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By Email

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Dear Jeremy

Thank you for your continued engagement with our free trade agenda and the Trade (Australia and New Zealand) Bill in particular. Your challenge is both welcome and important and I hope that my responses help both answer your questions as well as provide transparency around the process.

First, I want to emphasise the sensitivity I wish to express towards all areas of our agricultural economy. Farming in the UK faces significant challenges and as someone who comes from a farming background I am well aware that liberalisation of trade affects each industry differently and I in no way wish to minimise the effects of trade liberalisation, nor be unaware of the issues it raises. My own department, the DIT has specifically focussed on assisting our international agricultural exports and we remain committed to working harder in this area so that we can take advantage of our new trade arrangements as they develop. I would like to reassure you that I am meeting farming groups to see how I in my investment role can assist further in areas such as agritech and other economic partnerships. I believe these agreements will be positive for our farmers in the long run and will focus fully on ensuring we take advantage of them.

I would also like to specifically answer some of the questions you raised in the debate.

Justification of £10bn worth of contract opportunities statistic

You referenced data from AusTender and used this to argue that the £10bn of legally guaranteed contract opportunities was an overestimate. There are a number of issues with this.

Firstly, AusTender only requires central government bodies to report their contract awards. Therefore, the £46bn (AU$ 81bn) is a significant under-estimate of the true size of Australia's procurement market. Figures from the OECD suggest the total procurement market could be worth around £200bn per annum[1]. As state-level and some wider public sector entities do not have to report through AusTender, the analysis you have undertaken represents a **significant under-estimate** of the potential new market access opportunities that could be secured under an FTA. A prominent example is the UK securing access to Infrastructure NSW under the government of New South Wales which will grant UK suppliers legally guaranteed access to procurements by this entity for the first time.

[1] https://stats.oecd.org/Index.aspx?DataSetCode=GOV

Secondly, your analysis suggesting there were no additional procurement opportunities for the UK to obtain in the FTA above the WTO Agreement on Government Procurement (GPA) (and therefore that the £10bn figure is misleading) suffers from double counting, whereby the overlaps between categories of so-called 'deductions' that the UK cannot access i.e. defence contracts that were won by overseas suppliers, have not been accounted for.

To avoid double counting of the new market access opportunities secured, DIT's estimates were derived for two key categories:

1. The value of procurement by additional new entities offered in the UK-AUS FTA that are not included in previous agreements. This includes all above threshold, covered goods, services and construction procurement undertaken by these entities.
2. The value of procurement of new services offered in the UK-AUS FTA procured by entities already covered in other agreements.

Finally, DIT analysis considers the new, legally guaranteed market access that UK firms will have access to under the FTA. Therefore, it does not consider what proportion of these contracts have historically been won by foreign suppliers.

Please see below a breakdown of values for these distinct categories:

Category	Value (£bn)	Proportion
Value of procurement by new entities	2.5	25%
Value of new services procurement by already covered entities	7.5	75%
Total	10	100%

There are always uncertainties when estimating the value of new opportunities provided in an FTA. However, we are confident that our estimate of £10bn is as accurate as possible, given the data available.

<u>Questions on market access outcomes</u>

You raised questions about the Australian 'set aside' policy for small and medium sized enterprises (SMEs) and the fact that local government coverage below state level was not covered in the FTA.

On SMEs, while Australia retains the right to implement policies in favour of local SMEs, in practice very few states make use of these policies. In addition, the UK-Australia agreement includes a requirement for all such preference schemes to be entirely transparent, so that UK businesses can easily see where it might be beneficial to partner with a local supplier. However, in response to Australia's 'buy local' policies, the UK restricts Australian SMEs who participate in a UK procurement from legally challenging the award of a contract where it goes to a non-Australian SME.

On local government, in our FTA, Australia offers more legally guaranteed market access than it has ever done before to any trading partner. While it is correct Australia did not offer access to local government procurements below state level, the UK took appropriate steps to address this imbalance by holding back access to some of its smaller local authorities. The side letter you referenced is an agreement that should Australia offer another trading partner access to its procurement markets of its local government entities beyond what is in the UK-Australia FTA, then the UK and Australia will enter into consultations with a view to Australia extending this access to the UK in exchange for those local authorities the UK restricted access to.

Differences in thresholds

You raised a suggestion that "unique to the agreement on procurement with Australia, and to satisfy the Australians, we have increased the threshold for procurement" (column 1278). This difference in thresholds is not unique to Australia.

Under the GPA different thresholds between parties for sub-central entities is commonplace. For example, the UK has a threshold of 200,000 Special Drawing Rights (SDRs), as do New Zealand and Japan, while Canada and Australia have a threshold of 355,000 SDRs. The UK wants other countries to match the threshold level that we have, so where a party keeps a higher threshold in the GPA or in an FTA, the UK typically raises the corresponding threshold in response, including in the UK-Australia FTA.

Impact Assessments

You raised the potential impact of the deals on the UK's agriculture sector. As I said, the Government is confident that the UK market will not experience an influx of beef or sheepmeat imports in the near future as a result of these FTAs.

Our Impact Assessments set out our best estimates of the impact of the deals for these sectors. We estimate a reduction in gross output of 3% for the beef sector and 5% for sheepmeat as a result of full liberalisation with Australia in the long run compared to what it otherwise would have been. For New Zealand we estimate a further 1% reduction in the long run in beef output as a result of full liberalisation and no impact to sheepmeat due to New Zealand's underfill of its existing WTO quota offering tariff free access and the existing sanitary agreement. Note that the protections we secured in the FTA endure for fifteen years.

However, it is important to note that modelling cannot completely capture all aspects of a trade deal. The modelling does not capture the impact of safeguards included in the FTA, for example, Tariff Rate Quotas in years 1-10 and additional safeguards in years 11-15, which will help give British farmers time to adapt to any increased imports from both countries.

Australia and New Zealand - Beef and Sheepmeat Exports

I should clarify, following my answer to your intervention at Second Reading regarding quota usage, my reference was in relation to the leading issues of quotas for Australian Beef and New Zealand Lamb. Last year Australia used 18.1% of its Beef WTO TRQ and New Zealand used 43.7% of its sheepmeat TRQ.

We do not expect significant growth of these meats over the next few years. In fact, it is markets in Asia and the Pacific that are the focus for Australia and New Zealand's beef and sheepmeat exports, and fast growth in the region mean this will likely remain the case.

It is also true that any increased beef imports from Australia would likely primarily displace imports from the EU, not produce from our own farmers – the EU was the origin of almost all of our beef imports in 2021 (roughly 233,000 tonnes).

I hope you find this letter helpful. I am copying this letter to Noble Lords who contributed to the debate, and will place a copy in the Library of the House. If any Noble Lords would like to discuss this further with me, I would be happy to do so.

With very best wishes,

Lord Johnson of Lainston CBE
Minister for Investment
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