York and North Yorkshire
Local Enterprise Parnership (LEP)
Internationalisation Strategy

# Report 03
# International Trade Data and the Emerging Shape of Free Trade Agreements (FTAs)

April 2021

For the York and North Yorkshire LEP
(managed by Enterprise Growth Solutions
on behalf of the Department for
International Trade)

## CONTENTS

# MANAGEMENT SUMMARY

This report is part of a series of investigations to inform on an Internationalisation Strategy for York and North Yorkshire (Y&NY). It is commissioned by Enterprise Growth Solutions (EGS) and gives an overview of trade flows, Free Trade Agreements, EU dependency and trade partners more generally. The headlines are as follows:

## NORTH YORKSHIRE INTERNATIONAL TRADE HEADLINES

- The dependence on the EU for markets and sourcing goods is high with 2,240 businesses exporting to the EU compared to 1,710 to non-EU countries in 2019 (3,480 businesses imported from EU countries compared to 2,190 from non-EU nations).
- In terms of the value of trade in goods, 29% are exports (£1.5bn) and 71% (£3.6bn) are imports.
- 58% (£860m) of all exports go to EU countries and 42% (£620m) to non-EU countries in 2019. Conversely 58% (£2.1bn) of imports come from non-EU countries compared to 42% (£1.5bn) from the EU.
- The USA is the most important trading partner for North Yorkshire, mainly due to imports - £1.05bn of trade (£135m export, £911m imports), followed by Germany - £526m of trade (£147m exports and £379m imports); and China - £414m (£50m exports and £364m imports).
- Between 2016 and 2019, businesses exported goods to 96 countries. Nine out of 10 countries were exported to over each of the four years. The relationship between businesses and their export partners therefore appears to be stable. Over the four years the Irish Republic and Germany have been the most important export markets. Although exports to the USA have fallen in recent years in most other areas, the sub-region has seen little change.
- Over the same period businesses imported goods from 80 countries, fewer than they exported to (96). The relationship between businesses and their import partners also appears to be stable. Imports from the USA to Y&NY experienced growth in the value of goods between 2016 and 2018, and a significant increase in 2019 of 41% (to £911m) on the previous year. Other important importing nations to the sub-region include the Netherlands, China and Germany.
- Unlike exports, the balance of trade for traded services provides a surplus totalling nearly £1.1bn compared to a £2.1bn deficit for traded goods. Trade between North Yorkshire and the EU for services is only marginally greater than for non-EU countries, compared to goods where the margin is much greater.

## DIT EXPORT WINS DATA (MAY 2018 TO DECEMBER 2020)

- York and North Yorkshire (Y&NY) LEP DIT clients exported £184m worth of goods and services.
- The database has recorded 131 wins for businesses, covering 47 countries.
- The EU represented 40% of the total value (£73.7m) and 30% of all individual wins (39 of 131). There has been a small drop in the share of EU transactions during 2020/21 to 39% of the value and a larger drop to 19% of the number of wins.
- There were 10 wins over £5m, the value of which is £103m or 56% of all 131 contracts combined. The median value of all the contracts was £260,000, and the average contract was worth £1.4m.

The average contract for goods only was £1.8m, for services it was worth £0.5m and for a combination of both goods and services it was £2.9m.

- Y&NY's highest value exports have been won in Sweden, Vietnam, USA, South Korea and Germany. The number of wins were relatively small for Sweden, Vietnam and South Korea but there were high value individual wins. Of all export wins, 72% were from goods, 12% from services and 16% from both goods and services.
- Approximately 70% of the export wins can fit into one or more of the priority sectors identified by both Y&NY and LCR LEPs. However, the three priority sectors for Y&NY (bioeconomy, food and drink and agri-tech) are not well represented in the DIT database of supported businesses.

## STATUS OF FREE TRADE AGREEMENTS

The UK Government has been focused on replicating deals which already existed through membership of the EU (40 deals with 70 countries)- classed as so-called roll-over deals. Currently, the UK has approximately 40 deals with 90 countries (including about 60 non-EU countries), though the picture is constantly changing due to agreements getting signed and ratified. Deals with the likes of the EU, South Korea, Canada, Singapore, Israel, Vietnam, Turkey and Mexico have added to the UK's credibility even if some of these agreements are largely roll-over deals.

Looking at the EU-UK Trade and Co-operation Agreement (TCA), most analysts predict lower economic growth in the long term as a result of the UK's exit from the EU compared to if it had remained. Current indications show that UK exports to the EU have declined but partially recovered, partly through an initial reduction by suppliers who anticipated transitionary problems and Covid-19 related issues.

In the medium- and longer-term, it will become clear if regulatory independence from the EU and the ability of the UK to negotiate trade deals with other countries will lead to a sustained growth in exports to, and trade with, higher growth markets outside the EU. At a York and North Yorkshire level, there is evidence that FTAs benefit larger firms more than smaller businesses - a concern given the high proportion of small and micro-businesses in the sub-region.

Various potential trade deals and anticipated benefits are discussed in the report, including the UK Japan trade deal, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the UK Canada Trade Continuity Agreement, Australia & New Zealand, the US and with BRIC countries.

# 1. INTRODUCTION

This report provides an analysis of trade data as part of a wider set of studies contributing to an Internationalisation Strategy for York and North Yorkshire (Y&NY) on behalf of Enterprise Growth Solutions (EGS). It draws on three sources of data to give an overview of trade flows, EU dependency and trade partners more generally. The final chapter looks at the status of the new Free Trade Agreements.

The first source consists of official statistics from HM Revenue and Customs (HMRC)[1] published annually on traded goods. The analysis has concentrated on the latest available figures from 2019, although previous publications have also been included to obtain trend data. The information is not available for the Y&NY LEP area from the HMRC. However, it is available at NUTS 2 level for the sub-region of North Yorkshire, which is a reasonable 'best fit' substitute. For the second source, whilst there is a limited amount of trade services data, the analysis has used experimental figures from the Office of National Statistics (ONS)[2] for a broad comparison with the HMRC goods figures. The majority of the information analysed will therefore be on goods, which forms the first of two approaches to understanding the trade statistics for the local area.

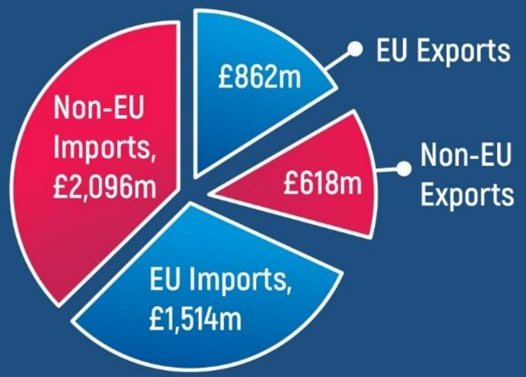
The third source is a dataset from the Yorkshire and the Humber DIT for the period May 2018 to December 2020. This comprises 1,467 anonymised data records for the whole region including 755 for the Y&NY LEP area. The information is only based on the Y&NY 755 export wins, no import data is available. Although only a sample, it does provide an insight into the internationalisation activities of the DIT supported businesses for Y&NY. It is therefore different from the sub-regional figures from the HMRC and ONS statistics but provides a contrasting view of what positive initiatives are deployed by the DIT and supported businesses.

[1] Regional Trade in Goods Statistics dis-aggregated by smaller geographical areas (HMRC, November 2020)
[2] UK Trade; International Trade in Services; UK Trade in services by industry, country and service type: 2016 to 2018 (ONS April 2020)

# North Yorkshire International Trade Headlines including EU Exposure

## N Yorks £5.1bn of Traded Goods

**(£1.5bn of Exports & £3.6bn Imports)**

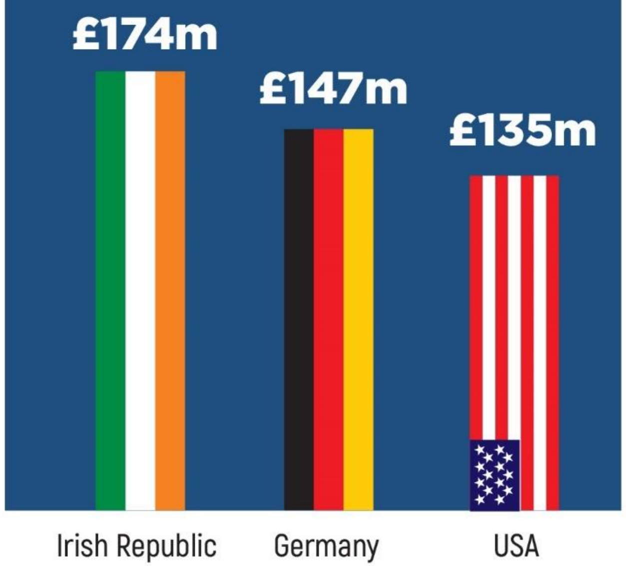




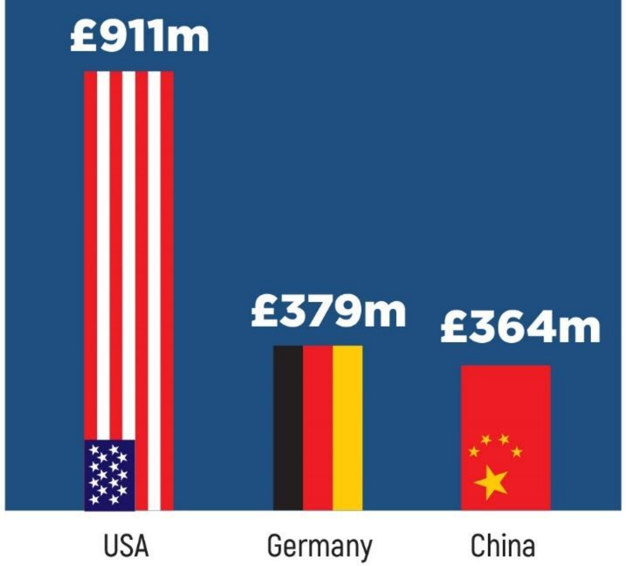
**96** Countries exported to

**80** Countries imported from

## TOP 3 EXPORT MARKETS




## TOP 3 IMPORT MARKETS




## Balance of Payments Goods (in Deficit) and Services (in Surplus)

# 2. TRADE FLOWS AND PARTNERS

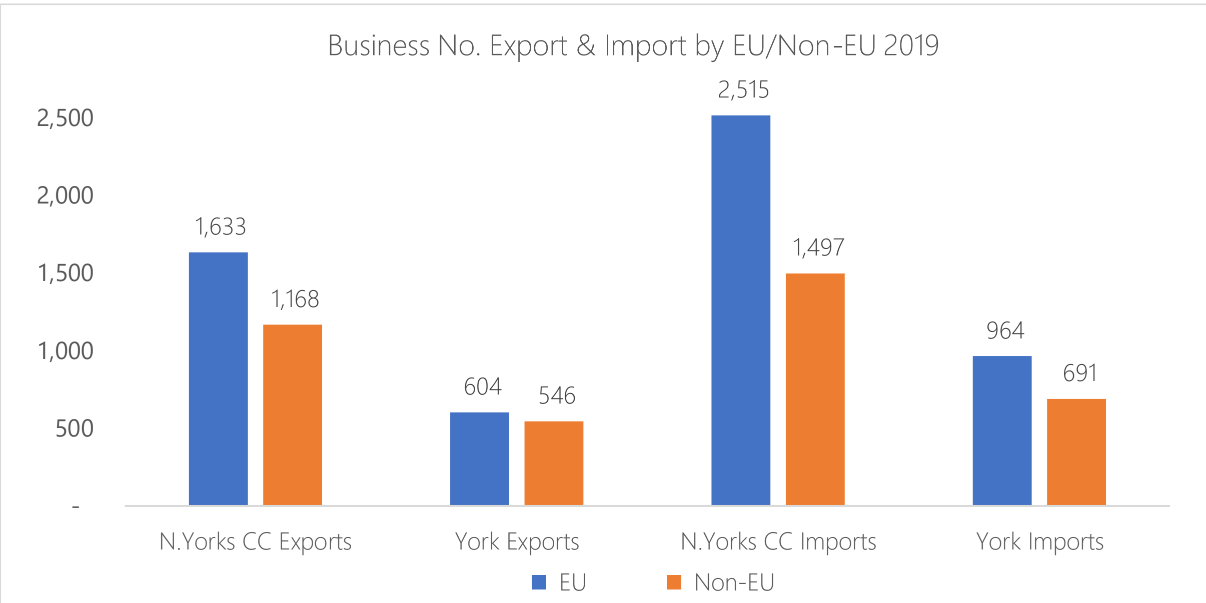
This chapter presents the analysis findings for the sub-region of North Yorkshire. The HMRC data will focus on the goods exported and imported, predominantly by value but also by the number of businesses involved in trading.

It explores the relative size of exports and imports; the share of EU trade; the main trading partner nations; changes over time since the 2016 Brexit vote; and headline totals of both goods and services.

## 2.1. NORTH YORKSHIRE

### BUSINESS COUNT

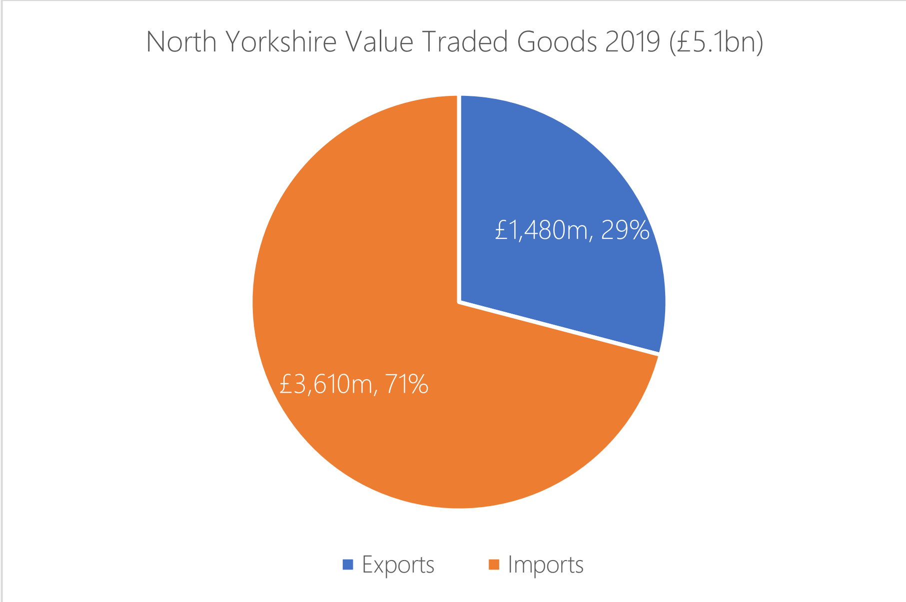
Although this section of the report concentrates on NUTS 2 level geography, there is some data provided for a number of NUTS 3 businesses, within North Yorkshire, trading in EU and non-EU countries. More businesses export from both North Yorkshire and York to the EU than non-EU countries. The number of businesses importing from EU countries is also higher than those importing from non-EU nations. The total of businesses exporting to the EU in the sub-region is 2,240 compared to 1,710 to non-EU countries in 2019. There were 3,480 businesses importing from EU countries compared to 2,190 importing from non-EU nations. Therefore, the dependence on the EU for markets and sourcing goods still appears to be high.




Source: Regional Trade in Goods Statistics, HMRC

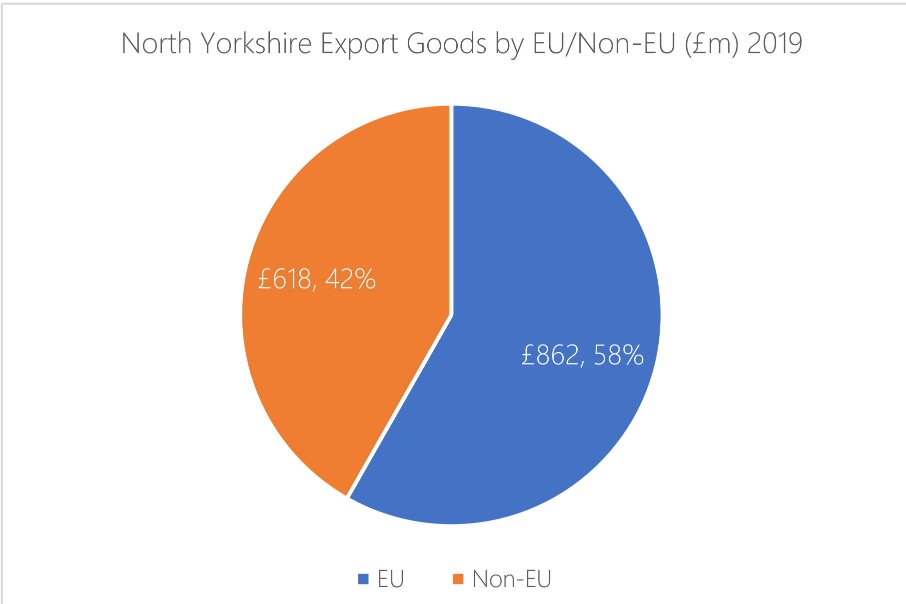
### VALUE OF TRADE

In terms of the value of trade in goods for North Yorkshire, 29% are exports - worth some £1.5bn compared to £3.6bn worth of imports. This shows a clear deficit in the balance of payment for the sub-region of over £2.1bn.



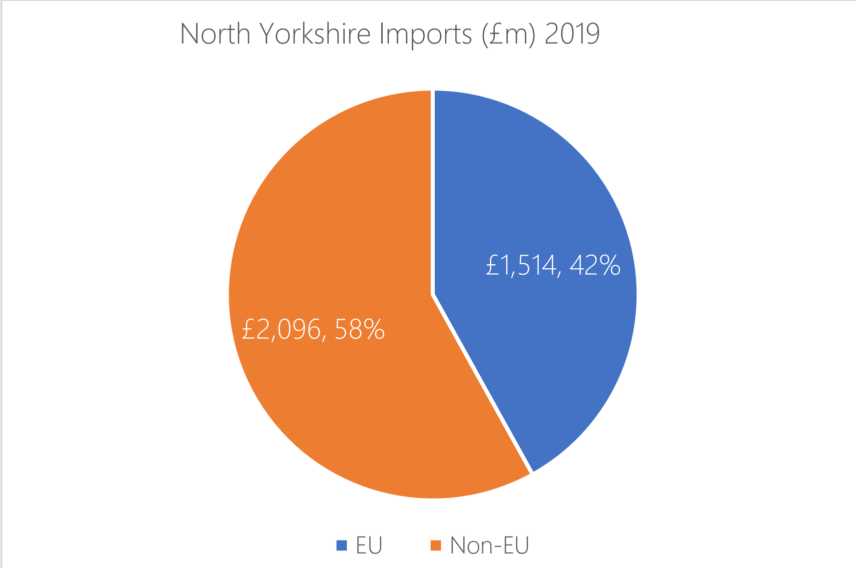

Source: Regional Trade in Goods Statistics, HMRC

Statistics for exported goods for EU and non-EU countries indicate that 58% of all exports by value go to EU countries which is worth £860m, with £620m worth of exports going to non-EU countries in 2019.




Source: Regional Trade in Goods Statistics, HMRC

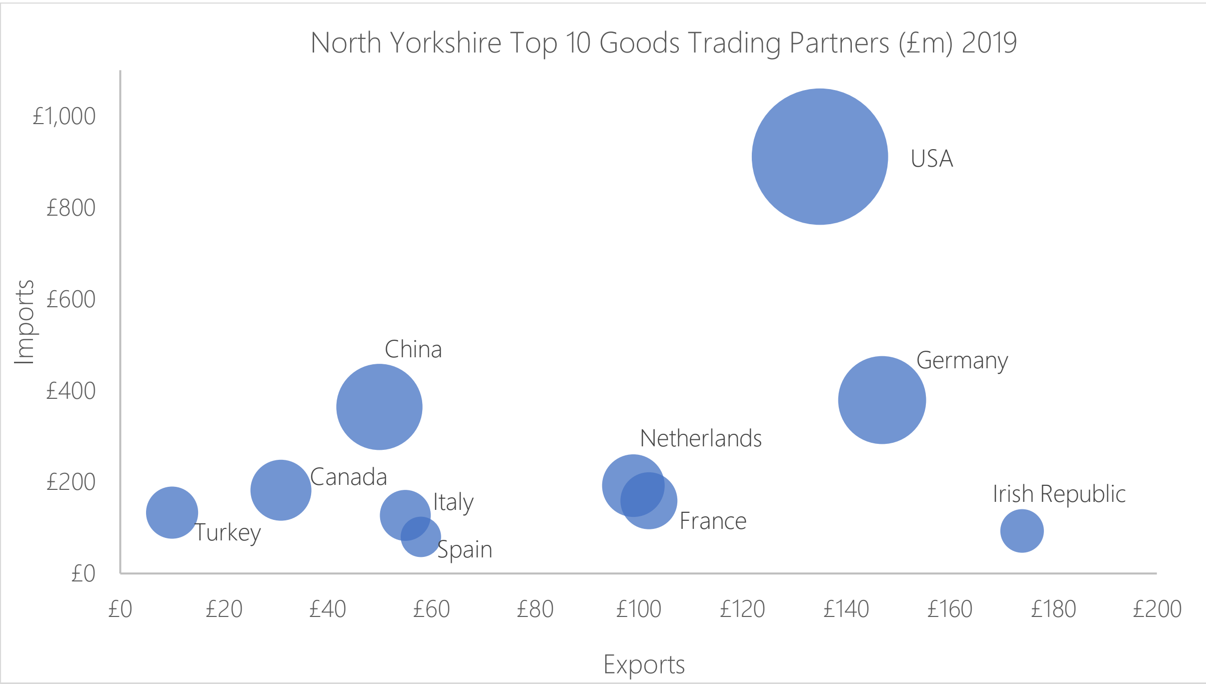
The next chart shows that in North Yorkshire 58% of imports worth £2.1bn come from non-EU countries compared to £1.5bn coming from the EU. This is the reverse of exports and shows a greater dependence on non-EU supplies.




Source: Regional Trade in Goods Statistics, HMRC

## TRADING PARTNERS

Comparing the value of imports to exports by the top ten trading partners for 2019 shows that the USA is the most important partner to North Yorkshire, totalling £1.05bn of trade. This is mainly in terms of the value of imported goods (£135m export, £911m imports). Germany provides £526m of trade (£147m exports and £379m imports); and China provides £414m (£50m exports and £364m imports).




Source: Regional Trade in Goods Statistics, HMRC

Between 2016 and 2019 North Yorkshire businesses exported goods to 96 countries. Nine out of 10 countries were exported to in all of the four years. The relationship between businesses and their export partners (sub-region to nation) therefore appears to be stable. Over the four years the Irish Republic and Germany have been the most important export markets, with the former showing clear annual growth. Although exports to the USA have fallen in recent year in most other areas, partly due to the protectionist approach taken by the Trump administration, for North Yorkshire is has remained unchanged, although at a relatively low level.

| North Yorkshire Top 10 Export Markets by Value (£m) 2016 to 2019 | | | | | |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | Over 4 years |
| Irish Republic | £131 | £149 | £167 | £174 | £621 |
| Germany | £140 | £141 | £188 | £147 | £616 |
| USA | £134 | £139 | £134 | £135 | £542 |
| France | £126 | £138 | £172 | £102 | £538 |
| Netherlands | £111 | £125 | £194 | £99 | £529 |
| Italy | £71 | £80 | £86 | £55 | £292 |
| Spain | £58 | £69 | £85 | £58 | £270 |
| Sweden | £61 | £73 | £43 | £38 | £215 |
| Belgium | £45 | £48 | £57 | £31 | £181 |
| China | £33 | £47 | £44 | £50 | £174 |
| All Countries | £1,495 | £1,640 | £1,818 | £1,480 | £6,433 |

Source: Regional Trade in Goods Statistics, HMRC

Between 2016 and 2019, North Yorkshire businesses imported goods from 80 countries, fewer than they exported to (96). Businesses imported from the same countries eight out of 10 times over each of the four years. The relationship between businesses and their import partners also appears to be stable. Compared to exports to the USA, the sub-region experienced growing imports of goods between 2016 and 2018, and a significant increase in 2019 of 41% (to £911m) on the previous year. Other important importing nations to North Yorkshire include the Netherlands, China and Germany.

| North Yorkshire Top 10 Importer Nations by Value (£m) 2016 to 2019 | | | | | |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | Over 4 years |
| USA | £596 | £640 | £647 | £911 | £2,794 |
| Netherlands | £292 | £388 | £940 | £192 | £1,812 |
| China | £529 | £571 | £344 | £364 | £1,808 |
| Germany | £277 | £318 | £301 | £379 | £1,275 |
| Canada | £133 | £143 | £123 | £182 | £581 |
| France | £124 | £140 | £155 | £159 | £578 |
| Italy | £101 | £117 | £120 | £127 | £465 |
| Turkey | £90 | £109 | £118 | £133 | £450 |
| Irish Republic | £110 | £112 | £112 | £93 | £427 |
| Hong Kong | £85 | £129 | £55 | £46 | £315 |
| All Countries | £3,244 | £3,625 | £3,957 | £3,610 | £14,436 |

Source: Regional Trade in Goods Statistics, HMRC

## GOODS AND SERVICES

As reported above, the availability of service trade data is limited and experimental. Consequently, the following table shows goods with service for 2018 rather than 2019 because 2018 is the latest data available on services. These cannot be added together to provide total trade figures as they come from different sources using different methods of collection. Unlike exports, the balance of trade for traded services has provided a surplus totalling nearly £1.1bn compared to a £2.1bn deficit for traded goods. Trade between North Yorkshire and the EU for services is only marginally greater than for non-EU countries, compared to goods where the margin is much greater.

| North Yorkshire Goods and Services Trade | | | | | | | |
|---|---|---|---|---|---|---|---|
| Goods (£m) 2018 | | | | Services (£m) 2018 | | | |
| | EU | Non-EU | Total | | EU | Non-EU | Total |
| Imports | £2,259 | £1,698 | £3,957 | Imports | £444 | £376 | £820 |
| Exports | £1,197 | £621 | £1,818 | Exports | £933 | £962 | £1,895 |
| Balance | -£1,062 | -£1,077 | -£2,139 | Balance | £489 | £586 | £1,075 |
| Trade | £3,456 | £2,319 | £5,775 | Trade | £1,377 | £1,338 | £2,715 |

Source: Regional Trade in Goods Statistics, HMRC (Nov 2019, UK Trade in Services (Sept 2020)

Note: Cannot add Goods and Services together due to differing collection methods

## 2.3. SITC SECTORS: NORTH YORKSHIRE

This section uses the HMRC dataset to report on the trade in goods by SITC sectors[3]. Data by SIC (Standard Industrial Classification) codes are not available from official sources for international trade. The HMRC data is therefore unable to provide an analysis by priority sectors, although an attempt has been made to estimate these later in the DIT Export Win analysis.

### VALUE OF TRADE BY SITC SECTOR

The next table shows that the value of goods exported and imported is highest in chemicals and a variety of manufactured products (SITC 5, and 6, 7, and 8 respectively). Apart from chemicals, there is a negative balance of payments against the other eight sectors. The largest value of exports is machinery and transport equipment (£447m) followed by food and live animals (£342m). Almost a third of all imports by value is from crude materials (£1.16bn), largely from non-EU countries.

| North Yorkshire Export and Import Goods by Value 2019 (£m) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Exports | | | Imports | | | Balance |
| SITC Section | EU | Non-EU | All Exports | EU | Non-EU | All Imports | |
| 0 Food & live animals | £231 | £111 | £342 | £361 | £115 | £476 | -£134 |
| 1 Beverages & tobacco | £5 | £10 | £15 | £40 | £7 | £47 | -£32 |
| 2 Crude materials, inedible, except fuels | £15 | £6 | £21 | £203 | £957 | £1,160 | -£1,139 |
| 3 Mineral fuels, lubricants, materials | £5 | £1 | £6 | £3 | £45 | £48 | -£42 |
| 4 Animal & vegetable oils, fats & waxes | £9 | £2 | £11 | £23 | £2 | £25 | -£14 |
| 5 Chemicals & related products | £103 | £109 | £212 | £126 | £85 | £211 | £1 |
| 6 Manufactured goods by material | £116 | £48 | £164 | £231 | £218 | £449 | -£285 |
| 7 Machinery & transport equipment | £209 | £238 | £447 | £362 | £264 | £626 | -£179 |
| 8 Miscellaneous manufactured articles | £149 | £95 | £244 | £165 | £408 | £573 | -£329 |
| SITC Sections 0 to 8 Total | £842 | £620 | £1,462 | £1,514 | £2,101 | £3,615 | -£2,153 |

[3] SITC stands for Standard International Trade Classification, which is a system used to classify goods traded internationally by their type.

Source: Regional Trade in Goods Statistics, HMRC

## BUSINESS COUNT BY SITC SECTOR

The number of businesses trading in goods is highest in the same four sectors (SITC 5, 6, 7 and 8), although as many businesses are involved in exporting in the last two sectors (SITC 7 and 8) than in the other seven put together. By number of businesses, there are more businesses exporting to non-EU countries than to the EU, whilst the table above shows that by value, more goes to the EU.

| Number of North Yorkshire Businesses Exporting and Importing Goods 2019 | | | | | | |
|---|---|---|---|---|---|---|
| | Exports | | | Imports | | |
| SITC Section | EU | Non-EU | All Exports | EU | Non-EU | All Imports |
| 0 Food & live animals | 150 | 135 | 285 | 152 | 125 | 277 |
| 1 Beverages & tobacco | 48 | 53 | 101 | 54 | 49 | 103 |
| 2 Crude materials, inedible, except fuels | 131 | 106 | 237 | 174 | 142 | 316 |
| 3 Mineral fuels, lubricants & related materials | 54 | 28 | 82 | 71 | 22 | 93 |
| 4 Animal & vegetable oils, fats & waxes | 45 | 23 | 68 | 44 | 16 | 60 |
| 5 Chemicals & related products | 301 | 337 | 638 | 366 | 427 | 793 |
| 6 Manufactured goods by material | 366 | 562 | 928 | 445 | 898 | 1,343 |
| 7 Machinery & transport equipment | 344 | 820 | 1,164 | 383 | 1,009 | 1,392 |
| 8 Miscellaneous manufactured articles | 429 | 880 | 1,309 | 464 | 1,203 | 1,667 |
| SITC Sections 0 to 8 Total | 1,868 | 2,944 | 4,812 | 2,153 | 3,891 | 6,044 |

Source: Regional Trade in Goods Statistics, HMRC

# 3. Y&H DIT EXPORT WIN STATISTICS AND INWARD INVESTMENT

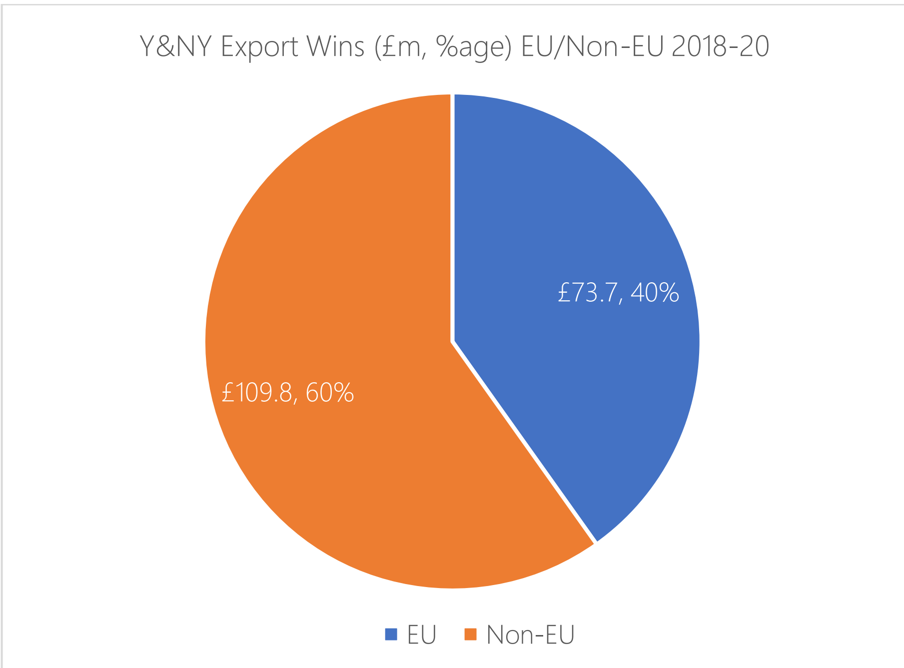
This chapter explores DIT export win statistics for the York and North Yorkshire LEP area. An export win is a deal, contract, sale, or other specific type of agreement for an eligible UK company which has resulted from support provided by the DIT network.

## NUMBER AND VALUE OF WINS

Monitoring data from Yorkshire and the Humber (Y&H) DIT, covering the period May 2018 to December 2020, indicates that the region's export wins by businesses totalled £1.98bn. The York and North Yorkshire (Y&NY) LEP area's share of the export wins was £184m. This is company data from clients who have been supported by the Y&H DIT with exporting goods and services.

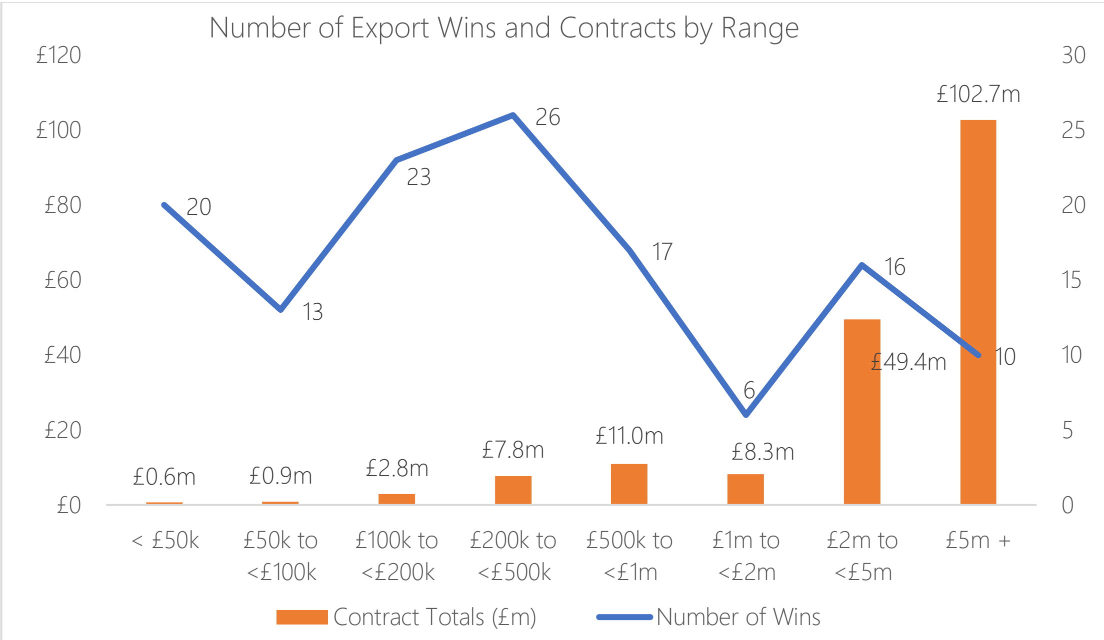
Over this period, the database has recorded 131 wins for businesses in the LEP area, covering 47 nations.

The EU represented 40% of the total value of these transactions (£73.7m) and 30% of all the individual wins (39 of 131) over the two years and seven months of the monitored data. There has been a small drop in the share of EU transactions during 2020/21 to 39% of the value but a larger drop of 19% of the number of wins. These figures indicate a lower share of trade with the EU than the HMRC data (58%) and may represent a shift in target markets away from the EU with the onset of Brexit. The business survey (see Report 2) indicates that a quarter of those sampled were actively looking for new markets outside of the EU as a result of Brexit and were joining trade missions particularly into North America and Asia.




Source: Y&H DIT Monitoring Database

The following table provides a breakdown of the number and value of wins against a range of contract sizes. There were 10 wins over £5m, the value of which was £103m or 56% of all 131 contracts combined. The median value of all the contracts was £260,000, and the average contract was worth £1.4m. The average contract for goods only was £1.8m, for services it was worth £0.5m and for a combination of both goods and services it was £2.9m. A win that involves goods and services is more often a larger contract requiring backup support to goods sold. Over three-quarters of the wins were under £1m.




Source: Y&H DIT Monitoring Database

## TRADING PARTNERS

Y&NY's highest value exports have been won in Sweden, Vietnam, USA, South Korea and Germany. Most of the top ten values have been achieved through five or fewer contracts over the 31-month period. Goods accounted for 72% of the value of the total wins, services 12% and both goods and services 16%.

| York & North Yorkshire LEP Top 10 Trading Destinations Value (£m) 2018-20 | | | | | |
|---|---|---|---|---|---|
| | Goods | Services | Both Goods & Services | Total Exports | No. Wins |
| Sweden | £33,150,000 | £86,013 | | £33,236,013 | 4 |
| Vietnam | £22,090,000 | £225,000 | | £22,315,000 | 5 |
| USA | £17,939,000 | £2,008,000 | | £19,947,000 | 16 |
| South Korea | | £736,000 | £16,100,000 | £16,836,000 | 3 |
| Germany | £12,571,818 | £260,000 | | £12,831,818 | 9 |
| Japan | £2,200,000 | £7,322,000 | | £9,522,000 | 4 |
| India | | | £7,500,000 | £7,500,000 | 1 |
| Austria | £6,690,000 | | | £6,690,000 | 3 |
| Ireland | £5,531,500 | £28,000 | £650,000 | £6,209,500 | 7 |
| Australia | £435,000 | £5,555,000 | | £5,990,000 | 12 |
| All Countries | £132,730,795 | £22,200,950 | £28,520,000 | £183,451,745 | 131 |

Source: Y&H DIT Monitoring Database

## PRIORITY SECTORS

Priority sectors identified by the Y&NY and Leeds City Region LEPs include advanced manufacturing, creative and digital, health and life science, and finance and professional for the LCR. York and North Yorkshire's priority sectors are agri-tech, bioeconomy and food and drink. The DIT dataset provides descriptions of the activity in which an export win had been secured, but these do not include SIC codes. It is possible to match the activity descriptions with the priority sectors to provide a broad estimate of the value of the contracts against each priority sector. The result has shown that for Y&NY only, advanced manufacturing accounts for £52.7m of wins, a quarter of the total value of contracts; while the next largest were creative and digital £35.7m, health and life science £26.5m and bioeconomy at £26.4m. (The bioeconomy may be over-represented due to overlapping sectors with advanced manufacturing.) Approximately 70% of the export wins can fit into one or more of the priority sectors.

However, the priority sectors for the Y&NY LEP (bioeconomy, food and drink and agri-tech) are not well represented in the values of export wins. The DIT will have long standing clients and others that do not feature in these three sectors. It may require 'priority sector champions' to work with the DIT to help create closer links with these types of priority sector businesses.

| Y&NY DIT Priority Sector Wins EU/Non-EU (£m) 2018-2020 | | | | |
|---|---|---|---|---|
| | Total | EU | Non-EU | %EU |
| Advanced Manufacturing | £52.7 | £13.0 | £39.8 | 25% |
| Creative & Digital | £35.7 | £11.1 | £24.7 | 31% |
| Health & Lifescience | £26.5 | £0.2 | £26.4 | 1% |
| Bioeconomy | £26.4 | £2.5 | £23.9 | 9% |
| Food & Drink | £7.0 | £1.4 | £5.6 | 20% |
| Financial & Professional | £3.9 | £2.3 | £1.5 | 59% |
| Agri-tech | £0.8 | £0.0 | £0.8 | 0% |
| Other | £64.3 | £47.4 | £16.9 | 74% |
| All Sectors | £217.3 | £77.9 | £139.6 | 36% |

Source: Y&H DIT Monitoring Database

# 4. STATUS OF FREE TRADE AGREEMENTS

## This chapter summarises the status of Free Trade Agreements up to the end of January 2021.

*"Last year was a busy one for the Department for International Trade. It concluded 14 trade deals alongside the wider agreement with the 27 members of the European Union (eu). In December alone, Britain signed terms with 11 countries ranging from big fish such as Canada and Turkey to minnows such as Cameroon and North Macedonia. Altogether, 34 trade agreements have been signed since 2016."*[4] The Economist 30th January, 2021

Much of the government's work has been focused on replicating deals which already existed through membership of the EU, so called roll-over deals. The UK had benefitted from 40 deals with 70 countries through the EU. It is currently thought that the UK has about 40 deals with 90 countries (including about 60 non-EU countries) although the picture is changing all the time as agreements get signed, and ratified.[5]

A quick summary of the current state of play as of end January 2021 is as follows[6].

- Trade Agreements in place – EU (27 countries)
- Trade Agreements in place – Rest of World (60 countries – incl. Japan, South Korea, Switzerland, Norway, Israel)
- Agreements to be completed (imminent) – Canada, Ghana (completed in early Feb 21), Jordan, Mexico (4 countries)
- Agreements to be completed (on-going) – Albania (early Feb 2021), Algeria, Bosnia & Herzegovina, Montenegro, Serbia (5 countries)
- Plus, *Mutual Recognition Agreements* (existing) – US, Australia and New Zealand (3 countries)
- Plus, *General System of Preference* agreements (developing countries – preferential or zero rates of UK import duty depending on category of development) – Afghanistan, Angola, Kenya (sep deal), Pakistan, Vietnam (sep deal) etc (71 countries)

According to the Centre for European Political Economy, a think-tank, has Britain notched up some small gains in the trade deal with Japan, though there is no consensus on this amongst analysts, but lost out in the agreements with Switzerland, Turkey and Norway.[7] Deals with the likes of the EU, South Korea, Canada, Singapore, Israel, Vietnam, Turkey and Mexico have added to the UK's credibility even if some of these agreements are largely roll over deals.

Whilst they present a platform for market diversification opportunities, the benefit of Free Trade Agreements (FTAs) is difficult and complex to assess in terms of what it means for the sub-region's businesses and thus at this early-stage advantages and opportunities should be sought, but not overstated.

Much of the heralded upside remains connected to the unfolding outcomes from the EU exit deal and even the UK government's own assessment of the FTA benefit to UK GDP was a meagre economic gain

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[4] https://www.economist.com/britain/2021/01/30/britain-has-successfully-rolled-over-the-eus-trade-deals
[5] https://www.gov.uk/guidance/uk-trade-agreements-with-non-eu-countries
[6] LCR webinar on EU exit What Now, 20th January 2021 (Greenborough Management, Mike Stokes) - https://www.youtube.com/watch?v=-GRtFAhdvyM&feature=youtu.be
[7] ibid

over 15 years.[8] From a local perspective for York and North Yorkshire, there is also evidence that FTAs do not benefit smaller firms as much as larger ones, and given the prevalence of small and micro businesses in the region, this should be a concern.[9]

It is highly likely that further negotiations covering all the intricacies of future trading arrangements with the EU and the level of detail needed for UK and EU businesses to operate with continued certainty will take several years to play out at best, at worst it could be a decade.

The impact on the regional economy could be substantial. The Office for Budget Responsibility (OBR) has recently stated that the UK has already lost 2% of output since 2016 due to the decision to leave the EU and has forecast that higher trade barriers could mean imports and exports could well be 15% lower after ten years. The Government argues however that this does not account for the benefits of new regulatory autonomy, which is true, but this is as yet extremely difficult to forecast.[10]

## EU-UK TRADE AND CO-OPERATION AGREEMENT (TCA) - PREVIOUS COVERAGE, AND SECTORS

Most analyses to date of the UK exit from the EU through the EU-UK Trade and Co-operation Agreement (TCA), including the UK government's own analysis, converge on the forecast of lower economic growth in the long term as a result of leaving the EU than would have been the case if it had remained.

Whilst the TCA with the EU avoids a worse-case scenario (no deal and harsher WTO terms), brings certainty in many important trade related areas and indeed goes further than any other agreement the EU has negotiated (e.g. around elements of digital trade), the initial indications are that serious disruption to trade, movement of goods and supply chains is taking place and that business is incurring substantial additional cost adjusting to the new requirements. It has been reported that UK exports to the EU have slumped, though volumes have also been reduced by suppliers themselves given anticipated transition and on-going Covid-19 related problems.[11]

The UK's competitive advantage in international trade is in services and this sector was left out of the deal, with new restrictions brought in on the movement of people and the mutual recognition of qualifications. Passporting for financial services (the ability to access and operate in EU markets) has also been lost and there are concerns from industry that the UK's pre-eminent leadership in financial services may gradually be eroded.

Although UK regulatory frameworks have been aligned with the EU, Brexit makes the UK a 'third country' from the EU perspective, meaning that the EU must make determinations on whether measures of the UK comply with corresponding EU regulatory frameworks; even with positive determinations, the EU could revoke them at any time, disrupting UK trade.[12]

It remains to be seen whether in the medium- and longer-term regulatory independence from the EU and the ability of the UK to negotiate trade deals with other countries will lead to a sustained growth in exports to and trade with higher growth markets outside the EU.

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[8] HMG, EU Exit: Long term economic analysis, Nov 2018 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760484/28_November_EU_Exit_-_Long-term_economic_analysis__1_.pdf

[9] https://committees.parliament.uk/publications/3195/documents/29615/default/

[10] https://www.ft.com/content/72938c66-638f-11ea-a6cd-df28cc3c6a68

[11] https://www.theguardian.com/politics/2021/feb/06/fury-at-gove-as-exports-to-eu-slashed-by-68-since-brexit

[12] Brexit and Outlook for a US-UK Free Trade Agreement, Congressional Research Service, 14th January 2021 https://fas.org/sgp/crs/row/IF11123.pdf

## UK-JAPAN COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT (CEPA)

*"The economic impacts of the Agreement look very small due to its minimum value-added. According to the Department for International Trade (DIT), the long-term economic gains from the Japan-UK FTA relative to no-deal account for £1.5 billion in the case of the UK (0.07% increase in UK's GDP) and equally £1.5 billion (0.04 % increase in Japan's GDP) in the case of Japan.[13] However, even these estimates probably exaggerate the gains, as the UK is currently already enjoying benefits of the EU-Japan EPA since February 2019"[14]* UK Trade Policy Observatory, University of Sussex

*"This deal could boost trade between the UK and Japan by over £15 billion and drive economic growth in the long run."[15]* DIT UK-Japan deal benefits document, October 2020

Whilst there are contrasting views on the benefits of the Japan deal, agriculture, food and drink, manufacturing, and digital are claimed to be among the main sectors set to benefit. Potential benefits for the sub-region according to DIT are listed in the box below.

- Geographical Indications (GIs) – Yorkshire's Wensleydale Cheese. UK food and drink exports to Japan are growing and the agreement widens the scope of GIs to include more of the region's GIs potentially. Some of these products are subject to quotas, but if no agreement had been reached, the downside given UK is no longer an EU member would have been worse (less scope on GIs, higher tariffs and duties etc).
- More liberal Rules of Origin under CEPA protects established supply chains by ensuring that UK businesses are able to continue using EU inputs (quota allocations) in their exports to Japan for key agri-food products through preferential tariffs.
- Pet foods manufactured in the region can still access the Japanese market with favourable tariffs even if their inputs come from outside the EU. Likewise, manufacturers of baked goods, breakfast cereals and sugared confectionery will benefit from similar arrangements.
- Reduced tariffs on beef, pork and salmon.
- Less paperwork on areas covered by quotas, potentially improving costs due to previous EU rule-related bureaucracy.
- More generous malt whisky export quotas – could benefit companies like Spirit of Yorkshire (UK is the second biggest exporter of malt to Japan).
- Faster time to approval in Japan for some agri-food goods.
- Enhanced collaboration on sustainable agriculture between UK and Japan – exchange of technical information and sharing of best practice.
- Local consumer benefits potentially (cheaper prices via tariff reductions) for traditional Japanese food and drink products such as noodles, tuna, beef and speciality alcohols.

In manufacturing more broadly (excluding automotive related measures), of most interest to the region is the Mutual Recognition Agreement (MRA) Protocol, which covers electrical products, good laboratory practice for chemicals, and good manufacturing practice for medicinal products (human). This essentially reduces the compliance costs for UK exporters to adhere to Japanese safety regulations, those making regional exporters more competitive.

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[13] Department for International Trade (2020). UK-Japan Free Trade Agreement: The UK's Strategic Approach, May 2020, pp28-29 https://www.gov.uk/government/publications/uks-approach-to-negotiating-a-free-trade-agreement-with-japan/uk-japan-free-trade-agreement-the-uks-strategic-approach

[14] https://blogs.sussex.ac.uk/uktpo/2020/10/22/japan-uk-fta-what-is-missing/

[15] https://www.gov.uk/government/publications/the-uk-japan-comprehensive-economic-partnership-benefits-for-the-uk

The CEPA also has a Digital Trade Chapter which brings advantages to digital and technology firms in terms of no local data localisation requirements and protection of algorithms used in AI and encryption technologies, which will help provide local companies with smoother market access.

Of more concern is the relatively small positive impact on Japanese inward investment arising from the deal that has been highlighted in some quarters, given the importance of this for the UK's economy and future prosperity. Japanese investors have gained some certainty, which is important for investment decisions, especially now with the UK-EU deal, and have gained improvements in market access for rail and automotive parts, but the deal has been seen as a missed opportunity for more strategic investment.[16]

Whilst relatively limited in forecast economic impact, the UK Japan CEPA does act as a key building block in an independent UK trade policy aiming for access to the larger CPTPP.[17]

## COMPREHENSIVE AND PROGRESSIVE AGREEMENT FOR TRANS-PACIFIC PARTNERSHIP (CPTPP) – THE NEXT BIG PRIZE FOR 2021

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) comprises 11 Asia and Pacific countries in the CPTPP trade agreement formed in 2018: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. It covers 500 million people, accounts for 13% of the world's income and represented £110bn of trade in 2019. CPTPP aims to promote trade and prosperity by cutting tariffs and improving intra-member co-operation. It is a free trade area that removes tariffs on 95% of goods traded between its members and removes other barriers to trade between countries across four continents.

The agreement came into effect in 2018 between Australia, Brunei, Canada, Chile, Japan, and Singapore. As of May 2020, CPTPP has been ratified and is in force by all countries apart from Brunei, Chile, Malaysia, and Peru due to domestic political sensitivities. Bilateral FTAs (e.g. Japan) would not be superseded by this agreement as they generally cover a wider range of mutually beneficial areas of interest (beyond trade), but the CPTPP should be seen as complementary and more trade focused.

Having exited the EU, the UK has now applied for access to the CPTPP. This links to the wider UK Government and foreign policy agenda of working towards a so-called 'Indo-Pacific tilt' to increase its influence in this fast-growing part of the world. "*CPTPP can open doors, in particular to the future of the digital economy where the 'drag of distance' is reduced so the UK can be a genuine player in the region*."[18]

Accession to this trading bloc which includes fast growth Asian markets and large markets like Canada - and potentially the US were it to re-join - would help the UK realise its ambition to have 80% of UK trade covered by free trade agreements in the next three years as well as signalling the UK Government's stated aim to favour open markets and rules-based free trade.[19]

However, there is some conjecture about the actual impact for business given that the UK already has trade deals with seven of the 11 nations (Vietnam the latest to be signed end December 2020) - and is pursuing two more. In total, CPTPP nations currently account for less than 10% of UK exports, a fraction

[16] https://blogs.sussex.ac.uk/uktpo/2020/10/22/japan-uk-fta-what-is-missing/
[17] https://www.dlapiper.com/en/japan/insights/publications/2020/12/uk-japan-cepa/
[18] https://www.chathamhouse.org/2020/11/china-and-brexit-drive-uks-tilt-indo-pacific
[19] The Comprehensive and Progressive Agreement for Trans-Pacific Partnership, also known as TPP11 or TPP-11, is a trade agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. For further details, see https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/892675/UK_position_on_joining_CPTPP.pdf

of what goes to the EU.[20] But clearly, it represents a growth opportunity for the UK depending on the deal negotiated. As with any US deal, there will be similar sensitivities in key areas like food standards, environmental protection and health. Agreements and concessions on IP and investment are seen as areas to watch carefully.

For York and North Yorkshire, there could well be some important gains around Rules of Origin (cumulation) for manufacturers, as well as quicker and cheaper access for business visitors (visas). Food and drink (especially whiskies, gins, speciality products etc), and agri-tech products could further benefit from access to this agreement, through a reduction in tariffs and greater market access across the different geographies.

## CANADA - UK-CANADA TRADE CONTINUITY AGREEMENT

The UK Canada Trade Continuity Agreement deal is essentially a 'roll over', transitional (temporary) deal based on the EU Canada Comprehensive Economic and Trade Agreement (CETA) on EU terms. It provides for the elimination of tariffs on 97% of goods exported between the two countries, prior to a new, more ambitious UK Canada deal being negotiated in 2021.

The deal avoids tariffs on key areas which would have been levied if the UK had not managed to get this deal, but do not represent any significant new gains for the UK compared to the arrangement under the aegis of the EU.

Food and drink and agri-food sectors which are important for York and North Yorkshire will continue to benefit from current tariff free arrangements where they already apply, and this provides a foothold for further enhanced market access with Canada subject to future negotiations.

## AUSTRALIA AND NEW ZEALAND

These negotiations are currently on-going and it remains to be seen what the impact will be.[21] Along with the US, the UK already has mutual recognition agreements with Australia and New Zealand. There will likely be a digital trade chapter, discussions on financial services and investment and some challenges to be overcome around food safety and health market access. Food and drink and agriculture, environment and bio-safety standards are important to all parties and there is likely to be agreement in principle on these areas.

## US, CHINA, RUSSIA, BRAZIL, INDIA – THE BIG ONES, YET TO BE DONE

New UK FTAs have been signed with markets representing about 10% of UK trade, the list is growing and markets like Switzerland, South Korea, Japan and the EU have added credibility in the UK to negotiate these.

However, FTAs with large, developed markets like US (Biden May 2020 responding to United Steelworkers questions - "*I won't enter into any new trade agreements until we've made major investments here at home*"), and large fast-growing markets like China (with on-going geo-political tensions over Hong Kong this currently seems implausible[22]) still seem a long way off.

[20] https://www.bbc.co.uk/news/business-55871373
[21] https://www.gov.uk/government/news/negotiations-on-the-uks-future-trading-relationship-with-australia-update--2
[22] Australia and China negotiated a FTA in 2015 under the then PM Tony Abbott who is now acting as an advisor to the UK Government

The US wants more liberal access to the UK's food (food safety and standards are a concern) and health (privatization and increased drug price concerns) markets, which present real political challenges in the UK. Other areas of potential friction include the UK's Digital Services Tax which targets US big tech firms, as well as EU related legacy issues around aerospace. While the UK-EU trade deal injects more certainty, how the UK-EU trade deal is implemented and outstanding issues are treated may affect negotiating positions and flexibility in US-UK FTA talks.[23] The question for the UK is fundamentally whether and to what extent greater alignment with the US will offset some of the costs of divergence from the EU.

India is perhaps the largest market where there could be some real progress on the back of an Enhanced Trade Partnership, but this may well take a considerable time to come to fruition, given differences in level playing field, data and market access perspectives, plus the prospect of Indian elections on the horizon.[24] Although India withdrew from CPTPP negotiations, the prospect of local elections in a few years may actually hasten India to an earlier trade deal which benefits both sides and has been reported to be worth up to £100bn.[25]

It is unlikely that the UK will enter into a trade agreement with Russia given the chasm of trust that exists currently between the two nations. This is unfortunate as there are many areas including advanced manufacturing, science and technology (agri-tech and precision farming) and food and drink where the York and North Yorkshire region could benefit from enhanced co-operation with and improved market access to Russia.

Brazil and other markets in Central and Latin America, like Mexico (TCA in December 20[26]), represent major opportunities for UK companies and reduction of high tariff barriers (up to 25%) on food and drink items would make the region's exporters much more competitive and drive enhanced market access. There is a reasonable prospect of some sort of agreement in the medium term. The best prospects may come with Chile which is also a member of the CPTPP.

[23] Brexit and Outlook for a US-UK Free Trade Agreement, Congressional Research Service, 14th January 2021 https://fas.org/sgp/crs/row/IF11123.pdf

[24] https://www.gov.uk/government/news/uk-and-india-agree-to-deeper-trading-relationship and https://www.gov.uk/guidance/uk-trade-agreements-with-non-eu-countries. UKIBC audience poll on 02/12/20 webinar on UK relations with India post EU Exit, 74% believe FTA will be over two years away of which 37% over three years away

[25] https://www.express.co.uk/news/politics/1394231/brexit-latest-news-india-trade-deal-liz-truss-boris-johnson-eu-vaccine-leyen

[26] https://www.gov.uk/government/news/uk-and-mexico-sign-trade-deal

Karl Dalgleish
Director
Kada Research
10 South Street,
Park Hill,
Sheffield
S2 5QY.

T: 0114 350 3303