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

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Progress with trade negotiations

Department for International Trade

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 6 December 2021

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act

Gareth Davies
Comptroller and Auditor General
National Audit Office

2 December 2021

HC 862 | £10.00

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009290 12/21 NAO

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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.

Part one

Introduction

1.1 This part of the report sets out:

- how free trade agreements (FTAs) are intended to bring benefits to UK businesses, consumers and citizens as well as playing a role in developing the UK's global influence; and
- how the Department for International Trade (DIT) and other government departments are set up to deliver FTAs.

Boosting UK trade with global partners

1.2 International trade is a key driver of growth and prosperity, and can lead to better, higher-paying jobs, 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 (27.9% of gross domestic product (GDP)) and UK imports were worth £596.7 billion. Inward foreign direct investment in the UK was worth £1.6 trillion in 2019.

1.3 The UK can strengthen its trade and investment relationships with global partners in many ways. For example, it can:

- engage with counterparts to deepen relationships and begin to address wider-ranging or more sensitive issues;
- undertake bilateral negotiations on specific market-access issues;
- use its membership of the World Trade Organization (WTO) to influence how countries trade with one another; and
- negotiate bilateral, plurilateral (with a subset of WTO members) or multi-lateral trade agreements.

Free trade agreements

1.4 Delivering an FTA programme is a fundamental element of the government's trade policy. FTAs establish more favourable terms of trade between countries than those set out at the WTO. A WTO principle is trade without discrimination. Under the WTO rules, countries cannot normally discriminate between their trading partners. If a country grants another country a special favour, such as a lower customs duty rate (tariff) for one of their products, it must do the same for all other WTO members. This principle is known as 'most-favoured-nation' treatment. An exception under WTO rules is when countries set up an FTA.

1.5 FTAs range from purely lowering tariffs, through to deep integrated trading blocs which remove trade barriers through mutual recognition of regulatory arrangements or harmonisation, and may allow liberalisation of the movement of capital, goods, services and people. They comprise multiple chapters, each covering a specific area of policy, and vary in scope and ambition. Less complex agreements focus on elimination of barriers to trade in goods. Deeper FTAs extend to trade in services, digital economy, intellectual property and investment, and influence regulatory measures in the fields of, for example, labour rights, competition, consumer protection or the environment.

1.6 FTAs have the potential to bring benefits to the economy, businesses, consumers, and wider society (**Figure 1** overleaf). They may also place obligations on businesses which they need to comply with.

1.7 There are multiple stages involved in securing an FTA (**Figure 2** on page 19). Before negotiations start, the parties must carry out feasibility work, consult stakeholders and develop negotiating objectives. Negotiations can take years before parties come to an agreement on the terms of an FTA. Once negotiations have finished, governments must implement any legislative changes, ratify the agreement and act to ensure that businesses can secure the benefits.

How government is set up to deliver FTAs

1.8 DIT identified four 'priority outcomes' as part of its *2021-22 DIT Outcome Delivery Plan.*[12] It aims to:

- secure world-class FTAs and reduce market access barriers, ensuring that consumers and businesses can benefit from both;
- deliver economic growth to all the nations and regions of the UK through attracting and retaining inward investment;
- support UK businesses to take full advantage of trade opportunities, including those arising from delivering FTAs, facilitating UK exports; and
- champion the rules-based international trading system and operate the UK's new trading system, including protecting UK businesses from unfair trade practices.

12 Department for International Trade, *DIT Outcome Delivery Plan: 2021 to 2022*, corporate report, July 2021.

Figure 1

Potential benefits of free trade agreements (FTAs)

FTAs are intended to bring benefits to the UK's businesses, citizens and wider society and economy

Potential benefits for businesses	**Help UK exports become more competitive.** Eliminating tariffs on UK goods sold overseas (subject to rules of origin (RoO)[1]) reduce the costs of exporting. **Make it easier to access new markets** through the removal of non-tariff barriers (for example, simpler customs rules, recognition that products meet local standards, recognised qualifications, and more liberal rules on movement of people). **Support supply chains.** Eliminating tariff and non-tariff barriers on imports to the UK enables more flexible, resilient and lower-cost supply chains for UK businesses. **Facilitate investment in the UK by overseas companies,** creating new employment and other benefits.
Potential benefits for citizens	**Greater choice and lower prices for UK consumers** through elimination of tariff and non-tariff barriers on imports to the UK. **Wider opportunities for UK citizens** to travel and work overseas.
Other potential benefits	**Trade agreements give the UK an opportunity to play a bigger role globally** and influence areas such as the development of emerging sectors (for example, digital economy), environmental standards, international development, human rights and labour standards.

Note

1 RoO determine the economic nationality of a good under an FTA. To sell a good under preferential tariffs in an FTA, exporters often must meet RoO requirements. For example, cars exported from the UK to Australia must have at least 25% of content originating from the UK to be eligible for zero tariffs under the UK–Australia agreement in principle.

Source: National Audit Office analysis of publicly available information

1.9 DIT has overarching responsibility for trade negotiations with partners outside the EU, working with other government departments. DIT also supports the development of capability and the international trade profession across government. DIT is not responsible for the UK's trade agreement with the EU, which is led by the Cabinet Office.

1.10 DIT plays the role of coordinator, or convener, in negotiating and implementing trade agreements. A chief negotiator located in DIT leads each negotiating team (**Figure 3** on page 20). DIT is also responsible for engaging with the UK's devolved administrations, businesses and civil society, and for meeting commitments to Parliamentary scrutiny. DIT's export and investment promotion teams are responsible for securing economic benefits from signed agreements.

Figure 2
Lifecycle of a free trade agreement (FTA)

There are multiple stages to securing an FTA

Feasibility scoping

The Department for International Trade (DIT) explores whether it is feasible and desirable to start a new FTA negotiation with a specific trading partner(s).

Potential trading partners are identified based on a range of factors including economic analysis, ministerial preference and analysis of the trading partner's history in regards to FTAs.

The feasibility phase ends when ministers collectively take a decision to formally move forward with pursuing an FTA.

↓

Consultation and mandate development

DIT holds a public consultation for businesses, wider stakeholders and the public to share their views on an FTA with the selected trading partner.

DIT works with other government departments to develop a mandate, resulting in a cross-government agreed document that sets out which chapters the government wants to include in the FTA, their objectives for each chapter and the priority level of each objective.

Before negotiations start, DIT publishes the government's negotiating objectives, responses to the consultation and a scoping assessment of the potential economic impacts of an FTA.

↓

Negotiations

Live negotiations are held with the trading partner to reach an agreed FTA text. The UK negotiating team is made up of staff from DIT and other government departments.

Negotiations are usually held in short scheduled rounds with breaks lasting weeks or months. Between rounds work continues on the negotiation, for example, this could include informal discussions with the negotiating partner to clarify negotiating positions on specific issues.

↓

Ratification

Once both parties have reached agreement they each need to go through the necessary steps to get the FTA ratified, which will be dependent on their statutory requirements.

In the UK, ratification involves the government laying the text of the agreement before Parliament, which resolves whether to delay ratification. Any implementing legislation required must also be in place before ratification.

↓

Implementation and promotion

Once any necessary legislative changes are made and an agreement is ratified, the agreement enters into force and implementation begins. Implementation activities include meeting legal commitments, setting up and running joint committees, and monitoring trading partner compliance with the new FTA. In addition, government needs to promote the FTA to businesses to ensure that businesses and consumers benefit from its terms.

Notes

1 Not every FTA negotiation will necessarily follow all these steps. In some cases, negotiations do not lead to an FTA. In other cases, FTA partners may decide during implementation that they want to reopen negotiations to extend or modernise the existing FTA.

2 FTAs may also have review clauses, which commit the parties to revisiting the terms at a set point in time.

Source: National Audit Office analysis of Department for International Trade documents

Figure 3
Leading and supporting negotiations

A chief negotiator located in the Department for International Trade (DIT) leads each negotiating team

Chief negotiator:

- is located in DIT; and
- leads the negotiating team with responsibility for negotiating strategy and a remit to deliver the negotiations.

Other government departments and the Foreign, Commonwealth & Development Office and DIT staff overseas:

- provide policy and technical support for negotiations;
- ensure trade mandates are aligned with domestic policy; and
- provide diplomatic support, influencing and engagement in support of negotiations.

Chapter teams are accountable to the chief negotiator to:

- operate as 'one team' under leadership of the chief negotiator, with collective responsibility during negotiations;
- recommend and engage on terms or tactics with the chief negotiator, who has final responsibility for negotiation strategy;
- lead/input on the chapter negotiation, including negotiating the key terms; and
- inform the chief negotiator of domestic policy issues or counterparty's domestic policy that might impact negotiation.

Chapter teams are accountable to other government departments to:

- represent other government departments' views and interests in the negotiating team and seek to resolve issues without escalating; and
- ensure other government departments are updated on and align with plans, tactics and terms.

A negotiating team for each chapter (chapter team) includes:

- staff from DIT and other government departments with a key interest based on their subject-specific knowledge and expertise.

→ Reporting direction

Notes

1 Free trade agreements comprise multiple chapters, each covering a specific area of policy. Negotiations are led by a chapter team.

2 Chief negotiators, chapter teams and overseas staff are also responsible for engaging with devolved administrations.

Source: National Audit Office analysis of Department for International Trade documents

1.11 Other departments are closely involved in the negotiations (Figure 3). Certain departments with specific interests lead chapter teams on the negotiations.[13] Other departments join relevant chapter teams. The Foreign, Commonwealth & Development Office (FCDO) and DIT staff in overseas posts work together to provide diplomatic support for negotiations. FCDO led on some negotiations to convert existing EU trade agreements into UK FTAs and on implementation of the political and cooperation elements of these agreements.

1.12 The Cabinet Office plays a key decision-making role, helping to coordinate policy positions across the government, acting as a neutral mediator to help resolve issues and agreeing decisions that go beyond the negotiating mandate (**Figure 4** overleaf). This includes convening meetings to resolve issues that relate to dependencies with the UK's trade relationship with the EU.

1.13 Chief negotiators and their teams are responsible for engaging with the devolved administrations. DIT shares written information on the negotiations in devolved policy areas and provides verbal updates on other areas. As the UK government is responsible for setting policy on how the UK will trade internationally the devolved administrations do not take part in decisions on trade negotiations and do not participate in the negotiations. Part Three examines how well the engagement is working.

1.14 DIT has committed to a transparent and inclusive trade policy, which requires active engagement with businesses and civil society. DIT holds public consultations prior to negotiations with a new partner to gain the views of businesses, civil society and the wider public on the potential FTA. It has also set up groups for engaging with businesses and civil society organisations. Part Three examines how well the engagement is working.

13 The Department for Environment, Food & Rural Affairs (Defra) leads on free trade agreement chapters for sanitary and phytosanitary (SPS) and animal welfare. It also leads on the agri-food sections of other chapters, including leading negotiations on geographical indications and agri-food sectoral annexes, and advising on agri-food regulation, tariffs, rules of origin, environment and sustainability; HM Treasury leads on the financial services chapters; the Foreign, Commonwealth & Development Office leads on development chapters; and the Cabinet Office provides deputy leads for the procurement chapters.

Figure 4
Cross-government decision-making process for trade negotiations

The Cabinet Office plays a key decision-making role

Global Britain Strategy Cabinet Committee:

- is the main ministerial forum for trade decisions;
- is chaired by the Prime Minister; and
- oversees development of mandates and policy positions.

Global Britain Strategy (Officials):

- is chaired by the Director General at the Cabinet Office;
- prepares and refines papers for the Global Britain Strategy Cabinet Committee; and
- discusses areas of disagreement between departments as required.

Cross-Whitehall Trade Negotiations Group (TNG):

- is chaired by the Department for International Trade's (DIT's) Director General, Trade Negotiations;
- oversees development of mandates and policy positions, often through bespoke meetings set up to consider country-specific mandates;
- provides updates on negotiations; and
- discusses items requiring additional policy sign-off.

Cross-Whitehall policy working groups:

- are chaired mostly by DIT officials; and
- consist of all departments with a policy interest to develop mandate content and policy positions for free trade agreements and multilateral negotiations.

→ Reporting direction

Note

1 The Global Britain Strategy Cabinet Committee replaced the EU Exit Strategy Cabinet Committee (known as the XS Committee) on 21 October 2021. Its remit is to consider matters relating to the UK's trade priorities, including free trade agreements, the multilateral trade system, and interlinkages with the domestic economy.

Source: National Audit Office analysis of Department for International Trade documents

Parliamentary scrutiny of FTAs

1.15 FTAs are treaties that need to be ratified by the UK government. DIT has set out its approach to how it will engage Parliament and provide for Parliamentary scrutiny prior to ratification of FTAs (**Figure 5** on pages 24 and 25). Parliament's statutory role in scrutinising FTAs is established in the Constitutional Reform and Governance Act 2010 (CRAG). In particular:

- depending on the terms of the trade agreement, legislation might be needed to give domestic effect to provisions in new trade agreements. The government will bring forward legislation to provide an opportunity for Parliament to scrutinise all the legislative changes before the FTA is ratified; and
- under CRAG, government is required to lay the FTA in Parliament. It cannot then ratify for 21 sitting days. If during the 21 sitting days, the House of Commons resolves against ratification, but the government still wants to continue, it would have to lay before Parliament a statement setting out its reasons. This would trigger another 21 sitting days during which it could not ratify. The process could continue indefinitely, in effect giving the House of Commons the theoretical power to block ratification.

1.16 DIT has made additional commitments including:

- publishing its response to public negotiations, negotiating objectives and scoping assessments at the outset of negotiations;
- briefing the relevant Parliamentary committees throughout negotiations alongside publication of round reports and regular briefings to Parliamentarians;[14] and
- laying the full treaty text before Parliament, publishing an explanatory memorandum, and publishing an impact assessment at the end of negotiations. The impact assessment will be reviewed by an independent party such as the Regulatory Policy Committee.

1.17 DIT has also agreed to share the treaty text in confidence with the International Trade Committee (ITC) and the International Agreements Committee (IAC) shortly before publication, where time allows. For the Australia and New Zealand FTAs, the government has stated that there will be a period of at least three months between publication of the signed FTA and it being laid in Parliament. This would be in addition to the 21-day period available for Parliament to scrutinise the deal under CRAG.

14 The House of Commons International Trade Committee (ITC) and the House of Lords International Agreements Committee (IAC) are responsible for formal Parliamentary scrutiny of free trade agreements. The ITC's wider role is to examine the expenditure, administration and policy of DIT and its associated public bodies. The IAC's role is to scrutinise all treaties that are laid before Parliament under the terms of the Constitutional Reform and Governance Act 2010, and to consider the government's conduct of negotiations with states and other international partners.

Figure 5

Parliamentary scrutiny of a free trade agreement (FTA)

The Department for International Trade (DIT) has set out its approach to how it will engage Parliament and provide for Parliamentary scrutiny prior to ratification of FTAs

	Pre-negotiations	Outset of negotiations	During negotiations	Post negotiations			
Government commitments and actions to provide transparency during the making of an FTA	DIT undertakes public consultations on proposed FTA.	The UK government publishes the UK's strategic approach to the proposed FTA. This includes negotiating objectives and scoping assessment, which sets out the economic benefits of the proposed negotiation.	DIT publishes a round report (after each round) on all live negotiations. Throughout the process, DIT provides private briefings on progress to the two Parliamentary committees involved in scrutiny of FTAs.	The government has committed to ensuring there is sufficient time between finalising new FTAs and laying them before Parliament to allow the committees to make a report on the final agreement should they choose. If the FTA contains provisions on trade in agriculture then the government is required to lay a report in Parliament on whether the provisions impact existing statutory protections related to the environment; human, plant and animal health; and animal welfare.		The government places a copy of the FTA treaty text with an explanatory memorandum subject to ratification before both Houses of Parliament for a period of at least 21 sitting days, after which the treaty may be ratified unless there is a resolution against this. The government publishes a full impact assessment.	In some cases, legislation may need to be passed to modify the domestic law to give effect to the FTA in the UK.
Parliamentary committee scrutiny during the making of an FTA		The government ensures Parliament is provided an opportunity to scrutinise the released documents and to hold a general debate after publication of the strategic approach (but not a 'substantive debate' on an amendable motion).	The two Parliamentary committees with a formal scrutiny role (the International Trade Committee and the International Agreements Committee) monitor the FTA.	The committees may produce an independent report on the agreement reached.	**Parliamentary debate** This stage is subject to the views expressed in the committee's report and whether there was a finding that the agreement should be subject to a debate.	The House of Commons may resolve against ratification and the government can lay a statement explaining why it considers the treaty should still be ratified. There is then a further 21 sitting days during which the House of Commons may decide whether to delay ratification.	Any legislation introduced into Parliament to implement the treaty is also subject to Parliamentary scrutiny as part of a separate process.

Figure 5 *continued*
Parliamentary scrutiny of a free trade agreement (FTA)

Notes

1 Parliamentary scrutiny of the transitioned deals was provided by the House of Lords International Agreements Committee, which prepared reports for Parliament on the deals. The transitioned agreements were also subject to the Parliamentary ratification process set out in the Constitutional Reform and Governance Act 2010.

2 The arrangements for Parliamentary scrutiny of amendments to trade agreements during implementation are still to be clarified.

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

1.18 The Parliamentary committees will report on the final agreement.[15] Parliamentary reports are independent of government and assist Parliament and public understanding of the agreement and its potential implications. If the report indicates that the agreement should be subject to a debate in Parliament, the government "would consider and seek to meet such requests where (they) are made within a reasonable timeframe and subject to Parliamentary timetables".

1.19 In addition, the Agriculture Act 2020 requires DIT to lay a report in Parliament if the proposed FTA contains provisions on trade in agricultural products. This report must set out whether, and to what extent, any measures related to trade in agricultural products are consistent with the UK's current levels of statutory protection in relation to human, animal and plant health, animal welfare and the environment. DIT has established a new body, the Trade and Agriculture Commission, to provide independent scrutiny and support the development of the government's reports to Parliament on trade and agriculture provisions in new FTAs. The Commission differs in function and membership from a former body with the same name:

- The original Trade and Agriculture Commission was an independent advisory board set up by the government in July 2020 for a six-month fixed term to collect the views of stakeholders within the trade and agriculture sector on future trade policy. The Commission published a report in March 2021 on how the UK could create opportunities through trade for the UK agricultural sector, while protecting animal welfare, food production and environmental standards.[16] The government responded to the Commission's recommendations in October 2021.[17]

15 The International Agreements Committee's terms of reference require it to report on all international agreements laid before parliament, whereas the International Trade Committee may choose to report.

16 Trade and Agriculture Commission, *Final Report*, March 2021.

17 Department for International Trade, *Government response to the Trade and Agriculture Commission report*, October 2021.

- The new Trade and Agriculture Commission, provided for in the Trade Act 2021, is an independent expert committee. DIT announced its membership in October 2021.[18] Its primary role is to scrutinise new FTAs once they are signed and advise on the impact of provisions around trade in agricultural products. The Commission will provide advice to government on whether measures in an FTA relating to agricultural products could mean a change in the UK's domestic statutory protections, or government's ability to set those protections.

1.20 DIT told us that it considers the scrutiny required for post-ratification amendments to trade deals on a case-by-case basis. Some amendments may require Parliamentary scrutiny under CRAG and some may require secondary legislation. Further engagement may be required through the IAC. The IAC has asked for greater certainty about which amendments should be laid and scrutinised.[19] Part Three of this report examines the effectiveness of the Parliamentary scrutiny and ratification processes.

18 The Trade and Agriculture Commission has been established on an interim basis pending potential legislation on remuneration of members.

19 HL Committee of International Agreements, *Working practices: one year on*, Seventh Report of Session 2021–22, HL 75, September 2021.

Part Two

Building capability and negotiating with existing trading partners

2.1 This part of the report sets out:

- the progress that the Department for International Trade (DIT) has made in building the capacity and capability it needs to run multiple trade negotiations; and
- its performance in converting existing EU trade agreements with non-EU countries into UK agreements.

Building capability to negotiate trade agreements

2.2 DIT was established in July 2016 in response to the UK's decision to exit the EU. As an EU member, the UK did not require its own trade negotiation capability because the European Commission negotiated agreements on its behalf. The UK now negotiates trade agreements against highly experienced trading partners.

2.3 Our 2019 report *Preparing for trade negotiations* set out issues that DIT should consider as it embarks on a programme of trade agreements with partners across the world.[20] We highlighted that new trade deals are large, complex resource-intensive deals and that the effectiveness of trade negotiations will rely on sufficient programme management arrangements as well as input from trade teams in other government departments. We reported that DIT was in the early stages of developing a programme function to oversee negotiations.

2.4 DIT has made progress in building the capacity and capability it needs to conduct trade negotiations, including staff directly involved in negotiating trade agreements and staff in other roles such as implementation, developing plans for future negotiations and programme management (**Figure 6** on pages 28 and 29). In 2020-21, DIT spent an estimated £58.8 million on trade negotiations.[21] As at September 2021, 521 staff directly supported trade negotiations and implementation.[22] In 2016, 119 staff supported trade negotiations as well as wider departmental priorities.

20 Comptroller and Auditor General, *Preparing for trade negotiations*, Session 2017–2019, HC 2143, National Audit Office, May 2019.
21 Department for International Trade's (DIT's) estimate of expenditure on free trade agreements (FTAs) in 2020-21. DIT's costs are 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.
22 Figure refers to full-time equivalent, not including legal, analysis and other programme support staff.

Figure 6

Department for International Trade's (DIT's) functions for supporting trade negotiations

DIT has made progress in building the capacity and capability to conduct trade negotiations and implement agreements

Trade Negotiations Group				
Cross-cutting, intellectual property, procurement and India directorate Responsibilities include leading the India Free Trade Agreement (FTA) negotiations and providing a cross-cutting view across UK trade policy to ensure that it supports UK economic interests.	UK–US negotiations; Services, investment and digital directorate Responsibilities include negotiating an FTA with the US and digital trade policy in bilateral and multilateral agreements.	Goods, regulatory environment and Gulf Cooperation Council (GCC) directorate Responsibilities include leading the GCC FTA negotiations and developing and leading trade policy for goods and regulatory environment.	Policy coherence, Australia and New Zealand directorate Responsibilities include leading FTA negotiations with Australia and New Zealand, and policy capacity, capability and coherence across the trade negotiations programme.	Trans-Pacific negotiations and policy directorate Responsibilities include negotiating the UK's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and negotiating new FTAs with Canada and Mexico.

Note

1 The Trading Systems Group also includes the Export Control Joint Unit, which does not play a role in supporting trade negotiations.

Source: National Audit Office analysis of Department for International Trade documents

2.5 More than 300 staff in departments other than DIT play a role in trade negotiations. For example, the Department for Environment, Food & Rural Affairs (Defra) has around 200 staff and the Foreign, Commonwealth & Development Office (FCDO) has around 70 staff in roles related to negotiating trade agreements. The Department for Digital, Culture, Media & Sport (DCMS), the Cabinet Office and the Department for Business, Energy & Industrial Strategy (BEIS) have core trade teams of around 20 staff each, supported by policy and other staff within their departments.

2.6 DIT has worked with FCDO to build negotiating capability across government. This includes identifying the competencies trade roles require, developing skills frameworks and delivering training, including structured courses and e-learning. DIT also built capability by bringing in experts from outside government. In 2018, DIT launched the cross-government international trade profession, designed to attract, develop, and retain those wishing to build a career in this area. The profession now has more than 3,200 members.

Trading Systems Group			
Bilateral trade relations directorate	Global trade and delivery directorate	Global supply chains directorate	Trade defence directorate
Responsibilities include leading on DIT's regional and country specific trade policy outside formal trade negotiations.	Responsibilities include delivering the UK's strategic trade priorities including managing the UK's relationship with the World Trade Organization, trade disputes and the UK's trade remedies interests.	Responsibilities include working with other government departments, including staff overseas, to strengthen the UK's supply chains through international trade.	Responsibilities include addressing market distorting practices.

2.7 DIT has established effective project management and governance arrangements for managing multiple negotiations. These include a planning and logistics function covering risk management and reporting, cross-government arrangements on decision-making, arrangements for working with other departments and a flexible resourcing model. In March 2021, the Government Internal Audit Agency (GIAA) conducted an audit to provide assurance on the governance, risk management and internal controls in relation to DIT's programme of trade negotiations. GIAA confirmed that DIT has established effective governance arrangements, clear roles and responsibilities, appropriate project management tools and effective data security arrangements, although it has noted some minor issues as these processes are embedded. DIT has responded to GIAA's recommendations.

2.8 DIT responded quickly when the COVID-19 pandemic presented unanticipated challenges. By May 2020, DIT had set up the technology and logistics to begin virtual negotiations with the US. Officials reported that virtual negotiations, which have carried on throughout the pandemic, had worked well in terms of efficiency. For example, more people could observe and keep abreast of developments. However, DIT told us that opportunities for face-to-face discussions remain important in trade negotiations.

2.9 DIT's trade negotiations function has grown in line with changes to the programme of work, including the need to implement secured trade agreements. To recruit the staff it needs, DIT has made use of bulk recruitment campaigns to fill roles quickly. For example, between January and March 2021, it recruited 85 staff, and in summer 2021, a further 70 staff. DIT plans further recruitment in 2022. As at September 2021, the teams directly responsible for negotiating and implementing trade agreements had 521 staff (full-time equivalent), in relation to a complement of 601 staff projected for March 2022.

Transitioning existing agreements

2.10 As an EU member, the UK was party to 39 existing EU–third party trade agreements covering more than 70 trading partners representing 15.7% of UK trade in 2020. The UK no longer benefits from these agreements. To ensure that trade with these partners was not disrupted when the UK left the EU, DIT, working with other departments, aimed to transition (convert) the existing agreements into revised agreements between the UK and the trading partner by the time the UK left the EU.[23] This date was postponed multiple times but ultimately, DIT needed to transition the existing agreements by the end of the EU transition period on 31 December 2021. Because DIT had a short time to secure these agreements, it aimed to replicate the terms of the existing agreements rather than agree improvements to the deals.

2.11 Transitioning the existing agreements was a significant challenge involving multiple government departments. DIT had overall responsibility for the programme and led negotiations on 15 agreements (those that were predominantly trade-focused), the FCDO led on 16 (those with a focus on fostering cooperation in strategic areas), and eight were co-led by DIT and FCDO (those with a trade and development focus) (Appendix Three). Other departments, including Defra, were involved in negotiations in their policy areas. DIT established arrangements for planning and managing the negotiations programme but could not always prioritise the negotiations that were most economically and politically important because not all partners wanted to engage immediately. In some cases, this was because partners wanted to wait until it was clear that the UK would leave the EU.

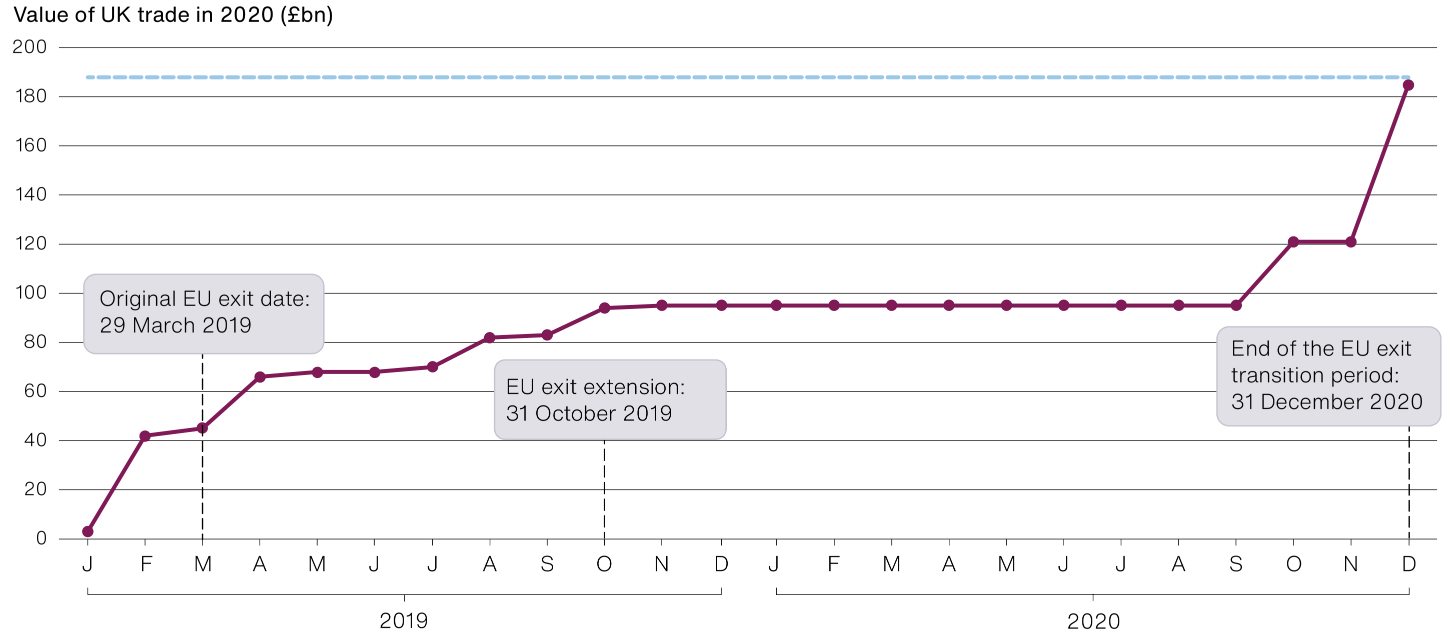
2.12 By 31 December 2020, DIT had re-negotiated 33 out of 39 agreements with existing trading partners (98.6% by value) representing 15.5% of total UK trade in 2020 (**Figure 7**). There was a surge in agreements signed in the lead-up to multiple EU exit deadlines.

23 The government initially aimed to transition 34 existing EU trade agreements, as noted in our report: Comptroller and Auditor General, *Preparing for trade negotiations*, Session 2017–2019, HC 2143, National Audit Office, May 2019. However, it later extended the scope of the programme to 39 agreements to include EU trade agreements with Japan, Singapore, Vietnam, and Turkey, in addition to splitting out Switzerland and Liechtenstein into two separate agreements.

Figure 7

Value of trade covered by countries with which the UK secured agreements between January 2019 to December 2020

By the end of the EU transition period, the government had transitioned 33 existing EU agreements with partners which represented £185.3 billion of UK trade in 2020



	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Cumulative value of UK trade with partners the UK secured agreements with (£bn)	3	42	45	66	68	68	70	82	83	94	95	95	95	95	95	95	95	95	95	95	95	121	121	185
Cumulative number of agreements secured (not shown on graph)	3	7	9	10	11	11	12	13	14	18	19	20	20	20	20	20	20	20	20	20	20	23	23	33

Notes

1 Value of UK trade is the total value of exports to and imports from the partner country in 2020.

2 The blue dashed line on the graph represents the government's aim to transition 39 existing EU agreements with third parties who represented £188 billion of UK trade in 2020.

3 The UK was originally due to leave the EU on 29 March 2019. In March 2019, the 27 EU member states agreed to extend the deadline and in April 2019 agreed again to extend the deadline until 31 October 2019. Following further extensions, the UK left the EU on 31 January 2020 and the transition period ended on 31 December 2020.

4 These data include the UK–Japan Comprehensive and Economic Partnership Agreement signed in October 2020 and the agreement with Cameroon which was agreed in principle on 30 December 2020 and signed in 2021. The UK–Cameroon agreement's provisions were applied from 1 January 2021.

Source: National Audit Office analysis of Department for International Trade data and Office for National Statistics, *UK trade, quarterly trade in goods and services tables: April to June 2021*, October 2021

2.13 Agreements with Albania, Ghana and Serbia were agreed after the deadline, coming into force between March and May 2021. As at November 2021, agreements with Algeria, Bosnia and Herzegovina, and Montenegro had not been signed. (Further detail is contained in Appendix Three.)

2.14 DIT was not able to fully secure agreements where the partner country had a close relationship with the EU and there was uncertainty around the UK's future trading relationship with the EU. As a result:

- the agreements with Turkey[24] and Switzerland contain review clauses that require both parties to begin a review of the agreement within two years of the agreements coming into force;[25] and
- the UK's agreement with Iceland and Norway covered goods, but not services or non-tariff barriers.[26] These areas were previously covered by the EU Single Market provisions, which the UK, Norway and Iceland were party to. After the UK and the EU agreed the Trade and Cooperation Agreement on 24 December 2020, DIT progressed its agreements with Norway and Iceland and signed a further agreement with Norway, Iceland and Lichtenstein in July 2021.[27] The agreement has not yet come into force.

Free trade agreement with Japan

2.15 In 2020, Japan was the UK's 11th largest trading partner; trade between the two countries was worth £24.2 billion (UK exports to Japan were £11.8 billion and UK imports from Japan were £12.4 billion). In June 2020, the UK launched trade negotiations with Japan. DIT originally intended to transition the existing EU–Japan trade agreement but Japan preferred to negotiate a revised deal. The negotiations were carried out at a significant pace and mostly virtually, concluding within five months. Although there is wide variation because multiple factors affect the length of trade negotiations, researchers have estimated that the average time to conclude trade negotiations is 28 months.[28]

24 The Free Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and the Republic of Turkey (with Exchange of Letters) entered provisionally into force on 1 January 2021 and was ratified on 20 April 2021.
25 The Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and the Swiss Confederation entered into force on 1 January 2020.
26 The Agreement on Trade in Goods between the United Kingdom of Great Britain and Northern Ireland, Iceland and the Kingdom of Norway.
27 Free trade agreement between Iceland, the Principality of Liechtenstein and the Kingdom of Norway and the United Kingdom of Great Britain and Northern Ireland.
28 C Moser, AK Rose, *'Why do trade negotiations take so long?', Centre for Economic Policy Research*, DP 8993, May 2012.

2.16 In October 2020, the UK and Japan signed the UK–Japan Comprehensive Economic Partnership Agreement (CEPA). The free trade agreement (FTA) was based on the existing EU–Japan agreement and was not a wholly new arrangement. The agreement is a comprehensive FTA with provisions across a range of areas, including trade in goods, preferential tariffs and quotas, and trade in services, investment, and electronic commerce. It also contains commitments in areas often covered by modern trade agreements, including intellectual property, geographical indications, government procurement, sustainability and reaffirmations of climate commitments.

2.17 For trade in goods, CEPA largely replicated the existing EU agreement. The UK Trade Policy Observatory (UKTPO) at the University of Sussex has compared the share of goods that benefit from zero tariffs under (i) the terms of CEPA; (ii) the terms of the existing agreement between the EU and Japan; and (iii) World Trade Organization (WTO) terms – without a trade agreement, the UK would have traded with Japan on WTO terms after leaving the EU. The UKTPO found that CEPA offers more tariff-free market access than trading without a deal, and broadly the same market access as the Japan–EU agreement which the UK was party to as an EU member (**Figure 8**).

Figure 8
Tariffs faced by UK exports to Japan under EU–Japan and UK–Japan trade agreements

The UK–Japan Comprehensive Economic Partnership Agreement (CEPA) offers more tariff-free market access than trading without a deal, and broadly the same market access as the EU–Japan agreement which the UK was party to as an EU member

	Share of UK exports facing zero tariffs under:		
	UK–Japan CEPA	EU–Japan Economic Partnership Agreement	'No deal' – trading with Japan on World Trade Organization (WTO) terms
	(%)	(%)	(%)
In 2020[1]	–	–	89.00
In 2021[2]	98.67	98.67	–
In 2039	99.66	99.66	–

Notes
1 This is the approximate proportion of UK exports to Japan that would benefit from zero tariffs under WTO terms in 2020.
2 The UK–Japan CEPA came into force in 2021. Under both the UK and EU agreements, the number of zero tariffs will be phased in by 2039.
3 This analysis is based on UK exports to Japan in 2019.

Source: M Morita Jaeger and Y Ayele, 'The UK–Japan Comprehensive Economic Partnership Agreement: Lessons for the UK's future trade agreements', *UK Trade Policy Observatory*, Briefing Paper 50, December 2020

2.18 CEPA largely replicates the existing EU agreement, but contains additional provisions, including:

- improved provisions to allow data, including financial data, to flow freely between the two countries and to reduce barriers to entry to the Japanese market for UK businesses. For example, a ban on forced or unjustifiable data localisation means that UK businesses will not need to incur the costs of setting up servers in Japan;
- more liberal rules of origin, going beyond the EU–Japan agreement, for certain products. UK producers of pet food, confectionery, baked goods and certain textiles will be able to import ingredients from other countries and use them in their exports to Japan; and
- provisions which have potential to lead to improved recognition of UK brands in the Japanese market. However, this protection for UK goods is subject to further approvals by Japan, the process for which is currently under way.

2.19 Any negotiation involves trade-offs and negotiators will not meet all objectives. The UK did not achieve all its aims. For example:

- under CEPA, the share of UK exports to Japan facing zero tariffs rises from 98.67% in 2021 to 99.66% in 2039, in line with the existing EU–Japan agreement. The UK had aimed to negotiate faster liberalisation for some goods but did not achieve this objective because it had no return benefit to offer Japan;
- tariff-rate quotas (TRQs) are a set level of imports on which reduced, or zero, tariffs are paid. The UK was unable to secure the same TRQ terms as in the existing EU agreement. Although only a small proportion of agri-food exports are affected, the House of Lords International Agreements Committee concluded that CEPA leaves UK exporters at a disadvantage compared with EU exporters;[29] and
- departments agreed a mandate to include investor-state dispute settlement (ISDS) provisions in the deal. These protections allow foreign investors to claim damages if they are treated unfairly. DIT was unable to pursue the inclusion of such protections because there was insufficient time to agree appropriate standards with other government departments. In line with the mandate, it included a review clause to return to this issue in the future.

29 HL Committee of European Union, *Scrutiny of international agreements: UK-Japan Comprehensive Economic Partnership Agreement*, Sixteenth Report of Session 2019–2021, HL 175, November 2020.

Part Three

Negotiating with new trading partners

3.1 An important element of the government's trade policy is to pursue new free trade agreements (FTAs) with countries where it does not have a current agreement. In 2020, following its departure from the EU, the UK launched negotiations with the US, Australia and New Zealand (**Figure 9** overleaf). These negotiations are ongoing and in June 2021, the UK reached an agreement in principle with Australia. In October 2021, the UK 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, a plurilateral agreement with 11 existing members)[30] and undertook public consultations on trade negotiations with India and the Gulf Cooperation Council. It also undertook public consultations on new FTAs with existing partners, Canada and Mexico.

3.2 This part of the report examines the Department for International Trade's (DIT's) progress in negotiating with new partners and covers:

- DIT's approach to negotiations, including setting trade strategy and working across government;
- DIT's engagement with devolved administrations, business associations and civil society, and Parliament to provide transparency and scrutiny;
- agreements in principle or secured to date; and
- the future programme, including further negotiations and implementing agreements.

30 The 11 members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership are Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

Figure 9

Negotiations with new partners – key events

Following its departure from the EU, the UK launched negotiations with new partners in 2020

2016

Jun 2016
The UK votes to leave the EU in a referendum.

Jul 2016
The UK government creates the Department for International Trade (DIT).

2017

Oct 2017
DIT publishes the white paper *Preparing for our future trade policy.*

2018

Jul 2018
DIT announces public consultations on the trade negotiations with the United States (US), Australia, New Zealand and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) nations.

2019

2020

Mar 2020
DIT publishes the UK's approach to negotiations with the US, including the government response to the public consultation on trade negotiations with the US.

May 2020
DIT launches trade negotiations with the US.

Jun 2020
DIT publishes the UK's approaches to negotiations with Australia and New Zealand, including the government response to the public consultation on trade negotiations with both countries.

At the end of the month, it launches trade negotiations with Australia and New Zealand.

2021

Mar 2021
The UK government publishes two policy papers: *the Integrated Review,* which includes the core principles for UK trade policy; and *Build Back Better,* which highlights a twin-track approach towards trade.

May 2021
DIT announces public consultations on trade negotiations with India, and new trade negotiations with existing partners Canada and Mexico.

Jun 2021
DIT launches accession negotiations with the CPTPP nations.

Oct 2021
DIT announces public consultations on trade negotiations with the Gulf Cooperation Council.

Note

1 When launching new trade negotiations, DIT publishes its negotiation approach, including aims and objectives.

Source: National Audit Office analysis of publicly available information

DIT's approach to negotiations with new partners

Strategic approach

3.3 Our 2019 report, Preparing for trade negotiations, highlighted the importance of an overarching UK trade policy.[31] We recognised that DIT had set out its initial approach in its 2017 white paper *Preparing for our future UK trade policy* including the key elements of its future trade policy.[32] These were:

- trade that is transparent and inclusive;
- supporting a rules-based global trading environment;
- boosting UK trade relationships;
- supporting developing countries to reduce poverty; and
- a UK approach to trade remedies and trade disputes.

3.4 In March 2021, the government published two further policy papers which set out further principles of trade policy:

- *Build Back Better: our plan for growth* set out the government's plans to support economic growth.[33] It highlighted a twin-track approach towards trade: strengthening the international trading system and reform of the World Trade Organization (WTO), and using preferential agreements and bilateral trade relationships.
- *Global Britain in a competitive age: Integrated Review of Security, Defence, Development and Foreign Policy* was a high-level vision of the UK's ambitions overseas, including how international trade would contribute.[34] It set out core principles of trade policy: democracy, human rights, international development, free enterprise and high standards in areas such as the environment, food, animal welfare and data. It also outlined the tools that the government would use to fulfil its objectives, including championing free and fair trade, reinvigorating the WTO, and negotiating bilateral and regional FTAs.

The government has also communicated its strategic approach in other ways, for example in publishing the strategic cases for each of the new FTAs it is negotiating, and through speeches by the Secretary of State and on specific topics such as Green Trade.[35]

31 Comptroller and Auditor General, *Preparing for trade negotiations*, Session 2017–2019, HC 2143, National Audit Office, May 2019, p. 8.
32 HM Government, *Preparing for our future UK trade policy*, white paper, Cm 9470, October 2017.
33 HM Treasury, *Build Back Better: our plan for growth*, CP 401, March 2021.
34 HM Government, *Global Britain in a competitive age: The Integrated Review of Security, Defence, Development and Foreign Policy*, CP 403, March 2021.
35 Secretary of State for International Trade, speech at Policy Exchange, 14 September 2021; Secretary of State for International Trade, speech at Chatham House, 29 October 2020; The Board of Trade, *Green Trade*, policy paper, July 2021.

3.5 However, DIT has not set out in one place how its approach to international trade will support the UK's domestic and wider policy objectives, and how it will use trade agreements alongside other policy levers to achieve its objectives. DIT launched negotiations with new partners in order to establish new trading relationships soon after the UK exited the EU. This meant new regulatory responsibilities, policy development and reform in some domestic policy areas (including product safety, agriculture and procurement) were still developing when DIT launched negotiations with new partners in 2020.

3.6 There will sometimes be tensions between greater liberalisation of international trade and domestic policy. In some cases, this may result in benefits across policy areas, but in others there may be trade-offs and some agreements will be better than others when viewed solely through a domestic lens. Areas where DIT could provide more detail on how international trade will help it achieve wider policy objectives include:

- **Climate policy.** The Board of Trade[36] has explored how removing barriers to trade in environmental goods and services may encourage the uptake of green technologies around the world.[37] The government seeks to include provisions in FTAs affirming the international endeavours to combat climate change. The UK's target to achieve net zero emissions by 2050 is set on a territorial basis, the standard international approach for measuring emissions. It does not include emissions from goods produced overseas and traded with the UK. Carbon emissions from international aviation and shipping will be included from 2033.

- **Human rights.** The government has committed to upholding human rights as a core principle of its trade policy. In most cases, the UK's interests and values are closely aligned with its partners. Where there are differences, the government aims to take a balanced and proportionate approach with all partners to maximise the benefits of trade while staying true to the UK's core values.

3.7 As described above, DIT has set out its high-level vision and articulated its approach on specific topics, such as digital trade, but has not brought this together in one place.[38] The International Trade Committee (ITC) told us that it would welcome more articulation of DIT's aims, including which sectors it plans to prioritise in trade agreements and what the UK will get in return for the trade-offs it may make. Business associations, civil society and consumer groups we consulted were concerned that it was unclear how trade policy aligned with other policy objectives and how any trade-offs required may impact on the groups they represent.

36 The UK Board of Trade champions exports, inward investment and outward direct investment to deliver economic growth and prosperity across the whole of the UK.
37 UK Board of Trade, *Green Trade*, policy paper, July 2021.
38 Secretary of State for International Trade, speech at London Tech Week, 20 September 2021.

Working across government

3.8 As set out in Part One, trade negotiations are a cross-government endeavour. DIT has overarching responsibility while other departments perform multiple roles, including mandate development, leading and supporting negotiations, and providing diplomatic support overseas. The Cabinet Office plays an important mediation role in resolving issues such as decisions that go beyond the agreed negotiations mandate.

3.9 Prior to and during trade negotiations, departments agree a mandate, which sets parameters within which to negotiate. DIT set up cross-government governance arrangements and policy working groups to agree the mandate, with ministers in Cabinet Committee taking final decisions (Figure 4). If, during the negotiations, the chief negotiator wishes to go beyond the agreed mandate, or if departments do not agree, decisions are escalated to senior officials or ministers.

3.10 In 2019 we reported that trade negotiations would involve complex trade-offs between policy priorities and require strong discipline across government. Reaching cross-government agreement has been challenging in some policy areas. Departments described the mandate for the Australia, New Zealand and US negotiations as less defined. Where domestic policy was subject to significant change or in development, it was difficult to agree a firm mandate. The 'loose' mandates were firm enough to start the negotiations, but not necessarily to conclude them. In parallel, the domestic economy is going through changes as a result of the UK's departure from the EU. For example, the government is fundamentally reforming how it supports agriculture production. However, partners such as Australia and New Zealand are significant agriculture exporters and are seeking access to the UK market.

3.11 DIT has identified a risk that cross-government engagement and policy tensions could slow or weaken delivery of its free trade agenda. During the UK–Australia negotiations, complex or sensitive decisions were postponed and had to be resolved later in negotiations, often when time was more limited. Other departments told us that they would welcome more transparent and agile decision-making processes, clearer governance structures, and clearer strategic direction to support planning and resource allocation.

3.12 In some cases, the pace of the programme of negotiations compressed the time available for analysis. For example:

- the Department for Environment, Food & Rural Affairs (Defra) was concerned that pursuing multiple negotiations at pace, and responding to changing priorities meant that, on some occasions, it did not have sufficient time or capacity to develop robust economic analysis to understand the impact of decisions;
- the Department for Business, Energy & Industrial Strategy (BEIS) was concerned that there was not always time to systematically capture, and to feed back lessons learned from the negotiations; and
- DIT told us that officials would have benefited from additional time to analyse the response from public consultations.

3.13 Some departments indicated that cross-government working to develop common positions for negotiations had improved. For example, when departments developed the mandate for the accession to the CPTPP, the Cabinet Office played an active mediation role with the aim of helping departments resolve difficult decisions earlier. DIT told us that it has endeavoured to learn lessons from the experience of the Australia trade negotiations to improve how it works with departments on subsequent negotiations.

Transparency and scrutiny

3.14 DIT has committed to a transparent and inclusive approach to its negotiations with new partners and to ensuring that trade agreements would work for the whole UK.[39] This commitment will require active engagement with businesses and civil society. DIT has also committed to seeking the input of the devolved administrations of Northern Ireland, Scotland and Wales, recognising the role they will play in developing and delivering the UK's trade policy. Quality input from stakeholders and devolved administrations will ensure that DIT understands a range of perspectives and can make well-informed trade-offs in its negotiations.

Engaging with devolved administrations

3.15 Devolved administrations – the Scottish Government, Welsh Government and the Northern Ireland Executive – told us that DIT has improved engagement by establishing a dedicated team for engaging with the devolved administrations, but they would like the relationship formalised through a 'concordat'.[40] 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. It does provide high-level negotiating objectives before they are published and sections of the mandate that cover devolved areas of policy (where decision-making has been delegated by the UK Parliament to the devolved parliaments and governments). 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 told us that they do not receive sufficiently detailed information related to reserved areas of policy. Devolved administrations are concerned that decisions in a reserved area of policy can impact on a devolved area. For example, decisions on rules of origin and market access, where only the UK government has decision-making powers, have an impact on agriculture policy, which is devolved.

39 Secretary of State for International Trade, *Free Trade Agreements: Transparency and Scrutiny Arrangements*, House of Commons, 7 December 2020.
40 The Cabinet Office is undertaking a review of intergovernmental relations: Cabinet Office, *Progress update on the review of intergovernmental relations*, policy paper, March 2021.

Engaging with businesses and consumer groups

3.16 DIT has developed mechanisms for engaging with external stakeholders and to provide transparency. Prior to launching trade negotiations, DIT undertakes a public consultation on the priorities for the agreement and then publishes a scoping assessment setting out high-level negotiating objectives. It has also set up Trade Advisory Groups (TAGs) to involve stakeholders during the negotiations (**Figure 10**).

Figure 10

The Department for International Trade (DIT) set up formal structures to engage with stakeholders

There are three levels of engagement with stakeholders: strategic, sector and thematic

Strategic level	**Strategic Trade Advisory Group (STAG):** • is chaired by a minister for International Trade; and • includes businesses, trade associations, consumer organisations and wider society representation.
Sector level	**Trade Advisory Groups (TAGs):** • are chaired (or co-chaired with other government department) by a DIT Director; • include business and trade association members only; and • comprise 11 groups covering sectors such as: agri-food; automotive, aerospace and marine; telecoms and technology; and financial services.
Thematic level	**Thematic Working Groups:** • are chaired by a senior civil servant; • include businesses, trade associations, consumer organisations and wider society representation; and • cover themes such as: development and sustainability; and technical barriers to trade.

Notes

1 DIT disbanded Expert Trade Advisory Groups in August 2020 and replaced them with sector TAGs or Thematic Working Groups.

2 In addition, other groups such as the UK Investment Council, UK Board of Trade and Trade Union Advisory Group, civil society and think tank roundtables provide advice, thought leadership and challenge.

Source: National Audit Office analysis of Department for International Trade documents

3.17 We spoke to industry bodies and consumer and civil society groups about engaging with DIT on the trade negotiations. The main themes raised were:

- **Set up and membership of TAGs**
  - Industry bodies welcome the opportunities and engagement structures DIT has set up. Some also told us that DIT engages well with businesses outside of the formal structures.
  - Consumers and civil society groups participate in Thematic Working Groups but are not represented in the sector TAGs. Some groups told us they felt excluded from ongoing engagement with DIT on the detail of trade negotiations, limiting their ability to represent the perspectives of citizens and consumers.
- **Information-sharing in TAGs**
  - Greater trust and transparency, such as sharing more detailed information during the negotiations, is required to enable more meaningful dialogue.
  - DIT requires TAG participants to sign confidentiality agreements so that it can share sensitive information.[41] However, it is not always clear what information participants can share with their organisations to draw on expertise of others. DIT is addressing this concern by enabling TAG members to nominate expert advisers from within their organisation who will also sign confidentiality agreements.
  - Business associations told us that despite confidentiality agreements, the information DIT shares is often limited to progress updates.
- **Citizen and consumer engagement**
  - Issues raised by consumers are reflected in high-level negotiating objectives, but it is not clear how the government will achieve them.
  - DIT is not doing enough to engage the public on trade policy. Of respondents surveyed by Which?, 67% felt that the government was not providing enough information on trade negotiations.[42]
  - Which? has also conducted research to find out what matters most to people about the consumer aspects of trade deals. Four clear priorities emerged relating to: maintaining standards, data protection, regional equity and protecting the environment.[43]

41 Confidentiality agreements are also referred to as non-disclosure agreements elsewhere in government. These are agreements where one or more parties agree not to disclose confidential information that they have shared with each other as a necessary part of doing business together.

42 Which?, *Consumers left in the dark on what trade deals will mean for them, Which? warns*, August 2021. Which? surveyed 3,263 adults online in June 2021. The data have been weighted to represent the UK population in terms of age, gender, region, social grade, tenure and work status, with devolved nations oversampled. However, online surveys can have issues with selection and non-response bias. Therefore, this figure should be viewed as indicative of the views of the UK population.

43 Which?, *National Trade Conversation: What really matters to consumers about future trade deals*, policy research report, November 2020.

3.18 DIT's engagement with stakeholders is continuing to evolve. DIT told us that it is exploring how it can work with businesses to achieve more effective engagement and input. DIT recognises that potential public concerns about the actual or feared impact of its trade agenda, or lack of belief in the potential benefits, could prevent it from getting the parliamentary and wider support it needs to progress its trade ambitions. To mitigate this risk, DIT has developed a communications strategy which emphasises local economic benefits such as jobs, and engages with stakeholders to improve public perception of trade and trade deals via export campaigns. DIT also surveys the public to understand attitudes to trade. In 2020, 67% of survey respondents said that they would strongly support, or somewhat support, the UK establishing FTAs with countries outside the EU.[44]

Engaging with Parliament

3.19 In Part One, we set out DIT's approach for engaging with Parliament, providing for parliamentary scrutiny, and ratification of FTAs. The parliamentary committees responsible for formal scrutiny of trade agreements are concerned that their opportunity to provide effective scrutiny is limited and too late in the process to be meaningful. In September 2021, the International Agreements Committee (IAC) reported that the statutory framework under the Constitutional Reform and Governance Act 2010 (CRAG) is insufficient to facilitate robust and effective scrutiny of international agreements.[45] It outlined how Parliament's role could be strengthened, including a formal role earlier in the process, provision of the agreement text in advance of signature and that Parliament's consent should be required prior to ratification. The ITC has written to DIT to endorse these points.[46] The ITC also expressed the following concerns to us:

- DIT provides public and private briefings to the ITC, but the information shared lacks detail and timeliness, and more could be shared on a trusted basis to enable the Committee to have a meaningful input into the negotiations.

- The ITC received the text of the UK–Japan agreement in confidence 10 Parliamentary sitting days before it was laid in Parliament under CRAG. The Committee did not consider it had sufficient time for effective scrutiny. For the forthcoming agreement with Australia, DIT said it will endeavour to provide the text of the agreement to the ITC prior to publication if time allows and that, following publication, a period of at least three months will be available for scrutiny before the agreement is laid in Parliament prior to ratification.

44 Department for International Trade, *Public attitudes to trade tracker, wave three report*, September 2021. 3,224 respondents were surveyed between June and August 2020. The data was weighted to maximise representativeness to the UK population including for age, gender, region, deprivation indices, 2016 EU referendum vote and education. Findings can be considered to be indicative of the wider UK public's views.

45 HL Committee of International Agreements, *Working practices: one year on*, Seventh Report of Session 2021-22, HL 75, September 2021.

46 HC Committee of International Trade, Letter from the International Trade Committee Chair to the Secretary of State for International Trade supporting recommendations and conclusions from the House of Lords International Agreements Committee (IAC) seventh report, 28 September 2021.

- Parliament does not have any rights to recommend changes to trade agreements. As set out in Part One, under CRAG, the House of Commons can delay ratification indefinitely by voting against ratification within each 21 sitting day period triggered by the previous vote against ratification.

3.20 Internationally, scrutiny arrangements vary, often reflecting differences in political and legal systems. For example, the UK Parliament shares similarities with the parliamentary systems in Canada, Australia and New Zealand, whereas the US has a different presidential system. The IAC considers that much could be learned from Parliamentary scrutiny systems operated in other jurisdictions. For example:

- **Negotiating objectives.** The US Congress has a right to define the negotiating objectives, and the European Parliament has established a practice of viewing the negotiating objectives and issuing a non-binding resolution to express its view on the objectives. There is no legal obligation for the Government to publish objectives in the UK, but DIT has committed to do so at the start of each new full FTA negotiation. During the passage of the Trade Act 2021 the Government further committed to accommodating a debate on the negotiating objectives. However, the UK Parliament does not have a legal right to see or vote on the objectives. Parliaments in Australia and Canada do not have the legal right to see or vote on negotiating objectives.

- **Updates during negotiations.** The US Congress and European Parliament are legally entitled to updates during negotiations. In common with Australia and Canada, the UK Parliament does not hold a legal right to regular updates during negotiations. In practice, the UK government has gone beyond the legal requirement and committed to updating Parliament after each negotiating round, and gives oral and written evidence for Parliamentary committees in public and private. It does not share draft negotiating texts with Parliament.

- **Ratification.** The US Congress and the European Parliament need to approve the agreement to be ratified. Parliamentary approval is not required for ratification in Australia and Canada. In the UK, it is a legal requirement that Parliament must scrutinise an agreement before it can be ratified. The UK House of Commons cannot vote to reject the agreement, but may delay its ratification, which could theoretically halt the agreement coming into force.

3.21 Parliament has expressed varying views on how it should scrutinise FTAs. Amendments to the Trade Act 2021 to give Parliament greater scrutiny powers (including Parliamentary approval of FTA negotiating objectives and concluded treaties) were rejected by the House of Commons. The House of Lords Constitution Committee was concerned that the scrutiny mechanisms available under CRAG were limited and flawed (leading to the establishment of the IAC as an independent committee in 2021).[47] However, it reported that transparency and information sharing should be a general principle rather than a legal requirement and that requiring Parliament to vote on mandates could hamper what the UK could achieve in negotiations.

Progress to date

Australia

3.22 In June 2021, the UK government reached an agreement in principle (AIP) with Australia. The AIP is a summary of the elements the parties expect to be included in the final agreement. The final text of the agreement would be published once details are agreed and signed. DIT estimates that the trade agreement with Australia could increase UK gross domestic product (GDP) by 0.01%-0.02% in 15 years. DIT considers that a deal with Australia has potential to deepen engagement with the Indo-Pacific region and support the UK's aim of joining the CPTPP as Australia is an existing member. In this section, we set out a high-level summary of the AIP's terms on digital, financial services, agriculture goods and climate change.

3.23 The AIP indicates that the UK may achieve its negotiating objectives to secure provisions that maximise opportunities for digital trade. Its terms include advanced rules on data flows, the prohibition of unjustifiable data localisation requirements, commitments to increase opportunities for digital trade across all sectors of the economy, and recognition of electronic contracts and signatures.

3.24 A trade agreement could lead to opportunities for financial services. The AIP terms include a commitment to addressing behind-the-border barriers to financial services trade, provisions to enhance regulatory cooperation and to strengthen engagement on financial technology (fintech) policy and regulation.

47 HL Committee on the Constitution, *Parliamentary scrutiny of treaties,* Twentieth Report of Session 2017–2019, HL 345, April 2019.

3.25 Under the terms of the AIP, the UK would remove almost all tariffs and quotas on agricultural products (with exceptions including long grain milled rice) from Australia over 15 years. Tariff-free beef quotas, for example, would increase from a current 4,669 tonnes to 35,000 tonnes immediately after the agreement comes into force, a 7.5 times' increase in the tariff-free quota. In the 15th year of entry of the agreement, Australia would be able to export 170,000 tonnes of beef to the UK tariff-free and in the 16th and onwards, all Australian imports of beef would be tariff-free (**Figure 11** on pages 48 and 49). A similar plan applies to sheep meat. The AIP includes a chapter on animal welfare but does not offer lower tariffs on goods produced to higher animal welfare standards.

3.26 The National Farmers' Union considers that, if implemented, the terms of the AIP could undermine the UK's domestic farming industry because there is no permanent safeguard on the volume of Australian imports. Increased competition is expected to impact the domestic sector, but the precise magnitude is uncertain. However, liberalising market access on agriculture products may set a precedent for the UK's future agreements.

3.27 The UK–Australia AIP includes provisions committing the UK and Australia to maintain and enforce their domestic environmental laws, and provisions affirming commitments by each country to tackle climate change, including under the 2016 Paris Agreement. It also confirms the right to regulate to achieve climate change objectives.

New Zealand

3.28 In October 2021, the UK government reached an AIP with New Zealand. DIT estimates that the trade agreement with New Zealand would have no impact on UK GDP in the long term. However, DIT considers that the deal offers wider strategic benefits, including supporting the UK joining CPTPP, as New Zealand is a member. In this section, we set out a high-level summary of its terms on digital, financial services, agriculture goods and climate change.

3.29 The New Zealand AIP includes potential provisions seeking to support digital trade. These include commitments to open digital markets (by, for example, enabling cross-border data flows and avoiding unjustifiable data localisation), and to reduce barriers by addressing restrictive practices. The AIP also includes commitments to support market access in financial services and to enable UK and New Zealand services professionals to work in each other's territories.

3.30 The AIP indicates broad liberalisation of agricultural goods. Under its terms:

- New Zealand would eliminate tariffs on 100% of existing lines. Current tariffs vary but are around 5%-10% on some products; and
- UK would eliminate tariffs on 96.7% of tariff lines on the day the FTA enters into force. Initial quotas would apply to products, including beef, sheep meat, butter and apples.

3.31 The National Farmers' Union raised similar concerns about the AIP with New Zealand as it did with the UK–Australia AIP. It is concerned that the deal may not offer significant benefits for UK farmers and could open them up to competition from a country with lower costs of production.

3.32 The UK aimed to secure provisions that support and help further the government's ambition on climate change and achieving net zero carbon emissions by 2050. The AIP says the agreement will reaffirm commitments to a number of international climate agreements, including the 2016 Paris Agreement, and will promote trade and investment in environmental goods and services which support the transition to a low-carbon economy.

Other ongoing negotiations

3.33 The UK's other ongoing negotiations include:

- **Accession negotiations to join the CPTPP.** In June 2021, DIT commenced accession negotiations to the CPTPP, which represented 13% of global GDP in 2019. The CPTPP is an FTA signed by 11 members who span Asia-Pacific, Latin America and the Caribbean, and North America.[48] The UK initially aims to negotiate areas of the agreement from which it wishes to be exempted. Once negotiations over exemptions have concluded, the UK will enter separate market access negotiations with ratified members.[49]
- **Negotiations with the US.** The US is the UK's largest trade partner outside the EU single market. UK–US total trade was valued at £200.8 billion in 2020. Negotiations began in May 2020. The fifth negotiating round ended on 30 October 2020, prior to the US election. In January 2021, the new US administration said there was no fixed timeline for a deal, and that its priority was dealing with COVID-19 and domestic economic recovery.

48 The 11 members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership are Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

49 As at November 2021, eight members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership had ratified the agreement.

Figure 11

Beef and sheep meat tariff-rate quotas in the UK–Australia agreement in principle (AIP)

The limits on tariff-free imports of Australian beef and sheep meat will significantly increase in the first year of entry of the UK–Australia trade agreement. In the 16th year of entry of the agreement and onwards, all Australian imports of beef and sheep meat will enter the UK market tariff-free

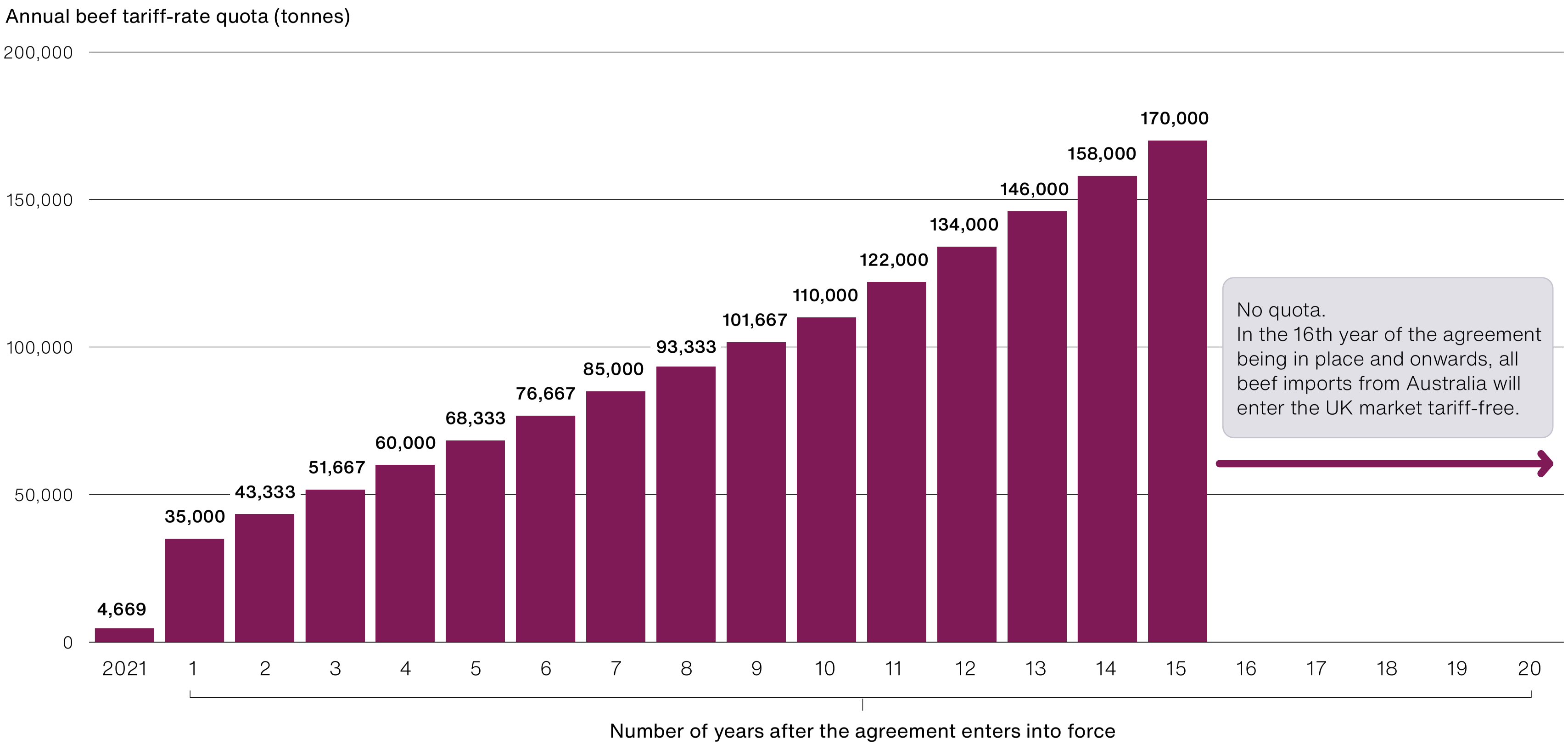


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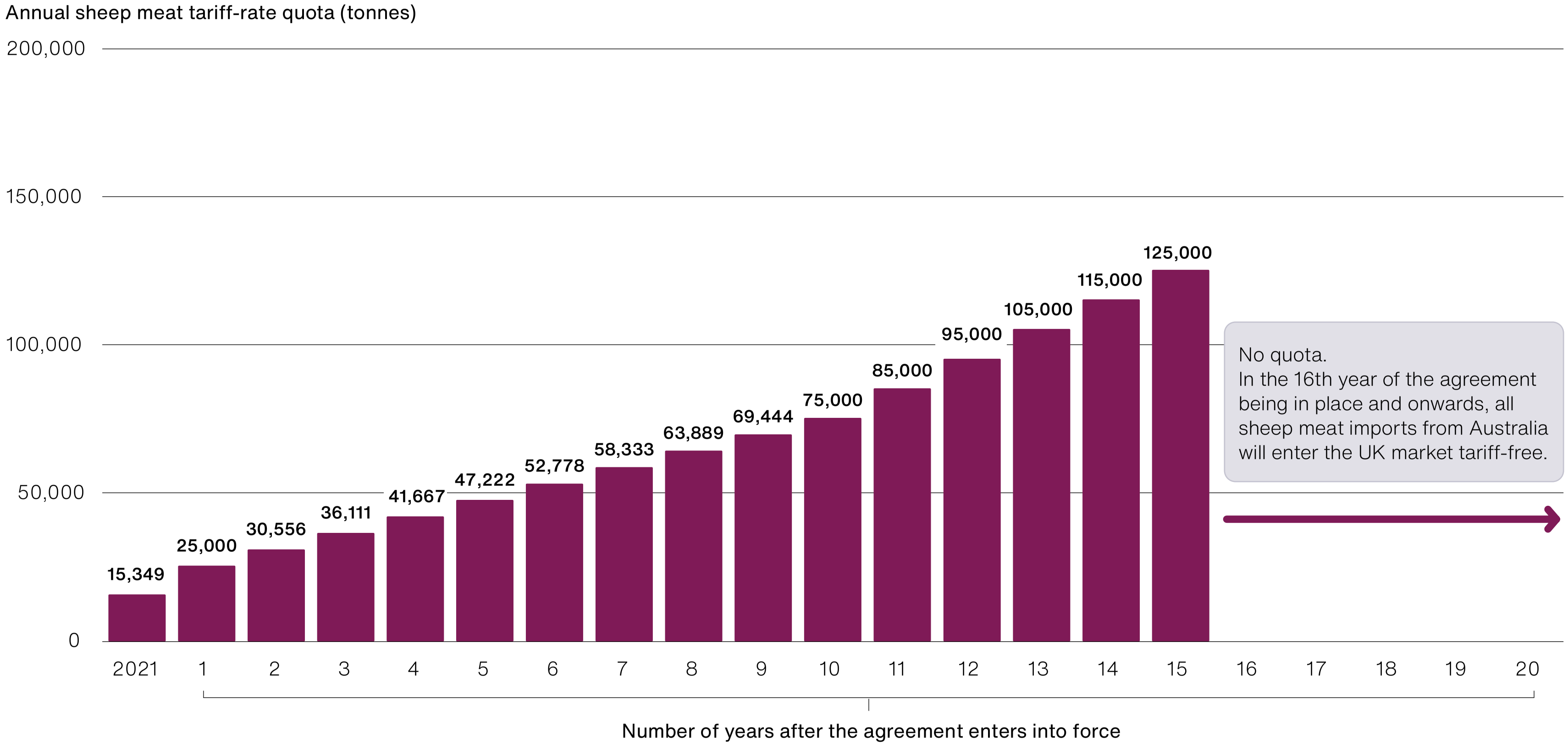
Figure 11 *continued*

Beef and sheep meat tariff-rate quotas in the UK–Australia agreement in principle (AIP)



Notes

1 The 2021 volume is the existing tariff-rate quota, whereas years 1 to 15 show new, additional tariff-rate quotas agreed in the UK–Australia AIP.

2 Out-of-quota tariffs will remain at most-favoured-nation level (the level of tariffs the UK offers all other countries with which it does not have a trade agreement) until year 10 and then be eliminated.

3 Between years 11 and 15 after entry into force of the agreement, product-specific safeguards will be applied on imports exceeding further volume thresholds. The thresholds will rise in equal instalments to 170,000 tonnes for beef and 125,000 tonnes for sheep meat in the 15th year of entry. The safeguard duty will be 20% for the rest of the calendar year between years 11 and 15.

4 For beef imports, the 2021 tariff-rate quota applies from 1 July 2021 to 30 June 2022, and for sheep meat imports the 2021 tariff-rate quota applies from 1 January 2021 to 31 December 2021.

Source: National Audit Office analysis of the UK–Australia agreement in principle

Forward programme

Future negotiations

3.34 To identify future negotiation options, DIT considered the benefits, risks and negotiability of trade agreements with its top trading partners. It conducted a prioritisation exercise, using criteria, including:

- potential economic benefit to indicate the relative magnitude of potential gains;
- negotiations history (including the depth of FTAs it is party to and length of previous negotiations);
- strategic importance; and
- the potential strategic risks associated with the UK engaging in FTA negotiations with the trading partner.

3.35 In September 2020, DIT reviewed its prioritisation approach to assess its fitness for purpose. The review concluded that the prioritisation approach was reasonable and identified potential refinements for future iterations. This prioritisation exercise supports DIT's trade plan for future negotiations, which is subject to discussion and collective ministerial agreement at Cabinet committee.

3.36 In addition to ongoing negotiations, DIT has committed to further negotiations with existing and new partners (**Figure 12**). DIT has announced plans for new FTAs with existing partners Canada and Mexico, and for new negotiations with India and the Gulf Cooperation Council (GCC). In 2020, total UK exports to India were £7.1 billion and total UK exports to the GCC were £23.7 billion.

3.37 DIT has been allocated additional resources to support its programme of trade negotiations. The 2021 Spending Review provided an additional £67.6 million over the Parliament to improve services for exporters and investors, maintain increased capacity to secure FTAs and continue to support the rules-based international trading system.[50] The settlement includes funding to enable the finalisation of FTAs with Australia and New Zealand and continued pursuit of the agreements with the US, the GCC, Canada, Mexico and India, as well as joining the CPTPP.

50 HM Treasury, *Autumn Budget and Spending Review 2021*, policy paper, October 2021.

Figure 12

Potential trade negotiation activity in 2022 and beyond

The Department for International Trade (DIT) is committed to a challenging programme of negotiation activity in 2022 and beyond

Ongoing negotiations and ratification of signed agreements	Status as at 30 November 2021
Australia	Agreement in principle reached in June 2021
New Zealand	Agreement in principle reached in October 2021
Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	Accession negotiations launched in June 2021
US	Negotiations paused awaiting the outcome of a review by the US Trade Representative
Reviews of existing agreements	**The UK has committed to:**
Canada	Beginning negotiations on a new free trade agreement (FTA) with Canada one year after the existing agreement entered into force (1 April 2021)
Mexico	Beginning negotiations on a new FTA with Mexico one year after the existing agreement entered into force (1 June 2021)
Switzerland	Conducting exploratory discussions with Switzerland with the aim to replace, modernise or develop its agreement within two years of the existing agreement entering into force (1 January 2021)
South Korea	Commencing negotiations with South Korea to build on its agreement and seek further liberalisation within two years of the existing agreement entering into force (1 January 2021)
Turkey	Commencing a review of its agreement with Turkey with a view to replace, modernise or expand it within two years of the existing agreement entering into force (1 January 2021)
Kenya	Undertaking to conclude negotiations with Kenya on expanding its agreement within five years of the existing agreement entering into force (1 January 2021)
New negotiations	**The government has announced:**
India	Plans for new negotiations with India (announcement May 2021)
Gulf Cooperation Council (GCC)	Plans for new negotiations with the GCC (announcement October 2021)
Mercosur	In October 2020, the Secretary of State referred publicly to the Mercosur trade bloc as a potential future negotiating partner
Implementation of agreements	**DIT must work with other departments to implement:**
Continuity agreements	More than 30 continuity agreements which it negotiated between 2019 and 2021 with existing EU trading partners
Japan	Agreement signed in October 2020
Further agreements as they enter into force	Agreements in principle were reached for Australia and New Zealand in 2021 and final agreements may be signed in due course

Notes

1 This Figure is based on DIT's public announcements and review clauses included in some agreements. Timelines are subject to change depending on UK government's and negotiating partners' priorities and external developments.

2 The CPTPP has 11 member states: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

3 The GCC has six member states: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

4 The Mercosur trade bloc has four member states: Argentina, Brazil, Paraguay and Uruguay. Venezuela is also a member but is currently suspended from membership.

5 Negotiations for a digital economy agreement with Singapore were also launched in 2021.

Source: National Audit Office analysis of publicly available information

Implementing concluded agreements

3.38 Implementing trade agreements is an ongoing endeavour, and the UK could face legal or reputational risks if it does not meet its commitments. On each signed agreement, including the 36 agreements the UK was party to as an EU member, DIT and other departments need to:

- meet the UK's legal commitments and monitor whether the partner is meeting its commitments. For example, the UK must notify partners of any relevant regulatory changes and ensure exporters from the trading partner can access preferential tariff rates;
- set up and run joint committees. The UK can use regular dialogue with partner countries to further reduce non-tariff barriers to trade or encourage cooperation on wider issues; and
- meet commitments to review the agreements.

3.39 Implementation of trade agreements is new to the UK, and DIT is in the early stages of developing its approach. Once ratified, the agreement is handed over from the negotiations team to an agreement manager who will work with colleagues in DIT and other departments to implement the agreement.

3.40 Implementation requires significant input from other departments. For example:

- across the agreements concluded to date, although committee frequency will vary, Defra expects to lead the UK's representation during 2021 on around seven existing FTA committees or technical working groups, including on sanitary and phytosanitary measures, geographical indications, veterinary standards and environment. It has also been involved on a further 15 committees. Defra expects these numbers to increase significantly in 2022 as the structures of more FTAs become operational;
- the Foreign, Commonwealth & Development Office (FCDO) is responsible for implementing the political and cooperation elements of the agreements it led on, with trade elements passing to DIT. FCDO also co-leads on the implementation of agreements with a trade and development focus; and
- BEIS, HM Treasury and the Department for Digital, Culture, Media & Sport support committees and reviews where they have a policy interest.

3.41 DIT has created 50–60 new implementation roles. However, pursuing multiple negotiations at pace, alongside implementing agreements, puts significant pressure on resources across government, for example, in other departments where policy expertise for negotiations and implementation often comes from the same pool of resource. DIT recognises that it needs to manage the risks associated with pressure on its staff and those in other departments. Other departments may not have the capacity they need to support implementation. For example, Defra has identified technical expert resource constraints as a potential barrier to meeting its obligations. Cross-government capacity to work on implementation of trade agreements will need to be factored into resource planning.

Part Four

Taking action to secure benefits from trade agreements

4.1 Free trade agreements (FTAs) will not deliver benefits without further action from the government. This part of the report sets out:

- how the Department for International Trade (DIT) measures progress in securing FTAs, and its progress to date;
- DIT's approach to assessing the economic and wider impacts of FTAs; and
- action DIT is taking to ensure that businesses and consumers benefit from FTAs.

Measuring progress in securing trade agreements

4.2 DIT has set out metrics that aim to measure its progress in securing trade agreements with global partners in its Outcome Delivery Plan (**Figure 13**).[51] The metrics include DIT's aim to secure agreements with countries representing 80% of total UK trade by the end of 2022. This aim, which incentivises DIT to make progress with securing agreements, is stated in DIT's 2020-21 annual report and accounts and is a government manifesto commitment.[52] DIT has not set targets for other metrics listed in Figure 13, which are based on projected, rather than secured, impacts. These draw on impact assessments that DIT publishes to help businesses and the public understand the potential economic benefits of the agreements, and to support Parliamentary scrutiny (as set out in Part One).[53]

51 Department for International Trade, *DIT Outcome Delivery Plan: 2021 to 2022*, corporate report, July 2021.
52 Department for International Trade, *Department for International Trade:* Annual Report and Accounts 2020-21, HC 431, July 2021.
53 DIT did not publish impact assessments for continuity agreements. This was because its aim was to replicate existing agreements that the UK was already party to as a member of the EU rather than to generate new economic benefits. It published an impact assessment for the UK–Japan Comprehensive Economic Partnership Agreement (CEPA) which went beyond the existing EU–Japan agreement in some areas.

Figure 13

The Department for International Trade's (DIT's) metrics for measuring progress in securing trade agreements

DIT's Outcome Delivery Plan sets out metrics that aim to measure progress in securing trade agreements

Metric	Measure type	Measurement frequency	Target
UK trade with countries with which it has conducted a trade agreement, as a percentage of UK trade	Output	As agreements are secured, subject to quarterly revisions to trade data	80% by the end of 2022
Predicted impact on gross domestic product of each concluded trade agreement as per published impact assessment, including by UK region	Outcome	As agreements are secured	No target
Reduction in tariff barriers for each concluded trade agreement as per published impact assessment (%)	Outcome	As agreements are secured	No target
Cost reductions related to non-tariff measures for goods and services for each concluded trade agreement as per impact assessment (%)	Output	As agreements are secured	No target

Note

1 These metrics support DIT's Priority Outcome 1 in its Outcome Delivery Plan: Secure world-class free trade agreements and reduce market access barriers, ensuring that consumers and businesses can benefit from both.

Source: National Audit Office analysis of Department for International Trade, *DIT Outcome Delivery Plan: 2021 to 2022*, corporate report, July 2021

4.3 FTAs are also intended to deliver wider strategic benefits that may be difficult to quantify, such as increased cooperation with partners on the environment, international development, national security and human rights, and more trade with the Asia-Pacific region with the aim of diversifying UK trade, creating more resilient supply chains, and reducing the UK's vulnerability to international political and economic shocks. DIT has published global economic and trade projections for 2030–2050 that predict faster growth in emerging economies across Asia and the Pacific than in more developed economies such as the US and Europe.[54] DIT highlights this as another reason for choosing to pursue trade deals with partners in these regions. DIT's impact assessments primarily focus on projecting economic benefits. The government has articulated its wider objectives elsewhere, such as in *Global Britain in a competitive age: Integrated Review of Security, Defence, Development and Foreign Policy*.[55]

54 Department for International Trade, Global Trade Outlook, September 2021.

55 HM Government, *Global Britain in a competitive age: the Integrated Review of Security, Defence, Development and Foreign Policy*, CP 403, March 2021.

Progress to date

Progress in securing trade agreements

4.4 DIT reported that, as at 31 March 2021, the UK had secured (signed or agreed in principle) agreements with partners representing 62.5% of UK trade in 2020 against its aim of 80% by the end of 2022.[56] This proportion rises to 64.0% when including the May 2021 Serbia continuity agreement, and the agreements in principle with Australia (June 2021) and New Zealand (October 2021) (**Figure 14** on pages 57 and 58).[57]

4.5 DIT's calculation of the level of UK trade covered by partners with which the UK has secured agreements includes 47.0% of trade with the EU.[58] Trade between the UK and the EU is governed by the 2020 Trade and Cooperation Agreement, which is the responsibility of the Cabinet Office. However, the House of Lords EU Services Sub-Committee has reported that, while the agreement provides for liberalisation of trade in services in some areas, there are significant gaps in respect of financial services provisions, mutual recognition of professional qualifications and mobility in creative industries.[59] Trade in services represented 31% of the UK's total trade with the EU in 2020.

4.6 DIT may face challenges in meeting its aim of securing agreements with countries representing 80% of total UK trade by the end of 2022. A trade deal with the US would cover 16.8% of UK trade (at 2020 levels). The most recent negotiating round with the US was in October 2020 prior to the change of US administration. Acceding to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and a new agreement with India would cover 0.4% and 1.5% of UK trade (at 2020 levels) respectively.[60]

Performance on secured agreements (Japan)

4.7 The UK signed the Comprehensive Economic Partnership Agreement (CEPA) with Japan in October 2020 and published its impact assessment, which included projections against DIT's metrics for measuring the impact of FTAs (**Figure 15** on page 59). DIT's impact assessment for CEPA indicates that all UK regions will benefit from the agreement, although the scale of the impact varies (**Figure 16** on page 60).

56 Department for International Trade, *Department for International Trade: Annual Report and Accounts 2020-21*, HC 431, July 2021.

57 Based on non-seasonally adjusted 2020 data from Office for National Statistics, *UK trade, quarterly trade in goods and services tables: April to June 2021*, October 2021.

58 Includes UK trade with EU member states and Andorra, San Marino, the UK crown dependencies and EU overseas territories.

59 HL Committee of European Union, *Beyond Brexit: trade in services*, Twenty-Third Report of Session 2019–2021, HL 248, March 2021.

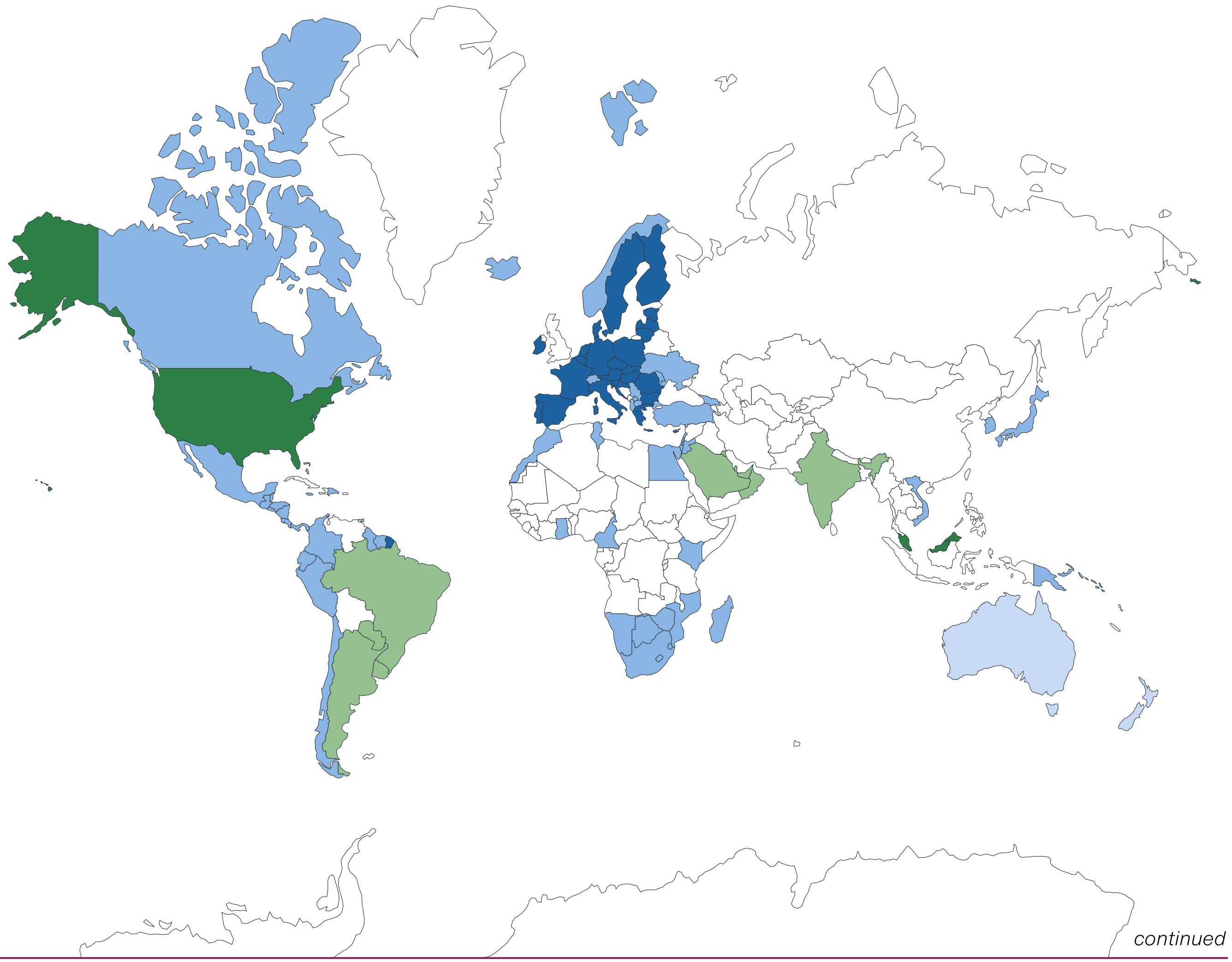
60 The 11 signatories of the CPTPP agreement represented 7.6% of UK trade in 2020. However, the UK has existing agreements or agreements in principle with all but two signatories (Malaysia and Brunei Darussalam) which represented 0.4% of UK trade in 2020.

Figure 14
Status of the UK's trade negotiations as at November 2021

The UK has signed, or agreed in principle, trade agreements with countries representing 64.0% of UK trade in 2020

Key

- EU countries
- EU trading partners
- Australia and New Zealand
- US, Comprehensive and Progressive Agreement for Trans-Pacific Partnerships (CPTPP) partners with no existing trade agreement
- Gulf Cooperation Council (GCC), India and Mercosur



continued

Figure 14 *continued*
Status of the UK's trade negotiations as at November 2021

Partners	UK agreement status	Percentage of UK trade (2020)
		(%)
EU countries	UK–EU Trade and Cooperation Agreement – signed	47.0
EU trading partners	Transition of existing EU agreements – signed	15.6
Australia and New Zealand	New free trade agreement (FTAs) – agreed in principle	1.4
Total signed/agreed in principle		64.0
US	Negotiations ongoing	16.8
Comprehensive and Progressive Agreement for Trans-Pacific Partnerships (CPTPP) partners with which the UK has no existing trade agreement (Brunei Darussalam and Malaysia)	Negotiations ongoing	0.4
Gulf Cooperation Council (GCC), India and Mercosur	Potential future FTA partners	4.9

Notes

1 The Trade and Cooperation Agreement with the EU was led by the Cabinet Office.

2 Countries in white are those with which the UK does not currently have a trade agreement and where it has not announced plans to negotiate new FTAs.

3 The UK is currently in negotiations with CPTPP parties. The UK already has bilateral agreements, or agreements in principle, with 9 of the 11 CPTPP signatories and so they are not included in the trade figures in the table above.

4 The government has announced plans for new FTAs with existing partners Canada and Mexico. The government has announced plans to negotiate FTAs with India and the GCC. The GCC has six member states: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

5 The government has publicly stated that the Mercosur trade bloc is a potential partner for future negotiations. The Mercosur trade bloc has four member states: Argentina, Brazil, Paraguay and Uruguay. Venezuela is also a member but is currently suspended from membership.

6 There are three EU agreements with third parties which the UK has not transitioned into UK agreements (Algeria, Bosnia and Herzegovina, and Montenegro). The government remains open to pursuing these agreements.

Source: National Audit Office analysis of Department for International Trade data and Office for National Statistics, *UK trade, quarterly trade in goods and services tables: April to June 2021*, October 2021

Figure 15

Projected national impacts of the UK–Japan Comprehensive Economic Partnership Agreement (CEPA)

The UK–Japan CEPA is projected to increase gross domestic product (GDP) and reduce costs for UK exporters

Metric	Performance
Projected increase in UK GDP	0.07% (£1.5 billion)
Average trade cost reduction in tariff barriers for UK exporters (%)	-3.3 percentage points
Average trade cost reductions related to non-tariff barriers for UK exporters (%)	-2.4 percentage points

Notes

1 The monetary value for increase in GDP is calculated by applying the projection to 2019 UK GDP. It is provided for illustrative purposes only and is not a precise estimate.

2 The Department for International Trade projects that the increase in GDP and reductions in trade costs will be reached approximately 15 years from the agreement entering into force in 2021.

Source: Department for International Trade, *Final Impact Assessment of the Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership*, October 2020, updated February 2021

4.8 DIT's published impact assessment for CEPA includes benefits that the UK may have secured if it had remained part of the EU–Japan trade agreement. This is because the baseline against which DIT has projected benefits is a scenario where the UK and Japan do not have a trade agreement. DIT has chosen to use this baseline because the UK would not have been part of the EU–Japan trade agreement once the transition period ended on 31 December 2020. This choice of baseline means the potential benefits of the UK–Japan CEPA and the potential benefits of the EU–Japan trade agreement cannot be compared quantitatively. However, it would have been difficult to make accurate and reliable comparisons given the limitations associated with the modelling used to estimate the impact of CEPA.

4.9 The impact assessment for CEPA may understate some of the benefits. For example, current projections may not reflect the full value of new provisions on digital and services trade. DIT has convened a panel of trade specialists to advise how best to incorporate wider global economic developments into its modelling.

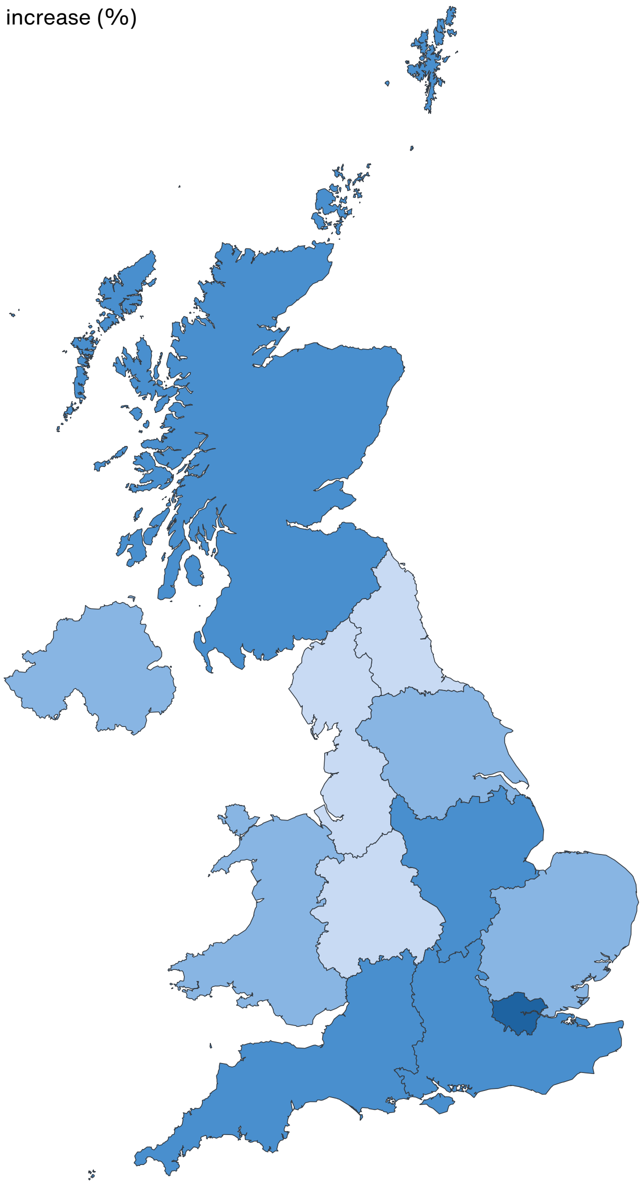
Figure 16

Projected long-term national and regional gross value added (GVA) impacts of the UK–Japan Comprehensive Economic Partnership Agreement (CEPA)

The Department for International Trade (DIT) estimates that London and the East Midlands are likely to see the largest increases in GVA (0.09% and 0.08% respectively)

Indicative GVA increase (%)

- 0.09–0.10
- 0.07–0.08
- 0.05–0.06
- 0.03–0.04



Country/English region	Indicative GVA increase	Indicative GVA increase
	(%)	(£m)
London	0.09	398
East Midlands	0.08	82
Scotland	0.07	101
South West	0.07	90
South East	0.07	177
Northern Ireland	0.06	24
Yorkshire and the Humber	0.06	76
East of England	0.06	96
Wales	0.05	34
West Midlands	0.04	56
North West	0.04	64
North East	0.03	14

Notes

1 GVA is a measure of economic output.

2 The monetary values for increases in GVA are calculated by applying the projections to 2017 GVA figures.

3 DIT projects that the impact on GVA will be reached approximately 15 years from the agreement entering into force in 2021.

4 These figures are provided for illustrative purposes only and are not precise estimates.

Source: National Audit Office analysis of Department for International Trade, *Final Impact Assessment of the Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership*, October 2020, updated February 2021; Office for National Statistics licensed under the Open Government Licence v.3.0. Contains OS data © Crown copyright and database right 2021

4.10 The Regulatory Policy Committee (RPC),[61] academics and the two Parliamentary committees leading scrutiny have highlighted areas where DIT could have provided greater transparency in the CEPA impact assessment:

- **Costs of trade agreements:** the impact assessment focuses on the benefits with limited consideration of the potential adjustment costs of the agreement. For example, the RPC recommends greater exploration of the potential short-term impacts of CEPA on the motor industry given it is projected to contract as a result of CEPA in the long term.
- **Environmental impacts:** the impact assessment suggests that CEPA may slightly increase domestic greenhouse gas emissions, energy consumption from fossil fuels and maritime freight emissions. It does not factor in potential future policy measures to reach net zero by 2050. DIT considers that the agreement could also increase the UK Low-Carbon Economy's investment and export potential but that the scale of potential impact is uncertain. The House of Lords International Agreements Committee (IAC) and civil society stakeholders we spoke to have called for more details on how trade policy will support the UK's environmental goals.[62]
- **Northern Ireland Protocol:** the IAC raised concerns that the provisions around the Northern Ireland Protocol could affect access to goods in Northern Ireland. DIT's impact assessment for CEPA does not assess whether the Protocol is likely to impact potential benefits for Northern Ireland. DIT stated that Northern Ireland is included within the territorial scope of CEPA and that there is nothing that mandates Northern Ireland businesses to operate different regulatory standards to the rest of the UK.

Projected macroeconomic benefits of negotiations underway

4.11 The projected economic impacts for FTAs where negotiations are currently underway are relatively modest (**Figure 17** overleaf). For example, DIT projects that an FTA with the US would increase UK annual gross domestic product (GDP) by 0.07%–0.16% (£1.6 billion to £3.4 billion) while an FTA with New Zealand would have no overall impact on UK GDP. Once an agreement has entered into force, the projected economic benefits are expected to take approximately 15 years to fully materialise, although changes resulting from the FTA are unlikely to be uniformly spread across this period.

61 The RPC is an independent body sponsored by the Department for Business, Energy & Industrial Strategy. Regulatory Policy Committee, *Opinion: UK–Japan CEPA impact assessment*, October 2020.
62 HL Committee of European Union, *Scrutiny of international agreements: UK–Japan Comprehensive Economic Partnership Agreement*, Sixteenth Report of Session 2019–2021, HL Paper 175, November 2020.

Figure 17

Projected long-term (15-year) macroeconomic benefits of secured and proposed free trade agreements (FTAs)

The Department for International Trade (DIT) projects relatively modest economic benefits from secured and proposed agreements

FTA partner	Increase in UK's annual gross domestic product (GDP)	Increase in UK's total exports	Increase in UK's total imports
Australia	0.01% to 0.02% (£0.2 billion to £0.5 billion)	0.1% to 0.3%	0.0% to 0.1%
Japan	0.07% (£1.5 billion)	0.6%	0.5%
New Zealand	0.00% (no change)	0.1% to 0.2%	0.0% to 0.1%
US	0.07% to 0.16% (£1.6 billion to £3.4 billion)	0.7% to 1.3%	0.1% to 0.2%
Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	0.02% to 0.08% (£0.4 billion to £1.8 billion)	Up to 0.3%	Up to 0.2%

Notes

1 Data for the US, New Zealand and Australia are presented as ranges because DIT's scoping assessments model two potential deal scenarios.

2 Data for CPTPP are presented as a range to reflect two potential scenarios: (i) the current scenario where Malaysia and Brunei Darussalam have not ratified CPTPP and so it has not entered into force in these two countries; (ii) a scenario where all 11 countries who signed CPTPP have ratified the agreement. The CPTPP has 11 member states: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

3 The monetary values for GDP increases are calculated by applying growth projections to 2018 UK GDP for Australia, New Zealand and the US, and to 2019 GDP for Japan and the CPTPP. These figures are provided for illustrative purposes and are not precise estimates.

4 DIT has assumed that the UK has FTAs in place with New Zealand, Australia and the US in its trade projections for CPTPP.

5 Once an agreement has entered into force, the projected economic benefits are expected to take approximately 15 years to fully materialise.

Source: National Audit Office summary of Department for International Trade scoping assessments for bilateral free trade agreements with: New Zealand, June 2020; Australia, June 2020; the US, March 2020; accession to the CPTPP, June 2021; and of Department for International Trade, *Final Impact Assessment of the Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership*, October 2020, updated February 2021

DIT's modelling approach and impact assessments

4.12 DIT uses widely accepted trade modelling techniques as the basis for its economic impact projections. DIT primarily uses a Computable General Equilibrium (CGE) model, a commonly used tool for international trade analysis.[63]

4.13 However, resource and capability issues affected DIT's plans for modelling the economic impact of CEPA. DIT is reliant on a few individuals with the required specialist modelling skills who are building their capability and there is a limited pool of expertise in CGE modelling within government and within the UK to support capacity-building. DIT brought in an external expert to model the impact of CEPA because it did not have the capacity in the time available to resolve issues that emerged with its own modelling of CEPA.

4.14 The RPC has reviewed DIT's impact assessment for CEPA and concluded that it is fit for purpose. However, the CGE model used does have limitations. For example, it does not reflect short-term adjustment costs, such as job- losses in specific sectors, that could arise as the economy adjusts to changes resulting from the FTA. Furthermore, DIT informed us that it takes around six months to prepare inputs, run the model and quality assure the outputs, limiting its usefulness for live decision-making during negotiations, unless sufficient scoping work has been undertaken.

Action to ensure the FTAs deliver benefits

4.15 We previously highlighted that the success of an FTA will depend on DIT and other departments supporting UK exporters effectively. At a minimum, DIT will need to ensure businesses are aware of secured FTAs and know where to find information about how they can benefit from them.

63 The Computable General Equilibrium model captures long-run economic responses to changes in trade policy. It is used to assess impacts of trade policy on macroeconomic factors, such as output, wages and trade, at both the sectoral and wider economy levels.

4.16 UK businesses' awareness and use of the benefits available under existing FTAs may be low. Data covering around 70% of UK trade where the UK was party to existing trade agreements indicates that, in 2019, the preference utilisation rate for UK exports (the rate at which exporters use preferential tariffs available to them under trade agreements) was 63%, compared with an EU export preference utilisation rate of 75%.[64] The data, which is collected by the European Commission, cover 31 countries with which the EU has a trade agreement. They do not cover all countries with which the EU or the UK have trade agreements. The data should be treated as indicative only due to issues with availability and consistency of reporting between countries.[65] Use of preferential tariffs may be lower among small businesses; the Federation of Small Businesses told us that small businesses have historically underused the preferential terms available under FTAs. DIT's 2020 survey of UK registered businesses found that just 28% of surveyed businesses who exported to non-EU countries knew whether the goods they most frequently exported were eligible for reduced customs duties.[66] Even among businesses who were aware their goods were eligible, just over half did not always use the preferences or never used them. The most common reasons given for this were difficulties understanding how to obtain reduced customs duties (29%), difficulties finding relevant information on how to obtain reduced customs duties (28%) and difficulties complying with requirements necessary to access the preferences (27%).

4.17 DIT ran campaigns to promote opportunities arising from the deal with Japan and has planned trade promotion activities to raise awareness among businesses in advance of the launch and ratification of an agreement with Australia. To launch the Japan campaign, DIT held a series of virtual events to link importers and exporters from the UK and Japan. Business associations told us:

- businesses found DIT's activities promoting CEPA useful. Artificial intelligence and financial technologies businesses had expressed new interest in exporting to Japan; and
- they would like to see improvements, such as making trade missions more accessible for small and medium-sized enterprises (SMEs) and further clarity around the creation of SME helpdesks or contact points that are provided for in CEPA.

64 The preference utilisation rate is designed to show the extent to which businesses are using preferential tariffs available to them under trade agreements. It is calculated by dividing the value of trade eligible for preferential tariff rates where businesses used the preferential rate by the total value of trade eligible for preferential tariff rates.

65 Data on the preference utilisation rates are from the European Commission available at: https://trade.ec.europa.eu/doclib/docs/2020/november/tradoc_159041.pdf. These figures cover 31 countries with which the EU has a trade agreement and which submitted a valid dataset. They do not cover all countries with which the EU has a trade agreement. These figures are proxies due to issues with the availability of data and consistency of reporting between countries.

66 Department for International Trade, *DIT National Survey of UK Registered Businesses* 2020, June 2021. The figures presented here are for indicative purposes only and are not accurate estimates across all businesses in the UK due to the sampling approach used. See Appendix Two for further details.

4.18 In 2021-22, DIT's initial budget for supporting exports was £127 million, 19% of its total budget. In 2020-21, 24% of DIT's total spend was on supporting exports.[67] DIT's 2021 Export Strategy sets out its ambition to lift UK exports to £1 trillion each year, including aims to provide better support for exporters through more joined-up and digital services.[68] However, in 2020 we reported that DIT's digital services were yet to provide the export support that some businesses need.[69] In September 2021, we reported that DIT had accepted all five of the recommendations for DIT; one was implemented and four were categorised as works in progress.[70] The Committee of Public Accounts raised concerns that DIT is not doing enough to support new, innovative businesses or to address the challenges that small businesses face when they export.[71] DIT has reported that it has implemented three out of four of the Committee's recommendations.[72]

4.19 Effective monitoring and evaluation is vital to ensuring DIT is on track to secure long-term benefits of the FTAs. However, DIT's approach to modelling the benefits of FTAs does not allow it to project what progress it expects, for example, in terms of annual growth in trade, to determine if the agreement is on track to deliver the projected benefits. Challenges also include understanding the attribution of FTAs given the complex nature of international trade and the wider consequences of the COVID-19 pandemic. To monitor effectively, DIT requires timely, detailed and accurate trade data. DIT is planning to:

- develop a Monitoring and Evaluation plan for the UK–Japan CEPA which includes publishing: (i) a monitoring report every two years following entry into force and (ii) a comprehensive ex-post evaluation within five years of entry into force;
- develop a set of indicators to monitor whether businesses are using the agreements. These include changes in trade and investment flows, tariff utilisation rates, market access barriers resolved through FTAs and changes in the numbers of businesses trading and the amounts they trade;
- invest in research evaluating FTAs and in surveys of businesses' use of FTAs; and
- access partners' trade data. For example, the agreement in principle with Australia includes a commitment to share tariff preference utilisation data, which will help DIT understand how UK exporters are using the FTA.

67 DIT's total 2020-21 expenditure is reported in the *Department for International Trade: Annual Report and Accounts 2020-21*, HC 431, July 2021. The impact of the COVID-19 pandemic may have suppressed expenditure in 2020-21. The 2021-22 budget refers to DIT's budget at the main estimates prior to any funding adjustments at the supplementary estimates, and therefore excludes additional funding for the Export Support Service and other activity relating to DIT's Export Strategy announced in November 2021. It includes the GREAT campaign and world events costs relating to exports. DIT's budgets and expenditure are on a team rather than activity basis and therefore these figures are indicative only.

68 Department for International Trade, *Made in the UK, Sold to the World,* November 2021.

69 Comptroller and Auditor General, *Support for exports,* Session 2019–2021, HC 574, National Audit Office, July 2020.

70 National Audit Office, *NAO Recommendations Tracker*, updated periodically, available at: www.nao.org.uk/nao-recommendations-tracker/

71 HC Committee of Public Accounts, *Government support for UK exporters,* Twenty-First Report of Session 2019–2021, HC 679, October 2020.

72 HM Treasury, *Treasury Minutes Progress Report*, CP 549, November 2021; HM Treasury, *Treasury Minutes Progress Report*, CP 424, May 2021; HM Treasury, *Treasury Minutes*, CP 363, January 2021.

Appendix One

Our audit approach

1 This study examines the Department for International Trade's and wider government's progress with its programme of trade negotiations and what has been achieved to date. We provide an overview of the government's negotiations programme (Part One) and assess government's progress and performance in:

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

2 Details of the scope of the report are set out in the Summary (paragraphs 6–8). Our audit approach is summarised in **Figure 18** on pages 67 and 68.

Figure 18
Our audit approach

The objective of government

Government has an ambitious target to secure free trade agreements (FTAs) with partners representing 80% of UK trade by the end of 2022. The Department for International Trade (DIT) has responsibility for promoting British trade across the world, and an objective to deliver an ambitious FTA programme that benefits businesses and consumers in every part of the UK. Although DIT has overall responsibility, trade negotiations are a cross-government endeavour involving multiple other departments.

How this will be achieved

Since 2019, DIT has transitioned 36 existing EU agreements launched negotiations with new partners, including the US, Australia and New Zealand, and applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. DIT works closely with other departments because the broad scope of FTAs cuts across multiple policy areas and there are complex trade-offs to be made. DIT must also coordinate with the Cabinet Office, which is responsible for the UK's parallel trade negotiations with the EU (representing 47.0% of UK trade).

Our study

This report examines government's progress with its programme of FTAs since 2019 and what it has achieved to date. We cover 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 also examine how DIT has worked with other government departments that play a role in trade negotiations.

Our evaluative criteria

Building capability and negotiating agreements with existing partners

DIT's progress in building capacity and capability, and its performance in converting existing EU trade agreements into new UK agreements.

Negotiations with new partners

DIT's progress in working across government to secure and implement agreements, and in meeting its commitments to a transparent and inclusive approach to negotiations with new partners.

Taking action to secure benefits from trade agreements

DIT's progress in developing robust measures of the economic and wider benefits of trade agreements and action it is taking to secure benefits.

Figure 18 *continued*
Our audit approach

Our evidence (see Appendix Two for details)			
	• Interviews with officials from DIT and other government departments. • Review of published and internal DIT documents. • Analysis of data from DIT and other government departments.	• Interviews with officials from DIT and other government departments. • Review of published and internal documents from DIT and other government departments. • Analysis of data from published and internal documents from DIT and other government departments. • Interviews with Parliamentary committees responsible for scrutiny of trade agreements. • Interviews with the devolved administrations and stakeholders, including businesses, consumers and civil society organisations.	• Analysis of published DIT data. • Review of publicly available documents. • Interviews with DIT officials.

Our conclusions

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.

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.

Appendix Two

Our evidence base

1 We reached our independent conclusions on the Department for International Trade's (DIT's) trade negotiations programme by analysing evidence collected between February and August 2021. Our audit approach is outlined in Appendix One.

2 We used a range of study methods, as set out below. Any issues brought to our attention through our interactions with government departments or other stakeholders were triangulated against other sources. Where necessary, we asked questions of the relevant parties and/or asked for more information to ensure we focused on highest-priority areas.

Interviews

3 We conducted semi-structured interviews with officials from DIT and other government departments, including the devolved administrations. We interviewed:

- representatives from DIT's executive team and senior staff, including chief negotiators, who have formal decision-making powers for and strategic oversight of the trade negotiations programme;
- DIT officials, including those responsible for the project management function for negotiations, officials leading on the implementation of signed agreements, teams responsible for engagement with Parliament and the devolved administrations, and analysts with responsibility for trade modelling and monitoring and evaluation;
- the Foreign, Commonwealth & Development Office (FCDO) and DIT staff from the overseas regions (Australia, Japan, New Zealand and the US) involved in supporting the negotiations;
- officials from the Department for Environment, Food & Rural Affairs (Defra), the Department for Digital, Culture, Media & Sports (DCMS), HM Treasury, the Cabinet Office, the Department for Business, Energy & Industrial Strategy (BEIS) and UK-based FCDO officials involved in supporting the negotiations programme; and
- officials from the Scottish Government, the Welsh Government and the Northern Ireland Executive who engage with DIT on trade negotiations.

4 We conducted semi-structured interviews with external stakeholders, including:

- consumers and civil society representatives;
- business associations, including industry bodies such as councils, federations, and confederations; and
- the Chair and the clerk of the House of Commons International Trade Committee (ITC).

Document review

5 We reviewed documents, including:

- published government documents relating to DIT's trade negotiations programme, including scoping and impact assessments, policy papers, reports to Parliament on progress with trade negotiations or the content of agreements;
- Parliamentary reports published by the House of Commons International Trade Committee (ITC), the House of Lords International Agreements Committee (IAC) and the Trade and Agriculture Commission;
- DIT's internal planning, performance and governance documents related to the trade negotiations programme, including terms of reference, minutes and reporting packs from relevant oversight groups, programme plans and monitoring, evaluation and research plans;
- internal planning, performance and governance documents provided by other departments involved in trade negotiations, including BEIS, the Cabinet Office, DCMS, Defra, FCDO and HM Treasury;
- Government Internal Audit Agency reports on DIT's trade negotiations programme;
- published documents that set out the approach taken to trade negotiations by other countries, including trade policy documents, negotiating objectives and scrutiny arrangements; and
- independent reviews of DIT's impact assessment for the UK–Japan Comprehensive Economic Partnership Agreement (CEPA), including the review by the Regulatory Policy Committee.

6 We systematically reviewed all documents identified as containing relevant information. Where documents raised questions or were incomplete, we went back to the providers for more information.

Data and analysis

7 We reviewed and analysed:

- Published secondary evidence, including trade statistics publications by DIT and the Office for National Statistics.[73]
- Human Resources data from DIT and other government departments with a significant role in trade negotiations on the numbers of staff involved in supporting the trade negotiations programme. This analysis is designed to give an indication of the level of effort needed across government to conduct negotiations. It is not a precise estimate and should not be viewed as such due to limitations with the supporting data, including variations in the reporting time period.
- DIT's progress in transitioning existing EU agreements, including number and value of agreements signed by date.
- DIT's published summaries of the UK's agreement in principle (AIP) with Australia and New Zealand. We analysed how the texts of the UK–Australia AIP and the UK–New Zealand AIP compare with the UK's negotiating objectives in the areas of digital and financial services, agriculture goods and climate change. Our preliminary analysis is not intended to be a detailed evaluation of the content of the agreements. Parliamentary scrutiny of trade agreements is led by the House of Commons ITC and the House of Lords IAC.
- Data on the level of trade covered by trade agreements secured or agreed in principle to date. We used this analysis to prepare a map showing DIT's progress to date against its target to cover 80% of total UK trade with trade agreements by the end of 2022.
- Data presented in DIT's scoping and impact assessments setting out the projected impact of trade agreements on UK exports and on Gross Domestic Product.
- Data from DIT's 2020 National Survey of UK Registered Businesses focus on businesses' exporting behaviours, plans, capabilities and attitudes.[74] In this report, we present data on businesses' awareness and use of reduced customs duties outside the EU. In total, 3,001 businesses took part in this survey. The survey used a quota sampling approach, oversampling businesses with a turnover of £500,000 and above. This approach, along with a relatively high non-response rate among businesses invited to take part in the survey, means that the survey results cannot be assumed to be accurate estimates across all businesses in the UK. Nevertheless, they provide a useful indication of some of the challenges businesses may face when using tariff rate preferences provided for in trade agreements.

73 Department for International Trade, *Trade and Investment Core Statistics Boo*k, October 2021; Office for National Statistics, *UK trade, quarterly trade in goods and services tables: April to June 2021*, October 2021.
74 Department for International Trade, *DIT National Survey of UK Registered Businesses 2020*, June 2021.

Limitations

8 In reaching our independent conclusions we are aware of the following limitations to our review:

- As described in Part Four, intended outcomes from trade agreements are expected to take a number of years to materialise in terms of significant changes to imports and exports. Therefore, our judgements on DIT's performance related to implementation of trade agreements are solely based on the evidence we have seen relating to preparations for implementation and initial steps taken.
- We carried out a preliminary analysis of the terms in the AIPs with Australia and New Zealand. We have not examined the final texts of these agreements as they were not available within the timescale of our review.

Appendix Three

Transition of existing trade agreements

1 As an EU member, the UK was party to 39 existing EU–third party trade agreements covering more than 70 trading partners, representing 15.7% of UK trade in 2020. To ensure that trade with these partners was not disrupted when the UK left the EU, the Department for International Trade (DIT), working with other departments, aimed to transition (convert) the existing agreements into revised agreements between the UK and the trading partner by the time the UK left the EU. **Figure 19** on pages 74 and 75 provides a list of these 39 agreements, including the department that led on transitioning the agreement, and the date signed if applicable.

2 It is likely that there would have been considerable disruption and additional costs for UK businesses if DIT had not transitioned the majority of existing EU agreements, including all of the highest-value agreements in terms of UK trade. It is difficult to estimate the impact if these agreements had not been secured, as it would depend on how responsive trade flows were and the extent of any increased costs. However, DIT estimated that, in 2021, UK businesses might have paid up to £2.6 billion in tariffs if the 33 agreements transitioned by 31 December 2020 had not been secured. DIT's estimate assumes that all businesses use the tariff preferences available in trade agreements (which is not the case) and does not take account of the benefits from agreements outside of tariff preferences, or potential future benefits from further liberalisation in trade. Business associations from multiple sectors told us that they thought the government had delivered what was needed in transitioning the continuity agreements.

Figure 19

The government's progress in securing existing EU–third party agreements to date

By the end of the EU transition period (31 December 2020), the UK had transitioned 33 existing EU–third party trade agreements that the UK was part of an EU member

Trading partner	Lead department	Total UK trade in 2020 (£m)	Date signed
Chile	Department for International Trade (DIT)	1,391	30 January 2019
Eastern and Southern Africa (Madagascar, Mauritius, Seychelles and Zimbabwe)[1]	DIT and Foreign, Commonwealth & Development Office (FCDO)	1,573	31 January 2019
Faroe Islands	DIT	358	31 January 2019
Liechtenstein	DIT	178	11 February 2019
Switzerland	DIT	33,873	11 February 2019
Israel	DIT	4,815	18 February 2019
Palestinian Authority	DIT	19	18 February 2019
Pacific States (Fiji, Papua New Guinea, Samoa, Solomon Islands)	DIT and FCDO	255	14 March 2019
CARIFORUM trade bloc[2]	DIT and FCDO	2,713	22 March 2019
Andean countries (Columbia, Ecuador and Peru)	DIT	2,043	15 May 2019
Central America[3]	FCDO	1,276	18 July 2019
South Korea	DIT	12,468	22 August 2019
Lebanon	FCDO	602	19 September 2019
Tunisia	FCDO	440	4 October 2019
Southern African Customs Union and Mozambique[4]	DIT and FCDO	9,088	9 October 2019
Georgia	FCDO	163	21 October 2019
Morocco	FCDO	1,513	26 October 2019
Jordan	FCDO	607	5 November 2019
Kosovo	FCDO	14	3 December 2019
Ukraine	FCDO	1,309	8 October 2020
Cote d'Ivoire	DIT and FCDO	511	15 October 2020
Japan[5]	DIT	24,230	23 October 2020
North Macedonia	FCDO	1,488	3 December 2020
Egypt	FCDO	2,739	5 December 2020

Figure 19 *continued*

The government's progress in securing existing EU–third party agreements to date

Trading Partner	Lead Department	Total UK trade in 2020 (£m)	Date signed
Iceland and Norway[6]	DIT	21,214	8 December 2020
Kenya	DIT and FCDO	1,095	8 December 2020
Canada	DIT	19,061	9 December 2020
Singapore	DIT	15,756	10 December 2020
Mexico	DIT	3,750	15 December 2020
Moldova	FCDO	831	24 December 2020
Vietnam	DIT	4,840	29 December 2020
Turkey	DIT	15,014	30 December 2020
Albania	FCDO	80	5 February 2021
Ghana	DIT and FCDO	905	2 March 2021
Cameroon[7]	DIT and FCDO	169	9 March 2021
Serbia	FCDO	615	19 April 2021
Algeria	FCDO	814	Not signed
Bosnia and Herzegovina	FCDO	130	Not signed
Montenegro	FCDO	26	Not signed

Notes

1 Comoros was a member of the EU agreement with the Eastern and Southern Africa (ESA) States of Madagascar, Mauritius, Seychelles and Zimbabwe. To date, Comoros has not signed the ESA–UK agreement but will be covered by it if it signs it and brings it into effect.

2 The UK–CARIFORUM agreement involves: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Haiti is an Observer to the agreement.

3 The UK–Central America agreement involves: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

4 The UK–Southern African Customs Union and Mozambique agreement involves: Botswana, Eswatini, Lesotho, Mozambique, Namibia and South Africa.

5 The UK–Japan Comprehensive and Economic Partnership Agreement includes many of the existing provisions in the EU–Japan Economic Partnership Agreement and also new provisions.

6 The trade agreement between the UK, Iceland and Norway signed in December 2020, covers trade in goods. In July 2021, the UK signed an agreement with Iceland, Liechtenstein and Norway that also covers trade in services and investment.

7 The 33 agreements transitioned by 31 December 2020 include the agreement with Cameroon, which was agreed in principle on 30 December 2020 and signed in 2021. Its provisions were applied from 1 January 2021.

Source: National Audit Office analysis of Department for International Trade data and Office for National Statistics, *UK trade, quarterly trade in goods and services tables: April to June 2021*, October 2021

3 In some cases, agreements were signed so close to the deadline that both parties could not complete their ratification processes by 1 January 2021. Most of these agreements were applied provisionally from 1 January 2021 to prevent disruption to existing trade. This was not possible on the agreements with:

- Canada: the UK and Canada signed a Memorandum of Understanding (MoU) so that the tariff provisions within the UK–Canada trade agreement could be applied from 1 January 2021. Provisions around services were not included in the MoU and were not applied until the agreement entered into force on 1 April 2021.
- Jordan: the UK–Jordan trade agreement was signed on 5 November 2019. Jordan's ratification process meant that the agreement did not enter into force until 1 May 2021. Between 1 January 2021 and 1 May 2021, businesses paid tariffs at the World Trade Organization most-favoured-nation rate, instead of the preferential tariff rates in the UK–Jordan agreement. While some exporters and importers may have been affected by this delay, trade between the UK and Jordan is a small proportion of total UK trade (0.1% in 2020), and it is likely that the overall impact on UK businesses was minimal.
- Mexico: the UK–Mexico trade agreement came into force on 1 June 2021. To mitigate potential disruption before then, the UK and Mexico agreed diplomatic notes to implement tariff reductions from 1 January 2021. Despite this, tariffs were charged on UK exports to Mexico from 1 January. As of June 2021, businesses could claim back these tariffs.

4 Agreements with Albania, Ghana and Serbia were agreed after the deadline, coming into force between March and May 2021. As a result of the delays, some exporters and importers faced additional costs. For example, one UK importer said it paid an additional £20,000 of tariffs a week on banana imports from Ghana. However, the overall impact on UK businesses was unlikely to be large given the relatively small proportion of trade between the UK and these countries (contributing to approximately 0.1% of UK trade in 2020).

5 As at November 2021, agreements with Algeria, Bosnia and Herzegovina, and Montenegro had not been signed. DIT remains open to pursuing these agreements and is waiting for further engagement from the other parties. Some importers and exporters may bear additional costs due to the lack of agreement. However, the overall impact on UK businesses is unlikely to be large given the relatively small proportion of trade between the UK and these countries (contributing to approximately 0.1% of UK trade in 2020).

6 DIT has stated that delays in signing agreements with Serbia, Ghana, Algeria, Bosnia and Herzegovina, and Montenegro have been because trading partners have been unwilling or unable to engage because they lacked capacity or because of the impact of the COVID-19 pandemic.

7 The UK secured an agreement with the Eastern and Southern Africa states of Mauritius, the Seychelles and Zimbabwe in 2019. Madagascar and Comoros were also members of the equivalent agreement with the EU. Madagascar signed the agreement in November 2021, after the transition period had ended, and Comoros have not signed the agreement to date. Comoros will be covered by the agreement if it chooses to sign it and bring it into effect. However, the overall impact on UK businesses is unlikely to be large given the relatively small proportion of trade between the UK and these countries (less than 0.01% in 2020).

8 Some agreements contain provisions that commit the UK and the relevant negotiating partner to start negotiations on a new agreement or to start a review of the existing agreement within a defined timescale. The UK's agreements with Canada, Kenya, Mexico, South Korea, Switzerland and Turkey include these provisions.

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National Audit Office

£10.00

ISBN 978-1-78604-402-0

Design and Production by NAO Communications Team
DP Ref: 009290-001