

UK-Australia trade deal

An agreement in principle

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Economics - Global

- ◆ The UK has agreed its first major post-Brexit trade deal
- ◆ The agreement with Australia eliminates tariffs on the bulk of goods trade and tackles barriers to services and digital trade
- ◆ Deal should help to strengthen UK trade linkages with the Asia-Pacific region and pave the way for it to join the CPTPP

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An Australia-style deal

The UK has agreed a trade deal in principle with Australia that aims to tackle tariff and non-tariff barriers across a range of trade areas. Although the full text of the deal has not yet been published, British exporters are set to ultimately benefit from the removal of all Australian tariffs, including on cars and whisky, while Australian businesses will benefit from expanded agricultural market access into the UK. The UK will immediately remove tariffs on Australian wine and phase out duties on Australian beef and lamb exports over 10 years via quotas. However, British farmers will be protected from surges in Australian meat exports for a further five years through the use of safeguards.

Tackling regulations and red tape

Beyond goods trade, the deal will include provisions on the mutual recognition of professional qualifications and regulatory cooperation for financial services. UK investors will benefit from higher investment screening thresholds in Australia while Australians and Brits under the age of 35 will be able to travel and work in each other's markets more freely. Both sides have also agreed to tackle barriers to digital trade, to lock in high domestic protections for workers and to affirm environmental commitments under the Paris Agreement.

Implications of the deal

Overall, the new UK-Australia trade deal has the markings of a modern and comprehensive deal, and liberalisation under the agreement will help to provide new trade opportunities for businesses on both sides. However, the deal is unlikely to shift the economic dial materially. According to earlier UK Government economic modelling, the bilateral agreement could raise UK GDP by up to 0.02% in the long run and Australian GDP by up to 0.06%. However, a key benefit of the deal is that it will provide Australian and British traders with a means of market diversification as they look to build more resilient supply chains in the wake of the pandemic and ongoing trade policy turbulence. The deal will also help to strengthen UK trade linkages with the dynamic Asia-Pacific region and support its bid to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership deal, which Australia is a member of.

Next steps

The two countries will now work to complete outstanding negotiations, finalise the text and complete their domestic ratification procedures. According to Australia, the aim is to conclude the deal by November and have it enter into force in July 2022.

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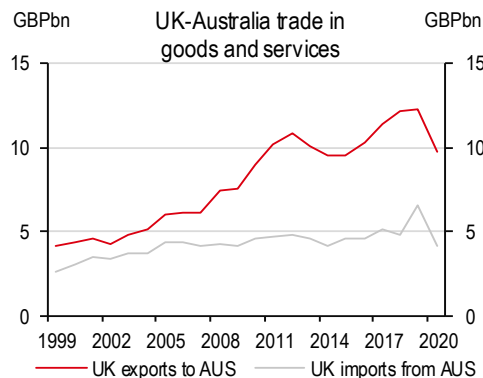
An historic agreement

Summary of the deal

The UK has struck a deal in principle with Australia, less than a year after bilateral trade talks were formally launched. Although the UK has rolled over a number of trade deals that it belonged to as an EU member, this is the first major trade deal agreed by the UK outside the EU. However, the UK and Australia economies still need to finalise some aspects, and the full text of the agreement is yet to be released.

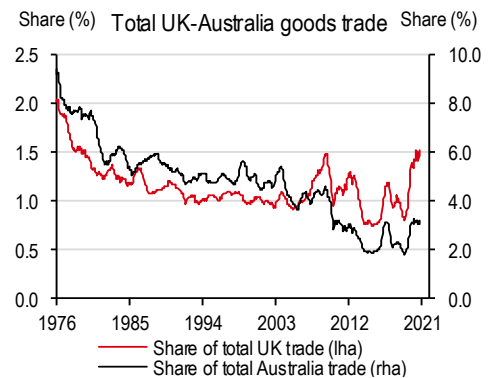
The UK and Australia have enjoyed strong bilateral trade links historically with total two-way goods and services trade valued at GBP14bn in 2020 (Chart 1). However, the relative importance of UK-Australia trade has declined over time, suggesting there is scope for both sides to benefit from broader liberalisation under the new deal (Chart 2). In fact, UK trade with Australia is about four times less than its trade with Ireland.

1. UK-Australia trade remains sizeable...



Source: ONS.

2. ...although relative importance of bilateral trade has declined over time



Source: IMF DOTS, HSBC. Note: Rolling 12 months.

3. UK-Australia trading partner rankings

Trading partner	UK goods and services		Australia goods and services	
	Exports	Imports	Exports	Imports
UK ranking	-	-	5th	6th
Australia ranking	14th	27th	-	-

Source: ONS and ABS. Note: UK data for 2020, Australia data for 2019-20.

What's in the deal?

The UK and Australia reached a trade deal in principle on 15 June 2021. Although market access schedules and precise liberalisation commitments are yet to be finalised, both sides have committed to include provisions in a wide range of trade areas, according to the high-level text of the deal. We summarise the key provisions below:

- ◆ **Goods market access:** Australia will ultimately liberalise tariffs on all UK exports, including the 5% duties on Scotch whisky and cars, while the UK will remove duties on 99% of Australian exports by value. However, there have been concerns that comprehensive liberalisation under the new deal could lead to a surge in Australian meat exports and impact British farmers, who may not be able to compete with the Australians on price.

Notably, the UK will remove beef tariffs after 10 years and Australian exporters will have access to a quota during the transition period. The quota will permit duty-free access for up to 35,000 tonnes of beef immediately with this volume rising to 110,000 tonnes in Year 10. Thereafter, British farmers will be protected by surges in beef imports via a safeguard – which essentially allows a higher tariff to be applied if imports exceed a certain quantity. According to the UK Agriculture and Horticulture Development Board, the UK is about 75% self-sufficient in beef and beef imports from Australia are more likely to be in higher value steaks (AHDB, 17 June 2021).

Similarly, the UK will remove tariffs on lamb after 10 years with Australian exporters benefiting from a duty-free quota of 25,000 tonnes immediately. The quota will rise to 75,000 in Year 10 after which time a safeguard will apply.

In addition:

- The UK will remove tariffs on dairy products over five years with transitional quotas for cheese (48,000 tonnes in year five) and butter (11,500 tonnes in year five).
 - UK sugar tariffs will be removed after eight years with exports subject to a duty-free quota of 80,000 tonnes immediately. The quota will rise by 20,000 tonnes each year.
 - Tariffs on Australian wine and certain rice will be eliminated when the agreement takes effect.
- ◆ **Rules of Origin:** These rules set out the criteria for determining the origin of a product in order to qualify for tariff preferences. Although the specifics are yet to be published, the deal will include a 25% threshold for cars, meaning that just a quarter of inputs for autos exports need to originate in either the UK or Australia.
 - ◆ **Customs and trade facilitation:** The UK and Australia have committed to lowering red tape by ensuring that imports will be released within 48 hours of arrival at customs, simplifying paperwork requirements and releasing expedited shipments and perishable goods within six hours where possible. The final deal will also include a commitment to simplify customs procedures further along with details on making customs procedures easily accessible to traders and a separate instrument on Cooperation and Mutual Administrative Assistance in Customs Matters to strengthen bilateral customs cooperation.
 - ◆ **Animal welfare:** The UK and Australia will affirm their rights to regulate on, and establish their own policies for, the protection of animal welfare. Both sides will also set up an Animal Welfare Working Group to provide a forum for ongoing cooperation in this area and will include provisions around non-derogation from their existing levels of animal welfare protection.
 - ◆ **Product standards:** The deal will include provisions on agricultural and regulatory standards. Notably, imports will still have to meet the same food safety and biosecurity standards as currently, suggesting Australia will not be able to export hormone-treated beef to the UK. Both sides have also agreed provisions on transparency and information

exchange around technical barriers to trade and a process to consider the acceptance of regulations where they are found to be equivalent.

- ◆ **Services:** Although precise details on services market access are yet to be finalised, the deal will include provisions to make it easier to mutually recognise professional qualifications and commitments to enable British and Australian lawyers to provide legal services in each other's markets. Services provisions will follow a "negative list" approach, meaning that all sectors will be liberalised except for those explicitly noted by each economy. The UK and Australia have also agreed commitments to ensure a level playing field for express delivery operators. In addition, both sides will extend any further liberalisation offered to other economies (i.e. in future trade deals) to each other.
- ◆ **Financial services:** This chapter will include commitments on the provision of new financial services and transparency. Both sides will also recognise the importance of allowing financial service suppliers to offshore their back-office functions and avoid the imposition of arbitrary requirements on these functions. The deal will include a regulatory cooperation annex on financial services to further strengthen UK-Australia cooperation in this area.
- ◆ **Telecommunications:** The deal will include commitments around promoting competition and ensuring transparency in the telecommunications sector. Both sides will also promote transparent and reasonable international mobile roaming rates and ensure that retail rates and alternatives to roaming are easily accessible for businesses and consumers.
- ◆ **Movement of people:** Both sides will raise the age limit for young people to travel and work in each other's economies from 30 to 35 and extend the opportunity to stay for up to three years. Australia will also remove the sectoral work requirement for UK nationals in its Working Holiday Maker programme with the change being introduced within five years to monitor any impact on the agriculture sector. In addition, businesses will be able to sponsor visas committed in the trade deal without first having to prove that the job could not be filled locally.
- ◆ **Investment:** The UK and Australia will agree to ban certain quantitative restrictions on investment with some exceptions. The deal will also include a new commitment prohibiting all residency and nationality requirements for senior managers and boards of directors although the precise scope will be subject to consultation outcomes in Australia. In addition, investors on both sides will be protected from unfair or discriminatory treatment, and UK investors will benefit from higher investment screening thresholds in Australia. This means that fewer UK investments will be subject to review in Australia. The agreement does not include an Investor-State Dispute Settlement mechanism.
- ◆ **Digital trade:** The deal will include a commitment to enable cross-border data flows and avoid undue data localisation requirements while ensuring a high standard of data protection. Both sides will also commit to not imposing customs duties on electronic transmissions, to prevent the forced transfer of source code and encryption keys (subject to scrutiny by appropriate authorities) and to cooperate on a range of digital trade issues, including cybersecurity and emerging tech. The UK and Australia will also tackle requirements for paper-based trade documents, commit to accepting electronic contracts and work to establish interoperable electronic invoicing frameworks.
- ◆ **Intellectual property:** The agreement will include provisions on copyright, design rights, patents, trademarks, artists' resale rights and trade secrets. In addition, the UK will be able to put forward geographical indication (GIs) – which are specific protections based on location (e.g. Scotch Whisky) – for potential protection if Australia introduces a bespoke GI scheme for spirits and agri-foods. The GI provisions in the deal will be reviewed if Australia does not introduce such a scheme within two years of the agreement taking effect.

- ◆ **Labour:** Both economies have committed to lock in high domestic protections for workers and encourage good business practices and corporate responsibility. Both sides will affirm obligations as members of the International Labour Organization. The deal will, for the most part, replicate the CPTPP consultation and enforcement provisions on labour.
- ◆ **Environment:** This chapter will affirm commitments made by both economies under multilateral environmental agreements, including the Paris Agreement. Both sides have also committed to cooperate on various areas of environmental protection, including fisheries, biodiversity, combatting illegal logging, and wildlife trade and conservation. Similar to the labour chapter, the deal will largely replicate the CPTPP consultation and enforcement provisions.
- ◆ **Innovation:** This trade deal will include the world's first innovation chapter. This will provide a mechanism for both sides to discuss the impact of innovation on trade, including regulatory approaches, commercialisation of new technologies and supply chain resilience. The UK and Australia will establish a Strategic Innovation Dialogue to discuss these issues.

In addition to these areas, the UK-Australia trade deal will also include provisions on government procurement, competition, state-owned enterprises, trade and gender equality, transparency and anti-corruption as well as a dispute settlement mechanism.

Northern Ireland

However, it remains to be seen what provisions will be included in the deal to maintain the UK's commitments under the UK-EU trade deal and the Brexit Withdrawal Agreement. According to Politico, the UK-Australia trade deal may reduce the frequency of UK border checks on Australian products compared with what is required when they are imported into the EU – raising the risk of Northern Ireland being used as a backdoor into the EU (Politico, 15 June 2021).

Given that tensions between the UK and EU have intensified recently over the implementation of the Northern Ireland Protocol, any further unilateral moves by the UK risk opening it up to legal challenge by the EU and potential retaliation. UK and Australian traders will have more clarity on how trade into Northern Ireland will function under the preferential agreement once the final text of the deal is published.

Implications of the deal

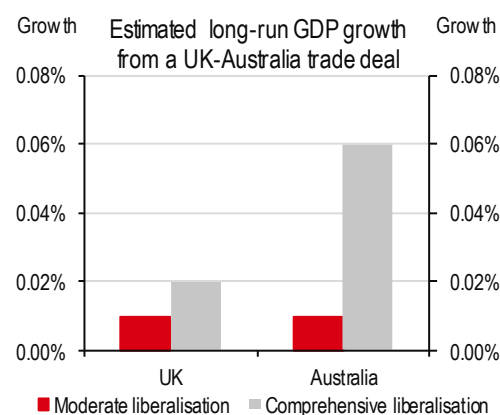
Economic impact

Although the UK-Australia deal has not yet been finalised, the agreement reached in principle appears to have the markings of a modern and comprehensive trade deal. Based on the details already announced, the final deal should provide for deep liberalisation across various sectors. And although both sides already maintain relatively low tariffs and non-tariff barriers on imports from each other, tackling the remaining restrictions could help to open up new trade opportunities for businesses in both economies.

According to earlier modelling by the UK Department for International Trade, a UK-Australia trade deal could boost UK GDP by up to 0.02% in the long run and lift Australian GDP by up to 0.06% (Chart 4). Depending on the degree of liberalisation, UK goods and services exports to Australia could increase by between GBP400m and GBP900m while Australian exports to the UK could grow by GBP4.2bn (Chart 5).¹ By comparison, a UK-US trade deal is estimated to increase UK GDP by 0.16% in the long term and lift US GDP by 0.05%.

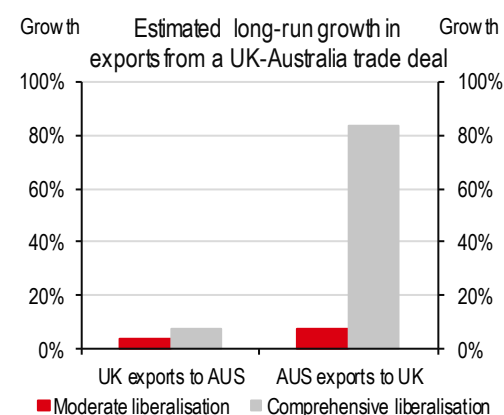
¹ A moderate trade liberalisation scenario assumes substantial tariff liberalisation by the UK, full tariff liberalisation by Australia and a 25% reduction non-tariff barriers affecting goods and services trade. Under a comprehensive liberalisation scenario, it is assumed that both sides remove all tariffs and reduce non-tariff barriers by 50%.

4. A UK-Australia FTA could help lift GDP...



Source: UK Department for International Trade.

5. ...and bilateral exports in the long term



Source: UK Department for International Trade.

Under these modelling scenarios, Australian exports to the UK are expected to increase by more than UK exports to Australia due to relatively higher tariff and non-tariff barriers in the UK that would be reduced under a trade deal (e.g. barriers applied to key Australian exports such as beef and lamb). The share of total UK imports from Australia is also relatively low currently (1% of total) than vice versa (4%), suggesting more scope for growth in Australian exports.

Overall, the new deal is unlikely to move the economic dial considerably for either economy. However, although the estimated economic gains may seem relatively low, a key benefit of trade deals is that they provide a framework to build on in order to facilitate deeper bilateral linkages over time and to keep pace with trade developments. Moreover, reducing residual barriers to trade (e.g. lower tariffs) could benefit smaller businesses in particular.

Lowering trade barriers could also benefit importers of intermediate inputs and consumers. According to UK Government modelling, UK importers of intermediate and capital goods could save between GBP4.9m and GBP6.3m in tariffs per year under a bilateral UK-Australia trade deal while importers of final goods could realise duty savings of up to GBP34m (Table 6).

6. Estimated tariff savings on UK goods imports from Australia, per year

	Moderate liberalisation		Comprehensive liberalisation	
	Lower bound (GBPm)	Upper bound (GBPm)	Lower bound (GBPm)	Upper bound (GBPm)
Intermediate goods	4.9	6.0	5.2	6.3
Final goods	27.1	27.9	33.4	34.3
Total savings	32.0	33.9	38.6	40.6

Source: UK Department for International Trade.

New market opportunities

Under the deal, UK exporters are to benefit from preferential access to over 25m consumers in the world's 13th largest economy, while the UK – as the fifth largest economy in the world – represents a sizeable market for Australian traders. As noted above, UK goods and services exporters stand to benefit from new market access opportunities in Australia, while the concessions under the deal could enable Australian businesses to expand key exports to the UK (e.g. lamb and wine) and grow trade in other areas in which they are specialised.

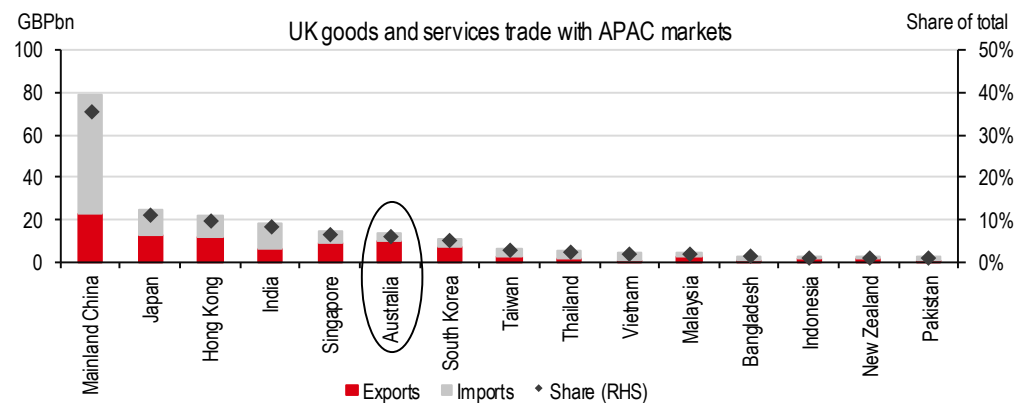
The deal will also provide a means of market diversification for British and Australian traders in the wake of the COVID-19 pandemic and ongoing trade policy turbulence (e.g. related to Australia-mainland China tensions and Brexit uncertainty). Having access to alternative suppliers and buyers could help businesses on both sides mitigate future trade disruptions and build more resilient supply chains.

Depending on how quickly the deal is finalised, UK exporters may also benefit from a first-mover advantage into Australia vis-à-vis the EU, which is also engaged in trade talks with Australia. Similarly, the new agreement could provide Australian businesses with a means of accessing European markets in the absence of an Australia-EU trade deal, provided rules of origin are met.

Link to Asia

In addition, the bilateral deal could help UK traders strengthen linkages with economies further afield. Australia is already an important trading partner for the UK in the Asia-Pacific region, accounting for 6% of total UK goods and services trade with the region. Expanding linkages with Australia could help UK businesses tap into new market opportunities in the burgeoning Asia-Pacific region.

7. The new trade deal should help UK businesses tap into the Asia Pacific region



Source: ONS, HSBC. Note: Data for 2020. Chart shows shares of total UK trade with APAC.

The conclusion of the UK-Australia deal should also help support the UK’s ambition of joining the high-standards CPTPP deal, which Australia is a member of. The UK recently got the green light from CPTPP members to begin the process of joining the bloc.

In addition to its new bilateral agreement with Australia, the UK already has rollover trade agreements in place with seven out of 11 CPTPP members (Canada, Chile, Japan, Mexico, Peru, Singapore and Vietnam), is negotiating a deal with New Zealand and intends to upgrade its accords with Canada and Mexico later this year. The new UK-Australia deal may also provide an indication of what might be included in a future UK-New Zealand trade deal, given that the UK and New Zealand recently agreed to “accelerate” bilateral negotiations.

The UK also recently agreed an Enhanced Trade Partnership with India that aims to pave the way towards a more comprehensive deal although this could take some time, and the UK is negotiating a deal with the US. However, the UK and US have not advanced bilateral negotiations this year, and it is very unlikely that a deal will be finalised before the US Trade Promotion Authority – which enables an agreement to be fast tracked through Congress – expires on 1 July 2021.

Next steps

In terms of the next steps, the UK and Australia will work to conclude outstanding negotiations and finalise the text of the deal before it can be signed. Once finalised, the UK will publish an Explanatory Memorandum and release an impact assessment of the deal, which will be reviewed by the relevant parliamentary committees and the Trade and Agriculture Commission.

The UK Government will also prepare a report on the extent to which the measures in the trade deal are consistent with maintaining UK statutory protections for human, animal or plant life or health, animal welfare and the environment. The deal will then be formally laid before Parliament. The UK Parliament will have 21 days to raise any concerns with the deal although in principle the Government can repeatedly “reset” the 21-day window to get the deal through (House of Commons Library, 11 November 2020). If legislation is required to implement the deal, this will be scrutinised and passed by Parliament in the usual way. In terms of timing, both sides intend to finalise the deal by November 2021 so that it can take effect by July 2022 (CNN, 15 June 2021).

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