

## The UK-New Zealand Free Trade Agreement (FTA)

<b>Lead department</b>	Department for International Trade
<b>Summary of proposal</b>	The UK and New Zealand have negotiated an FTA that aims to enhance the UK and New Zealand's trade and investment relationship by removing tariff and non-tariff (including regulatory) barriers to trade.
<b>Submission type</b>	Impact assessment (IA) – 20 December 2021
<b>Implementation date</b>	TBC
<b>Policy stage</b>	Final IA
<b>RPC reference</b>	RPC-DIT-5142(1)
<b>Opinion type</b>	Formal
<b>Date of issue</b>	18 February 2022

**At the time of our review, sections of the agreement were still under negotiation and therefore, both the IA on which we commented, and our comments may not directly reflect the final agreed FTA.**

**The RPC's role in assessing the IA of an FTA is to consider the validity of the analysis underpinning the assessment and its presentation in the IA. The RPC's opinion does not consider the merits of the FTA or the negotiation process.**

**The RPC's fitness for purpose rating is based on the understanding that the Government should aim for the highest standards of evidence and should seek to present an objective analysis of that evidence to inform Parliament and the public of the impacts of the FTA.**

## RPC opinion

Rating <sup>1</sup>	RPC opinion <sup>2</sup>
<p><b>Fit for purpose</b></p>	<p>The IA is well-researched and provides a good assessment of the potential long run impacts of the negotiated UK-New Zealand FTA, utilising widely accepted standard global trade modelling and datasets to estimate the impacts. The IA could be improved by further contextualising the FTA impacts with additional, and where possible, more recent evidence on the historic trade trends and projections used in the baseline for the sectors analysed. It could also deepen the discussion of the impacts on small and medium-sized enterprises (SMEs) in disrupted sectors.</p>

<sup>1</sup> Where the Department requests the RPC to review the impact assessment for an international free trade agreement (FTA), the RPC may issue a "fit for purpose" or "not fit for purpose" rating on the quality and robustness of the analysis and evidence presented in the FTA impact assessment. The RPC's rating in this opinion is based on a checklist developed in conjunction with and agreed by the Department for International Trade (DIT), the Better Regulation Executive (BRE) and the RPC.

This rating is different from the ratings which the RPC issues on Regulatory Impact Assessments (RIAs) prepared by government departments in accordance with [Better Regulation Framework](#) which relate to domestic policy changes. In its opinions on RIAs, the RPC rates the RIAs as "fit for purpose" or "not fit for purpose" based on the quality of the department's (i) analysis and estimate of the equivalent annual net direct cost to business (EANDCB) and (ii) its small and micro business assessment (SaMBA).

<sup>2</sup> Our opinion scrutiny is on the assessment of the post trade negotiation position. Our comments are not related to the quality or outcome of the negotiation.

## RPC summary

Category	Quality*	RPC comments
Rationale and options	Not applicable	Not applicable
Trade modelling and analysis	<b>Good</b>	The IA utilises appropriate standard global trade modelling with the inputs, structural assumptions and limitations presented and discussed clearly. Further descriptive statistics and data trends of trade flows in the sector groupings would better contextualise the FTA impacts.
Uncertainty, risks, and assumptions	<b>Satisfactory</b>	The modelling and analytical assumptions are clearly discussed and set out in the IA and technical annexes. The IA uses sensitivity analysis to test the robustness of the analysis to uncertainty and risks. However, this analysis could be expanded to take account of structural shifts in the UK and global economy, behavioural changes, e.g. in consumption, and capture any risk to the FTA's implementation.
Free trade agreement (FTA) impacts	<b>Satisfactory</b>	The IA provides a detailed assessment of the FTA's potential macroeconomic trade impacts, in aggregate and broken down by sector, region and affected groups.
Wider impacts	<b>Good</b>	The IA extensively analyses the FTA's wider impacts on competition, innovation, intellectual property (IP) rights, digital and trade and the environment. It also assesses the distribution of impacts by e.g. gender and region. Further analyses of the impacts on SMEs, particularly in the agri-food sector, and local economy impacts should be considered.
Monitoring and evaluation	<b>Good</b>	The Department has committed to publish a monitoring report for the FTA every two years and a comprehensive evaluation within five years of its entry into force. The Department should also consider how it will assess and monitor the cumulative impacts of successive trade agreements, particularly as they affect specific UK regions or sectors.

### \* Explanation of quality assessment

**Good** - Addresses the issue well. The analysis is sufficiently robust and addresses the issue properly. The analysis is based on good to high-quality, proportionate evidence and uses appropriate assumptions. It could be improved only in minor areas (if at all) and provides good support for decision-making on these aspects of the assessment.

**Satisfactory** - Addresses the issue adequately. The analysis is considered satisfactory. The analysis is based on adequate, proportionate evidence and uses appropriate assumptions. Some improvements could be made, but it provides sufficient support for decision-making on these aspects of the assessment.

**Weak** - Weak analysis of the issue. The analysis is not sufficiently robust to address the issue. Improvements are required in one or a number of areas. It provides inadequate support for decision-making on these aspects of the assessment.

**Very weak** - Very weak analysis of the issue. The analysis is poor and has significant flaws. Significant improvements are required in one or a number of areas. It provides inadequate support decision-making on these aspects of the assessment.

## Summary of proposal

This FTA is the second new trade deal the UK has negotiated since leaving the EU. It follows the UK-Australia FTA and aims to enhance the trade and investment relationship between the UK and New Zealand by removing or reducing tariffs and non-tariff measures (NTMs) in several sectors and by enhancing mobility opportunities. At present, the UK trades with New Zealand under 'Most Favoured Nations' (MFN) terms.

Similar to the recent UK-Australia FTA, this FTA is also viewed as a stepping-stone to wider opportunities within the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), a free trade area with aggregate gross domestic product (GDP) of £8.4 trillion in 2020. However, the incremental impacts of this FTA on the costs and benefits of joining the CPTPP are not explicitly assessed.

The analysis in the IA is based on a computable general equilibrium (CGE) model to estimate the long-run consequences of the FTA, expressed as percentage changes relative to 2019 levels, using 2014 baseline data. These figures are also expressed in pound (£) values to provide a basis for contextualising the impacts in 2019 prices. The estimates are subject to considerable uncertainty but are intended to indicate the direction and rough magnitude of impacts compared to the counterfactual of continuing to trade under MFN terms. When compared to projected levels of GDP or trade in 2035 without the agreement, the FTA's main impacts (based on central estimates and in 2019 prices) are that:

- UK GDP is expected to increase by £0.8 billion (0.03 per cent).
- UK trade with New Zealand could increase by £1.7 billion (59 per cent).
- UK exports to New Zealand could increase by £0.7 billion and UK imports from New Zealand could increase by £1.0 billion.
- Overall, total UK exports and imports to the rest of the world are expected to increase £0.7 billion and £0.6 billion, respectively.
- UK real incomes are estimated to rise by 0.03 per cent, equivalent to around £200 million annually when applied to 2019 levels.
- On services, the largest contributions to gross value added (GVA) in absolute terms come from wholesale and retail services (+£105 million), public services (+£82 million) and other services (+£82 million).
- On goods, the largest contributions to GVA come from the UK's manufacturers of machinery (+£46 million) and motor vehicles (+£43 million). The largest contractions occur in primary agriculture (-£48 million) and semi-processed foods (-£97 million).
- All regions are expected to gain, with the greatest proportional gains expected in the West Midlands and the North East of England, equivalent to £47 million and £17 million each year, respectively. Wales, Scotland and Northern Ireland combined could see an increase in GVA of around £52 million, though the gains are not evenly distributed and some regions could be harmed by the FTA if multiplier impacts on local economies are particularly strong.

## Trade modelling and analysis

This IA for the UK-New Zealand FTA is similar in structure, methodological approach and analysis as the recently concluded UK-Australia FTA. For further detailed comments on this approach, please refer to our [opinion](#)<sup>3</sup> on the UK-Australia FTA IA. The RPC considers the trade modelling and analysis to be of good quality; the inputs, structural assumptions and limitations are discussed transparently.

### Data and evidence

The IA uses a widely employed Global Trade Analysis Project (GTAP) model and draws on the latest available global comparative trade dataset from 2014. Some adjustments have been made to these baseline data, reflecting tariff and trade policy changes since 2014, including UK's departure from the EU and updates to UK and New Zealand tariff schedules. We encourage the Department to explore opportunities to work with the international trade modelling community to update the models and trade datasets to improve the resolution and robustness of the FTA modelling and analysis.

Although the IA provides headline summary figures of UK trade (exports and imports) in goods and services with New Zealand (figure 2), it would have benefitted from including more descriptive statistics and trend data on trade flows in the 23 sector groupings used in the modelling to outline historic trade trends and projections found in the baseline. This would better contextualise the incremental impacts of the FTA. The IA would be further improved by discussing current and future structural adjustments and changing trade patterns faced by the UK and global economy, to sharpen the identification and draw out the implications of the most critical uncertainties for assessing the FTA's impacts.

### Baseline

The IA assesses the FTA's impacts against a baseline where the UK and New Zealand continue to trade on MFN terms. This baseline includes assumptions about future trade relationships between the UK and EU and current trade agreements that the UK and New Zealand have with other countries, including the recent UK-Australia FTA. The analysis excludes those that are yet to conclude. The RPC considers this to be a suitable baseline.

### Modelling and analysis

The impacts of the FTA are forecast using a CGE model, using widely accepted global trade methodology and datasets. The estimated long run impacts are typically assumed to have developed fully by 2035; they are also assumed to be additional to any other long-term economic changes, which are assumed to affect the FTA and the counterfactual equally and therefore should not alter estimated FTA impacts relative to the counterfactual. The IA highlights the limitations of comparative static CGE modelling for assessing FTA impacts and acknowledges the inherent uncertainties and the model's inability fully to capture dynamic impacts. The academic literature has developed many approaches to modelling the effect of FTAs on trade and national economic outcomes and their indirect and wider impacts. There are a range of views as to the advantages and disadvantages of various combinations of approaches. The Department has established an independent expert modelling review panel to explore and inform ways to improve its modelling toolkit

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<sup>3</sup> The RPC issued and published a [fit for purpose opinion](#) on the UK-Australia FTA IA.

and approach to CGE modelling (page 30). We encourage the Department to continuously review the best available modelling techniques for prospective FTAs. The RPC commends the Department for discussing the modelling limitations and uncertainties transparently and presenting a broad assessment of potential long run impacts including wider impacts.

## Uncertainty, risks, and assumptions

The RPC considers the uncertainties, risks and assumptions to be satisfactorily discussed and transparent.

The IA uses statistical (Monte Carlo) simulation to test the sensitivity of results to uncertainty about some important parameters and input assumptions. However, the simulation set-up is simple, with only two parameters relating to NTMs varied independently. The analytical assumptions are discussed clearly and set out in the IA and technical annexes. The Department should consider improving this analysis further by including scenario analysis to test for uncertainties such as structural shifts in the UK and global economy, behavioural changes such as consumption patterns and capturing any risks arising from the FTA's implementation.

## Free trade agreement (FTA) impacts

### International trade

The IA presents central estimates of the FTA impacts, setting out macroeconomic impacts and breakdowns by sector, region and affected groups. It clearly states that these central point estimates are used to indicate the direction of impacts and approximate magnitude rather than precise forecasts.

The impacts are assessed and presented in the IA separately by region and by sector. The IA would benefit from analysing these impacts together, especially when the IA refers to 'levelling up', since considering these impacts individually could obscure adverse impacts on regional economies. However, the IA does acknowledge that local economic effects could modify or reverse some of the projected impacts. For instance, the North East, West Midlands and Yorkshire and the Humber might gain on balance and Northern Ireland might incur net losses compared to the aggregate picture if local multiplier effects were particularly strong.

### Tariff/NTMs

The IA states that the FTA secures tariff-free trade for all UK exports to New Zealand and that 96.7 per cent of estimated tariff reductions on UK imports from New Zealand will be available as soon as the agreement enters into force. The IA describes how the FTA will substantially reduce tariffs on imports while retaining safeguards for certain products, such as cattle meat, dairy and apples. The technical annex adds detail to the assessment of these provisions, setting out the methodological approach (including gravity modelling) and the limitations affecting its assessment of the value and impacts of tariff reductions. However, the IA should consider the effects and costs of the protections and safeguards being proposed on certain products – including the behavioural responses of firms benefitting from these protections and the impacts on industry structure and performance of those sectors.

## Trade flows

The IA lists exports from developing countries that rely on preferential access to the UK market and are thus at potential risk of trade diversion from preference erosion<sup>4</sup>. It concludes that the risks of trade diversion resulting from the FTA are not substantial. The basis for this conclusion could be made clearer. The RPC welcomes the inclusion of trade flows for goods at risk of trade diversion in the monitoring of the FTA.

Given the recent conclusion of the UK-Australia FTA and the similarities in the comparative trade advantages held by Australia and New Zealand in the agri-food sector, in particular beef and sheepmeat, the IA would benefit from additional analysis on the combined displacement effects on trade and the interaction between FTAs negotiated by the UK.

## Economy and productivity

The IA calculates that 21 out of the 23 aggregated sectors will experience higher growth as they take advantage of the FTA provisions. The overall structure of the economy is assumed to remain broadly unchanged, with a modest reallocation away from agriculture, forestry, and fishing and semi-processed foods towards manufacturing sectors (motor vehicles and machinery and equipment). The sector breakdowns are clearly presented in the IA.

## Agri-food sectors

Without mitigation, the primary, agriculture and semi-processed food sectors are expected to be harmed by the FTA. The IA sets out safeguards for sensitive sectors, noting New Zealand's strong comparative advantage. These safeguards include staging tariff reductions and using transitional Tariff Rate Quotas (TRQs) over several years. The analysis suggests a near-zero marginal decrease in the share of UK GVA for the agri-food industry in the long run, although the IA acknowledges that these results do not take account of the impacts of the staging of tariff reductions and rely on behavioural assumptions on how these would be used.

The IA includes alternative partial equilibrium (PE) analysis to consider the impacts on the beef and sheepmeat sectors. While the findings are not directly comparable to the CGE results and subject to different model limitations, the IA includes PE forecasts showing around 1 per cent reduction in gross output of beef, a small reduction in butter but no reduction in sheepmeat due to existing quotas being underutilised.

## Food standards and animal welfare

The FTA includes a non-regression clause on animal welfare which seeks to ensure that the UK and New Zealand continue to uphold high standards with respect to food standards and animal welfare. This clause seeks to prevent either party from lowering its standards in order to encourage trade. The IA should consider how or whether current standards would be upheld or enforced (e.g. compliance mechanisms and cost, where standards for traded goods differ), the requirements for labelling of New Zealand products in the UK and the implications for UK trade globally. The IA should also recognise the additional constraints

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<sup>4</sup> Preference erosion occurs when preferential tariff rates to the UK market are extended to other countries, reducing the competitive advantage of exporting countries which already benefit from these preferential rates.

on the UK Government's ability to act unilaterally or collaboratively to change standards in the future.

### **Businesses**

The IA presents data suggesting around 1,800 UK businesses imported goods from New Zealand, while over 6,700 UK businesses exported goods to New Zealand in 2020. The IA explores the costs for businesses *voluntarily* choosing to utilise the FTA provisions and estimates potential one-off familiarisation costs to businesses of reading and understanding the FTA to be £3.5 million. The IA uses tariff equivalent trade costs to estimate potential on-going administrative costs to businesses. The IA's central estimate of these costs is £9.8 million per annum, within a range of £6.5 million to £13.0 million. The IA also clarifies that voluntary and other civil society organisations may also benefit from the FTA, although noting organisations can already claim relief on customs duty on foreign goods imported for charitable use.

### **Consumers**

The IA applies economic theory to consider how the FTA provisions could benefit UK consumers through increased consumer choice (due to an increased list of tariff free consumer goods), better quality products, and lower prices for imported goods. The IA summarises that the extent to which businesses or consumers in the UK will benefit from reduction in tariffs will depend on the rate at which lower costs are "passed through" from importing businesses to consumers. The IA could explore further research evidence or use any international comparators as evidence to clarify the impacts of trade on consumer choice and the extent to which cost reductions are passed through.

### **Public sector**

The IA notes that implementation of certain chapters of the FTA may require primary legislation and considers one-off public sector familiarisation costs for customs and government officials needing to read and understand the FTA text; these are expected to be met from existing resources. The IA could discuss the opportunity cost of these burdens.

## **Wider impacts**

### **Competition and innovation**

The IA applies economic theory and provides a qualitative assessment of the competition and innovation impacts. The IA summarises that UK businesses may experience greater competition because of imports from New Zealand. The IA could deepen the analysis of competition to consider the impacts on market share and concentration, and thus on efficiency.

The IA considers the possible reallocation of resources within sectors and points to evidence suggesting that competition may spur innovation and growth. It acknowledges that some businesses (and the employment they generate) may expand, but that others may be adversely affected by increased competition. The IA also highlights ambitious IP rights provisions in the FTA, which are intended to encourage creativity and innovation, but does not quantify their impacts.



## Environment

The IA considers the FTA's environmental impacts and describes its implications for the UK environment, including greenhouse gas (GHG) emissions (CO<sub>2</sub> and non-CO<sub>2</sub>), energy usage, trade-related transport emissions and wider environmental impacts on areas such as air quality, biodiversity and water use/quality. Whilst outlining the limitations of the analysis, the IA provides an indicative assessment that the net impact of the FTA could reduce GHG emissions from UK-based production by around 0.1MtCO<sub>2e</sub>, although this is a negligible change. The IA anticipates an increase in transport-related emissions of between 0.13 and 0.14 MtCO<sub>2e</sub> each year between 2020 and 2035. However, the results do not account for any improvements in emission intensity or decarbonisation. The IA would benefit from setting out the increase in emissions as a proportion of overall UK-based production emissions to determine the significance of the change. The IA would also benefit from including further analysis to determine impacts on New Zealand-based production emissions that can be attributed to induced UK consumption of imports.

## Distributional/equality impacts

The IA considers a range of distributional impacts by sector, region and affected groups. The sensitivity analysis also tests the role of local spending multipliers. These indicate a possible loss in GVA in Northern Ireland, reflecting the concentration of the semi-processed food sector in the region. Given the similarities between these impacts and those of the recent UK-Australia FTA, the IA should consider the combined impact on regional economies.

The IA includes a separate section on trade and gender equality impacts. The IA analyses labour impacts for protected groups by assessing the long run changes in sectoral employment to identify those whom the FTA may disproportionately affect. It highlights that female workers, those from ethnic minority backgrounds and workers under 65 are less represented in sectors where employment is expected to fall relative to the baseline as a result of the FTA.

## Small and medium sized enterprises (SMEs)

The IA considers the FTA's provisions to improve trade facilitation should increase SMEs' propensity to export. Moreover, it notes that the FTA includes a dedicated chapter with commitments and provisions to help SMEs take advantage of the agreement. The analysis suggests that only a few UK SMEs are in adversely affected sectors such as agriculture and semi-processed foods. However, agricultural SMEs contribute over 90 per of the sector's turnover, so further analysis or consideration of any disruptive impacts or risks to SMEs in these sectors should be outlined in the IA.

## Monitoring and evaluation

The RPC considers the monitoring and evaluation (M&E) proposal to be of good quality. For this agreement, the Department has committed to publishing a biennial FTA monitoring report and a comprehensive evaluation within five years of its entry into force.

The RPC welcomes the Department's M&E commitment and considers it critical to understanding the FTA's true long-term effects, including any unintended consequences, filling in any gaps in the evidence with respect to the uncertainties noted in the IA, examining behavioural responses, and to shaping the design of future trade policies and

agreements. However, given the IA estimates long run impacts by comparing outcomes with and without the FTA after 10-15 years, the uncertainties and possibilities of the FTA may not be realised after five years. The Department should consider a continuous evaluation throughout the lifetime of the FTA.

The Department should also consider how it will assess and monitor the cumulative impacts of successive trade agreements, particularly on specific UK regions or sectors most affected.

## Other comments

The RPC commends the Department for establishing a robust methodological approach to the modelling of impacts and presentation of the analytical results. However, it should ensure that this remains proportionate to the size and scale of projected impacts.

### Regulatory Policy Committee

For further information, please contact [regulatoryenquiries@rpc.gov.uk](mailto:regulatoryenquiries@rpc.gov.uk). Follow us on Twitter [@RPC\\_Gov\\_UK](https://twitter.com/RPC_Gov_UK), [LinkedIn](#) or consult our website [www.gov.uk/rpc](http://www.gov.uk/rpc). To keep informed and hear our views on live regulatory issues, subscribe to our [blog](#).