National Audit Office

Progress with trade negotiations

Department for International Trade

REPORT

by the Comptroller and Auditor General

SESSION 2021-22
8 DECEMBER 2021
HC 862

Key facts

£1,197.7bn

value of total UK trade in 2020. UK exports were £601 billion, equating to 27.9% of gross domestic product (GDP). UK imports in 2020 were £596.7 billion

33

number of existing EU trade agreements the Department for International Trade (DIT) had converted to UK agreements by the end of the EU exit transition period, out of the 39 it aimed to convert

62.5%

DIT's progress as at March 2021 against its aim to secure trade agreements with countries representing 80% of total UK trade, by the end of 2022. This is a government manifesto commitment

8	number of proposed trade negotiations underway or announced as at 30 November 2021, including with Australia, Canada, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, the Gulf Cooperation Council, India, Mexico, New Zealand, and the US
0%–0.16% of annual GDP	range of projected long-term economic benefits for secured and proposed free trade agreements with Japan, Australia, New Zealand and the US, equivalent to £0–£3.4 billion
521	DIT staff that have direct responsibility for trade negotiations and implementation as at September 2021 (full-time equivalent)
£58.8 million	estimated DIT expenditure on trade negotiations in 2020-21
More than 300	staff in other government departments with roles in trade negotiations
48	years since the government was responsible for UK trade policy. The UK acceded to the EU (then the European Economic Communities) on 1 January 1973. On 31 January 2020, the UK left the EU and entered a transition period which ended on 31 December 2020

Summary

1 International trade is a key driver of growth and prosperity. It can lead to better, higher-paying jobs, lower prices and increased choice for consumers, increased productivity and greater sharing of knowledge and innovation. In 2020, total UK trade was £1,197.7 billion. UK exports were worth £601 billion (28% of gross domestic product (GDP)) and UK imports were worth £596.7 billion.

2 Following the UK's exit from the EU, the UK became responsible for its own international trade policy for the first time in 48 years.[1] Stable trading relationships are critical for the UK's wealth and international security. The UK aims to build new trade and investment relationships with global partners, including through government-to-government engagement, through its membership of international organisations and through free trade agreements (FTAs). FTAs set out rules that cover trade between two or more countries. They aim to make trade easier between those countries by removing or reducing existing barriers to trade. Barriers can be taxes charged on goods as they cross borders (tariffs), or rules and regulations that can add to trade costs (non-tariff measures). FTAs are intended to offer a range of benefits to the UK economy, businesses, consumers and wider society by opening overseas markets to UK exports, supporting UK supply chains, increasing consumer choice and increasing the UK's global influence. The government has set a target for 80% of total UK trade to be covered by FTAs by the end of 2022.

3 The Department for International Trade (DIT) was formed in July 2016 with responsibility for promoting British trade across the world and aims to deliver an ambitious FTA programme that benefits businesses and consumers in every part of the UK. Although DIT has overall responsibility for convening trade negotiations, the negotiations are a cross-government endeavour with other departments providing expertise, leading aspects of the negotiations in their policy areas and providing diplomatic support overseas. This includes the Department for Environment, Food & Rural Affairs (Defra), HM Treasury, the Foreign, Commonwealth & Development Office (FCDO), the Department for Business, Energy & Industrial Strategy (BEIS), and the Department for Digital, Culture, Media & Sport (DCMS). A cross-government structure is in place to support decision-making, with the Cabinet Office playing a mediator role. DIT is not responsible for the UK's trade negotiations with the EU, which are led by the Cabinet Office.

1 The UK acceded to the EU (then the European Economic Communities) on 1 January 1973. On 31 January 2020, the UK left the EU and entered a transition period which ended on 31 December 2020.

4 As the UK government is responsible for setting policy on how the UK will trade internationally, devolved administrations do not take part in the decision-making in trade negotiations.[2] However, trade deals have the potential to have differing impacts across the UK, so DIT has committed to involving the devolved administrations in the negotiations to ensure they can influence the UK's approach. DIT has also committed to a transparent and inclusive approach to negotiations, and has established mechanisms for engaging with businesses, trade unions, non-governmental organisations and Parliament.

5 In 2019, we published a report, *Preparing for trade negotiations*, in which we set out DIT's plans and progress in its preparations for negotiating FTAs.[3] We identified matters that DIT could consider at that early stage to help it achieve value for money, such as the importance of effective cross-government working and the need for sufficient programme management arrangements to oversee its evolving and complex trade negotiations programme.

Scope of this report

6 Following the UK's exit from the EU, the UK government is negotiating multiple trade negotiations at the same time as developing an independent trade policy, new functions, and capabilities across government. These circumstances are unprecedented as no other country has attempted a programme of negotiations on this scale. In this context, this report examines government's progress with its programme of trade negotiations and what it has achieved to date. We assess the government's progress and performance in:

- building capability and negotiating agreements with existing partners (Part Two);
- negotiating with new partners (Part Three); and
- taking action to secure benefits from trade agreements (Part Four).

2 Under the UK's devolution system, policy areas are divided into two categories, reserved and devolved. Devolved matters are areas of government policy where decision-making has been delegated by the UK Parliament to the devolved parliaments and governments (the Scottish Government and Scottish Parliament, the Welsh Government and Welsh Parliament, and the Northern Ireland Executive and Northern Ireland Assembly). Reserved matters are areas of government policy which are specified in legislation and in relation to which the devolved parliaments have no power to legislate. In Northern Ireland, devolved matters are known as transferred matters and reserved matters are known as excepted matters.

3 Comptroller and Auditor General, *Preparing for trade negotiations*, Session 2017–2019, HC 2143, National Audit Office, May 2019.

7 This report covers the UK's trade negotiations with countries outside the EU, including the negotiations to transition the agreements the UK was party to as an EU member, and negotiations with new partners. We focus on DIT as the department with overall responsibility for coordinating trade negotiations and examine how DIT has worked with other departments that play a role in trade negotiations. We consider how government has managed any associated dependencies across the negotiations but do not in this report directly examine the UK–EU trade negotiations and agreement led by the Cabinet Office. We do not conclude on whether DIT is currently securing value for money from its programme of trade agreements. Our conclusion at this stage identifies the risks to achieving value for money in the future and we make recommendations to help DIT and other departments manage these risks. This report is based on information available up to 30 November 2021.

8 To date, DIT has renegotiated 36 existing agreements with non-EU trading partners. This included an agreement with Japan which went further than the existing agreement. It has also reached agreements in principle with Australia and New Zealand and negotiations with other new partners are underway or due to begin. We provide a high-level summary of the agreements in principle that have been reached to date, but we have not carried out a detailed evaluation of their content. Parliamentary scrutiny of trade agreements is led by the House of Commons International Trade Committee and the House of Lords International Agreements Committee.[4]

Key points

Building capability and negotiating with existing partners

9 Since 2016, DIT has made significant progress in building its capacity and capability to run multiple trade negotiations. DIT spent an estimated £58.8 million on trade negotiations in 2020-21.[5] As at September 2021, 521 staff directly supported trade negotiations and implementation.[6] In 2016, 119 staff supported trade negotiations as well as wider departmental priorities. DIT has built capability by bringing in experts from outside government, and by working with other departments to deliver training. It has developed the structures needed to manage multiple negotiations, including cross-government governance arrangements and a flexible resourcing model. DIT responded quickly to the challenges of the COVID-19 pandemic and adapted to run negotiations virtually, which has brought benefits in terms of speed, efficiency and collaborative working. However, DIT told us that opportunities for face-to-face discussions remain important in trade negotiations (paragraphs 2.2 to 2.9 and Figure 6).

4 Other Parliamentary committees also examine aspects of free trade agreements.

5 The Department for International Trade's (DIT's) estimate of expenditure on free trade agreements (FTAs) in 2020-21. DIT's expenditure is recorded on a team rather than activity basis and therefore this figure is indicative only. The impact of the COVID-19 pandemic may have suppressed expenditure in 2020-21.

6 Figure refers to full-time equivalent, not including legal, analysis and other programme support staff.

10 Ahead of the EU transition period deadline, DIT worked with other departments to successfully renegotiate 33 out of 39 agreements with existing non-EU trading partners, representing £185.3 billion of UK trade in 2020.[7] As an EU member, the UK was party to 39 EU trade agreements with more than 70 countries covering 15.7% of UK trade in 2020. Without these deals, the UK would have had to trade on less favourable terms when it left the EU and businesses would have incurred additional costs. To avoid disruption of trade, DIT worked with the FCDO to transition the existing agreements into UK agreements. Although the departments aimed to replicate the existing terms as far as possible, they needed to persuade partner countries to engage, amid uncertainty around the UK's departure from the EU. By 31 December 2020, the departments had transitioned 33 out of 39 existing agreements (98.6% by value) covering 15.5% of total UK trade in 2020. Three further deals were agreed during 2021 and three have not yet been signed. However, these three partners represented 0.1% of UK trade in 2020, and business associations told us that on this point the government had delivered what was needed (paragraphs 2.10 to 2.14, Figure 7 and Appendix Three).

11 The UK government signed an agreement with Japan, which went further than the existing EU agreement in some areas. Japan was the UK's 11th largest trading partner in 2020, with trade between the two countries worth £24.2 billion. DIT began virtual negotiations with Japan in June 2020 and worked at speed to sign the deal within five months. The deal largely replicated the agreement the UK was party to as an EU member, offering broadly the same market access as the Japan–EU agreement and more tariff-free market access than trading without a deal. It went further in some areas, such as by introducing new provisions allowing data to flow freely between the two countries (paragraphs 2.15 to 2.19 and Figure 8).

Negotiating with new partners

12 DIT has made progress on a challenging and intense programme of negotiations with potential new partners. An important element of the government's trade policy is to make new trade relationships with countries where the UK does not have a current agreement. DIT conducted a prioritisation exercise to inform a plan for future trade negotiations, which was collectively agreed by ministers at Cabinet committee. In 2020, DIT launched negotiations with the US, Australia and New Zealand. In June 2021, it reached an agreement in principle (a summary of the potential terms of the final agreement) with Australia, and in October 2021 reached an agreement in principle with New Zealand. In 2021, the UK began negotiations to accede to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), an FTA between 11 countries around the Pacific Rim. DIT also undertook public consultations on planned negotiations with India, the Gulf Cooperation Council (GCC), Canada and Mexico (paragraphs 3.22 to 3.37 and Figure 12).

7 Office for National Statistics, *UK trade, quarterly trade in goods and services tables: April to June 2021*, October 2021. Unless explicitly stated otherwise, UK trade figures cited in this report are for 2020.

13 **DIT has worked with departments to establish structures for cross-government working, and is learning lessons from negotiations to date to improve its approach.** As the department with overall responsibility for convening trade negotiations, DIT has worked with departments to set up effective governance and programme management arrangements, to develop capability, and to agree a trade negotiations plan. DIT and departments have also made progress in agreeing negotiating mandates and resolving difficult issues through the negotiations to date. However, other departments told us that they would welcome more transparent and agile decision-making processes and clearer strategic direction. DIT recognises the risk that cross-government engagement and policy tensions could slow or weaken delivery of its free trade agenda. DIT has endeavoured to learn lessons from the experience of the Australia trade negotiations to improve how it works with departments on subsequent negotiations (paragraphs 1.11 to 1.12, 2.6 to 2.7, 3.8 to 3.13 and Figures 3 and 4).

14 **The speed and intensity of the trade negotiations programme has carried some risks.** DIT's trade plan for negotiations is subject to discussion and collective ministerial agreement at Cabinet committee. The pace of the negotiations programme has, on some occasions, compressed the time available for analysis to support decision-making, for analysing the responses of public consultations and for feeding back lessons learned. Independent reviews of DIT's scoping and impact assessments highlighted areas where DIT could have provided greater transparency. Working on several parallel negotiations also puts strain on staff supporting the negotiations (paragraphs 3.12, 3.35, 3.41 and 4.10).

15 **Departments have not yet identified all the resources they need to pursue multiple negotiations while also implementing existing agreements.** In addition to the negotiations underway, the government has announced plans for negotiations with India, the GCC, Canada and Mexico. Implementing more than 30 signed agreements, including establishing and running joint committees effectively, is an ongoing endeavour and a new capability for the government which will require significant input from DIT, FCDO and other departments. DIT is working to recruit the staff it needs. Defra has highlighted limitations on staff capacity as a potential barrier to meeting obligations to implement agreements (paragraphs 3.36 and 3.38 to 3.41).

Transparency and scrutiny

16 DIT has not brought together its trade strategy in one place. In 2017, DIT published its initial approach to international trade in *Preparing for our future UK trade policy*.[8] After the UK's exit from the EU, there was an imperative to establish new trading relationships rapidly. This meant that DIT began negotiations with new partners while the government was still developing its post-EU exit domestic policy in some areas, including agriculture. In 2021, DIT set out its priority outcomes in its Outcome Delivery Plan, including on trade negotiations and other mechanisms to support trade promotion. The government has also set out further trade policy principles in *Build Back Better: our plan for growth*, in *Global Britain in a competitive age: The Integrated Review of Security, Defence, Development and Foreign Policy* and in *Green Trade*.[9] However, DIT has not set out in one place how its trade policy supports wider policy objectives and how it will use trade agreements alongside other levers to achieve its objectives. Business associations, civil society and consumer groups we consulted were concerned that it is unclear how trade policy aligns with other policy objectives, and how any trade-offs required may impact on the groups they represent. DIT has identified public concerns about the actual or feared impact of its trade agenda, and a lack of belief in the potential benefits as a key strategic risk to achieving its objectives (paragraphs 3.3 to 3.7 and 3.18).

17 DIT is taking action to improve how it engages with stakeholders, but a higher-quality dialogue with businesses and consumers is needed to ensure that DIT can make well informed trade-offs during the negotiations. DIT has committed to a transparent and inclusive trade policy and active engagement with businesses, consumers and civil society, and has established formal and informal mechanisms for engaging with stakeholders. DIT sought input through public consultations and has set up groups for engaging with stakeholders including Trade Advisory Groups, thematic working groups and trade union groups. Business associations told us that, even though they have signed confidentiality agreements, the information DIT considers it can share with them does not always enable detailed discussions. Consumer representatives are not represented on the groups at the same level as businesses and some told us they felt excluded from discussions on the detail of trade negotiations. DIT told us that it is looking at how it can further improve the effectiveness and value of the engagement and input from stakeholders (paragraphs 1.14 and 3.16 to 3.18, and Figure 10).

8 HM Government, *Preparing for our future UK trade policy*, white paper, Cm 9470, October 2017.
9 HM Treasury, *Build Back Better: our plan for growth*, CP 401, March 2021; HM Government, *Global Britain in a competitive age: The Integrated Review of Security, Defence, Development and Foreign Policy*, CP 403, March 2021; The Board of Trade, *Green Trade*, policy paper, July 2021.

18 **DIT has improved its engagement with devolved administrations, but the devolved administrations consider they need more detailed information to understand how decisions across all areas of policy may affect them.** DIT has committed to seeking the input of the devolved administrations, recognising the role they will play in developing and delivering the UK's trade policy. The devolved administrations told us that DIT has improved engagement by establishing a dedicated team. DIT does not share formal written outputs, such as draft legal text, in reserved areas of policy where the devolved parliaments have no power to legislate. DIT does provide high-level negotiating objectives before they are published and sections of the mandate that cover devolved areas of policy. DIT also provides the devolved administrations with verbal briefings across all policy areas, to help ensure they are sighted, and their views considered. However, the devolved administrations are still concerned that the lack of detailed information limits their understanding and opportunity to input. This is because the UK government's trade policy decisions in areas such as market access can nevertheless have an impact on a devolved area of policy such as agriculture (paragraph 3.15).

19 **DIT has made additional commitments beyond the statutory framework for Parliamentary scrutiny of trade agreements, but Parliamentary committees have called for Parliament to have a stronger formal role.** Parliament's statutory role in scrutinising trade agreements is established in the Constitutional Reform and Governance Act 2010 (CRAG). DIT has made additional commitments, including sharing information on ongoing negotiations with the relevant Parliamentary committees and allowing time for scrutiny between signature and ratification of the forthcoming agreement with Australia. Although views in Parliament on how it should scrutinise trade agreements vary, two key Committees, the International Trade Committee (ITC) and the International Agreements Committee (IAC) are concerned that the current statutory framework is not fit for purpose and that, despite DIT's additional commitments, Parliament's scope to scrutinise new trade agreements is limited and too late in the process to be meaningful. The ITC considers that the information DIT shares lacks detail and timeliness, and more could be shared on a trusted basis in private briefings throughout the negotiations. The IAC has called for Parliament to have a stronger formal role earlier in the process and provision of the agreement text prior to signature, and that Parliament's consent, through a new mechanism beyond CRAG, should be required prior to ratification (paragraphs 1.15 to 1.20, 3.19 to 3.21 and Figure 5).

Taking action to secure benefits from trade agreements

20 As of March 2021, 62.5% of total UK trade was covered by partners with an FTA against DIT's aim to cover 80% by the end of 2022. This includes the Trade and Cooperation Agreement with the EU covering 47.0% of total UK trade in 2020, led by the Cabinet Office. The proportion rises to 64.0% when including partners with whom the UK secured an agreement or agreements in principle after this date (Serbia, Australia and New Zealand). DIT has progressed negotiations with the US, covering 16.8% of UK trade in 2020, but the new US administration is reviewing its approach to trade policy generally, including with the UK. There are ongoing negotiations with CPTPP members which represent 0.4% of UK trade.[10] The 80% target incentivises DIT to make progress with securing agreements. DIT's *Outcome Delivery Plan 2021-22*, which sets out its trade and investment objectives for the coming year, also includes metrics relating to the economic impact of the agreements. However, DIT has not set targets for these metrics (paragraphs 4.2 to 4.6 and Figures 13 and 14).

21 The projected macroeconomic benefits from the secured and proposed FTAs with Japan, Australia, New Zealand and the US range from 0% to 0.16% of GDP (£0 to £3.4 billion) and will take more than a decade to be fully realised. DIT estimates that by 15 years after implementation, the UK's agreement with Japan will add 0.07% (£1.5 billion) to GDP each year and, if signed, the UK's agreement with Australia will add up to 0.02% (£500 million) to GDP, with New Zealand 0% (£0) and with the US up to 0.16% (£3.4 billion). DIT's impact assessment for the agreement with Japan indicates that all UK regions will benefit, although the scale of the impact varies. FTAs may also assist the UK in pursuing broader geopolitical objectives to achieve greater global influence on issues such as the environment, international development, national security and human rights. However, it is difficult to quantify these benefits (paragraphs 4.3, 4.7, 4.11 and Figures 15 to 17).

22 There is a risk that DIT does not have the right balance of effort between negotiating new deals and ensuring that secured agreements deliver benefits. Our 2019 report highlighted that the success of an FTA will depend on DIT and other departments supporting UK exporters to seek new commercial opportunities. However, indicative data covering around 70% of UK trade where the UK was party to EU trade agreements suggests that, in 2019, UK businesses' use of FTAs may have been low. DIT ran campaigns to promote the UK's deal with Japan and is planning activities to raise awareness of a potential agreement with Australia. However, promoting trade agreements to businesses will be an ongoing endeavour. In 2021-22, DIT's initial budget for supporting exports was £127 million, 19% of its total budget.[11] In 2020-21, 24% of DIT's total spend was on supporting exports (paragraphs 4.15 to 4.18).

10 The 11 signatories of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership represented 7.6% of UK trade in 2020. However, the UK has existing agreements or agreements in principle with all but two signatories (Malaysia and Brunei Darussalam) which represented 0.4% of UK trade in 2020.

11 This figure is the opening 2021-22 export support budget. It is prior to any funding adjustments, including additional funding for the Export Support Service and other activity relating to the Department for International Trade's Export Strategy announced in November 2021.

Conclusion

23 Following the UK's exit from the EU, it is important that the UK develops its own trade policy and establishes new trading relationships, something it has not had to do in almost 50 years. Since 2016, the government has developed the capacity, capability, processes and cross-government structures necessary to conduct trade negotiations. DIT has led the delivery of a challenging and intense programme of trade negotiations to a tight timeframe and against the backdrop of uncertainty around the timing and nature of the UK's exit from the EU. In these unique circumstances, DIT, FCDO and other government departments successfully transitioned 33 existing EU agreements, including a deal with Japan by the end of the EU transition period, ensuring continuity for UK businesses and consumers. DIT and other government departments have also made good progress in negotiations with new partners. However, this timeline has meant that the UK is developing new domestic policy in sensitive areas such as agriculture and the environment at the same time as negotiating with new partners. There is now an opportunity for DIT to set out in one place how international trade will support the UK's domestic and wider policy objectives and provide greater clarity to the public and stakeholders.

24 There are new and heightened risks to manage when progressing at such speed and intensity, which DIT needs to keep in view. In pursuing multiple new deals, there is a risk that the government will not allocate enough resource for implementing the deals already secured. This includes new activity supporting businesses to make use of the trade agreements, and monitoring progress towards achieving the potential benefits. It also compresses the time available for consultation with Parliament, stakeholders and the wider public, whose contributions are important in ensuring any deal delivers benefits for the UK. To achieve value for money, DIT needs to work with other departments to manage these risks effectively. This includes learning lessons from each negotiation and strengthening the trade negotiations capability across government, to ensure the quality and strategic benefit of government's trade negotiations programme.

Recommendations

25 As DIT's programme of trade negotiations progresses to the next stage, DIT and other departments must continue to develop expertise and invest in the right areas to deliver benefits. These recommendations are intended to support DIT and other departments in this endeavour.

a **Building on the vision set out in the 2021 Integrated Review, DIT's Outcome Delivery Plan and the negotiations carried out to date, DIT should bring together its trade strategy in one place. This would help to:**

- clarify how the government's international trade ambitions help it achieve domestic and wider policy objectives in areas including agriculture, the environment, international development and human rights; and
- provide greater transparency to the public and stakeholders on what the government is aiming to achieve through trade agreements and clarify how DIT will use trade agreements alongside other mechanisms for promoting trade.

b **DIT should work with other departments, including Defra, FCDO and BEIS, to further embed across government the trade negotiating capacity and capability that it has built over the past few years.** For example, to improve staff retention, DIT should continue to develop the trade profession, providing staff across government with clear direction on how they can develop careers in international trade, or considering secondments between departments to share expertise and build capability.

c **DIT should ensure it learns lessons from the progress it has made on multiple negotiations so far.** It should ensure that feedback, learning and sector knowledge from across departments and devolved administrations is recorded and shared, and used to inform an improved approach in future negotiations.

d **DIT should improve the effectiveness of its engagement with businesses, consumers and the public.** It should ensure that the mechanisms it has established for engaging with stakeholders are sufficiently inclusive in giving all parties opportunities to engage, access information and provide their views on an ongoing basis.

e **DIT should consider how it can support improvements in the robustness and effectiveness of Parliamentary scrutiny, informed by** the recommendations and views of the International Agreements Committee and the International Trade Committee**.** It should also provide greater certainty about the arrangements for scrutiny of amendments to existing agreements.

f **DIT should work with other departments, including Defra, FCDO and BEIS, to develop a clear plan setting out how it will implement and promote each new FTA.** Each plan should set out the roles played by each department, the resources required to meet the UK's legal commitments and action to ensure that UK businesses and consumers can benefit from the agreements. DIT should also ensure a smooth handover between its negotiation and implementation teams.

g **DIT should implement its plan for monitoring whether businesses are using the UK–Japan agreement.** In doing so, it should consider whether it could include any further indicators, data sources or other improvements, and also use this to inform its approach to other agreements.