

Title: Trade Bill (Existing international trade (and other related) agreements) IA No: DIT0001 RPC Reference No: RPC-4159(1)-DIT Lead department or agency: Department for International Trade Other departments or agencies:	Impact Assessment (IA)			
	Date: 08/09/2017			
	Stage: Final			
	Source of intervention: Domestic			
	Type of measure: Primary legislation			
	Contact for enquiries: tradebill@trade.gsi.gov.uk			
RPC Opinion: Green				

Summary: Intervention and Options

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANDCB in 2014 prices)	One-In, Three-Out	Business Impact Target Status
Unknown, likely small	Unknown, likely small	Unknown, likely small	In scope	Qualifying provision

What is the problem under consideration? Why is government intervention necessary?

The Government has publicly committed to providing continuity in our existing trade and investment relationships with third countries by seeking to replicate the effect of existing EU preferential trade agreements (a process referred to as “transitional adoption”) and becoming an independent member of the Government Procurement Agreement (GPA) upon leaving the EU. On Day 1 of Exit, the UK will need to have full ability to implement all commitments flowing from these agreements. The powers in the Trade Bill, together with those in the European Union (Withdrawal) Bill and the Customs Bill, will collectively ensure the UK and Devolved Administrations are able to make all changes to domestic legislation in the UK and Devolved Administrations necessary to implement these obligations. Specifically, the powers in the Trade Bill will allow the Government to implement non-tariff obligations of trade agreements which have been transitioned from EU-third country agreements into domestic law.

What are the policy objectives and the intended effects?

The objective is to ensure maximum continuity and certainty for consumers and business in UK trade and investment relationships with third countries covered by existing signed agreements, from the day of EU Exit, as well as for the third countries themselves. This will involve the transition of existing EU Free Trade Agreements or other EU preferential trade arrangements, like Mutual Recognition Agreements on conformity assessment and becoming an independent member of the Government Procurement Agreement (GPA).

The powers within the Bill will predominantly be used to enable these agreements and UK’s independent GPA membership to be operationally effective for the UK after Exit. These agreements, and the GPA, are currently being used by businesses, so their retention would be, as far as is possible, a preservation of the status quo for businesses and consumers.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0 - Do nothing: This option would risk the UK government being unable to fully implement non-tariff obligations of existing EU trade agreements and also mean that the UK would not be able to join the GPA as an independent country before leaving the EU. As a result is not considered a viable option.

Option 1 - Preferred option: Delegate powers to allow, where necessary, implementation of non-tariff obligations flowing from the transitional adoption of existing EU-third country trade agreements and the re-joining the GPA, through changes to existing domestic legislation. Complementary powers will be created in the Customs Bill for the UK to implement tariff-related measures.

This option best meets the policy objectives to ensure continuity and certainty for UK businesses and consumers. It also allows the Government to enter into discussions about the transition of trade agreements with partner countries with full ability to quickly make necessary changes in UK law, to ensure that obligations can be transitioned in their entirety.

Will the policy be reviewed? No If applicable, set review date: N/A				
Does implementation go beyond minimum EU requirements?			N/A	
Are any of these organisations in scope?			Micro Yes	Small Yes
			Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: n/a	Non-traded: n/a

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister:  **Date:** 11/09/2017

Summary: Analysis & Evidence

Policy Option 1

Description: Option 1

FULL ECONOMIC ASSESSMENT

Price Base Year N/A	PV Base Year N/A	Time Period Years N/A	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate:

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	Unknown, likely small	Unknown, likely small	Unknown, likely small

Description and scale of key monetised costs by 'main affected groups'

We are unable to quantify the costs of this proposal at this stage, as they will only be determined following discussions with third countries and depend on the details of secondary legislation.

Other key non-monetised costs by 'main affected groups'

The powers within the Bill will only be used to ensure that trade agreements that are already in place (or will be at the point that the UK leaves the EU), remain operational for the UK after leaving the EU. As a result there should be no significant costs to business however some costs, such as those associated with familiarisation, may arise as a consequence of the specific changes to secondary legislation. These specific changes will only be determined following discussions with third countries on how to transition the agreements effectively.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	Unknown, likely small	Unknown, likely small	Unknown, likely small

Description and scale of key monetised benefits by 'main affected groups'

We are unable to quantify the benefits of this proposal at this stage, as they will only be determined following discussions with third countries and depend on the details of secondary legislation.

Other key non-monetised benefits by 'main affected groups'

Benefits may arise as a consequence of the use of the powers to ensure existing agreements continue to function once to UK leaves the EU. These benefits cannot be known at this stage as outlined above.

The power will guard against the potential cost to consumers and businesses of losing access to preferential arrangements with trading partners which are provided by the EU's existing agreements. Businesses and consumers may also benefit from the reduced uncertainty brought about by having a legislative framework in place to enable the transition of these agreements in all circumstances, particularly in the context of on-going negotiations with the EU.

Key assumptions/sensitivities/risks	Discount rate (%)	N/A
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Currently, there is uncertainty about what changes to domestic legislation will be required in light of transitional adoption of EU-third country trade agreements and therefore the extent to which this power will be required. As transitional adoption is intended to replicate the effect of existing EU preferential trade agreements, use of such powers is likely to be as minimal as possible.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: Unknown	Benefits: Unknown	Net: Unknown	Unknown, likely small

Evidence Base (for summary sheets)

The Trade Bill will put in place the tools which the UK needs to provide continuity for business, to be a credible player on the world stage and to enable businesses and individuals across the UK and globally to continue benefitting from the opportunities that international trade brings.

This impact assessment (IA) covers the powers within the Trade Bill that will enable the implementation of the non-tariff obligations flowing from existing EU trade agreements and the Government Procurement Agreement (GPA). Complementary powers to implement changes to tariff-related measures are being sought in the Customs Bill.

Problem under consideration:

1. The UK currently enters into commitments in international trade agreements as a member of the European Union (EU), including Free Trade Agreements, Economic Partnership Agreements, plurilateral agreements and the suite of agreements and disciplines which form our obligations under the World Trade Organisation¹ (WTO).
2. The Government has committed to providing continuity in existing trade and investment relationships with third countries. This will involve the transition of existing EU-third country Free Trade Agreements, and other EU preferential trade arrangements, into domestic law and becoming an independent member of the Government Procurement Agreement² (GPA). The UK is only a member of the GPA by virtue of its EU membership and would have to re-join as an independent member.
3. These agreements aim to reduce or eliminate not only tariff but also non-tariff barriers (explained further below) and provide a range of economic benefits through enabling deeper economic cooperation between partner countries. Implementation of the obligations arising from these agreements may require changes to domestic legislation in the UK and Devolved Administrations.
4. Currently, changes required to domestic law to implement such international agreements are given effect largely via directly applicable EU Regulations and Decisions, or through secondary legislation under a power in Section 2(2) of the European Communities Act 1972 (ECA). Upon leaving the EU and when the ECA is repealed, the UK will need a legislative framework to enable it to implement commitments flowing from international trade agreements which it intends to transition into domestic law in order to prevent trade disruption and uncertainty for UK businesses.
5. **The UK Government therefore proposes to create powers to implement the obligations flowing from adopted EU trade agreements and any procurement obligations arising from the UK becoming a member of the GPA in its own right, via secondary legislation.** This would apply where changes to domestic legislation are needed.

The European Union (Withdrawal) Bill

6. The European Union (Withdrawal) Bill will assist with the process of transitioning existing EU preferential arrangements, as it will preserve existing EU legislation flowing from current EU-third country trade agreements, and provide powers to enable this legislation to be amended to work domestically in the UK. If the Bill is successful in its passage through Parliament and becomes an Act, it should allow many of our existing international trade obligations flowing from signed and fully implemented agreements to continue to have effect in domestic law on exit. Similarly, all procurement obligations relating to the GPA at the date of Exit should be preserved.
7. However the European Union (Withdrawal) Bill will not provide powers to give effect to any legislative change required to replicate the terms of agreements that have not been fully implemented by EU legislation prior to Exit day.
8. As its power is sunsetted it will not allow for necessary future changes to UK law identified after this date that may be needed to ensure that transitional adoption agreements continue to be operable in

¹ The WTO creates a negotiating forum for all 164 members to agree international trade rules as well as acts as a body to ensure the rules are implemented. The UK will not need to reapply to join the WTO once it leaves the EU however will need to establish UK 'schedules' – this is a list of commitments (including agriculture, industrial goods and services) that sets the terms of tariffs, quotas and limits of subsidies.

² The GPA is a plurilateral agreement within the World Trade Organisation (WTO) framework. There are currently 19 GPA parties comprising of 47 WTO members.

the UK. Although this process is intended to replicate the effect of existing EU preferential trade agreements, it is impossible to guarantee that the complexities involved will not require subsequent and unanticipated changes to legislation to enable full implementation of the transitioned deals.

9. Parts of the devolution settlements, which require the Devolved Administrations to comply with EU law, will also cease to apply. Currently, as a member of the EU these devolved settlements ensure the devolved legislatures and administrations cannot act incompatibly with Community law (i.e. EU law) and the devolved legislatures have no power to pass laws which are incompatible with Community law. This has the effect of ensuring a common, cross-UK approach for the implementation of EU trade agreements, even in areas of devolved competence, and is supported by four practical mechanisms. This framework will not be preserved by the European Union (Withdrawal) Bill.
10. The European Union (Withdrawal) Bill will also not allow for the domestic implementation of the UK's GPA obligations if the terms of the UK's GPA offer change during joining negotiations, or if the GPA is amended after EU Exit but before the UK becomes an independent member (such as another State's accession).
11. Therefore, the Trade Bill creates powers for the UK Government and Devolved Administrations to implement non-tariff obligations flowing from transitionally adopted EU-third country agreements and the GPA, through secondary legislation. Complementary powers will be created in the Customs Bill for the UK to implement tariff-related measures.

What types of non-tariff obligations arise in the context of international agreements?

Non-tariff obligations, also known as non-tariff measures (NTMs) are policy measures other than ordinary custom tariffs. Where these measures have the potential to hinder international trade and investment, they are known as non-tariff barriers (NTBs). Trade agreements often aim to remove or alleviate such barriers.

There are various different types of NTMs (as demonstrated in Annex A). A few examples include:

- Technical barriers to trade (TBT): these are implemented to regulate markets, protect consumers or preserve natural resources, among other objectives. TBTs are primarily on manufactured goods, although some TBTs such as labelling requirements can impact agricultural goods too.
- Sanitary and phytosanitary measures (SPS): these are implemented to protect human, animal and plant life from risks arising from additives, toxins, plant or animal carried diseases, pests, etc. SPS measures are primarily on agricultural goods, although there are some on manufactured goods such as chemicals and machinery sectors.
- Restrictions on recognition of professional qualifications: these are often implemented to preserve standards for supply of services but can in some cases inadvertently or deliberately limit competition e.g. a requirement of local citizenship to practice a profession.

Rationale for intervention:

12. The Government has committed to ensure maximum certainty for consumers and business; as well as the continuity of UK trade and investment relationships with third countries covered by existing signed agreements.
13. This will involve the transition of existing EU Free Trade Agreements or other EU preferential trade arrangements, including Mutual Recognition Agreements on conformity assessment³, and becoming an independent member of the Government Procurement Agreement (GPA). **These agreements aim to reduce or eliminate both tariff and non-tariff barriers and provide a range of economic benefits through enabling deeper economic cooperation between partner countries.**
14. Implementation of obligations arising from these agreements may require changes to domestic legislation in the UK and Devolved Administrations. The Government will need the ability to make

³ Conformity assessment refers to the procedures used to determine whether a product fulfils the requirements of a particular technical regulation or standard.

these changes in UK law, at the time of discussing the replication of these agreements with partner countries, in order to ensure they can be transitioned in their entirety.

15. The aim of this primary legislation is to ensure that the UK has the full set of powers necessary to enable the transition of these agreements in all circumstances, particularly in the context of on-going negotiations with the EU. This will avoid costs for consumers and businesses, both in terms of losing access to the EU's existing preferential trading arrangements and in terms of uncertainty, if it not clear that the government is able to deliver on its commitment of transitionally adopting these agreements.
16. This power will be used to make updates to transitionally adopted legislation in future to ensure that transitionally adopted agreements remain operable in UK law in future.

Description of options considered:

Two options are considered:

17. **Option 0 - Do nothing:** The risk here is that the UK Government would not be able to transition all obligations of the signed existing EU agreements or make arrangements to re-join the GPA on leaving the EU. The Government will need the ability to make these changes in UK law, at the time of discussing the replication of these agreements with partner countries, in order to ensure they can be transitioned in their entirety. Additionally, if the Government relies on primary legislation for each change, it might not be possible to implement all necessary non-tariff obligations in time and could pose significant delivery risks and uncertainty for UK businesses after the UK has left the EU. This is not in keeping with the original policy intention of transitional adoption and as a result is not considered a viable option.
18. **Option 1 - Preferred option:** Delegated powers to allow a) implementation of non-tariff obligations of transitionally adopted existing EU/third country trade agreements and b) re-joining the Government Procurement Agreement. Delegated powers would allow Ministers to use statutory instruments to bring forward necessary new domestic legislation or to make essential changes to existing domestic legislation. Complementary powers will be created in the Customs Bill for the UK to implement tariff-related measures.
19. This option best meets the policy objectives. With this option, the Government will be able to enter into discussions with partner countries, with full ability to make agreed changes in UK law, in order to ensure that agreements can be transitioned in their entirety. In addition, these delegated powers will be made available to the Devolved Administrations, allowing them to implement obligations of trade agreements in areas of devolved competence. This mitigates the risk that UK businesses and consumers could lose access to preferential arrangements set out in existing agreements after leaving the EU.
20. This option also means that the UK will be able to make small amendments in future to the transitional adoption agreements which will ensure that they can reflect any associated changes in domestic UK law.
21. Given the challenge the UK Government faces in ensuring these agreements are in place after leaving the EU, the timetable means that the shortest and most streamlined legislative process possible is required, to make any change to domestic legislation required to give effect to the UK's obligations in these trade agreements. In addition these agreements have already been subject to UK parliamentary scrutiny processes at their point of conclusion by the EU. However, any implementing legislation made under the powers will go through the secondary negative resolution procedure – which requires text of a statutory instrument to be laid in both houses for an agreed period of time days. Each transitioned agreement will still go through the pre-ratification Parliamentary process as set out in the Constitutional Reform and Governance Act 2010.

Impact of options considered:

22. Options 0 and 1 have been compared against a **continuation of the existing agreements with third countries and membership of the GPA** (outlined below). This is the most appropriate

baseline for comparison because the policy measure involves the replacement of an already existing level of provision provided by existing EU agreements and the GPA. This will give the most meaningful assessment of the impact on those affected.

Existing EU Free Trade Agreements (FTA) or other EU preferential trade arrangements

23. Currently, there are around 40 EU trade agreements with third countries at various stages of development. These are split into the following categories:
- Traditional FTAs - these tend to be the broadest and most detailed agreements in trade terms;
 - Economic Partnership Agreements (EPAs) – these are development focused FTAs that aim to provide long-term, predictable frameworks to help increase trade and investment, and support sustainable growth and poverty reduction. EPAs are asymmetric in their degree and pace of market liberalization; and
 - Association Agreements - these are usually much broader agreements in general terms (e.g. covering political cooperation, energy, etc.) but with a notable trade component.
24. The power will cover all signed EU-third country trade agreements at the point of leaving the EU. At this stage, it is not possible to say definitively which agreements will require the implementation power. This is because there may be agreements signed with partner countries by day 1 of EU Exit but after the Bill is introduced. In addition, implementation powers may not be needed in respect of every agreement.
25. As a result the following analysis only covers the countries that have signed trade agreements with the EU at the date of the Bill introduction. Additional countries could be in scope but this will depend on the progress of on-going negotiations between the EU and partner country.
26. As transitional adoption is intended to replicate the effect of existing EU preferential trade agreements, use of the powers will be kept as minimal as possible. However, given the large number of agreements the Government needs to transitionally adopt in a short time period, it is important that available powers are in place to ensure the UK is able to deliver on its commitment of adopting these agreements in time for EU Exit.
27. The latest data from the ONS shows that in 2015 these countries or blocs accounted for 13 per cent of the UK’s total trade (exports plus imports)⁴. Table 1 below breaks down this figure by the various countries or blocs with existing signed agreements.

Table 1 – UK trade by countries/blocs with EU agreements, 2015

Name of Country	Value of total trade (exports + imports), £ million	Share of UK total trade (exports + imports)
Albania	28	0.0%
Algeria	2,358	0.2%
Andorra, Monaco and San Marino	96	0.0%
Antigua and Barbuda, Bahamas, Barbados, Belize, Dominican Republic, Dominica, Grenada, Guyana, Haiti, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, Trinidad and Tobago	2,028	0.2%
Benin, Burkina Faso, Gambia, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo	4,879	0.5%
Bosnia and Herzegovina	114	0.0%
Botswana, Lesotho, Mozambique, Namibia, South Africa, Swaziland	8,664	0.8%
Cameroon	250	0.0%
Canada	14,869	1.4%
Chile	1,413	0.1%
Colombia, Peru and Ecuador	2,181	0.2%
Comoros, Madagascar, Mauritius, Seychelles, Zambia and Zimbabwe	1,097	0.1%
Costa Rica, Guatemala, Honduras, Nicaragua, Panama, El Salvador	994	0.1%

⁴ ONS UK Balance of Payments, The Pink Book: 2016 – Updated Balance of Payments annual geographical data tables

Côte d'Ivoire	365	0.0%
Egypt	2,835	0.3%
Fiji, Papua New Guinea	382	0.0%
Georgia	151	0.0%
Ghana	1,147	0.1%
Iceland, Liechtenstein and Norway	21,323	2.0%
Israel	3,739	0.4%
Jordan	839	0.1%
Kenya, Rwanda, Uganda, Tanzania and Burundi	1,593	0.1%
Kosovo	3	0.0%
Lebanon	654	0.1%
Mexico	3,566	0.3%
Moldova	307	0.0%
Montenegro	22	0.0%
Morocco	1,902	0.2%
Occupied Palestinian Territories	N/A	N/A
Serbia	373	0.0%
Switzerland	33,505	3.1%
The Republic of Korea	11,121	1.0%
The Republic of Macedonia	821	0.1%
Tunisia	560	0.1%
Turkey	13,351	1.3%
Ukraine	769	0.1%
Total	138,299	13.0%

Source: ONS UK Balance of Payments, The Pink Book: 2016 – Updated Balance of Payments annual geographical data tables. Data presented is in nominal terms and totals may not exactly match the sum of their parts due to rounding.

28. The existing agreements facilitate easier movement of goods and services with the UK's major markets, help promote investment, and bring direct benefits to UK businesses and consumers, for example through more competitive pricing, greater choice and recognition of UK product standards. The agreements also promote the UK's development agenda (through the EPA deals) and political goals (through strengthening bilateral relationships).
29. It is not possible to quantify the exact benefit the individual non-tariff obligations within all of these agreements have brought the UK. However evidence suggests that in general FTAs do enhance bilateral trade. Head & Mayer⁵ considered the impact across a wide range of studies (with a total of 2,508 estimates obtained from 159 papers) and found the median impact of a regional trade agreement or FTA on bilateral trade flows to be an increase of 32 per cent. **Further evidence relating to the economic impact of signing different trade agreements is summarised in Annex B.**
30. Consumers benefit from existing preferential agreements through cheaper imports, as do businesses that rely on imports as part of their supply chains. Consumers will also benefit from a greater choice of products or services from abroad. Liberalising trade creates greater competition which leads to a reduction in domestic prices and encourages businesses to serve consumers better by innovating, giving them greater choice, and better value for money.
31. Below are also some examples of previous estimates of the impacts of signing specific FTAs.

EU-South Korea FTA

32. EU-Korea FTA entered fully into force on 1 October 2015 following ratification by all EU Member States (including the UK). Most of the agreement has been provisionally applied since 1 July 2011.
33. Copenhagen Economics⁶ assessed the economic impact to the UK from the FTA between the EU and Korea using a general equilibrium model in 2007. They concluded signing the FTA would result in a net annual welfare gain to the UK economy of around £0.5 billion per year which corresponds to a 0.05 per cent increase per year in UK real income.
34. This scenario was designed prior to the completion of the actual negotiations and can be seen as providing an estimate of the potential effects rather than an estimate of the benefits of the actual agreement. However the scenario used in the modelling is fairly accurate, if a slight overestimate, of the outcome of the actual agreement.

Ex-Post assessment Of Six EU Free Trade Agreements

35. Copenhagen Economics on behalf of the European Commission⁷ carried out an ex-post evaluation of six EU FTAs (South Africa-1999, Mexico-2000, Morocco-2000, Tunisia-1998, Chile-2003 and Jordan-2002). They found there was a strong impact of FTAs where there was comprehensive liberalisation (such as EU-Chile).
36. The report found that EU exports to Chile, Tunisia and Morocco show strong evidence of increasing as a result of the FTAs. Although EU exports to South Africa were found to have increased, this result was not statistically significant, and there was no evidence of an increase in EU exports to either Mexico or Jordan. FTAs signed with Tunisia and Morocco increased EU exports by 80 per cent, and EU exports to Chile appeared to more than double as a result of the FTA. EU imports from Mexico were found to have increased by 92 per cent.

Mutual Recognition Agreements on conformity assessment (MRAs)

37. Mutual Recognition Agreements (MRAs) are bilateral tools that provide a practical way to reduce duplicating efforts to demonstrate regulatory compliance. MRAs on conformity assessment for goods are one of the most common types of MRA. Conformity assessment refers to the procedures used to determine whether a product fulfils the requirements of a particular technical regulation or standard.

⁵ Head & Mayer (2013) 'Gravity Equations - Workhorse, toolkit and cookbook', p33-34, http://www.cepii.fr/pdf_pub/wp/2013/wp2013-27.pdf Looking specifically at structural gravity models, which refers to using country fixed effects or a ratio-type method.

⁶ Copenhagen Economics (March 2007) 'Economic Impact of a Potential Free Trade Agreement (FTA) Between the European Union and South Korea'

⁷ Copenhagen Economics (February 2011) 'Ex-Post Assessment Of Six EU Free Trade Agreements: An Econometric Assessment Of Their Impact On Trade' http://trade.ec.europa.eu/doclib/docs/2011/may/tradoc_147905.pdf

38. These agreements can be stand-alone or can be included in other trade agreements. The EU holds stand-alone MRAs on conformity assessment with Australia, Canada, Israel, Japan, New Zealand, Switzerland, and the United States. Including the MRAs that form part of other trade agreements, there are at least 13 agreements containing mutual recognition commitments for conformity assessment with 10 partners. Bilateral commitments on mutual recognition of conformity assessment can cover a range of manufacturing sub-sectors subject to third-party conformity assessments (e.g. pharmaceuticals, motor vehicles, construction).
39. Conformity assessments MRAs recognise the technical competence of a conformity assessment body in an exporting partner country to assess products against the regulations of an importing partner country. This way, MRAs can help manufacturers to avoid double testing and potential delays in 'time to market'.
40. **The evidence shows there are expected economic gains from MRAs.** Benefits arise from lowering the costs to UK businesses of testing and certification, reducing the overall cost of complying with trading partners' technical requirements. Several studies (both qualitative and empirical) have shown there was a positive impact on trade following the implementation of MRAs⁸. The size of the impact though varies depending on several variables, including the existing level of trade and the other party to the agreement. Higher regulatory cooperation is argued to improve administration efficiency and enhance knowledge sharing between regulators – potentially improving the efficiency of regulation and long-run regulatory convergence.

The Government Procurement Agreement (GPA)

41. The GPA is a plurilateral agreement within the World Trade Organisation (WTO) framework. There are currently 19 GPA parties comprising of 47 WTO members. It mutually opens government procurement markets worth an estimated £1.3trn annually and seeks to address trade barriers. This access is worth a substantial amount to the UK economy. The GPA provides market access gains for UK businesses worth approximately £609 million with other EU members of the GPA⁹. There are smaller market access gains for UK businesses from other GPA members outside the EU.
42. In addition to direct cross-border trade, the GPA protects UK subsidiaries and suppliers against discriminatory treatment by procuring governments. Rules prevent discrimination against locally established suppliers on the basis of "foreign affiliation or ownership" or on the origin of goods and services offered by these suppliers. The UK also benefits from GPA parties' suppliers having access to the UK public procurement market, as it maintains contestability, provides greater choice for procurers (reducing cost), and ensures there are sufficient competitive pressures on UK suppliers.

Option 0 – Do Nothing

43. Without being able to fully implement non-tariff obligations flowing from transitional adoption agreements, there is a risk that the UK Government will not be able to effectively to reach agreement with third countries on the transition of existing EU trade agreements or become an independent member off the GPA. The Government will need to be able to go into discussions with partner countries with full ability to make necessary changes in UK law, in order to ensure they can be transitioned in their entirety.
44. While it may be possible to transition some or many of these agreements without the use of powers, it is impossible to guarantee at this stage that the complexities involved will not require changes to legislation in order to make these agreements work for the UK after leaving the EU and enable full implementation of the transitioned deals. Not being able to deliver this commitment would cause significant reputational damage in the eyes of UK industry and foreign partners. It could also result in a loss of access to preferential arrangements for UK businesses set out in existing agreements and return to receiving WTO Most Favoured Nation¹⁰ (MFN) treatment with these third countries. **Option 0 is not the preferred for these reasons.**

⁸ OECD (2016) 'The contribution of mutual recognition to international regulatory co-operation'

⁹ Cabinet Office – Analysis of EU procurement (2014/15) using Tenders Electronic Daily (TED) data

¹⁰ 'Most Favoured Nation' treatment is applied to all World Trade Organisation (WTO) members, which states that members should accord similar treatment for all other members. Preferential Trade Agreements are allowed as an exception to this provision, under Article VI of WTO law, if they cover 'significantly all trade'.

Impact on trade flows as a result of losing access to existing trade agreements

45. The evidence highlighted in the section above and in Annex B shows that there is a positive impact of signing an agreement on trade flows. If we assume that the impact of losing access to an agreement is equal to the impact of signing one, not being able to successfully transition these agreements in time for Exit would negatively affect trade flows.
46. It is not necessarily the case that the entire effect of each agreement will disappear if the UK Government or Devolved Administrations are not able to make any necessary changes to domestic legislation. Tariffs will automatically revert to MFN rates but it may take longer for some of the other benefits to be lost and some of the gains may endure even in the long-run. For example, the UK may still benefit from any previous regulatory arrangements as a result of commitments within agreements and any networks formed as a result of the agreements may remain intact. The size of the impact will also depend on the following factors:
- The scale of existing trade flows between country partners;
 - The specific provisions within the agreement, including how deep and broad its provisions are and how large the difference between preferential and MFN arrangements are;
 - How long the existing deals have been in place and whether all of the benefits following implementation have been realised yet (some agreements in scope have only been ratified for a few years or are still being provisionally applied). In general, these types of estimates of the impacts of signing agreements are usually applied in the long run, rather than for a 'cliff-edge' scenario.
 - The responsiveness of aggregate trade flows to increases in trade costs brought about by the loss of provisions within the agreements (see Annex B for more detail).
47. For these reasons, we are unable to estimate the exact impact on trade flows. The worst case scenario would be to assume the entire effect of each agreement will disappear if the UK Government or Devolved Administrations are not able to make any necessary changes to domestic legislation. An upper bound of signing an agreement on trade flows could be a 32 per cent increase in the long-run (Head & Mayer, 2013) as previously mentioned. Assuming the impact of losing access to an agreement is equal to the impact of signing one, the value of losing all access to an existing trade agreement between the EU and a partner country could, under low-probability, worst-case assumptions, be a fall of around a quarter in trade flows in time¹¹. However for the reasons stated above, this should not be assumed to be the most likely outcome.

Impact on Business

48. Existing preferential agreements bring down existing trade barriers that restrict free and efficient trade. Doing nothing risks returning to MFN treatment, resulting in export opportunities to these countries becoming more expensive through increased tariffs. The implied relative change in prices could be absorbed by business, passed on to consumers or the change in relative prices may lead to importers switching to goods from other countries. This could impact UK competitiveness, lead to disruptions in supply chains and job losses.
49. It is not possible to give an exact number of businesses affected by the power. Administrative data from HMRC¹² shows that in 2015 over 141,000 VAT registered businesses in the UK traded with non-EU countries. This only includes exporters of goods, so is likely to be an underestimate of the number of businesses affected by the power. It will also include businesses that export to countries not in scope of the power. For context, survey data from the ONS¹³ shows that in 2015 over 320,000 (non-financial) registered businesses in GB either exported or imported goods or services or both; this was around 15 per cent of all VAT/PAYE registered businesses that were surveyed. This survey does not cover the whole business population and does not break the numbers down by partner

¹¹ A 32.3 per cent increase in trade flows in reverse equates to a 24.4 per cent fall in trade flows.

¹² HM Revenue and Customs '2015 UK VAT Registered Importer and Exporter Population'
<https://www.uktradeinfo.com/Statistics/OverseasTradeStatistics/AboutOverseastradeStatistics/Pages/OTSReports.aspx>

¹³ ONS Annual Business Survey: Great Britain non-financial business economy exporters and importers, 2015 provisional results. This survey only covers registered businesses (for PAYE or VAT, listed in IDBR) in the Great Britain non-financial Business Economy (around 2/3rds of the GB economy) i.e. the data excludes very small traders not registered for VAT/PAYE and the following industries: much of the finance, insurance and agricultural sector, and all of Government services.
<http://www.ons.gov.uk/businessindustryandtrade/business/businessservices/articles/annualbusinesssurvey/greatbritainnonfinancialbusinessenconomyexportersandimporters2015provisionalresults>

countries, so would be an overestimate. Both sources do not include businesses trading below the VAT registration threshold.

50. The evidence on signing trade agreements suggests that whether certain types of businesses are disproportionately affected will depend on the sectoral impact of the signing each individual agreement¹⁴ and the specific trade barriers that are reduced in these agreements. It is difficult to know at this stage what the sectoral impact will be. This will depend on the relative comparative advantage of the partner countries; the sectors covered within the relevant agreements (and the difference between the preferential arrangements and WTO MFN arrangements); where supply and demand is most sensitive to potential price changes; and where domestic consumption relies heavily on imported inputs.
51. The following tables (Table 2 and 3) give a breakdown of the top goods and services exported to and imported from some of the potential countries in scope of the power. These are not estimates of which sectors will be affected. Table 2 shows the top 5 goods that the UK exported to and imported from the potential countries in scope of the power (as listed in Table 1 above) in 2016. Annex A gives the official names of the goods listed in the table according to their Commodity Harmonised System (HS) code.

Table 2 – Top 5 goods exported to and imported from countries/blocs with EU agreements, 2016

	Type of good	Value, £ million
UK imports	Pearls, precious or semi-precious stones and precious metals	30,502
	Mineral fuels and oils	13,745
	Machinery and mechanical appliances	3,985
	Pharmaceutical products	3,816
	Automotives including parts	3,721
UK exports	Pearls, precious or semi-precious stones and precious metals	11,918
	Machinery and mechanical appliances	6,227
	Vehicles other than railway or tramway rolling-stock	4,294
	Aircraft including parts	2,309
	Pharmaceutical products	2,198

Source: HMRC Interactive database (Data by Commodity HS code)
Data presented is in nominal terms

52. Table 3 shows the top 5 services that the UK exported to and imported from with seven of the potential countries in scope of the power in 2015. These countries are Switzerland, Turkey, Canada, Chile, Mexico, South Korea and South Africa.

Table 3 – Top 5 services exported to and imported from seven countries with EU agreements, 2015

	Type of service	Value, £ million
UK imports	Travel	3,111
	Other business services	2,329
	Intellectual Property	1,366
	Transportation	1,190
	Financial	527
UK exports	Other business services	7,256
	Transportation	2,644
	Financial	2,617
	Travel	2,110
	Telecommunications, computer and information services	1,836

Source: ONS UK Balance of Payments, The Pink Book: 2016 – Updated Balance of Payments annual geographical data table
Data presented is in nominal terms
The data for services only includes information for some of the countries in scope of the power due to confidentiality reasons. Several services categories are suppressed for the same reason.

53. Table 2 and 3 are not directly comparable with each other. The HMRC data in Table 2 is on a 'physical movement' basis where a good is recorded as an export (import) if it physically leaves (enters) the economic territory of a country. The ONS data in Table 3 is on a 'Balance of Payments'

¹⁴ Harris and Moffat (2013) 'Investigation into trends in export participation among UK firms' – submitted to the UKTI

or 'change of ownership' basis where a good or service leaving (entering) the economic territory of a country is recorded as an export (import) only if it has changed ownership between the resident of the reporting country and non-residents. Trade in services involves no physical movement (services are intangible) so services data are always reported on a 'change of ownership' (Balance of Payments) basis.

54. Businesses that rely on imports as part of their supply chains may be affected if import prices rise. A substantial proportion of the growth in global trade in recent decades has been driven by growth in intra-industry trade (trade within an industry) and the development of cross-border supply chains. Some goods may cross borders numerous times before reaching the final consumer.
55. Leaving the GPA would have a significant impact on UK businesses that specialise in the provision of public goods and services who, in some cases, would be unable to access procurement markets (such as the US) and, in other cases, would be unable to make use of dispute settlement procedures if they are subject to discrimination or unfair treatment. This is likely to jeopardise investment in GPA party countries.
56. UK exporting businesses that utilise MRAs could incur additional costs from having to have products conformity assessed abroad in the destination country instead of domestically in the UK. As a result, conformity assessment bodies based in the UK may lose revenue if current customers based in the UK have to go abroad for conformity assessments.
57. In addition to the above effects, which would materialise if the UK is unable to transition existing EU preferential trading arrangements, it is important to consider the uncertainty businesses may experience if it is unclear whether the UK has a legislative framework which is sufficiently flexible to enable the transition of these agreements in all circumstances, particularly in the context of on-going negotiations with the EU. In some cases businesses may make preparatory action, which can be costly, if they consider there is a risk that they will lose the preferential trading terms provided for by an existing EU agreement.

Impact on consumers

58. Imported products could be more expensive for consumers if losing access to the existing provisions within existing agreements leads to retailers passing on increased costs to consumers through increases in domestic prices. This may disproportionately affect certain groups of consumers, for example those at the lower end of the income distribution, depending on the specific sectors where the price rises occur. Consumer may also see a reduction in choice of products and services available. The European Commission estimated that benefits for EU consumers from greater variety of goods resulting from trade are €600 per person per year¹⁵ so this may result in further costs to consumers.

Impact on the Government expenditure

59. The UK Government could lose out from loss of international competition on government procurement contracts, which previously resulted in better value for money. The GPA contains many of the largest global economies such as the US, EU, Japan, Canada and Korea. In general, this option risks damaging the UK's reputation post-Brexit as an outward facing global trading nation.

Option 1 – Powers to enable the UK to implement the domestic implications of non-tariff obligations flowing from transitionally adopted trade agreements and the GPA (preferred option)

60. Under this scenario, the UK would have the necessary powers to ensure it would be able to fully implement non-tariff obligations flowing from transitional arrangements and as a result transition existing EU trade agreements into domestic law in the most similar form possible, as well as ensuring it can become an independent member of the GPA before or on leaving the EU. This means businesses and consumers would be able to continue to benefit from trade created by these existing preferential agreements.

¹⁵ DG Trade calculation based on applying the estimated gains to US consumers of the growth in global variety during the period 1972-2001 (about 2.6% of GDP) to the EU - see p 11 of [DG Trade "Trade as a driver of prosperity"](#)

61. The primary legislation does not specify what these changes to domestic legislation will be. As transitional adoption is intended to replicate the effect of existing EU preferential trade agreements, use of such powers is likely to be as minimal as possible. However, it is impossible to guarantee at this stage that the complexities involved will not require some changes to legislation in order to make these agreements work for the UK after leaving the EU and enable full implementation of the transitioned deals.

Determining the impacts

62. The policy objective is to ensure maximum continuity for any UK business and to ensure that the current level of provision provided by existing agreements is retained at the point of exit. The powers within the Bill will only be used to enable provisions already in place to function correctly outside the EU. As the EU agreements which the UK is seeking to replicate are already in place (or will be at least provisionally by the time the UK leaves the EU) and are being used by business, their retention would be, as far as is possible, a preservation of the status quo for businesses and consumers. As a result there should be no significant costs to business and consumers.

63. The specific changes to secondary legislation may potentially result in some transitional or familiarisation costs for businesses. Any potential familiarisation costs will affect businesses that currently export to or import part of their supply chain from third countries within particular sectors and most likely involve reading and understanding specific changes to secondary legislation, if required, to transition the existing agreements. As stated in paragraph 49, over 141,000 VAT registered businesses in the UK traded with non-EU countries and would be in scope of the power.

64. Due to the uncertainty over the specific changes to domestic legislation that will need to be made (as outlined above) it is not possible at this stage to quantify these familiarisation costs, or any other consequential costs or benefits. This will depend on the number and detail of specific proposals to be brought forward through secondary legislation, the number of businesses affected and the resulting size of these costs. However, given the aim is to replicate current provisions, these costs should be minimal.

65. There will also be benefits to business and consumers from the reduced uncertainty brought about by having a legislative framework in place to enable the transition of these agreements in all circumstances, particularly in the context of on-going negotiations with the EU. In addition, any potential changes brought forward will be with the intention to provide stability and maintain existing policy rather than deliver policy changes.

Use of the powers

66. The extent to which the powers within the Bill are exercised will only be determined following discussions with third countries (on the technical changes which may be required in order to make transitional adoption EU agreements work on and after leaving the EU). Because of this it is not possible to provide a full assessment of the instances in which the powers will be exercised to implement a transitionally adopted agreement. There are also a number of additional reasons for this:

- Previous examples of implementation: Currently as a member of the EU, changes required to domestic law to implement such international agreements are given effect largely via directly applicable EU Regulations and Decisions, so there are limited examples available of previous implementation through secondary legislation which were required to give effect to the EU's existing agreements.
- The number of agreements in scope: There are several EU agreements that, at the point of the UK's Exit from the EU, are likely to be partially provisionally applied rather than having been ratified by all Member States and the EU. We cannot be sure at this stage whether these agreements will be fully implemented on Exit. If they are not, then the European Union (Withdrawal) Bill would not be able to replicate any changes into UK law.
- Withdrawal from the EU: Negotiations on the UK's withdrawal from the EU are on-going and will have implications for the way in which these agreements are transitionally adopted.

67. Therefore **it is not possible to provide a meaningful Equivalent Annual Net Cost to Business (EANDCB) figure for validation at the primary legislation stage.** The impact of secondary legislation made under the Bill will be assessed in line with the appropriate framework when there is an impact on business.

68. A discussion of what some of the changes might be is set out below however at this stage they are purely hypothetical examples to illustrate the potential changes that could be made under the powers. They do not represent Government policy and should not be taken as such.

Examples

Example 1: Mutual Recognition Agreements (MRAs)

69. Under a transitionally adopted MRA between the UK and a partner country, a new conformity assessment body could be designated in the UK or in the partner country. This designation process would involve adding the new body's name onto the current list of existing bodies. Businesses wanting to export or import relevant products as well as enforcement authorities would have to familiarise themselves with the updated list by looking on the relevant website, which we expect to produce negligible familiarisation costs and only to arise as part of 'business as usual' practices.

Example 2: Geographical indications (GIs)

70. Geographical indications (GIs) are a protected name or description on a product that identifies it as originating from and having a quality or reputation attributable to a particular region. Many of the existing EU trade agreements that the Government is planning to transitionally adopt contain clauses that allow the parties to periodically review and update their GI commitments. After leaving the EU, the UK may want to use these clauses in transitioned existing agreements to update its existing list of GIs. Partner countries may wish to do likewise with their own GIs. Businesses would have to familiarise themselves with updates to the list of protected names but this is likely to be no change on what they have to do now. We therefore envisage negligible familiarisation costs.

Example 3: Safeguard provisions in trade agreements

71. Bilateral safeguard provisions in trade agreements are intended to provide reassurances to domestic industry that there is a safety net in place when parties to the trade agreement start to liberalise their trade. In general, bilateral safeguards can only be applied when surges of imports of a particular product included in the agreement cause, or threaten to cause, injury to domestic industry (or in some cases, cause, or threaten to cause, a disturbance in a sector of the economy or in markets of like products). They generally take the form of one of the following:

- suspension of the reduced rate of import duty for the product concerned, as provided for under the agreement (usually set out in a goods schedule);
- increase in the customs duty of the product concerned, up to a level which does not exceed the MFN rate;
- introduction of quotas on the product concerned. Only this type of measure would be covered by the power.

72. Evidence from existing EU trade agreements shows that it is rare for bilateral safeguards or other trade remedy measures within EU trade agreements to be imposed, therefore we would expect that any impacts should be minimal, if not negligible. The application of bilateral safeguard measures is generally not an obligation set out in the trade agreement but is instead discretionary. When a safeguard measure is being considered by a party to a trade agreement, most likely as a result of evidence provided to it by its domestic industry, most EU trade agreements include requirements on parties within the trade agreement to consult and share information about potential safeguard measures and to give priority to solutions which least disturb the operation of the trade agreement. There may be some administrative and resourcing cost to considering any potential safeguard measures under a trade agreement, which we anticipate would be undertaken by the relevant Government department, with the support of its trade remedies authority as appropriate.

73. If a bilateral safeguard measure is applied under the terms of a trade agreement the 'injured' domestic industry will benefit from the protection, which is likely to outweigh any initial costs of gathering evidence. In the case of the introduction of a quota on the product concerned, user industries or consumers of the particular product may face higher costs if they can't import quantities beyond the quota level. Both impacts would likely be for a limited time period given that existing agreements generally tend to provide specific time constraints for any safeguard measures imposed.

Example 4: Updates to the Government Procurement Agreement (GPA)

74. Changes to domestic legislation would be required when re-joining the GPA (to reflect updates since the latest version of the EU's schedule, such as the creation of new government departments or the addition of new GPA members – therefore new markets for UK businesses to access for government contracts).
75. UK businesses would benefit from improved access to external public procurement contracts in either scenario. UK businesses will not be required to adapt their existing practices when bidding for UK contracts as a result of these changes. These changes will not impose new organisational, operational, process, training, or reporting requirements for businesses and only arise as part of 'business as usual' practices. It is not possible to estimate the number of UK businesses who engage in cross-border procurement activities, directly or indirectly.
76. UK contracting authorities could receive more interest and bids from GPA suppliers as a result of expanded coverage, but any costs arising from this are likely to be more than offset by increased value for money as a result of the greater competition.

Rationale and evidence that justify the level of analysis used in the IA:

77. This is an impact assessment for primary legislation that introduces powers to enable changes to domestic legislation to be made, if necessary, when transitioning existing trade agreements. The primary legislation does not specify what these changes will be, as the technical changes which are required will be determined in part by negotiations on the UK-EU relationship, as well as following discussions with third countries on how to transition the agreements effectively.
78. As transitional adoption is intended to replicate the effect of existing EU preferential trade agreements, use of such powers is intended to be a minimal as possible. However, it is impossible to guarantee at this stage that the complexities involved will not require changes to legislation in order to make these agreements work for the UK after leaving the EU and enable full implementation of the transitioned deals. In addition, these delegated powers will be made available to the Devolved Administrations, allowing them to implement legislation for trade agreements in areas of devolved competence.
79. Therefore, the aim of this primary legislation is to ensure that the UK has the full set of powers necessary to enable the transition of these agreements in all circumstances, particularly in the context of on-going negotiations with the EU. This will avoid costs for consumers and businesses, both in terms of real world impacts if they lost access to the EU's existing preferential trading arrangements, as well as in terms of uncertainty, if it not clear that the government is able to deliver on its commitment of transitionally adopting these agreements.
80. Given this, the uncertainty over the impacts of the proposal is too great to provide a meaningful EANDCB figure for validation at the primary legislation stage. We have used illustrative examples where possible and available evidence from published data and research to outline our assessment.

Risks and assumptions:

81. The key risks are around the uncertainty of the likelihood that changes to domestic legislation will be required. As a result a full robust assessment of the impacts cannot be provided at this stage.

Impacts on Small and Micro Businesses (SME):

82. The policy objective is not intended to bring about substantive changes to UK businesses in trade and investment relationships with third countries covered by existing agreements, especially businesses with fewer than 50 employees. However if there are any familiarisation costs, they may affect smaller businesses more significantly.

83. In 2015, 94 per cent of GB (non-financial) businesses that either exported or imported goods or services or both were small and micro businesses (fewer than 50 employees)¹⁶. This survey does not break the numbers down by partner countries, so will include those SMEs that trade with EU countries and is likely to be an overestimate. It is also worth noting that these trading businesses only make up a minority of the total small and micro business population. From the Small Business Survey¹⁷, in 2015, 25 per cent of small business (10-49 employees), 17 per cent of micro businesses (1-9 employees) and 10 per cent of businesses with no employees reported that they exported goods or services.
84. As well as exporting by selling directly to a foreign consumer or firm, SMEs can be involved in trade through supply-chains. Analysis at the link below illustrates that where a certain proportion of UK SMEs export directly, a further proportion would participate in their supply chains (while the analysis is specific to EU exports, the principle would hold for other destinations):
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/524847/bis-16-230-smes-supply-chains-exporters.pdf
85. As a member of the GPA, the UK government will be in a position to contribute to the work of a specific GPA working group¹⁸ which is considering best practice in how to support the participation of small and micro businesses in government procurement. UK businesses will be able to benefit from any resulting adoption of this best practice by GPA party governments in relation to their own tendering processes.
86. The Department regularly engages with a wide range of stakeholders, including the Federation of Small Businesses (FSB), through various events including quarterly trade policy briefings that cover issues around legislation and regulatory impacts on business. More specific small and medium-sized business engagement activities will occur as the Trade Bill passes through Parliament.
87. The Great.gov.uk website contains guidance on navigating rules and regulations, which is particularly aimed at smaller businesses. More generally, the Department has regional International Trade and Investment (ITI) teams which help businesses develop the skills they need to export and access relevant information.

Post-implementation review (PIR):

88. The Government is committed to undertaking post implementation reviews of any subsequent changes to secondary legislation. We do not propose to undertake a PIR of the power as a whole because the power will simply enable us to make any necessary corrections to domestic law which arise from the transitional adoption of existing agreements. Therefore, the impact of the power in and of itself will be to ensure that real world impact of a legislative changeover is kept to a minimum.

¹⁶ ONS Annual Business Survey: Great Britain non-financial business economy exporters and importers, 2015 provisional results. This survey only covers registered businesses (for PAYE or VAT, listed in IDBR) in the Great Britain non-financial Business Economy (around 2/3rds of the GB economy) i.e. the data excludes very small traders not registered for VAT/PAYE and the following industries: much of the finance, insurance and agricultural sector, and all of Government services.
<http://www.ons.gov.uk/businessindustryandtrade/business/businessservices/articles/annualbusinesssurvey/greatbritainnonfinancialbusinessconomyexportersandimporters2015provisionalresults>

¹⁷ Department for Business, Energy & Industrial Strategy: [Small Business Survey 2015](#)

¹⁸ https://www.wto.org/english/tratop_e/gproc_e/annexc_e.pdf

Annex A: Classifications

Non-Tariff Measures (NTM)

Table 4 shows the system of NTM classification prepared by the Multi-Agency Support Team (MAST), a group of technical experts from eight international organizations¹⁹ with the latest revisions in 2012. This classification first categorizes NTMs into two broad categories, technical and non-technical measures, which are followed by 16 chapters. Table 5 shows the OECD Services Trade Restrictiveness Index (SRTI) which classifies all trade restrictions into five broad categories²⁰.

Table 4: Classification of NTM measures by MAST

Technical Measures	A SPS	Includes restriction for substances and non-eligible countries' hygienic requirements, other measures for preventing dissemination of diseases and all conformity assessment measures related to food safety, e.g. certification, testing and inspection, and quarantine.
	B TBT	Includes labelling, marking, packaging, restrictions to avoid contamination or other measures protecting the environment, standards on technical specifications, and quality requirements.
	C Pre-shipment clearance & other formalities	Measures related to customs facilities.
Non-Technical Measures	D Price control	Measures with the intention to change the prices of imports, such as minimum prices, reference prices, anti-dumping or countervailing duties.
	E Quantity control	Measures with intention to limit the quantity traded, such as licensing and quotas, and licenses and import prohibitions that are not SPS or TBT related.
	F Charges, taxes and other para-tariff measures	Taxes other than custom tariffs and additional charges such as stamp taxes, licenses fees, statistical taxes, and also decreed customs valuation.
	G Finance	Measures restricting the payments of imports, for example when the access and cost of foreign exchange is regulated, and measures imposing restrictions on the terms of payment.
	H Anti-competitive	Monopolistic measures, such as state trading, sole importing agencies, or compulsory national insurance or transport.
	I Trade-related Investment	Measures that restrict investment by requesting local content or that investment should be related to export in order to balance imports.
	J Distribution Restrictions	Restrictive measures related to the internal distribution of imported products, hindering trade through difficulty in distributing the products once within the country.
	K Post-Sales Services	Difficulties in allowing technical staff to enter the importing country to install or repair technological goods imported.
	L Subsidies	Subsidy measures affecting trade, including grants, loans, equity infusion, guarantee, foregone government revenue or price support.
	M Government Procurement	Restrictions to selling products to a foreign government.
	N Intellectual Property	Problems arising from intellectual property rights.
O Rules Of Origin	Measures that restrict the origin of products so that they could benefit from reduced tariffs according to certain rules often set in multiple simultaneous agreements with different countries.	
Export measures	P Export-related Measures	Measures a country applies to its exports. It includes export taxes, export quotas or export prohibitions, etc.

Source: UNCTAD (2012) - Classification of Non-Tariff Measures <http://unctad.org/en/Pages/DITC/Trade-Analysis/Non-Tariff-Measures/NTMs-Classification.aspx>

¹⁹ FAO, IMF, ITC, OECD, UNCTAD, UNIDO, the World Bank and the WTO

²⁰ See OECD STRI for more details <http://sim.oecd.org/>

Table 5: OECD Services Trade Restrictiveness Index

Restrictions	Examples
Restrictions on foreign entry	Conditions on transfer of capital and investments
Restrictions to movement of people	Labour market tests for intra-corporate transferees
Other discriminatory powers	Explicit preferences for local suppliers for public procurement
Barriers to competition	Minimum capital requirements
Regulatory transparency	Licences are allocated according to publicly available criteria

Goods classification system

Table 6 gives the official names of the goods listed in Table 2 according to their 2 digit Harmonised System (HS) coding.

Table 6: Official names of certain goods according to their 2 digit HS coding

Good listed in Table 2	Official good name according to Commodity HS code (HS 2 level)
Pearls, precious or semi-precious stones and precious metals	71 - Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin
Mineral fuels and oils	27 - Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes
Machinery and mechanical appliances	84 - Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof
Pharmaceutical products	30 - Pharmaceutical products
Automotive including parts	87 - Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof
Aircraft including parts	88 - Aircraft, spacecraft, and parts thereof

Annex B:

This section provides a qualitative assessment of the impacts of signing comprehensive Free Trade Agreements (FTAs).

The evidence shows that FTAs enhance bilateral trade. Head & Mayer²¹ considered the impact across a wide range of studies (with a total of 2,508 estimates obtained from 159 papers) and found that the median impact of a regional trade agreement or FTA on bilateral trade flows to be an increase of 32 per cent.

The impacts will tend to depend on the precise provisions of the FTA, the characteristics of the partners and the existing degree of liberalisation. Several factors affect the scale of trade effects of FTAs including:

- The scale of existing trade flows between country partners within an FTA.
- Specific provisions within the FTA, including how deep and broad its provisions are, how much policy change they inspire and how quickly changes are implemented;
- The responsiveness of aggregate trade flows to reductions in trade costs brought about by the provisions within the FTA.
- The relative importance and direction of trade-related policies falling outside the scope of the FTA; and
- Broader supply-side characteristics of those signing the FTA (i.e. what goods and services they can produce efficiently, and how quickly they are able to shift resources into sectors for which the FTA increases demand and out of those where it reduces demand for domestic output).

The coverage of FTAs has widened over time; reviews of the provisions included in ‘modern’ FTAs show that the majority go beyond the removal of tariff barriers to include provisions which address non-tariff impediments to trade and investment. These non-tariff impediments include issues such as custom procedures, regulation of domestic production which discriminates against foreigners, product standards which differ from international norms (or where testing of products is complex and often exclusionary), regulation of inward investments, competition policy, intellectual property protection and rules surrounding access to government procurement.

The evidence suggests that addressing NTMs to trade is important to maximising the benefits of FTAs²². For example:

- **Deeper agreements lead to larger increases in trade flows.** The evidence suggests that deeper agreements – which address NTMs – lead to greater increases in trade flows than agreements than more shallow agreements (which include less liberalisation in fewer areas).
- **The relative importance of NTMs in relation to tariffs has increased.** In light of the longer-term decline in ‘Most Favourable Nation tariffs’ (tariffs applied to all World Trade Organisation (WTO) members), the relative importance of non-tariff impediments to trade has increased in recent years.
- **Addressing NTMs is central to boosting trade in services.** In addition to boosting goods trade, FTAs which address NTMs, pursue opportunities for regulatory alignment and improve policy certainty have greater scope to increase trade in services. Services trade is particularly important for the UK; the UK is second largest exporter of services in the world and around 35 per cent of total UK trade (exports and imports) were services in 2015²³.
- **Deeper agreements enhance the ability of businesses to benefit from the formation of international supply chains.** There is some evidence to suggest that deep agreements facilitate the development of cross-border production networks for businesses. These maximise the ability

²¹ Head & Mayer (2013) ‘Gravity Equations - Workhorse, toolkit and cookbook’, p33-34, http://www.cepii.fr/pdf_pub/wp/2013/wp2013-27.pdf
Looking specifically at structural gravity models, which refers to using country fixed effects or a ratio-type method.

²² 1) Egger et al. (2015) ‘Non-tariff barriers, integration and the transatlantic economy’. 2) WTO (2011) ‘World Trade Report 2011. The WTO and preferential trade agreements: From co-existence to coherence’, p6-7, https://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report11_e.pdf

²³ Source: ONS UK Balance of Payments, The Pink Book: 2016

of businesses to fragment their production and thereby benefit from international differences in input costs.

Overall, the evidence suggests that FTAs enhance trade flows: the impact on trade flows and benefits for businesses can be greater for agreements which address NTMs and sometimes require changes to domestic legislation.