

Responses to the EAAL Committee's Questions on the UK-Japan Comprehensive Economic Partnership Agreement

1. Has the Welsh Government conducted an assessment of the UK-Japan Comprehensive Economic Partnership Agreement ("the CEPA"), and can it outline how the CEPA differs from the Japan-EU Economic Partnership Agreement ("the JEEPA")?

Yes. The Welsh Government's full assessment will be shared with the Committee as soon as possible and ahead of publication. The assessment will be published prior to 7 December, when the Constitutional Reform and Governance Act 2010 (CRaG) scrutiny process is expected to conclude in the UK Parliament.

As the UK-Japan CEPA largely represents continuity of the EU-Japan Economic Partnership Agreement (EPA), many of the provisions and articles are the same.

There are however, some differences between the two agreements. For example, CEPA contains additional provisions in financial services, data and digital areas and there is also a new chapter on Trade and Women's Economic Empowerment.

2. How will the CEPA likely impact on:

- *individual sectors in Wales;*
- *Welsh consumers; and*
- *social, labour, environmental and animal welfare issues?*

Individual Sectors

The following points provide a high level summary of our findings in respect of the above themes. Further detail will be provided in our full assessment. Our findings are based on our analysis of the text of the agreement and the Impact Assessment produced by the UK Government. It is worth noting that the UK Impact Assessment presents the impacts of CEPA compared to a scenario in which the UK is not party to the EPA. This may lead to over-interpretation of the benefits of the deal. In addition, the UK Government's analysis assumes that a UK-EU agreement will be reached.

Automotive

- The liberalisation timetable of tariffs on cars and car parts is not being accelerated beyond the timetable as agreed in the EPA. This provides a degree of security for domestic manufacturers of these products.
- Of particular relevance to our automotive sector are Rules of Origin arrangements. CEPA secures cumulation arrangements to allow our exporters to Japan to use EU materials and processing as counting as originating within the UK. Some removal of the less restrictive Product

Specific Rules when compared to EPA may offer more opportunities for manufacturers of both parties in certain goods to source the raw materials they need from other countries in their exports to one another.

Agriculture and Food and Drink

- There will be continuity of effect for Geographical Indicators (GI) with the EPA, maintaining protections secured for three products (none of which are Welsh) under Japan's Geographical Indications (GI) scheme.
- The UK Government has secured a provision that stipulates that as soon as practically possible after entry into force, each Party shall consult and provide a list of GIs to the other Party for addition to the Agreement, subject to examination and opposition procedures. Fifteen of the seventy products the UK Government has said it will seek to register in Japan are of Welsh origin and include Welsh lamb and Anglesey sea salt.
- These provisions could have a slightly positive, albeit limited, impact on Wales' food and drink sector in the long-term depending on the extent they are used by Welsh businesses.

Data and Digital

- Ambitious and forward looking provisions on digital and data take CEPA beyond the EU-Japan deal. Japan has agreed to lift its data localisation arrangements, which will improve data flow and create opportunities for businesses in financial services and e-commerce industries.

Financial Services

- There are a number of benefits, particularly relating to commitments on promoting regulatory and legal transparency and cooperation between both parties that should increase certainty and clarity for UK financial services providers operating in Japan and vice versa.

Welsh consumers

- The UK Government's Impact Assessment shows that Wales imports around 7% of the UK's total imports from Japan. Whilst the modelling estimates a potential saving of up to £4m for Welsh consumers, the evidence directly linking tariffs to consumer prices is mixed and we expect the scale of the savings to be linked to the extent to which savings from lower import costs are passed onto the consumer.

Social, Labour, Environmental and Animal Welfare Issues

- CEPA largely replicates the Trade and Sustainable Development (TSD) chapter in EPA, including those related to the environment and climate change. We are supportive of these provisions.
- Modelled estimates suggest CEPA is not expected to have significant impacts on Greenhouse gas emissions (CO2 and Non-CO2), energy usage, trade-related transport emissions and wider environmental impacts such as air quality, biodiversity, and water use/quality.
- References to labour laws and conventions have been included throughout the TSD chapter which is consistent with the EPA.
- There is a new chapter on Trade and Women's Economic Empowerment which we support.
- Animal welfare provisions are identical to provisions made in EPA, with a commitment to establish a technical working group on animal welfare. We are broadly supportive of this provision, but as animal welfare is a devolved issue, we await further clarification from UK Government on the role we will have in the working group.

3. *The Welsh Government has previously stated that, after a UK-EU free trade agreement, a UK-Japan agreement was its main priority in order to ensure continuity for businesses already benefitting from the EU-Japan agreement. Is the Welsh Government confident that the CEPA will provide full continuity for Welsh businesses?*

Yes, CEPA largely represents continuity of EPA as many of the provisions and articles are the same.

4. *Does the final impact assessment for the CEPA reflect the Welsh Government's understanding of the potential impact of the agreement on the Welsh economy, sectors and businesses?*

Yes, our analysis is based on the economic modelling in the Impact Assessment provided by the UK Government. However, the Computable General Equilibrium (CGE) modelling undertaken by CEPR (on behalf of the Department for International Trade) made a number of assumptions that may lead to over-interpretation of the benefits:

- It considered the impacts of a UK-Japan CEPA compared to a scenario whereby the UK has no trade agreement with Japan.
- It is based on the baseline assumption that a UK-EU agreement will be reached

CGE analysis can provide a very useful indication of the potential magnitude of economic impacts resulting from policy changes. However CGE results should not, however, be treated as a forecast or prediction of the future. Hence as with any economic modelling the results should be considered in the round and in conjunction with other qualitative evidence.

5. *The UK Government has stated that additional improvements have been made to the CEPA compared to the Japan-EU Economic Partnership Agreement, including in digital and data, financial services and food and drink sectors. What assessment has the Welsh Government made to understand how the modifications made to the CEPA compared to the JEEPA will impact on sectors and businesses in Wales?*

The Welsh Government has carried out its own assessment on how CEPA will impact on sectors and businesses in Wales compared to EPA. However, I must stress that this assessment is based largely on the economic analysis carried out by the UK Government and detail in its Impact Assessment.

Given there is currently limited economic modelling capability for Wales of the type used for this assessment, the Welsh Government has been unable to conduct or commission CGE modelling of the negotiated text and its direct impact on Wales for this impact assessment. However, if this capability was available to us it's unlikely the outputs would vary from those produced at the UK level- although it is possible that alternative baselines could be explored. To this end, the UK Government's own CGE analysis for the UK, from which there are some limited results on the high level impacts on Wales, can be drawn upon. At the more detailed level, the impacts on Wales can be inferred by considering what portion of the net benefits estimated for the UK could be attributed to Wales.

6. *Provisions are made in the CEPA for further cooperation in areas such as Geographical Indications, agriculture, and support for SMEs. This also includes the establishment of working groups such as the Working Group on Trade and Women's Economic Empowerment, and on Cooperation in the Field of Agriculture. What assurances has the Welsh Government sought to ensure it is involved in any future bilateral discussions where they interact with areas of devolved competence?*

We are continuing to work with UK Government on how the working groups will operate and the role of the Devolved Governments on this matter. Assurances will be sought at the Ministerial Forum for Trade if and when required.