIT modelling (2021)

³⁶ The long run is generally assumed to mean 15 years from implementation of the agreement.

The macroeconomic impacts for the UK and Australia estimated using the CGE model are summarised in Table 11. The impacts indicate that a combination of increased competitiveness of exports, increased competition from firms and price changes are expected to drive productivity gains in the UK and Australia. These can, in turn, lead to an expected long run increase in GDP, wages and trade compared to the baseline. While the analysis draws on robust evidence and the best tools available for this type of analysis, there is inherent uncertainty in the results meaning they should be interpreted with caution and not considered economic forecasts for the UK economy.

The static nature of the approach used for this analysis means that the results are intended to reflect the long-term static impact of an FTA after 15 years but fails to capture the full range of dynamic impacts of the trade agreement. This means that these results tell us very little about the short-term impacts and should therefore be considered alongside other relevant evidence. The CGE central estimates produced do not capture the forecasted growth in UK trade as outlined in [DIT's Global Trade Outlook](#), therefore the results have also been applied to the expected growth figures for 2035 to provide fuller analysis of the expected impacts of a UK-Australia FTA (these estimates are also included in Table 11).

Table 12: Estimated long run Impacts of UK-Australia FTA on Wales

Estimated impact on Welsh GVA % (£m)	
CENTRAL ESTIMATES	SENSITIVITY ANALYSIS ESTIMATES
0.09% (£58m)	0.09% (£60m)

Source: DIT modelling and calculations (2021) based on 2019 data.

Given the complexity of producing robust estimates at lower levels of aggregation, CGE modelling results have only been provided at the Wales level showing the estimated change to Gross Value Added (GVA) compared to the baseline. These results have been produced by apportioning the UK level results to each UK nation based on current output (GVA) and where necessary employment shares of sectors within each nation and region of the UK.

Based upon the pattern of estimated sectoral GVA changes the results suggest that the UK-Australia FTA could increase GVA in all nations and regions of the UK, with the estimated long run impact on Wales' GVA found to be around 0.09%. Wales is expected to see the largest percentage increase in GVA of all the UK nations, slightly ahead of Scotland (0.08%) and Northern Ireland (0.05%). There are however some regions of the UK that are expected to see a larger benefit from an FTA with Australia- these include the West Midlands (0.14%) and the North East (0.12%).

DIT have also provided the associated monetary value of such an increase in GVA. This is intended to provide an indicative order of magnitude, based on nominal levels of GVA in 2019, which for Wales would be a gain of around £58m. Given the limitations associated with this approach and the overall uncertainty, these should be interpreted with caution and as indicative magnitudes rather than precise estimates or forecasts.

Table 13: Indicative change in regional value added, long run % and value changes, 2019 current prices

Nations and Regions	Main scenario	
	% Change in GVA	Change in GVA £ million, 2019
East of England	0.08%	141
East of Midlands	0.08%	91
London	0.08%	397
North East	0.12%	65
North West	0.10%	189
South East	0.10%	294
South West	0.09%	131
West Midlands	0.14%	195
Yorkshire and the Humber	0.08%	98
Northern Ireland	0.05%	21
Scotland	0.08%	120
Wales	0.09%	58

Source: DIT calculations (2021) based on 2019 data.

The results presented above reflect the central estimates produced, however given the high degree of uncertainty associated with the results presented, sensitivity analysis has also been undertaken. At the regional level, this sensitivity analysis involves adjusting the apportioned sectoral impacts using location quotients in order to account for local spending multipliers. The method is described further in [annex 4 of DIT's impact assessment](#). For Wales, the results for the sensitivity scenario were broadly comparable with the central estimate.

Whilst CGE modelling is considered the best approach for estimating the long run impacts of a trade agreement with Australia, it is important that the outputs from such modelling are interpreted within the context of the limitations of such approach. In addition to the general limitations of CGE modelling outlined within DIT's CGE modelling annex, the Wales level results are also subject to the following limitations:

- Fail to explicitly consider the varying trade patterns of individual sectors across each part of the UK.
- Assumes the long-term structures of Wales' economy is consistent with GVA and employment data from 2019.
- Assumes that the sector GVA shock is the same for Wales as it is for the UK as a whole i.e. the CGE model provides only a UK-wide sectoral shock.
- Does not give any insight into how Wales' economy adjusts to a new long-term equilibrium.
- It is based on sector results and location quotients at a highly aggregate level. It therefore does not fully reflect differences in patterns of production across nations and regions of the UK.

Section 6: Sector Impacts

The economy of each nation of the UK is made up of a different composition of sectors, therefore there are likely to be differences in how each one is affected by trade agreements- particularly in terms of output and employment. For example, agriculture makes a larger contribution to Wales' economy compared with the UK economy, therefore the negative impact estimated for this sector's GVA is likely to be disproportionately felt in Wales compared to other parts of the UK. Not only this, but as more trade agreements are signed, there is likely to be a cumulative impact on the Welsh economy- particularly in relation to sectors where the partner country has a competitive advantage. For Wales, the agriculture and semi-processed foods sectors are likely to be particularly affected, as outlined on pages 18-20.

Whilst no CGE estimates are available showing the sectoral impacts for Wales, this information is available at the UK level and can be used to infer the broad magnitude of impacts for Wales. Table 14 outlines the estimates by sector at the UK level.

Table 14: Changes in UK outputs (GVA, long run % change and sector share); detailed sector impacts

Broad sector category	GTAP-23 Sector	A % Change in GVA	B Change in GVA £ millions, 2019	C Change in sector share of total UK GVA (percentage point)
Agri-Food	Agriculture, forestry and fishing	-0.70%	-94	-0.01
Agri-Food	Beverages and tobacco products	0.10%	12	0.00
Agri-Food	Other processed foods	0.14%	29	0.00
Agri-Food	Semi-processed foods	-2.65%	-225	-0.01
Industry	Chemical, rubber, plastic products	0.16%	88	0.00
Industry	Energy	0.04%	24	0.00
Industry	Manufacture of electronic equipment	0.40%	89	0.00
Industry	Manufactures	0.23%	108	0.00
Industry	Manufacture of motor vehicles	1.16%	202	0.01
Industry	Manufacture of machinery and equipment	0.59%	231	0.01
Industry	Manufacture of other transport equipment	-0.03%	-4	0.00
Industry	Manufacturing n.e.c	0.20%	37	0.00
Industry	Paper and printing products	0.20%	36	0.00
Industry	Textiles and wearing apparel	0.19%	24	0.00
Services	Business services	0.07%	212	0.00
Services	Communications	0.07%	87	0.00
Services	Construction	0.12%	173	0.00
Services	Financial services	0.06%	69	0.00
Services	Insurance	0.07%	21	0.00
Services	Other services (transport, water, dwellings)	0.08%	229	0.00
Services	Personal services	0.09%	69	0.00
Services	Public services	0.08%	264	0.00
Services	Wholesale and Retail Trade	0.12%	341	0.00

Source: DIT modelling (2021)

Tariff Reductions

Reductions in tariffs on goods traded between the UK and Australia is likely to boost the flow of trade between both countries, both by increasing the value of trade from experienced traders and encouraging new exporters to trade with Australia. The modelling estimates a 44.2% (equivalent to between £5.4bn- £6.2bn) increase in UK exports to Australia and a 66.1% (equivalent to between £4.2bn-£4.3bn) increase in UK imports from Australia. This is compared to a baseline where the UK does not have a trade agreement with Australia.

Whilst it is not possible to estimate the increase in trade between Wales and Australia, Wales does account for around 3% of the UK's total goods exports to Australia and 3% of the UK's total goods imports from Australia. Additional analysis indicates that Wales reaps disproportionately less of the tariff reduction compared to its share of imports (1% long term tariff reduction on imports compared to a 5% proportion share of imports). This is most likely since the goods Wales specialises in importing from Australia are already facing low tariffs. For exports however, Wales does claim its full share of the tariff reductions (3% long term reduction on exports compared to a 3% proportion share of exports).

Table 15: Shares of potential tariff reductions on UK exports to Australia, by nations and regions of the UK

Nations and Regions	Proportion of goods exports to Australia, %	Proportion of tariff reduction affecting each nation and region in the long-term, %
West Midlands	16%	24%
North West	10%	11%
South East	13%	11%
Scotland	9%	9%
North East	6%	9%
East	10%	7%
London	9%	6%
South West	7%	6%
Yorkshire and the Humber	6%	5%
East Midlands	6%	5%
Northern Ireland	4%	4%
Wales	3%	3%

Source: DIT modelling (2021)

Table 16: Shares of potential tariff reductions on UK imports from Australia, by nations and regions of the UK

Nations and Regions	Proportion of goods exports to Australia, %	Proportion of tariff reduction affecting each nation and region in the long-term, %
London	20%	32%
South West	8%	20%
East	8%	13%
South East	32%	11%
North West	5%	9%
Scotland	4%	4%
West Midlands	6%	4%
Yorkshire and the Humber	5%	3%
East Midlands	4%	2%
Northern Ireland	1%	1%
North East	4%	1%
Wales	5%	1%

Source: DIT modelling (2021)

Section 7: Consumer impacts

The provisions set out in the UK-Australia agreement aim to benefit UK consumers through increased consumer choice, better product quality and potentially lower prices for imported products. However, the extent to which consumers will benefit from tariff reductions will depend on the rate at which those savings in terms of lower import costs will be passed onto the end consumer. Given variations in spending patterns across the UK, it is expected that some households will benefit more than others.

Table 17 shows the proportion of an average households' weekly expenditure that is spent on imports of different types of good by combining UK household expenditure survey data with UK Input-Output Analytical Tables (IOATs)³⁷. Overall households across the UK have a broadly similar demand for imported goods. Welsh households on average spend 32.1% of their weekly household spending on imported goods- marginally more than English households but slightly less than Scottish and Northern Irish households.

For the UK as a whole, the estimated national annual tariff reduction is estimated to be £38.3m in the short term, growing slightly to £39.5m over the longer term. The majority of the tariff reductions are estimated to be within 'Alcoholic beverages, tobacco and narcotics' at £34.2m, followed by 'Food and non-alcoholic beverages' at £2.4m, 'Clothing and footwear' at £1.3m and 'Recreation and culture' at £0.5m over the long term. Compared with the UK average, Welsh households spend a slightly higher proportion of their total weekly household expenditure on consumer goods within three of these four sectors. This suggests Welsh households may benefit marginally more than the average UK household as a result of the tariff reductions in these sectors.

Table 17: Comparison of potential tariff reductions from a UK-Australia agreement to average UK household weekly expenditure by nation

Nations and Regions	Estimated national annual tariff reductions, £ million		Estimated proportion of total weekly household spending owing to imports, %				
	Short term	Long term	UK	England	Wales	Scotland	Northern Ireland
All expenditure groups	38.3	39.5	31.5%	31.3%	32.1%	32.8%	33.9%
Alcoholic beverages, tobacco and narcotics	34.2	34.2	1.8%	1.7%	1.9%	2.4%	2.4%
Food and non-alcoholic beverages	1.2	2.4	7.0%	6.9%	7.2%	7.3%	8.5%
Clothing and footwear	1.3	1.3	2.8%	2.7%	2.7%	3.2%	4.1%
Recreation and culture	0.5	0.5	3.5%	3.5%	3.9%	3.5%	2.8%

Source: DIT analysis (2021), UK input-output analytical tables, ONS (2019) and Living Costs and Food Survey (LCF), ONS (2019)

Section 8: Business Impacts

Australia is an important trading partner for businesses in Wales. In 2021, of the 2,053 Welsh businesses that exported goods, to Non-EU countries, around 469 (22.8%) exported goods to Australia, in comparison to around 15,924 businesses (20.5%) in the UK that exported to Australia as a proportion of total exports to Non-EU countries. This suggests that Welsh businesses are more reliant on Australia as an export partner than the UK as a whole; hence Welsh businesses could benefit more from the new agreement. These existing exporters are expected to benefit from tariff liberalisation as well as reductions in non-tariff measures secured within the agreement. By expanding their exports further, businesses in Wales can benefit from economies of scale which lower their operating costs, increase turnover and raise profitability. This in turn can attract investment and support further expansion. Sectors that are most likely to see the benefits of tariff reductions are transport machinery & equipment, and foodstuffs and beverages. Given Wales' overall exporting strength within these sectors, particularly Transport machinery & equipment, such reductions in tariffs could present new exporting opportunities for businesses in Wales.

In addition, around 149 (2.0%) of the 7,610 Welsh businesses that imported goods from Non-EU did so from Australia- this is broadly similar to the UK, suggesting that Welsh businesses are equally as reliant on Australia as an import partner as the UK as a whole. These businesses could benefit from increased access to cheaper and more variety of inputs, alongside of increased innovation, jobs and expansion as a result of increased competition.

Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) represent a key component of the Welsh economy; in 2021 these made up around 99.9% of the total number of private sector businesses, representing 74.0% of private sector employment and 59.3% of private sector turnover. SMEs make up a slightly larger proportion of these components in Wales compared with the UK as a whole. This indicates that Wales is slightly less reliant on larger businesses for private sector turnover and is more reliant on SMEs for employment, than the UK. In addition, latest data from **BEIS' Longitudinal Small Business survey** shows that in 2020, Wales had the lowest proportion of exporting SMEs across the UK with some 18% exporting goods or services compared to a UK average of 22%. This difference is found to be driven by exports of services, with a much smaller proportion of SMEs in Wales exporting services than the UK average. The proportion of Welsh SMEs exporting goods is similar to the UK average.

SMEs generally operate at a small scale and therefore tend to face higher trading costs relative to output. This means that they can be disproportionately affected by trade barriers. This would help explain why SMEs tend to display a lower propensity to export relative to larger firms. Provisions aimed at improving trade facilitation for SMEs could help reduce the costs that these businesses face and thereby positively impact their propensity to export.

SMEs have reported issues relating to limited information about how foreign markets work, difficulties in accessing export-distribution channels and in contacting overseas customers. In addition, SMEs reported costly product standards and certification procedures, and a lack of information about requirements in the foreign country as barriers to trade. Within the Agreement is commitment to share information and co-operate efficiently that aids SMEs ability to take advantage of the terms of the agreement.

As outlined in Table 18 below, it is estimated that the vast majority of the UK's SMEs are within sectors that will experience growth in GVA due to the Agreement with Australia. The largest growth is found to be within Wholesale and retail trade which accounts for 15.0% of UK SMEs. Although not directly comparable, estimates from **BEIS' Longitudinal Small Business survey** suggests around 18% of Wales' SMEs operate within this sector, implying that Wales' SMEs could disproportionately benefit from the agreement.

Table 18: Distribution of SMEs in each sector and total change in GVA in each sector relative to no FTA

Impact	Distribution of SMEs	Change in sector share of total UK GVA (percentage point)	GVA £m change
Wholesale and retail trade	15.0%	0.00	341
Public services	16.1%	0.00	264
Manufacture of machinery and equipment n.e.c	0.8%	0.01	231
Other services (transport, water, dwellings)	8.7%	0.00	229
Business services	22.7%	0.00	212
Manufacture of motor vehicles	0.1%	0.01	202
Construction	16.6%	0.00	173
Manufactures	0.5%	0.00	108
Manufacture of electronic equipment	0.1%	0.00	89
Chemical, rubber, plastic products	0.4%	0.00	88
Communications	1.1%	0.00	87
Personal services	9.4%	0.00	69
Financial services	1.0%	0.00	69
Manufacturing n.e.c	0.2%	0.00	37
Paper and printing products	1.3%	0.00	36
Other processed food	0.7%	0.00	29
Energy	0.5%	0.00	24
Textiles, apparel and leather	0.4%	0.00	24
Insurance	0.5%	0.00	21
Beverages and tobacco products	0.2%	0.00	12
Manufacture of other transport equipment	0.6%	0.00	-4
Agriculture, forestry and fishing	2.6%	-0.01	-9.4
Semi-processed food	0.4%	-0.01	-225

Source: BEIS BPE and DIT CGE Modelling (2021)

Section 9: Labour Market Impacts

The Agreement with Australia focuses on increasing labour market mobility and increasing real wages (wages in today's prices). It is estimated that there will be a 1% rise in UK wages (equivalent to around £900 million) at 2019 levels. All occupational groups can expect to see a broadly comparable increase in their wages, with labourers expected to see the largest increase at 0.11%.

Generally, the proportion of workers in each occupation in Wales is broadly comparable to the UK, however the UK's proportion of professional occupations, in the year ending June 2021, was 11.7% compared to Wales which was 10.2%. This suggests that Wales is slightly less reliant on professional occupations therefore may not benefit as fully from the gains in wages as at the UK level. In contrast to this, Wales' proportion of skilled trade occupations is 5.3% compared to 4.5% in the UK. This suggests that Wales relies more on skilled trades in their workforce than the UK, so Wales may benefit disproportionately in this area compared to the UK.

Table 19: Gains in wages across labour market groups

Occupation	Gains in wages %
Managers	0.10
Technicians	0.10
Service workers	0.10
Clerks	0.10
Labourers	0.11

Source: DIT CGE Modelling (2021)

Despite the potential of increased employment opportunities and wages, the overall expectation is that some sectors decline while others expand. In the long run, modelling shows a marginal shift in employment across sectors, as outlined in Table 20. This will involve movement away from semi-processed foods, agriculture, forestry, fishing and business services to manufacturing motor vehicles, machinery, and equipment.

It is difficult to tell whether the same effects will take place in Wales as modelled for the UK. Wales' agriculture, forestry and fishing sector made up 1.2% of its total employees in 2019, compared to GB which was only 0.7%. This suggests that Wales' employees may be more affected by movement in industries in the agriculture sector than what is modelled for the UK as they make up a bigger proportion of the workforce. However, it is important to remember that agriculture in Wales is considered in many cases a way of life rather than a job, something which isn't accounted for in the economic modelling, and may mean that in practice the effect may not be as significant as shown by the modelling.

Table 20: Change in shares of employment and GVA by sector

Sector name	Change in share of employment	Change in sector share of total UK GVA (percentage point)
Agriculture, forestry, and fishing	-0.01%	-0.01%
Beverages and tobacco products	0.00%	0.00%
Other processed foods	0.00%	0.00%
Semi-processed foods	-0.02%	-0.01%
Chemical, rubber, plastic products	0.00%	0.00%
Energy	0.00%	0.00%
Manufacture of electronic equipment	0.00%	0.00%
Manufactures	0.00%	0.00%
Manufacture of motor vehicles	0.01%	0.01%
Manufacture of machinery and equipment	0.01%	0.01%
Manufactures of other transport equipment	0.00%	0.00%
Manufacturing n.e.c	0.00%	0.00%
Paper and printing products	0.00%	0.00%
Textiles and wearing apparel	0.00%	0.00%
Business services	-0.01%	0.00%
Communications	0.00%	0.00%
Construction	0.00%	0.00%
Financial services	0.00%	0.00%
Insurance	0.00%	0.00%
Other services (transport, water, dwellings)	0.00%	0.00%
Personal services	0.00%	0.00%
Public services	0.00%	0.00%
Wholesale and Retail Trade	0.00%	0.00%

Source: DIT CGE Modelling 2021

As a result of the agreement, employment shares of some protected groups are estimated to fall slightly as workers move to different sectors, but in return can expect to see higher wages. The representation of groups relating to sex, gender, ethnicity and disability is broadly in line with the general population. Despite this, females are marginally over-represented in sectors that account for a lower share of employment in the long run, and according to DIT analysis younger workers are marginally under-represented as a result of the agreement. It is difficult to comment on the impact in Wales as this data is not currently available by protected group, however there's no evidence to suggest Wales would be impacted differently.

Section 10: Environmental impacts

Modelled estimates suggest that the long run increase in GDP of 0.08% due to trade liberalisation may result in an increase of 0.05% for GHG emissions compared to the 2019 level of emissions.

A free trade agreement with Australia is expected to increase UK production in the long run which could impact the environment by expanding economic activity. However, there is likely to be a shift of economic output from more to less Green House Gas (GHG) emissions intensive sectors.

The change in the composition of the economy as a result of the UK-Australia agreement, the promotion of trade in environmental goods including collaboration on innovative and low-carbon technologies, and the commitment to the Paris Agreement are all found to mitigate against the negative environmental impact of the overall increase in trade.

It is estimated that there will be an increase in transport-related emissions of between 31% and 40% between 2020 and 2035 as a result of the bilateral trade agreement. However, the modelling doesn't take into account the UK's movement towards net zero nor any improvements in emission intensity over time.

Overall, the analysis suggests that the UK-Australia FTA is not expected to have significant impacts on Greenhouse gas emissions (CO₂ and Non-CO₂) due to the change in composition of the UK economy and the scope for higher growth of trade in goods which mitigate environmental impacts, through the elimination of tariffs on such goods.