

International Agreements: Implications for Wales

Agreements considered on 18 March 2019

March 2019

Summary

The External Affairs and Additional Legislation Committee has adopted a procedure for considering the implications for Wales of international agreements signed by the UK Government.

Our focus is on identifying where agreements engage or affect areas of policy for which the Assembly and Welsh Ministers are responsible.

Where this is the case, we consider whether the agreement needs to be drawn to the attention of the Assembly as a whole, through a report, or simply noted in committee papers.

On 18 March 2019, we considered seven agreements. Of those seven, we agreed to report on three as listed below.



Introduction

1. On 18 March 2019, we considered seven international agreements that have been signed recently by the UK Government.

2. The agreements we considered were:

- UK-Switzerland Trade Agreement
- Palestine trade agreement
- Israel trade agreement
- 1994 Agreement on Government Procurement
- Revised Agreement on Government Procurement
- Mutual recognition agreement between the UK and the US
- Agreement between the US and the UK on the mutual recognition of certificates of conformity for marine equipment

3. We agreed to report on three of the agreements considered, to highlight concerns that have been raised around consultation with the devolved governments.

4. They are the:

- UK-Switzerland Trade Agreement
- Palestine trade agreement
- Israel trade agreement

1. UK-Switzerland Trade Agreement

Background

1. The UK-Switzerland Trade Agreement is a **trade continuity agreement**.
2. The text of the agreement and associated explanatory materials published by the UK Government are [available online](#).
3. The agreement was laid before Parliament on 20 February and the CRAG Act 21-day period ends on 27 March 2019.

Legal assessment

Does the agreement engage the Assembly's competence?
Yes, the agreement engages the Assembly's competence.

Policy assessment

Are there policy implications for Wales?
Yes, as detailed under this section.

4. The UK's current trading arrangements (as part of the EU) with Switzerland are complex. There is no single comprehensive trade agreement between the EU and Switzerland but a series of smaller agreements that have been built up over 47 years. Insofar as these agreements concern trade, they focus on trade in goods, whilst also addressing some other areas such as government procurement. There is no comprehensive agreement on trade in services to replicate. The trade in goods covered by the agreements covers a number of agreements in relation to trade in goods generally; agriculture and fisheries; mutual recognition arrangements; procurement; anti-fraud; customs security; and rules of origin. These agreements have been combined using an umbrella instrument.

Trade between the UK and Switzerland

5. Total trade in goods and services between the UK and Switzerland was £32.1 billion in 2017, 2.5% of UK total trade, making it the UK's 10th largest trading

partner. The UK exported £20.2 billion of goods and services to Switzerland in 2017, while it imported £11.9 billion from Switzerland.

6. The main exports of goods and services from the UK to Switzerland in 2017 were:

- Precious stones and metals - £10.7 billion;
- Other business services (legal, accounting, management consulting) - £6.5 billion;
- Financial services - £2 billion;
- Travel services - £1.2 billion; and
- Works of art, collectors pieces and antiques - £1.1 billion

7. The main imports of goods and services by the UK from Switzerland in 2017 were:

- Precious stones and metals - £4.2 billion;
- Pharmaceutical products - £3.3 billion;
- Other business services (legal, accounting, management consulting) - £1.1 billion;
- Travel services - £777 million; and
- Clocks, watches and parts - £750 million

8. In 2017 trade in goods between Wales and Switzerland was £281 million, 0.8% of total Welsh trade in goods. Wales exported £159 million worth of goods to Switzerland in 2017, **with Switzerland being Wales' 18th largest export destination for goods**. Wales imported £122 million worth of goods from Switzerland. The main exports of goods from Wales to Switzerland in 2017 were:

- Medicinal and pharmaceutical products - £83.8 million;
- Power generating machinery and equipment - £19.3 million;
- Office machines and automated data processing machines - £7.4 million;
- Electrical machinery and appliances - £5.2 million; and

- General industrial machinery and equipment and plant machinery - £4.8 million

9. The main imports of goods to Wales from Switzerland in 2017 were:

- Medicinal and pharmaceutical products - £51.2 million;
- Organic chemicals - £15.7 million;
- Other transport equipment (luggage trucks, sledges, handcarts, shopping carts) - £14.1 million;
- Power generating machinery and equipment - £9.6 million; and
- Professional and scientific instruments and apparatus - £4.1 million

10. The latest data available on Welsh service exports to Switzerland is **from 2015** – with data on imports of services not being available. In 2015 Wales exported £67 million worth of services to Switzerland, 4.1% of total Welsh services exports, **making it Wales’ 5th largest export destination for services**. Wales’ main service exports to Switzerland were manufacturing services (£31 million) and information and communication services (£21 million).

How the UK-Switzerland agreement compares to the EU-Switzerland agreement

Price compensation mechanism

11. Protocol 2 of the Incorporated EU-Switzerland Free Trade Agreement **includes a Price Compensation Mechanism which allows parties to apply duties on certain processed agricultural products** that compensate for different price levels of certain raw materials included in the processed products. This Price Compensation Mechanism has been adapted in order to make the mechanism operable in a UK - Switzerland bilateral context. The agreed mechanism ensures that Switzerland, when using this mechanism, would not impose higher duties on UK products than it imposes on imports from the EU. Similarly, in the event the mechanism was used by the UK, the UK would not impose higher duties on imports from Switzerland than those imposed by the EU on imports from Switzerland. This is a technical change that provides for continuity of effect.

Rules of origin

12. Protocol 3 of the EU-Switzerland Free Trade Agreement **addresses rules of origin**. It has been agreed in the UK-Switzerland Trade Agreement that EU

materials can be cumulated in the UK's and Switzerland's exports to one another. Furthermore, EU processing can be cumulated in UK exports to Switzerland. **Unless and until a preferential trade agreement between the UK and the EU is applicable, these cumulation arrangements will continue for an interim period of 3 years from the point of the UK's exit from the EU.** Not later than six months before the end of this interim period, the UK and Switzerland shall consult as to whether the period should be extended or whether the relevant provisions require modification.

Mutual recognition

13. The EU-Switzerland Mutual Recognition Agreement is an 'enhanced MRA' meaning that the Swiss and EU rules covered by the agreement are deemed to be equivalent to each other. This means that businesses only need to test a product against one set of regulatory requirements in order for it be accepted in both markets. **The EU-Switzerland MRA covers 20 sectors, including good manufacturing practice for pharmaceuticals, automotive, machinery and toys.**

14. The MRA contains provisions that are predicated on the recognition of legislative equivalence in certain areas between the EU and Switzerland and/or Switzerland having access to specific EU systems. Where this is the case, the UK and Switzerland have sought alternative arrangements to deliver continuity of effect in their bilateral relationship **but in most areas of the MRA it has not yet been possible to find solutions for this problem.**

15. Only three of these project chapters have been carried over to the UK-Switzerland agreement. These are motor vehicles; good laboratory practice; and medicinal products, good manufacturing practice inspection and batch inspection. These make up 76% of UK exports covered by the MRA and 84% of imports. On the other 17 product chapters, it has not been possible at this stage to agree that equivalence arrangements continue with Switzerland due to **interdependencies with EU laws and systems.** The areas where equivalence arrangements have not been carried over include:

- Machinery;
- Personal Protective Equipment;
- Toys;
- Medical Devices;
- Gas Appliances and Boilers;

- Pressure Vessels;
- Radio equipment and telecommunications terminal equipment;
- Equipment and protective systems intended for use in potentially explosive atmospheres;
- Electrical equipment and electromagnetic compatibility;
- Construction plant and equipment;
- Measuring instruments and pre-packages;
- Agricultural or forestry tractors;
- Construction products;
- Lifts;
- Biocidal products;
- Cableway installations; and
- Explosives for civil use.

16. A number of these feature in the list of main Welsh exports to Switzerland.

17. In light of this, the UK has agreed with Switzerland – via a Memorandum of Understanding - to work together, alongside relevant regulatory bodies, to agree arrangements that will allow for the recognition of conformity assessment bodies in the areas covered by these product chapters. The relevant joint committee will have the power to bring this decision into effect, as and when both parties agree that it is possible to do so.

18. Similarly to MRAs, a number of chapters in the EU-Switzerland agreement on organics and sanitary/phytosanitary measures have not been transferred over to the UK-Switzerland agreement. This is not possible due to the current requirements for equivalence or harmonisation with EU laws and systems. As the shape of the future UK-EU relationship evolves these annexes will be revisited.

Tariff-rate quotas

19. Tariff-rate quotas have been resized based a range of evidence including historical usage data and trade flow data. In order to address future market access opportunities for UK and Swiss businesses, it was also agreed to use a proxy

indicator to set TRQs where data showed historic trade was low. This includes instances where the UK or Swiss usage of a TRQ was zero. Doing so allows future market access opportunities for UK and Swiss businesses. The tariff-rate quotas in the UK-Switzerland agreement are for food and drink products and plants.

Geographic indications protections

20. The UK-Switzerland Trade Agreement retains the Geographical Indications protections provided in the EU - Switzerland Trade Agreements for UK and Swiss GIs. The retained protections include those that extend to the territory of both Northern Ireland and the Republic of Ireland, known as 'transborder GIs', for Irish Whisky/Irish Whiskey/Uisce Beatha Eireannach and Irish Cream.

Customs security

21. The Switzerland-EU Incorporated Customs Security Agreement has been entirely disapplied in the UK-Switzerland agreement. This has been done because the continuation of this agreement would require the UK to reach an agreement with the EU on safety and security. Upon entry into force of the UK-Switzerland Trade Agreement, the Joint Committee shall examine whether this agreement should be applied with or without modifications following consideration of the UK-EU relationship in this subject matter. The impact of this is that the loss of mutual recognition of the UK's Authorised Economic Operators (AEO) scheme with Switzerland, which would result in UK AEO accredited traders/businesses missing out on the benefits of being a recognised trusted trader, for example fewer checks at the Swiss border.

Memorandum of Understanding

22. A Memorandum of Understanding (MoU) has also been signed between the UK and Switzerland. This commits the UK and Switzerland to continuing discussions about ensuring continuity in our trade relations before the UK-Switzerland Trade Agreement comes into effect. In particular, these will focus on areas of the Incorporated Agreements that are suspended in the Agreement at present.

23. The MoU contains a specific commitment to work towards arrangements that allow for the mutual recognition of conformity assessment bodies in sectors covered by the EU-Switzerland Mutual Recognition Agreement with the aim of bringing these into effect on the date that the UK-Switzerland Trade Agreement comes into effect.

24. The UK and Switzerland will conduct exploratory discussions with a view of replacing or modernising the UK-Switzerland Trade Agreement within 24 months from the date the UK withdraws from the EU, regardless as to whether the UK-Switzerland Trade Agreement has come into effect by that point.

Not a simple rollover? Disapplication of provisions

25. The trade agreement signed by the UK and Switzerland provides for bilateral reciprocal rights and obligations under the agreement after the exit date. Although it is stated that the UK-Switzerland agreement replicates the EU-Switzerland FTA “as far as possible,” **it is important to note that it is not a matter of simply rolling over the EU-Switzerland trade relationship.**

26. The UK explanatory memorandum indicates where continuity is possible and where provisions have been “disapplied,” while the MoU lists a number of areas where further negotiations and/or examination is needed. In other words, there are quite a few areas that are not (yet) part of the UK-Switzerland trade agreement. This means in turn that if there’s no “orderly” Brexit – i.e. either a hard Brexit on 29 March or no agreement is reached between the EU and the UK at a later stage – and the UK-Switzerland trade agreement will kick in, these provisions, which are currently part of the EU-Switzerland FTA, shall not apply to UK-Switzerland trade and will therefore also affect trade between Wales and Switzerland.

27. If there is an EU-UK deal, then UK and Switzerland may need to negotiate further to make sure these missing issues/areas are included in the agreement.

Agriculture

28. In case no agreement is reached between the UK and the EU, the Switzerland-EU Agreement on Agriculture will no longer be applicable from the withdrawal date. The trade agreement between UK and Switzerland provides for the continuing application of existing mutual rights and obligations in the Agreement on Agriculture between Switzerland and the EU as far as possible.

29. This is relatively straight forward in those areas of that are not based on harmonisation of legislation or recognition of regulations equivalence (e.g. customs quotas, free trade in cheese, geographical indications, wine and spirits, marketing standards for fresh fruit and vegetables). Bilateral solutions may be agreed based on the Agreement on Agriculture between Switzerland and the EU, after which UK-Switzerland trade relations in these areas can essentially be continued as before.

30. However, it is stated in the MoU, that the UK and Switzerland still need to examine whether the status quo can also be maintained in the area of non-tariff issues. That is, it is currently unclear whether the following chapters of the Switzerland-EU Agriculture Agreement may be applied between the UK and Switzerland with or without further modifications or be replaced by new arrangements in the interest of both parties:

- Chapter 4—plant health
- Chapter 5—animal feed
- Chapter 6—seeds
- Chapter 9 – organically produced agricultural products and foodstuffs

31. If no agreement is reached on these issues, UK businesses and private individuals would only be able to import feed from the UK if the corresponding Swiss regulations were met, which could have serious implication for UK agriculture exports.

32. There is the same kind of uncertainty regarding Chapter 11 of the Switzerland-EU Agreement on Agriculture, which deals with animal-health and zootechnical measures applicable to trade in live animals and animal products.

33. If no agreement is reached between the UK and the EU, the UK will no longer be part of the same veterinary area as Switzerland, which means that UK animals and products of animal origin can only be imported into Switzerland under specific conditions and trade may be interrupted.

34. Only when the EU decides to place the UK on its list of third countries can such interruption be avoided. The EU alone can determine how long this interruption will last, as Switzerland adopts the EU's lists. It is unlikely that the EU will place the UK on its list if the UK lowers its standards e.g. in light of a possible USA-UK trade agreement.

Welsh Government view

35. In the External Affairs and Additional Legislation Committee on 4 March 2019, the Minister for International Relations and the Welsh Language **stated that:**

The Swiss one is interesting, because it's—. I don't think it's—. It's not including it, rather than doing something new. So, that's still not a political change that's happening there, it's just being eliminated somehow. Now, there's not much we can do about that, so, again, I

think we'd rather have something and lock down those areas we can, in particular Switzerland, which is one of our top 10 export markets.

36. The Welsh Government's Deputy Director for International Trade, Emma Edworthy, stated that the changes to the Swiss agreement (chapters not being included from the EU-Swiss mutual recognition agreement, the sanitary/phytosanitary agreement and the disapplication of the customs security agreement) would not require a change in Welsh Government policy.

Switzerland, for instance, has an agreement where, yes, it's not the same, but bits have been missed out, but none of those bits that have been missed out need a change in policy from our perspective. And the bits that've been missed out are in relation to the Swiss agreements with the EU, which really need us to have an agreement with the EU. So, those agreements can't be made between the UK and Switzerland until the agreement with the UK and EU is worked out. But we don't see them as a need to change policy in Wales.

Level of consultation with the Welsh Government

37. The UK Government's Explanatory Memorandum to the agreement states that:

The Government is also in close contact with the Devolved Administrations and continues to engage the Governments of the territories for those international relations the UK is responsible.

International relations including the making of treaties is not devolved. However, as there is likely to be significant impact on Scotland, Wales and Northern Ireland, the government has regularly updated the Devolved Administrations and has shared the texts of parliamentary reports and explanatory memorandums with them.

38. The Minister for International Relations and the Welsh Language's letter to the Committee on 26 February states that:

DiT officials and my officials are in regular contact in relation to TAC – we receive weekly updates on the status of these agreements and more detailed conversations are held between senior officials on this specific topic every three weeks. At a Ministerial level myself (and my predecessor, the Minister for Economy and Transport) have had regular

telephone discussions with the Minister of State for Trade Policy, George Hollingbery, where 'no deal' projects such as this are covered.

39. However, Welsh Government officials have confirmed that the Welsh Government did not have sight of the draft text of the agreement before it was signed.

Activity in other UK legislatures:

40. The House of Lords' EU Select Committee's report, published on 13 March, drew the agreement to the special attention of the House of Lords. **It stated that the agreement differs significantly from the precursor agreement to which the UK is party as an EU Member State.** It also reiterated its previous recommendation (in relation to the continuity trade agreements with Chile, Eastern and Southern Africa and the Faroe Islands) that the UK Government's explanatory material should state clearly whether there has been consultation with the devolved administrations, industry or other stakeholders.

41. The House of Lords report also focusses on many of the issues raised in this report i.e. the changes to mutual recognition arrangements, organic products, sanitary/phytosanitary measures and customs security arrangements.

42. The Department for International Trade told the House of Lords that the Government had not received specific feedback from industry stakeholders on the excluded chapters of the Mutual Recognition Agreement and the Agriculture Agreement but had offered further meetings. **The House of Lords committee was also disappointed that the Government, in bringing forward the UK-Swiss Trade Agreement, has not provided an explanation of its plans for future UK-Swiss services trade, and called on it to do so.**

View from Switzerland

43. In welcoming the deal, the Swiss Federal Council said achieving it was part of its Mind the Gap strategy, under which Switzerland wishes to ensure that the existing mutual rights and obligations in its relationship with the UK will continue to apply as far as possible after the UK leaves the EU, and to expand them where necessary.

44. Swiss Federal Councillor Guy Parmelin, Head of the Swiss Federal Government's Department of Economic Affairs, Education and Research, said:

I am very pleased to have signed this agreement today. It ensures continuity in our trade relations after the United Kingdom leaves the European Union and lays the foundations for our future relations.

45. Anne-Marie de Weck, President of the British-Swiss Chamber of Commerce, welcomed the agreement stating that:

The BSCC welcomes the signing of the UK Government's continuity trade agreement with Switzerland.

It is imperative for our members, both British and Swiss businesses, that trade continues. Switzerland is the UK's seventh largest export market, third largest non-EU market, eighth largest foreign direct investor and 10th top destination for UK outward direct investment. It is paramount that the British and Swiss governments have secured the continuation of a huge trading relationship with this agreement.

Expert input

46. Dr Jappe Eckhardt from the University of York has provided expert input to our consideration of this agreement and his advice has contributed to the analysis in this report.

Conclusion

Whilst we are pleased to learn that the level of engagement between the Welsh and UK Governments is improving, **we are concerned that the Welsh Government did not have an opportunity to consider the text of this agreement prior to signature.** This is particularly concerning given the comparative complexity of this agreement and the importance to Wales of trade with Switzerland.

We reiterate our call for the Welsh Government to receive access to the text of agreements prior to signature and believe that this is in the best interests of both Wales and the UK Government.

This agreement is not a simple rollover agreement. As it currently stands, there are significant gaps in the continuity it would offer in the event of the UK leaving the EU without a deal, including in areas of policy devolved to Wales, such as agriculture.

We hope that the UK Government engages fully with the Welsh Government as this agreement is developed in the future and ask that the Welsh Government keeps us informed of progress.

We recommend that the Welsh Government undertakes further analysis of the gaps in the continuity under this agreement, with a view to ensuring that the UK Government is fully informed of the implications for Wales in the gap areas as steps are taken to close them.

2. The agreements with Palestine and Israel

A note on these agreements

47. Our analysis of these agreements did not identify any particular policy or competence issues that warranted reporting.

48. However, as with several other of the agreements we have considered to date, **the Welsh Government did not have sight of the text of these agreements prior to signature.**

49. This is the main issue that we raise in our conclusions. However, for completeness, we have provided details of our initial assessment of the agreements.

UK-Israel Trade and Partnership Agreement

50. The UK-Israel Trade and Partnership Agreement was laid before the UK Parliament on 26 February 2019 and the CRAG Act 21-day period ends on 4 April 2019.

51. Israel is the UK's 46th largest trading partner, accounting for 0.3% of total UK trade. Total trade in goods and services between the UK and Israel was £3.9 billion in 2017. In 2017, UK exports to Israel were £2.3 billion, making it the UK's 42nd largest export market (accounting for 0.4% of all UK exports). UK imports from Israel were £1.6 billion, making it the UK's 47th largest import source (accounting for 0.3% of all UK imports).

52. The main goods and services exported from the UK to Israel in 2017 include:

- Other business services (legal, accounting, management consulting) - £247 million;
- Travel services - £241 million;
- Vehicles other than railway or tramway stock - £230 million;
- Transportation services - £201 million; and
- Machinery and mechanical appliances - £184 million

53. The main goods and services imported from Israel into the UK in 2017 were:

- Other business services (legal, accounting, management consulting) - £156 million;
- Plastics and articles thereof - £156 million;
- Precious stones and metals - £153 million;
- Machinery and mechanical appliances - £132 million; and
- Electrical machinery and equipment - £122 million

54. Trade between Wales and Israel is also relatively minor, with trade in goods between the two countries in 2017 being £89.9 million, representing 0.26% of all Welsh trade. Welsh exports of goods to Israel in 2017 were £47.4 million, whereas imports of goods from Israel were £42.5 million. The latest data available from 2015 shows that Welsh service exports to Israel are also relatively minor, with exports of £5 million in 2015, 0.3% of total Welsh service exports.

55. Tariffs on goods between the UK and Israel will remain the same as those in place under the EU-Israel agreement, with the exception of the size of tariff-rate quotas for certain products. The changes to tariff-rate quotas (TRQs) have been re-sized to reflect the fact that the UK is a smaller importer and exporter than the EU28. Solutions were agreed between the UK and Israel to set quotas to a sufficient level that will allow for continuity of historical trade flows, in most circumstances, for importers and exporters from both sides. Where possible, TRQs have been re-sized based on three years of customs data, which detail actual usage of the TRQs by importers. It includes information on the quantity and date of individual shipments of goods. Where there is not three years' worth of customs data, trade flow data have been used instead.

56. The TRQs cover UK exports of food and drink products to Israel such as meat, dairy products, fruit and vegetables. They also cover UK imports from Israel of food and drink products such as meat, fruit and vegetables. **The UK Government expect that the overall, immediate, impact on UK producers and consumers resulting from this approach to resizing TRQs will be limited.**

57. The EU has an entry-price system (EPS) for 15 types of fruit and vegetable. This is a variable tariff mechanism for these products during their respective, approximate European growing seasons. Under the EPS, an additional specific duty is charged in addition to the ad valorem duty, whenever the price at which the goods are imported is below a pre-determined entry price. The specific duty varies depending on the difference between the entry price and the import

price of the goods. If the import price of the consignment under cuts the entry price by more than 8%, the full bound tariff is applied.

58. The UK is retaining the flexibility to implement an EPS following its withdrawal from the EU. The annex to this short form agreement ensures the UK's right to operate an EPS, which reflects the EU EPS, at the time this agreement enters into force. **In the event that the UK applies an EPS, this agreement provides that the ad valorem part of the duty is eliminated, but the additional specific duty is retained.** The additional specific duty would be applicable, regardless of the elimination of the ad valorem part of the duty provided for by this Agreement. This approach is consistent with the preferential terms outlined in the existing EU-Israel Trade Agreements.

59. **In terms of rules of origin, EU materials can be cumulated in UK and Israeli exports to one another.** Furthermore, EU processing can be recognised in UK exports to Israel. These arrangements are subject to satisfying certain conditions set out in the agreement. The EU and Israel are currently contracting parties to the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention). The UK's future relationship with the PEM Convention will, in part, depend on UK-EU arrangements, so the UK-Israel Trade Agreement reflects the provisions of the PEM Convention in a bilateral context with some modifications.

60. Commitments made between the EU and Israel on services and public procurement have been retained in the UK-Israel agreement.

61. **The provisions of the EU-Israel Protocol on Conformity Assessment and Acceptance of Industrial Products (CAA) have been incorporated into the UK-Israel Agreement.** The CAA reduces technical barriers to trade for pharmaceutical products, through mutual recognition of each party's inspectorate results for Good Manufacturing Practice (GMP) for pharmaceuticals. This means that Israeli inspectors do not need to inspect EU facilities and vice versa. The UK-Israel agreement keeps the aspects allowing for the mutual recognition of obligatory conformity assessment requirements. For GMP inspections, this means that the UK and Israel will continue to accept each other's inspectorate results for GMP of pharmaceuticals. This means that the existing obligations set out in the EU-Israel CAA will continue to have effect after the UK leaves the EU. This agreement covers 11% of UK goods exports to Israel, and 13% of UK goods imports from Israel.

62. The University of Sussex's Trade Policy Observatory have set out analysis of most favoured nation clauses in each of the EU agreements that the UK wishes to 'roll over'. **Israel has limited most favoured nation clauses in its agreement with**

the EU. These reiterate the most favoured nation clauses in the WTO's General Agreement on Trade in Services. The obligations apply to chapters on the right of establishment and supply of services, but do not apply to preferences granted in other trade agreements.

63. In terms of other matters covered by the agreement, the original EU-Israel Trade Agreement contains social security arrangements that are concerned with combining periods of insurance, employment or residence in EU Member States with periods of insurance, employment or residence in the UK, for the purpose of pensions, invalidity benefits and medical care for legally employed Israeli workers and their families. Under this agreement, citizens from Israel who are legally working in the UK are allowed to access family allowances in the UK for their family members resident in the UK. Pensions and various benefits, such as for occupational illness and invalidity can be accessed, both in the UK and if they return to Israel. **The UK and Israel will not implement the measures relating to aggregation of insurance or employment until the UK and EU reach an appropriate agreement on how to do this**, due to the potential for the UK not to have an appropriate data-sharing arrangement with the EU under a 'no deal' Brexit scenario. This change could potentially impact upon 20,000 Israeli citizens living in the UK and 22,000 UK citizens living in Israel. However, it is also the case that while there are 24,000 people born in Israel that live in the UK, many of these have British nationality (less than 1,000 of whom live in Wales), as there are 5,000 Israeli nationals living in the UK.

64. The Explanatory Memorandum to the agreement states that:

The Government is also in close contact with the Devolved Administrations and continues to engage the Governments of the territories for those international relations the UK is responsible.

International relations including the making of treaties is not devolved. However as there is likely to be significant impact on Scotland, Wales and Northern Ireland, the government has regularly updated the Devolved Administrations and has shared the texts of parliamentary reports and explanatory memorandums with them.

65. In summary, trade between the UK and Israel represented 0.3% of total UK trade in goods and services in 2017, and 0.26% of Welsh trade in goods in 2017. There is a potential impact of social security changes that could potentially impact upon 20,000 Israeli citizens living in the UK and 22,000 UK citizens living in Israel, although social security is not devolved to Wales. The other changes in this agreement are relatively minor such as changes to tariff-rate quotas, and rules

of origin. The effect of other provisions such as mutual recognition of pharmaceuticals, services and public procurement will remain the same.

UK-Palestinian Authority Interim Agreement

66. The agreement between the UK and the Palestinian Authority was signed on 18 February 2019. The Explanatory Memorandum to the agreement clarifies the status of the agreement:

Nothing in the UK-Palestinian Authority Interim Agreement should be interpreted as recognition by the UK of Palestine as a State. Accordingly, the Agreement is not formally a treaty falling within the scope of section 25(1) of the Constitutional Reform and Governance Act 2010. The Government has chosen to lay the Agreement before Parliament in order to provide Parliament with an equivalent opportunity to scrutinise it as it has had for other trade agreements.

67. The Palestinian Authority is the UK's joint 186th largest trading partner, accounting for less than 0.1% of total UK trade. Total trade in goods and services between the UK and the Palestinian Authority was £17 million in 2017. In 2017, UK exports to the Palestinian Authority were £15 million, making it the UK's joint 174th largest export market (accounting for less than 0.1% of all UK exports). UK imports from the Palestinian Authority were £2 million, making it the UK's joint 177th largest import source (accounting for less than 0.1% of all UK imports).

68. Of the UK's exports to the Palestinian Authority in 2017, £12 million were in services, and £4 million were vehicles other than railway or tramway stock. The main UK imports from the Palestinian Authority are services; edible fruit and nuts; and animal or vegetable fats and oils.

69. Data for trade in goods and services between Wales and the Palestinian Authority are not available from the published datasets due to the low volume of trade.

70. The EU has an entry-price system (EPS) for 15 types of fruit and vegetable. This is a variable tariff mechanism for these products during their respective, approximate European growing seasons. Under the EPS, an additional specific duty is charged in addition to the ad valorem duty, whenever the price at which the goods are imported is below a pre-determined entry price. The specific duty varies depending on the difference between the entry price and the import price of the goods. If the import price of the consignment under cuts the entry price by more than 8%, the full bound tariff is applied.

71. The UK is retaining the flexibility to implement an EPS following its withdrawal from the EU. The annex to this short form agreement ensures the UK's right to operate an EPS, which reflects the EU EPS, at the time this agreement enters into force. **In the event that the UK applies an EPS, this agreement provides that the ad valorem part of the duty is eliminated, but the additional specific duty is retained.** The additional specific duty would be applicable, regardless of the elimination of the ad valorem part of the duty provided for by this Agreement. This approach is consistent with the preferential terms outlined in the existing EU-Palestinian Authority Agreement.

72. In terms of rules of origin, EU materials can be cumulated in UK and Palestinian Authority exports to one another. Furthermore, EU processing can be recognised in UK exports to the Palestinian Authority. These arrangements are subject to satisfying certain conditions set out in the agreement. The EU and the Palestinian Authority are currently contracting parties to the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention). The UK's future relationship with the PEM Convention will, in part, depend on UK-EU arrangements, so the UK-Palestinian Authority Agreement reflects the provisions of the PEM Convention in a bilateral context with some modifications.

73. Commitments made between the EU and the Palestinian Authority on services have been retained in the UK-Palestinian Authority agreement.

74. The agreement between the EU and the Palestinian Authority included 'level playing field' provisions which related to competition, subsidies/state aid and state-owned enterprises, based on EU criteria. These have been removed, and the UK Government do not believe it would have been appropriate to replicate this in a bilateral context. The UK Government do not anticipate the removal of this provision will impact on British businesses as they will continue to be subject to UK domestic law which will not be in conflict with the provisions of the agreements.

75. The University of Sussex's Trade Policy Observatory have set out analysis of most favoured nation clauses in each of the EU agreements that the UK wishes to 'roll over'. **There are no most favoured nation clauses in this agreement that would impact upon any of the UK's other free trade agreements.**

76. The UK and the Palestinian Authority have also replicated a Common Declaration on cooperation on sanitary and phytosanitary or technical barriers to trade issues.

77. The Explanatory Memorandum to the agreement states that:

The Government is also in close contact with the Devolved Administrations and continues to engage the Governments of the territories for those international relations the UK is responsible.

International relations including the making of treaties is not devolved. However as there is likely to be significant impact on Scotland, Wales and Northern Ireland, the government has regularly updated the Devolved Administrations and has shared the texts of parliamentary reports and explanatory memorandums with them.

78. In summary, trade between the UK and the Palestinian Authority represented less than 0.1% of total UK trade in goods and services in 2017. There are some changes, such as rules of origin which are relatively minor, and changes to level playing field measures, although these will not affect UK businesses in the UK Government's view, as they will continue to be subject to UK domestic law. Additionally, the UK Government stated that approach to the EPS is consistent with that of the EU's agreement with the Palestinian Authority, and that both parties are maintaining commitments on services.

Conclusion

Whilst we are pleased to learn that the level of engagement between the Welsh and UK Governments is improving, **we are concerned that the Welsh Government did not have an opportunity to consider the text of these agreements prior to signature.**

We reiterate our call for the Welsh Government to receive access to the text of agreements prior to signature and believe that this is in the best interests of both Wales and the UK Government.