



Federation of Small Businesses

Consultation response - UK-Australia Free Trade Agreement Consultation by the Economy, Trade and Rural Affairs Committee

Who we are

FSB Wales is the authoritative voice of businesses in Wales, thousands of members from every part of Wales and across the UK. FSB campaigns for a better social, political, and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

FSB welcomes the opportunity to respond to the Committee's call for views. Free Trade Agreements are a powerful means of removing barriers to international trade for small businesses, and FSB has long championed the inclusion of provisions that will help small firms understand and take advantage of the opportunities that FTAs create. In particular, FSB supports the inclusion of SME-specific provisions, as well as trade facilitation provisions and measures to promote digital trade. FSB is therefore pleased that the final UK-Australia includes a dedicated SME chapter, as well as commitments on mobility, digital trade, and measures to tackle non-tariff barriers for goods.

- **How will this Agreement impact you, your business or your organisation?**

In general, FSB welcomes the FTA reached between the UK and Australia and believes that a trade deal between the two countries will deliver tremendous benefits for smaller firms that both already trade with Australia or are considering doing so. According to FSB research, around 40 per cent of UK small firms who trade

internationally do so already with Australia, while 31 per cent of FSB members engaged in international trade indicated that Australia will be important for their exporting ambitions over the next three years.

The success of the FTA will ultimately depend on its implementation and enforcement. FSB would have liked to see included in the FTA provision for an SME committee, which would ensure adequate representation of SME interests in the implementation of the deal. Issues arising for particular sectors or economic geographical areas with specific needs and challenges within specific FTAs may also be dealt with in this way. It is also important that there is buy in to an approach across all devolved nations and UK Government and so a 'four nations' collegiate approach should be taken as appropriate.

Overall, the FTA has the potential to make an important difference to UK SMEs that trade or are considering trading with Australia. FSB would encourage both the UK and Australia governments to move forward quickly with the implementation of arrangements that will facilitate bilateral trade in areas such as the mutual recognition of professional qualifications or conformity assessment.

Given the current issues affecting trade in general – [stats] – it is important that FTAs are implemented quickly to allow for an increase in trade in new areas, and to ensure that SMEs are confident in their ability to trade globally and build their business for growth.

- **What is the likely impact of the agreement on the economy and specific sectors in Wales?**

Tariff and non-tariff barriers are both crucial factors considered by small businesses when deciding where to export to or import from. Previous FSB research has found that nearly one in three small businesses (29%) say that tariffs play a key role in where small business exporters trade while more than half of small firms stated that non-tariff barriers play a role in where they choose to export (53%) or import (59%).

- FSB therefore welcomes the commitments made in the FTA that will tackle these barriers, particularly with regard to trade facilitation, digital trade, technical barriers to trade and mobility.

Trade facilitation

Small businesses often do not have the necessary resources or expertise to comply with complicated customs procedures. However, they are highly dependent on moving goods across borders quickly, especially those who are part of a 'just in time' supply chain or business model.

The FTA contains several welcome trade facilitation provisions, such as Article 5.15 which states that each party shall endeavour to develop or maintain a single window arrangement that will allow businesses to submit customs information through a single electronic entry point.

FSB supports the work currently being undertaken by the Government to explore possible design choices for a UK Single Trade Window and has engaged with the Cabinet Office Border Protocol Delivery Group to provide a small business perspective.

Digital trade

FSB welcomes commitments in the FTA to promote the acceptance of electronic trade documents, electronic contracts, and e-signatures and to ensure the interoperability of electronic invoicing systems.

Facilitating paperless trade will generate enormous benefits for smaller firms trading internationally. According to research from the International Chamber of Commerce (ICC), moving to a fully digital system at a global level could generate £25 billion in new economic growth by 2024 and significantly increase business efficiency for SMEs.¹

Data localisation requirements can generate significant costs associated with setting up servers or storing data and can limit small firms' access to cost effective cloud computing systems. FSB therefore welcomed commitments to remove unjustified data localisation requirements.

Technical barriers to trade

The FTA commits both parties to working cooperatively to increase acceptance of equivalent technical regulations. FSB welcomes the inclusion of provisions on the exchanging of information and increasing the harmonisation of technical regulations, standards, and conformity assessment procedures.

FSB would encourage both parties to identify suitable technical regulations and processes and to agree mutual recognition agreements quickly, as Mutual Recognition Agreements can remove significant costs and barriers for smaller firms.

Mobility

As with the UK-EU Trade and Cooperation Agreement, the UK-Australia FTA encourages professional bodies and regulators to establish and maintain sectoral Mutual Recognition Agreements. This model has the potential to deliver significant benefits to professional service providers – and particularly the self-employed – but it will rely on the ambition and speed of the respective professional organisations and regulators. FSB encourages the relevant bodies in both parties, with the support of the Professional Services Working Group established by the FTA, to work quickly to implement these provisions for maximum benefit.

Many self-employed small business owners delivering Mode 4 services fall into the category of independent professionals or contractual service providers. While FSB welcomes the inclusion of commitments around the temporary entry for business persons, we are concerned that in some cases these provisions are restrictive – for

¹ Creating a Modern Digital Trade Ecosystem: The economic case to reform UK law and align to the UNCITRAL Model Law on Electronic Transferable Records; United Kingdom International Chamber of Commerce; 2021.

example, those wishing to make use of the market access granted to contractual service supplies, must in some cases possess at least six years' professional experiences in addition to a university degree or equivalent qualification, as well as the relevant professional qualifications required under Australian law.

FSB welcomes the parties' commitments in relation to their Youth Mobility Schemes (YMS), which will be made available to nationals no older than 35 for a total stay of up to 3 years, without having to undertake specified work including agricultural labour. FSB has identified YMS youth mobility schemes with selected other countries, including Australia, as an important part of our future immigration system. FSB welcomes extending the upper age limit of the YMS to 35, as called for in the 2020 report *A World of Talent*.² More widely, the Youth Mobility Scheme should be extended to EU countries and should not include annual quotas.

Wales and export

Of the £16.5bn exports of goods during the 2017-18 financial year, 70% could be identified with large firms, leaving £5bn as unidentified. Some of this will be large firm exporters that have not been located, but SME exporters will account for a proportion, with the majority more likely to be from medium as opposed to micro or small firms.

SMEs based in Wales that only have domestic customers grow at 8%, compared to 20% for those that export abroad. 40% of businesses that export are start-ups or new firms and so it is an area that can be developed dynamically and quickly with new entrants, who are also likely to help Welsh economic growth.

20% of Welsh SMEs state that concerns about cash flow or lack of working capital limit the extent to which their business exports internationally. Given Wales's reliance on exports on large companies, and the untapped potential of exports for SME growth in Wales, an SME chapter and focus on all trade deals has potentially more relative benefits to Wales than elsewhere.

The Economic Intelligence Wales Quarterly Report in November 2021 illustrated that total exports of goods recorded a positive quarterly change, driven almost entirely by increasing exports to EU countries. According to the Welsh international goods trade data, the value of goods exported from Wales was £13.5 billion for the year June 2021, a fall of 13% compared with the year ending June 2020. During the year to June 2021, there was a decrease of almost 12% in the value of exports from Wales to the EU and an almost 15% decrease in non-EU exports.

In 2020, FSB Wales highlighted the significant knowledge gap about support available:

- Less than one quarter of exporting SMEs had sought export advice.

² FSB, *A World of Talent* (2020), p. 12 (available at <https://www.fsb.org.uk/resource-report/a-world-of-talent.html>)

- Over 85% of SMEs that currently exported did not use any specific export finance products, such as the UK export finance guarantee.
- Of SMEs not currently using export finance, around 30% were interested in export finance products, including working capital loans, bond support for overseas contracts, insurances/guarantees to cover non-payment risks and foreign exchange support to guard against currency fluctuations.

BEIS' Longitudinal Small Business Survey estimated that Wales had the lowest proportion of exporting SMEs across the UK's devolved nations in 2019, with 13% exporting goods or services, compared to a UK average of 20%. The breakdowns show that SMEs in Wales exported a similar proportion of goods, but exported a much smaller proportion of services when compared against the average SME in the UK.

SMEs are not fulfilling their export potential, due to several barriers. In 2019, it was estimated that 19% of SMEs believed they could export but opted not to. While this data was collected ahead of the recent unprecedented challenges – notably the pandemic and supply chain disruption – this sentiment is indicative of the unlocked potential that should focus the minds and efforts of decision-makers, as we hopefully shift to a phase of economic recovery.

The 'Longitudinal Small Business Survey: SME Employers 2020' indicated that the UK exit from the EU was mentioned as an obstacle to growth by 23% of UK SME employers.

The BICS survey for the period between 9 and 22 August 2021 showed that around 7% of responding Welsh firms had made changes to their supply chains during the Brexit transition period, with almost 57% deciding to use more UK suppliers. The new UK-EU trade agreement was the main cause for these changes for half of the responding Welsh businesses. More than six in ten responding Welsh businesses faced extra costs because of the end of the EU transition period (being above the UK average that was 56%).

According to Economic Intelligence Wales report on 'Export Finance in Wales' of February 2019, barriers to SMEs increasing overseas trade included:

- transportation costs
- the levels of overseas competition
- poor knowledge of overseas markets
- foreign exchange risk
- lack of finance to help with exporting.

The UK Government's recent commitments in this space – particularly in relation to addressing FSB's concerns around SME's lack of expertise in overseas markets – are to be welcomed. The Welsh Government is also engaged in business export support activity, notably through its Business Wales service. I would welcome assurances that the UK and Welsh Governments are working constructively together on these issues, in the interests of Welsh SMEs.

The role of FTAs in providing new opportunities and balancing for possible loss of other markets in the last few years is important and raising SMEs in Wales's awareness of these opportunities and building capacity to take advantage of them will be key in any economic strategy. Ensuring read across from these FTAs and business support and sharing information is key to making use of their potential for growing SMEs through internationalising SMEs in Wales.

- **What are the likely impacts of the Agreement's provisions on trade in agricultural products on the agricultural and food sector in Wales?**

The UK and the Welsh governments have noted the possibility that the deal could have a detrimental effect on the agricultural and food sector, and there is a need to ensure that it does not impact on standards and the vital role food products have in Wales in terms of economy, local food systems, and in terms of their importance to the Wales brand, which then has indirect impact (for example) on the wider tourism and hospitality sector. It is important that a domestic food strategy mitigates where possible any possible impact on this vital industry, and looks to promotion of local products throughout its strategy.

Any detrimental impact on agriculture and agricultural businesses would likely be felt within the supply chains of SMEs which depend upon and service that sector, which would be a matter of concern.

- **What support will your business or organisation need from the Welsh and UK governments to respond to and prepare for the implementation of the Agreement?**

As noted, the inclusion of an SME chapter in all FTAs is important to address SME needs, and provides the framework for business support aimed at internationalising SMEs in Wales. How it is implemented and the framework to ensure that there is a 'think small first' to building businesses towards export will be key to success. FSB Wales have outlined an approach, including an arm's length regional development body 'International Wales' to ensure a coordinated approach across governments and in engaging Welsh business on opportunities and support to move to export.³

³ FSB Wales Policy Paper, 'Internationalising Welsh Business' (FSB:2020) <https://www.fsb.org.uk/resources-page/final-internationalising-welsh-businesses---trade--investment-and-export-pdf.html>