UK-ASIA PACIFIC TRADE

CBI Submission to the Department for International Trade's consultations on trade agreements in the Asia Pacific region (CPTPP, Australia, New Zealand)

October 2018

Covering every nation and region of the United Kingdom, the Confederation of British Industry (CBI) is the UK's leading business organization. The CBI speaks on behalf of more than 190,000 businesses of all sizes and sectors, who together employ around one-third of the UK's private sector workers. Our mission is to help business create a more prosperous society.

The CBI welcomes the Department of International Trade's (DIT) consultation inquiries into the future trading relationship with the Asia Pacific region via possible accession to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), and bilateral agreements with Australia and New Zealand, respectively. As DIT, and the UK more broadly, crafts an independent trade strategy, the CBI values the opportunity to contribute substantively to the debate on the nature of our future relationship with the Asia Pacific region.

SUMMARY

The countries of the Asia Pacific region covered by the agreements under consideration represent a collection of both strongly established partners and emerging growth markets for UK business. With over half the countries being members of the Commonwealth, as well as the inclusion of a top 5 export destination in Japan, the UK benefits from both a deep shared history and well-developed commercial ties with the region as a whole. Regardless of their interests being in goods, services or agriculture, CBI members regard the region as a key area for trade growth for many years to come.

Business regards increasing focus on the Asia Pacific region as absolutely necessary for the UK as it leaves the EU. While trade relations here can never replace the trading relationship with the EU, the region represents the high-end growth potential of the global economy and a platform from which to demonstrate the virtues of free trade and collaboration on 21st century business innovation. In developing ties with the Asia Pacific, UK business is looking toward government to use the full suite of multilateral, plurilateral, and bilateral trade policy tools to bring down barriers and open new opportunities. In considering trade agreements with countries in this region, the UK economy will need broad, comprehensive and modern provisions which deliver for the modern means of doing business in an ever-increasing digital and high-value-add niche. CPTPP goes a long way toward achieving this ambition across several core sectors, but further work is needed with business to consider how to

ensure the current text does not prejudice market access with the EU, as well as how to modernise the agreement in future rounds to add more depth to weaker services and business environment chapters.

UK business welcomes continued collaboration with government to develop its trade strategy, and is looking forward to the next stages of consultation toward possible mandates for negotiation once the UK has left the EU.

TRADE POLICY CONTEXT

Fundamentally, free trade is good. It creates jobs, lowers prices, increases consumer choice, and connects people and ideas around the world. For those reasons, international trade will remain at the heart of UK prosperity after leaving the European Union. Moreover, international trade plays a key role not only in the competitiveness of businesses with international operations, but also those who are solely part of the domestic supply chain. Trade gives all businesses access to lower priced goods, better talent and more opportunity to showcase productivity.

As the UK leaves the European Union, many companies are looking to expand their trade focus beyond Europe to capitalise on emerging opportunities and to diversify their risk exposure. While trade with the Asia Pacific region cannot replace current trade with the UK's biggest trading partner, the European Union, it does represent a clear and stable focal point for business development across many sectors.

In seeking to open new opportunities in the Asia Pacific region, CBI members believe all tools of trade policy can play an important role. The challenges of market access, barriers to trade, and an 'unlevel playing field' in the Asia Pacific are complex and multi-layered. While some sectors see immediate gains from reduced tariffs in a trade agreement, most require longer term policy change in areas such as financial services regulation, e-commerce or data flows which may be better suited to bilateral regulatory dialogues (e.g. Economic & Financial Dialogues) or the multilateral system made up of institutions like the World Trade Organisation (WTO), World Customs Organisation (WCO), and Organisation for Economic Co-operation and Development (OECD). From agriculture to pharmaceuticals to tech sectors, CBI members are united in their desire to see the government spend as much time on these non-FTA tools as potential trade agreement negotiations.

While the UK must continue to advance a trade strategy in these areas, business is keen to explore what can be achieved through a plurilateral agreement such as CPTPP, and/or bilateral agreements with Australia and New Zealand. Free trade agreements remain a vital tool in trade policy to further economic cooperation between two or more markets. When relying on and further developing best practice for trade liberalisation, an ambitious and fully comprehensive free trade agreement cannot only cut traditional costs of trade, but also unlock the efficiencies and innovation of 21st Century business – sharing the proceeds of modern trade-driven economic growth for all parties. It is for this reason that the CBI was a vocal advocate in Brussels for diversifying trade policy with the EU negotiations regarding Korea, Canada, Japan, Singapore, and Vietnam. UK business predominantly sees any future bilateral trade negotiations as instrumental in setting UK precedent for all future negotiations not just in terms of established practice but because these policy choices in negotiations often limit what is able to be negotiated in future agreements. For this reason, business is keen to work more closely with government to ensure that emerging trade policy practice on trade agreements is fully conscious of the business trade-offs in negotiation, especially where those trade-offs may be for future potential agreements.

In our work developing this response, the CBI surveyed and consulted members in the United Kingdom and in offices across the Asia Pacific region to understand the UK business perspective on the strength of the UK's position in the region, and the potential risks and benefits of acceding to or negotiating these agreements. As well as visiting business and business federations in Canada, Japan, Vietnam, and Indonesia to understand more about the regional context this year, the CBI will be continuing the conversation across Australia, New Zealand, Singapore, Malaysia and other CPTPP countries in the new year.

TRADE OUTLOOK OF THE UK IN THE ASIA PACIFIC REGION

The 11 existing members of CPTPP accounted for £82 billion of UK trade in 2016, more than France or China. The economies of CPTPP members are diverse, spanning a region which is a driving force of global economic growth, and where potential for UK trade to grow in future is not just likely but essential to UK business strategy in the long term.

At least two thousand UK businesses[1], from FTSE 100 firms to small enterprises, already operate with a physical presence across the 11 countries included within CPTPP, and several thousand more interact with the region as exporters and importers. A recent survey of CBI members found that more than 40% are operating with significant interests in the region, and the majority of these companies are seeking to grow their focus in the region after the UK leaves the EU. Moreover, a further 24% of companies are considering moving into or exporting to a country within CPTPP in the near future.

Decisions on trade and investment operations (and accompanying resource allocation) in the region seem to be often driven by the need to ensure continued resilience and diversification of footprint in supply chains (for goods) and delivery platforms (for services). There are also clear trends showing a link between resource allocation by companies and their respective manufacturing requirements and/or organisational growth capability in a specific market, meaning that operations in the region are very much a long-term iterative strategy rather than a short-term play for new customers. As investors, this positioning should be attractive for the individual markets concerned.

Physical presence is a key feature of doing business in this region, partly due to its distance from the UK and partly due to the unique regional dynamics which require local contextual

[1] International Chambers of Commerce (ICC) chapter collective estimates

understanding to navigate. For this reason, the vast majority of UK trade interests in the region will not focus on moving goods in and out from the UK but rather on 'behind the border' issues of regulatory complexity, issues impacting a competitive level playing field for foreign operators, and problematic local technical barriers to trade. Tariff reductions are positive to a lesser degree for certain sectors (e.g. food and drink), but border costs are usually only a small element of business decision making for countries in this region. The relatively importance of CPTPP to UK companies, therefore, predominantly lies in the non-tariff elements of market liberalisation and common standards.

Key sectors having current success in the CPTPP countries and who are looking to grow opportunities there vary significantly in line with the variety of the countries included in the agreement. To generalise, the CBI has found companies in nearly every sector which are looking to grow with one or more CPTPP countries. The size of the potential opportunity in the market broadly resembles the export makeup of the UK, with significant opportunities across most sectors but an increasing trend toward services. The CBI has had significant approaches from traditional manufacturing, aerospace and defence, engineering and construction, professional consultancy services, ICT and technology systems, energy and natural resources, agrifood and drink, logistical services, banking & financial services, education services, healthcare services, retail and hospitality, creative industries, and pharmaceuticals & chemicals.

AUSTRALIA

As the 13th largest economy in the world, Australia remains an attractive prospect for UK business built on 27 years of unbroken economic growth, an increasingly sophisticated and tech-savvy services market, and continued high average disposable income per head. In 2014, UK companies sold over £11bn worth of goods and services to Australia, increasing by 80% over the previous 5-year period. While trade has slowed slightly since then, Australia remains a core export market – ranking 6th in 2016 after the EU, US, Switzerland, China, and Japan[2].

The Australian economy started 2018 in the same style as UK companies have come to expect, with growth strong enough to increase FDI flows into the country, control key indicators like unemployment rate, while avoiding major inflation pressures. Importantly, approximately one third of this growth is powered by trade. It's no surprise, therefore, that UK business is well established and remains the 2nd largest investor in Australia valued at £50 billion, building a strong base from which to boost trade.

UK companies have been operating in Australia for decades; evidencing a strong economic partnership built on common language, common legal systems, rule of law, and sustained affinity for doing business in a predictable fashion. With current growth rates of UK exports at around 15% in both goods and services, the relationship is a healthy one which encourages more companies to consider it as a destination despite its distance. Already more than one thousand British companies are established in Australia, with many more exporting directly to the market. A recent survey found that approximately 38% of CBI members engaged on trade are already involved in Australia, and a further 22% are strongly considering Australia in their immediate forward trade plans.

[2] UK Balance of Payments, The Pink Book: 2016 – ONS December 2016

Physical presence is a key feature of doing business in this region, partly due to its distance from the UK and partly due to the unique regional dynamics which require local contextual understanding to navigate. For this reason, the majority of UK trade interests in Australia will not focus on moving goods in and out from the UK but rather on 'behind the border' issues of regulatory complexity and problematic local technical barriers to trade. Tariff reductions are positive to a lesser degree for certain sectors (e.g. food and drink), but border costs are usually only a small element of business decision making for countries in this region. The relatively importance of Australia to UK companies, therefore, predominantly lies in the non-tariff elements of market liberalisation and commonly recognised standards.

Recent UK performance is predominantly built on the accompanying strengths of highly innovative and dynamic business environment, as well as the high levels of consumer disposable income. For these reasons, professional services, fintech, higher education partnerships, and digitally-enabled goods and services are sectors driving exciting changes. Interestingly, there also remains significant commonality between Australia and the UK on digital trade, with substantial upticks in online retail sales in both directions for the past five years.

NEW ZEALAND

While only the 53rd largest economy, New Zealand remains a prominent country for UK business because of its common language, legal system, values, and ease of doing business. What is sometimes overlooked is that, while small, New Zealand has had to become globally-minded by default – making its business community highly competitive, highly open, and innovation savvy. While not a natural customer base to target for many sectors, it remains a good place to do business – particularly SMEs – because of the manageable, global-by-default ecosystem. For instance, it has been quietly growing a sizable global tech centre to the point that technology is now New Zealand's third largest export (after agriculture and tourism), accounting for 10 per cent of the nation's total GDP in 2017. With 200 top Kiwi tech companies with $10 billion in sales annually, there is a clear platform for collaboration and continued innovation with likeminded UK companies which remains mostly untapped.

Physical presence is a key feature of doing business in this region, partly due to its distance from the UK and partly due to the unique regional dynamics which require local contextual understanding to navigate. For this reason, the majority of UK trade interests in New Zealand will not focus on moving goods in and out from the UK but rather on 'behind the border' issues of regulatory complexity and problematic local technical barriers to trade. Tariff reductions are positive to a lesser degree for certain sectors (e.g. food and drink), but border costs are usually only a small element of business decision making for countries in this region. The relatively importance of New Zealand to UK companies, therefore, predominantly lies in the non-tariff elements of market liberalisation and commonly recognised standards.

TRADE STRATEGY FOR THE ASIA PACIFIC REGION

Despite the accompanying period of global economic instability and slowdown in world trade flows, the bloc continues to enjoy an average annual GDP growth rate well in excess of 3% year after year[3]. Encompassing 13.4% of global GDP ($13.5 trillion collectively) and a

[3] Focus Economics projections & CBI calculations

marketplace of 500 million people, the countries of CPTPP already represent a substantial centre of economic gravity that the UK cannot ignore.

This collective of countries is remarkable for the UK not only for its stable economic growth, but also because of its demographics. The countries of CPTPP are predominantly rapidly developing emerging economies, made up of growing middle classes, which are increasing their demand for high value-add goods and services for which the UK has a comparative advantage. On areas ranging from advanced electrics to higher education to luxury spirits, the UK brand is both desirable and highly competitive.

Geopolitically, the CPTPP bloc represents a coming together of countries aligned on the merits of free trade during a time when protectionism is on the rise and the case for free trade is increasingly under siege. While not an ostensibly commercial issue, many businesses agree that this potential decision could be an important step for the UK to signal, after leaving the EU, that it intends to remain an open economy. Joining CPTPP would certainly display clear intent that the UK will continue to back the international rules-based trading order, and put to rest some concerns to the contrary expressed by countries like Japan. If nothing else, this has the potential to shore up certain investment relationships and export contracts in the longer term. Making this signal in the Asia Pacific region also has the added benefit of proximity to China. Businesses are considering the potential positive implications of simultaneously fostering ties directly with China while modelling the economic benefits of open economies on their doorstep, following a somewhat similar rationale to the benefits of the UK support for the Asian Infrastructure Investment Bank (AIIB).

Moreover, with the anticipated accession of Thailand and Indonesia in the near future, CPTPP would cover more than half of the ASEAN 'Tigers' and represent the world's biggest trade area of over 800 million people. As the agreement comes into force and attracts more entrants such as these, further profitable opportunities for UK business to expand into the region are almost assured. Additionally, many sectors foresee significant anticipated efficiency gains from undertaking the common standards of the CPTPP text given the expected ever-increasing list of countries with currently complicated business environments aligning to those same standards.

Many UK businesses raise the prospect of whether the UK joining as the third G7 economy will one day encourage the US to re-join the agreement. The addition of the US would be a hugely positive outcome, not just adding the world's largest economy and more than 300 million people to the bloc, but also tying together the interests and basic standards of the majority of the world's traditional proponents of free trade. Many companies agree with the notion that it would be tactically better to be part of CPTPP as an incumbent before any potential accession of the US.

Business experts broadly agree that CPTPP's 29 chapters covering trade in goods, services, government procurement, intellectual property, investment, transparency, and dispute settlement broadly display some of the most progressive liberal trade policy practice on offer. While most companies the CBI has consulted have highlighted the non-tariff measures as the key benefits, it is important to note that there are a few core sectors which move physical goods between markets in the region. These sectors would enjoy tariff and non-tariff changes which specifically impact the border frictions and costs. One concern, however, which bears further consideration is the provisions on Rules of Origin with some companies citing the high content requirement as problematic for accessing preferential treatment for their products. An additional point of attention is that many companies frequently cite the sustainability, labour and environmental chapters as not going far enough in their provisions, and needing to be reformed in further rounds.

The agreement is also unquestionably modern – going beyond the traditional scope with the addition of texts on e-commerce, data restrictions and anti-bribery. These additions are absolutely crucial for UK business, going some way to allay concerns on doing 21st Century business and continuing customer-centric innovation in far-away markets. For instance, adding restrictions on the ability to mandate data localization as well as imposing limits on data transfers are worthy guidelines for countries, like Vietnam, which are still deciding their approach to the data economy. Crucially, it is also designed to be a living agreement which foresees further rounds of negotiation to liberalise key chapters on an even deeper basis and adjust to ensure the agreement stays modern in scope.

The investment chapter of CPTPP shows strong prospects for UK companies which may be able to build in trade opportunities on the back of FDI. Businesses of all sectors support the rules to open the 11 economies to inward investment and provide a range of protections to foreign investors, including minimum standards of treatment, the right to compensation in the event of certain types of expropriations, protection against discrimination, and a dispute mechanism. For emerging economies in the region, these guarantees would be a strong incentive to move focus to the region with reassurance that their investments will be stable.

CPTPP always intended to provide fairly comprehensive liberalisation across goods as well as services and investment. While this is true, particularly relative to other older trade agreements, the text is not a complete solution for all sectors of the economy. Services sectors, in particular, stand to gain only up to a point. Those issues covered, such as financial services, professional and business services, education, transport and logistics services, health, e-commerce and telecommunications, and temporary entry of business people, go far beyond the WTO General Agreement on Trade in Services (GATS) but still fall short of the regulatory mutual recognition or alignment needed to guarantee sustained and ever-increasing market access for services companies. Therefore, companies like those in financial services, are broadly pessimistic about immediate gains in market access afforded by the agreement in much that the same way they are about fairly ambitious trade agreements such as the EU-Canada Comprehensive Economic and Trade Agreement (CETA).

While imperfect, it is also worth noting that a substantial majority of UK business believe it is worth exploring CPTPP further – subject to the negotiation with the EU – not because of direct benefits to their company but because of the strategic positioning it would provide to the UK in the region. For many firms, CPTPP is not a priority agreement for their means of doing business (e.g. banking), but they still warm towards it as a trade policy decision for the reasons of geopolitical strategy and free trade practice. That said, most companies are still watching closely for more indications from the CPTPP countries about how to reduce variance in application of the agreement to make it truly effective in its aspirations for liberalisation – for instance, the degree of practical initiative individual countries will show for changing labour standards given relative current comparative advantage of low cost production. In addition, most companies start from a position where the bilaterals that exist through the EU with countries like Canada, Mexico, Japan, Singapore and Vietnam are already solid trade agreements (particularly reducing non-tariff barriers) which – assuming they are replicated for the UK in their own right – already afford the level of access and assurance that UK companies need. CPTPP sits in this context as a potentially useful addition only for countries not currently covered.

CPTPP as a completed agreement does bring with it certain concerns for UK business, particularly with regard to its impacts on the future relationship with the EU. As presently worded in the agreement, any future regulatory alignment with CPTPP countries on technical barriers to trade (e.g. conformity assessment) or sanitary & phytosanitary measures (e.g. food safety assessment) may lead to relaxation or changes of standards on goods which could be exported into the EU market, and therefore cross over Single Market regulations. In addition, requirements on patent protections would require changes to UK law, with unclear impacts for the protection of UK inventions and significant losses estimated at £20 million per annum from expected expulsion from the European Patent Convention. There are also some concerns from companies about the implications for the protection of Geographical Indicators and the setting of drug prices for the NHS. While the accession process to CPTPP is not fully clear at present, business would expect to see the UK seek to negotiate derogations in a few key texts to ensure the aforementioned areas do not complicate the trading relationship with the EU or the domestic innovation ecosystem which is obviously a core strength of the UK and likely to produce the exports of tomorrow which we cannot envision today.

AUSTRALIA

Australia has taken a wealthy advanced economy that had become increasingly less competitive and dynamic into one of the strongest performing advanced economies in the OECD after a programme of radical structural reform and liberalisation. This experience more than explains its prominence in UK business thinking as previously detailed.

Business can see a trade agreement as both feasible and pragmatic, aligning the interests and values of two free trading nations who have high relative trade complimentarity across sectors. An agreement, using much the same rationale as the UK has used in encouraging an EU deal with Australia, could be beneficial not just to cut nuisance costs of doing business (e.g. customs procedures or tariffs on cargo or spirits), but because the stakes of trade-offs in negotiation are relatively low and because we know Australia exemplifies some of the best free trade practice in the world. A notable exception to this rationale is agriculture, where Australia may have significant asks (particularly on meat and dairy) and the UK has not yet decided how far it is willing to liberalise this sector without threatening its sustainability. An agreement could also begin, solidify or catalyse new Australia-UK partnerships in core sectors of innovation – particularly defence (e.g. cyber), technology, higher education, e-commerce and professional services (e.g. Fintech) – though a trade agreement is not strictly necessary for this to happen.

On services, there is some scope to reduce certain non-tariff barriers and create better treatment of UK companies in Australia but these are niche given Australia's relative openness and affinity toward UK business. What is possible in terms of opening new access becomes a regulatory question more dependent on our negotiation with the EU (and potential negotiation with the US). This has the potential to both stall negotiations and frustrate the Australian side, leading to only minor changes in market access for services. UK business would want to support both sides to push past traditional debates on regulatory hurdles toward mutual recognition, forging ahead with developing trade agreement practice on services-related chapters as well as new comprehensive provisions for common practice on modern considerations like digital trade and data flows. Many companies have cited the crucial potential of ensuring trade agreement practice more deliberately aligns to international trade frameworks (e.g. customs declaration rulebooks), integrating new liberalisations by actively using existing multilateral terminology, definitions and methodologies rather than re-inventing a bespoke bilateral view.

FDI is relatively significant between the UK and Australia – 1.7% of UK assets and 1.1% liabilities. More could be done to expand investment in core services (e.g. pilot training), but by and large an investment chapter is not expected to provide significant change for UK business because of the strong legal protections afforded by the Australian legal system.

UK business would expect to see a deal on visas, to the benefit of both economies. CBI members are clear that the movement of people is absolutely fundamental to imports, exports and investment, regardless of sector. It is not possible to reap all the benefits of being an open free-trading economy without the movement of skilled people working on everything from agrifood to advanced tech manufacturing to architectural services. Whether a new route for trade related migration, or reform of the current sponsored visa system, an agreement with Australia must focus minds in both DIT and the Home Office to ensure that it is easier to get Australian nationals into the UK. Change in this regard is long overdue already, with the UK currently losing various important Australian business ventures to the US in recent years solely due to visa restrictions on highly qualified Australians.

Australia also presents a potential platform for some types of UK business to access the Chinese market because of the China-Australia Free Trade Agreement (ChAFTA). As most UK companies manufacturing goods for Australia (and the wider region) do so with a physical manufacturing presence in the country, there is room to consider getting these operations (and operations of UK companies looking to move into the region) to qualify for the terms of ChAFTA. This would allow British products wholly or in part manufactured in Australia to be exempt from custom duties, cutting significant costs of exporting certain goods into China. However, to engage ChAFTA in any meaningful way, UK companies would have to make significant investment in moving production to Australia if not already there, and in aligning to the standards of the Australian system, which are not suitable cost-effective business models for the bulk of firms. It remains a niche strategy for competitiveness for some firms to consider in their long-term calculations. One example where a country has managed to meaningfully align with ChAFTA is Germany, as many German agricultural equipment manufacturers currently use ChAFTA in Australia – choosing to assemble in Australia because the net benefit of reduced tariff costs on finished products being counted as 'Australian' outweighs the costs of moving production from a model where products are wholly finished in Germany.

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Business can see a trade agreement as both feasible and pragmatic, aligning the interests and values of two free trading nations who have high relative trade complimentarity across sectors. An agreement, using much the same rationale as the UK has used in encouraging an EU deal with New Zealand, could be beneficial not just to cut nuisance costs of doing business (e.g. customs procedures or rules on transport of wine), but because the stakes of trade-offs in negotiation are relatively low and because we know New Zealand exemplifies some of the best free trade practice in the world. A notable exception to this rationale is agriculture, where New Zealand may have significant asks (particularly on meat and dairy) and the UK has not yet decided how far it is willing to liberalise this sector without threatening its sustainability.

Nonetheless, business widely acknowledges that New Zealand represents a friendly country with which to begin the UK learning process of fresh trade negotiation within government and civil society – expecting some mistakes and setbacks through the process with the assurance that New Zealand is unlikely to inflict substantial damage to our interests.

On services, there is some scope to reduce certain non-tariff barriers and create better treatment of UK companies in New Zealand but these are niche given New Zealand's relative openness and less complex services ecosystem. UK business would want to support both sides to push past traditional debates on regulatory hurdles toward mutual recognition, forging ahead with developing trade agreement practice on services-related chapters as well as new comprehensive provisions for common practice on modern considerations like digital trade and data flows. Many companies have sighted the potential of ensuring trade agreement practice more deliberately aligns to international trade frameworks (e.g. customs declaration rulebooks), integrating new liberalisations by actively using existing multilateral terminology, definitions and methodologies rather than re-inventing a bespoke bilateral view.

UK business would expect to see a deal on visas, to the benefit of both economies. CBI members are clear that the movement of people is absolutely fundamental to imports, exports and investment, regardless of sector. It is not possible to reap all the benefits of being an open free-trading economy without the movement of skilled people working on everything from agrifood to advanced tech manufacturing to architectural services. Whether a new route for trade related migration, or reform of the current sponsored visa system, an agreement with New Zealand must focus minds in both DIT and the Home Office to ensure that it is easier to get New Zealand nationals into the UK. Change in this regard is long overdue already, with the UK currently losing various important New Zealand business ventures to the US in recent years solely due to visa restrictions on highly qualified Kiwis.

BREXIT TRADE CONSIDERATIONS

CBI members remain certain that their first priority is the future relationship with the EU, the UK's largest export destination. As 45% of UK exports are currently destined for the EU, the terms of an extensive trade deal with the EU must take precedence in UK trade policy to ensure continuity of economic growth. Given the IMF's conclusion that 90% of global economic growth will eventually come from outside the EU, it is prudent to start pursing the opportunities that exist there – but only where it is possible to do so without jeopardising current economic growth in the intervening period.

Until a solution can be found to secure continued and frictionless trade with our closest trade partner, all parallel trade agreement ambitions must be carefully scrutinised to ensure avoidance of any unintended knock-on impacts to EU market access. Deviating from Single Market access conditions in order to pursue regulatory alignment in other markets would risk breaking down heavily integrated European supply chains and cut off UK firms from the customer base and economic partnerships which have cut costs, driven innovation, and shaped the comparative advantage of the current UK market.

The primacy of finding continuity of the EU trading relationship is no clearer than on the island of Ireland. The unique geography and market structure of Northern Ireland has led to a large dependence on markets, supply chains and exchange routes throughout the EU and especially, in the Republic of Ireland. Here, the clear majority of exports are destined for the EU, and as 93% of these traders are small businesses with limited capability to face increased trade frictions and changes to their business model, the future of this trading relationship is fundamental to their survival. Any changes which lead to a customs or regulatory trade border with the Republic of Ireland, or potential loss of access to the Single Market in sectors like agriculture, are sure to cost the Northern Ireland economy greatly.

Current uncertainty in our future relationship with the EU impacts the ability of business to definitively determine the boundaries of the negotiating spectrum when negotiating with third countries. Businesses across all sectors remain cautious about suggesting specific avenues for negotiation as long as there is a lack of clarity on the terms the EU will expect for access to the Single Market. The government must, therefore, continue to focus its efforts on delivering a quick and comprehensive resolution to the future economic agreement with the EU. Such clarity will afford businesses and negotiators the necessary information to then drive forward a bold and ambitious international trade strategy with pace and enthusiasm.

In addition, UK business remains focused on the importance of replicating the free trade agreements enjoyed as a member of the EU. For both key export and import sectors, it is essential for continuity of trade and existing business models that all trade preferential agreements will apply de facto or as new bilateral agreements once the UK leaves the EU. The CBI appreciates DIT's work to ensure this continuity with an intention to replicate the terms of these agreements for any potential 'implementation period' and as standalone bilateral agreements after such time. However, business is realistic in considering the possibility that not every agreement will apply for the implementation period, or be ready as standalone UK agreements after this period, or completed as a full set of bilaterals in time for a no-deal scenario in March 2019. In such scenarios where DIT must divide its capacity, UK business is wholly in favour of prioritising focus on these existing EU agreements in advance of any UK trade agreements with new countries.

NEXT STEPS

After consideration of the consultation responses, business is looking to DIT to set out a roadmap with clear milestones for development of the UK's trade strategy, with respect to these potential negotiations and the wider remit of trade policy tools as previously noted. CBI members are keen to support DIT in constructing this strategy, but require more clarity on the government's anticipated processes for continued consultation, engagement and development of negotiating mandates.

The CBI has appreciated taking part in the department's stakeholder engagement programme to date. Across the department there is an understanding that consultation on trade policy cannot take place solely using conventional means of consultation documents, calls for evidence and a small series of meetings.

Business continues to support the departmental ambition to find new means of engaging across government departments, Parliament, regional authorities, business, wider civil society and the public. Central to this will be ensuring the needs and economic ambitions of the devolved administrations are fully supported. Each nation of the UK has different economic strengths and weaknesses which future trade policy must take into account. To be truly inclusive, the formulation of trade policy must be conducted as part of a 'whole UK' effort with in-depth consultation of and collaboration with devolved institutions, regional authorities, and sector associations.

Building transparency in the process of formulating trade policy is core to business interests, and will be key to ensuring its legitimacy with the public and ultimately, ratification through our democratic structures. We look forward to continued discussions with Government about new and innovate means of opening forums for information transfer and dialogue on policy choices as the UK sets about developing a national trade strategy.

However, transparency and inclusivity are not the only goals of stakeholder engagement. To augment the capacity of the Department for International Trade, it is imperative that the department now take urgent action to create an engagement structure to draw in trade expertise from across business and wider civil society. Following the example of great trading nations like the United States or Australia, the UK will need a bespoke and formalised architecture that regularly convenes the nation's experts on specific areas of trade policy, sector dynamics, and overseas market access issues, to support the work of officials.

The experience of our trading partners in crafting trade policy is that the best outcomes are those which are informed by the expertise from people actually engaged in trade. Given the myriad of complex policy choices which face the government in both bilateral and multilateral negotiations, it is pivotal that business intelligence be integrated into the detail of the strategy development process as soon as possible. Failure to act on this issue now risks a situation where Government will take policy decisions without the benefit of vital commercial knowledge on the risks and opportunities that exist across every unique component of our economy.

The CBI and its members have already submitted a number of ideas on this issue and stand ready to work with the department (and wider civil society) to create a trade expert engagement architecture to support the work of officials. The CBI is seeking further discussion on development of this framework before any advances on trade negotiations are made.

Key conclusions

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