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Summary

- Future trade negotiations led by the UK Government will have important implications for Wales, but it is unclear whether, and if so how, the Welsh Government and Welsh Assembly will secure a meaningful voice in the discussions.

- In order to identify possible lessons for Wales, this report summarises evidence from the limited academic and policy literature on the ways in which sub-national governments in other countries have been involved in international trade negotiations.

- Sub-national governments’ involvement in international trade negotiations varies between countries and between sub-national governments themselves. A key factor is whether negotiations include policy fields in which sub-national governments have competences. For example, the EU insisted that Canadian provinces were involved in the CETA negotiations because its ability to access government procurement and agriculture markets needed buy-in from provincial governments.

- Quebec might be the most instructive example for Wales. It invested in a high-profile lead negotiator and used its economic standing as the second largest province in Canada (in terms of population and GDP), and therefore a prized market for the European Union, to gain influence.

- Some of the first trade negotiations are likely to be with the EU. The examples examined in this report suggest some steps which Wales might consider to maximise its influence:
  - Advance diplomacy with both the UK Government and EU in order to shape the focus and form of upcoming negotiation processes;
  - Pursuing clear and specific priorities which are particularly important to the Welsh economy;
  - Recruitment of ‘heavyweight’ lead negotiators with experience in international relations and trade;
  - Investment in negotiating teams which give the Welsh Government the capacity to engage in complex and wide-ranging negotiations with multiple stakeholders; and
  - Engaging in informal influencing outside the formal negotiations, throughout the process, with stakeholders in the UK, EU member states, and the EU.
Introduction

The UK Government is currently negotiating the United Kingdom’s exit from the European Union. Given UK Ministers’ stated intention to have a fully independent trade policy, it is probable that they will seek to begin negotiating multiple bi-lateral trade agreements rapidly following the UK’s exit, should the terms of the agreement allow.

These future trade negotiations will have direct consequences for Wales and involve areas for which the Welsh Assembly is responsible. It is therefore important to consider whether, and if so how, the Welsh Government and Welsh Assembly will have a meaningful voice in trade negotiations led by the UK Government. To help inform this debate, this paper reviews the involvement which sub-national governments in other countries play in international trade negotiations.

Context

In October 2017, representatives from the UK Government and the devolved administrations agreed to develop ‘common frameworks’ in some areas ‘that are currently governed by EU law, but that are otherwise within the competence of the devolved administrations or legislatures’ (UK Government, 2017: 2). Six reasons for such frameworks were set out:

1. To enable both functioning of the UK internal market and policy divergence;
2. To ensure compliance with international obligations;
3. To ensure that the UK can negotiate, enter into and implement new trade agreements and international treaties;
4. To enable the management of common resources;
5. To administer and provide access to justice in cases with a cross-border element; and
6. To safeguard the security of the UK.

It is very likely that future trade negotiations will include issues that lie within the Welsh Government’s devolved competencies. The former UK First Secretary of State, Damien Green, has stated that there are 64 areas in which the powers returning to the UK will intersect with Welsh devolved competencies (BBC, 2017). Many of these relate to agriculture, fisheries and the environment, although a number also affect business,
investment and skills (Paun, 2017). Some issues could particularly affect Wales negatively, such as a potential reduction in regulatory standards for products such as food (Whitman, 2017).

Paun (2017) suggests that there are four ways in which common frameworks could be established:

1. The UK could agree to continue to comply with EU rules, and the various administrations would co-operate on implementation;
2. New legal frameworks could be established to cover the entirety of the UK, in order to ensure regulatory consistency;
3. Where such legal frameworks are deemed unnecessary, issues could be devolved but with agreements to work together to share best practice or minimum standards;
4. The UK and devolved government could create a new structure(s) to ensure decisions are binding on each administration. (The Welsh Government (2017a) proposed such a structure earlier in the negotiations).

The Welsh Government (2017b) has submitted evidence to the EU Internal Market Sub-Committee, stating some priorities in relation to Brexit and trade negotiations. However, this submission was limited primarily to discussing state aid, with the Welsh Government (2017b: 3) stating that it ‘looks forward to receiving an invitation from the UK Government to be actively involved in shaping the new regulatory function, the guidelines which it will enforce, and any consequence framework between the four administrations’. This will be important not just in relation to Regional Aid funding for West Wales and the Valleys, but also agriculture, fisheries and general trade. The UK Government has pledged, along with the devolved administrations, to develop ‘common frameworks’ covering these policy areas.

To help inform discussion about how these frameworks might be developed, this report takes stock of how sub-national governments in other countries are involved in international trade negotiations. Context and size are important and there is no direct parallel to the UK. For this reason, the report analyses arrangements in a range of small and large countries and in different kinds of constitutional system.
Canada

Canada's governance model distributes power between the federal and provincial governments. The two levels of government largely operate separately, with very limited formal mechanisms in place for co-ordination (Hueglin and Fenna, 2006). There is no general framework for federal-provincial consultation on international treaty matters, and where co-ordination takes place, it typically relies more on informal arrangements rather than formal and institutional rules (Chaloux et al., 2015). Smiley and Watts (1985) see this as a good arrangement because it has allowed flexibility during any negotiations.

Canada's international trade commitments and obligations are solely within the remit of the federal government. As of November 2013 Canada had participated in trade negotiations with a total of 64 countries but, except for those with Europe, the provinces have not had a seat at the table (Paquin 2013: 551). The Canadian constitution is clear that where obligations extend into areas under the remit of the provincial governments, compliance rests solely within provincial jurisdiction. However, provincial governments are not accountable if they fail to comply (VanDuzer, 2013).

Experts argue that these arrangements have potential negative effects for Canada, in that their negotiating position may be weakened in the first instance, and subsequent trade might be damaged as provincial government is not compelled to comply (Fafard and LeBlond, 2012). For this reason, while the federal government has no obligation to consult the provinces, in practice they work closely with them to try to ensure that any obligations Canada makes are subsequently fulfilled by the provincial governments (VanDuzer, 2013).

The exception has been the negotiations for the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union (Omiunu, forthcoming). The EU insisted that Canadian provinces were included because it believed that CETA would be more likely to succeed in the long-term if provincial governments were represented (Paquin, 2013, D’Erman, 2016) given their responsibility for ensuring compliance with key aspects of the Agreement (e.g., agriculture and government procurement).

The CETA negotiations directly involved all ten provincial governments and three territorial governments across Canada (De Beer, 2012: 51). They were consulted on the terms of the joint reports and the negotiation mandate, although not on the selection of the Canadian negotiators (Goff, 2016).

Some provinces made significant investments in their negotiating capacity, including appointing high-profile lead negotiators. For example, Quebec, a particularly active province during the CETA negotiations (Tavares, 2017), appointed Pierre Marc Johnson, a former Premier of Quebec, as its negotiator. However, other provincial negotiators had more limited
resources and found it difficult to fully address the full gamut of issues under negotiation (Kukucha, 2010).

Provinces were able to gain concessions although their interests varied widely according to what was important to their local economies. This resulted in a complicated set of negotiating dynamics (Goff, 2016).

- The negotiations were sub-divided into issue areas, and provincial governments participated in seven of the 12 initial areas which were judged to be relevant to their jurisdictional competences, resulting in ‘co-determination’ of Canada’s negotiating positions;
- The provincial and territorial governments had access to overview briefings throughout negotiations, on all areas of interest; and
- Provincial representatives maintained informal relations among themselves, and with both the Canadian and European envoys.

They were involved directly in negotiations about services, technical barriers to trade, labour barriers (recognition of professional qualifications), sustainable development, investment, government procurement, monopolies, and state-owned enterprises. Those retained to federal competence included agriculture, phytosanitary measures, customs procedures and trade facilitation, intellectual property rights and geographical indications, the creation of a dispute settlement committee, and institutional matters (Paquin, 2013). A European Commission summary report highlights the importance of the provinces in the resulting agreement.

The outcome for the EU in terms of access to the Canadian market is very significant. The clear and comprehensive listing of the reservations provides unprecedented transparency on existing measures, in particular at provincial level. Canada for the first time includes explicit provincial and territorial reservations, guaranteeing to EU service providers the benefit of the current market access, without risk of future restrictions different or additional to those listed, as well as the benefit of any future liberalisation that Canada may undertake (European Commission, 2016: 9).

The listing of the reservations is available via the Council of the European Union (2016). The CETA agreements in relation to agriculture may be particularly relevant to discussions about Wales’ role in negotiations about the UK’s relationship with the EU. Although the federal government negotiated these positions without formal provincial involvement, Canadian provinces were able to influence the language of CETA in a number of key areas (Paquin, 2013), and the federal government sought to accommodate the interests of different
provinces seeking both liberalisation and protectionism. Regional agricultural products valued by specific provinces, such as fresh and frozen fruits, frozen potato products (including French fries), canola oil and maple syrup will have all tariffs removed immediately. Producers of red meat and grains, such as Alberta, wanted to lower barriers and increase exports to Europe. For the most part, this is reflected in the CETA agreement.

**United States**

In the United States, state and local governments have almost no role in international trade negotiations. Congress has exclusive power to negotiate international treaties with other countries and organisations (Kline, 1983). States can enter into agreements with international governments, with the approval of Congress, but while they are responsible for regulations and permits in economic matters, Congress can alter these if they are deemed to conflict with national priorities (Kukucha, 2015).

Few institutional mechanisms exist to include sub-national governments in decisions and Congress, which has responsibility for the protection of state interests, has shown less of a tendency to consult sub-national governments from the 1980s onwards (Kincaid, 1990 and Kukucha, 2017). Since this time, the United States Trade Representative (USTR) has had sole control of ‘virtually all’ US trade negotiations, despite recent World Trade Organization (WTO) and North America Free Trade Agreement (NAFTA) trade disputes that directly involved areas of state jurisdiction (Kukucha, 2015).

Intergovernmental forums do exist in the United States, but to date they have not afforded state governments greater influence in international trade negotiations. The US Trade Representative has refused to alter technical language related to investor–state disputes despite calls from state governments to do so. ‘As a result, most American states have virtually no bureaucratic capacity to deal with international trade policy’ (Kukucha, 2015: 235). Moreover, commitments under existing international trade agreements, such as the WTO and NAFTA, have been criticised as eroding US state government powers (McKinley, 2010). This has led some experts to call for extraordinary measures, such as a new intergovernmental conference involving the US President and the 50 state governors to review the constitutional implications (Fry, 2017).

In spite of the lack of formal mechanisms for state government involvement in trade negotiations, there is significant lobbying by actors other than sub-national governments, such as firms and other lobbyists (Hueglin and Fenna, 2006), and some states also look to influence US trade policy through Congressional committees, as Congress has significant oversight authority to monitor the President and US Trade Representative’s actions in any
negotiations (Walker, 2017). However, this influence is limited. The US Trade Representative must attend meetings of committees, and respond to requests for updates and information on negotiations, but no amendments can be made until after negotiations are complete.

Australia

In Australia, trade negotiations fall within the federal government’s competence over foreign affairs, but there are arrangements for consultation with the states/territories on at least some aspects, on the basis that they will be responsible for implementing some of the negotiated treaties (Australian Government, 2017). There is also co-operation in practice, with state/territory representatives joining delegations to international meetings, and some of the states, such as Victoria, have offices abroad to promote trade and investment (Trade Victoria, 2017). However, formal powers are lacking.

Switzerland

Switzerland has a federal political system, with three political levels of commune, canton and confederation. There is a significant degree of policy devolution to the cantons (which have responsibility for the police, churches, housing, education, city transport and waste management), as well as policy competence shared between the cantons and the Confederation (health insurance, regional transport, roads, flood protection and the environment). However, the role of the cantons in domestic and foreign policy has been and remains an issue, and federalism is not particularly well protected under the law (Maissen, 2014). One study argued that:

The cantons themselves, as institutionalized corporate actors, have no strong influence in federal policy making – contrary to some preconceived ideas. They certainly play a role in decentralized issue areas, such as education policy, and… cantonal actors may exert some influence in specific fields, such as territorial planning, but their role is relatively marginal to the central domains of economic and social policy (Lehmbruch, 1993: 54).

Switzerland’s negotiations with the European Economic Area in the 1990s and the resulting liberalisation of EU immigration in Switzerland weakened the cantons influence to extend and
limit immigrant quotas, which in turn was a key aspect of regional economic development (Church, 2011).

Swiss cantons have reached agreements to regulate national matters among themselves. The cantons use these as a strategy to defend their own competences and prevent the imposition of central government decree (Linder and Vatter, 2001). Indeed, the creation of the Conference of Cantonal Governance in 1993 was as a result of European integration. This conference established a legal agreement between the 26 cantonal governments, and aimed to safeguard the cantons’ interests at the federal level. During the 1990s when many negotiations were taking place between Switzerland and the European Union, the conference established direct negotiations between cantonal and federal executives (Linder and Vatter, 2001). While for the most part agreements such as these have often struggled in Switzerland, this is largely down to the large number of cantons taking part and needing to agree.

The European Union and its member states

While it will be in the joint interest of the UK and the EU to negotiate and secure their future trading relationships as quickly as possible, this will not be a simple process, and it is important to recognise how some member states may approach such negotiations.

One issue is whether or not the EU has the competence to negotiate on behalf of all of its members or whether it will need ratification by individual member states (Szyszczak, 2017). The CETA trade agreement required the ratification of each member state. It was temporarily blocked by Belgium in October 2016 because the Belgian federal government was prevented from granting permission by the regional parliament of Wallonia. The Wallonian parliament eventually gave its support to the deal, and while the CETA agreement was not changed, 36 guarantees and clarifications were added, dealing with issues relating to agriculture and investment. This case highlights the potential for individual EU member states or devolved administrations to be veto players in any future trade deal. The EU Commissioner for Trade stated that, following Wallonia’s efforts to derail the CETA deal, ‘if we [the European Union] can’t make (a deal) with Canada, I’m not sure we can make (one) with the UK’ (The Economist, 2016).

In Germany, trade policy is an EU competence, and the German representative at EU-level trade negotiations is from the federal government. Nonetheless, where negotiations concern
areas of state (Länder) competence, then state representatives must be involved in some way. Their participation varies depending on the extent their responsibilities are implicated (Federal Foreign Office, 2017):

- If the German upper chamber (which allows for representation of state governments) would need to be involved in any corresponding domestic policy, then state representatives can participate in consultations aimed at determining Germany’s negotiating position;
- If essential state interests are involved, then state representatives directly participate in negotiations;
- If EU proposals affect exclusive legislative powers, such as education, then negotiating powers are transferred to state representatives.

These rights were enshrined in an article in the German constitution following the Maastricht Treaty. It followed various discussions and disagreements following the Single European Act of 1986, which the German states felt undermined their legislative authority. The arrangement has worked well over time, and there have been few disputes between the federal government and the state representatives. It is underpinned by a recognition on all sides that Germany as a member state must have a strong and coherent position. The three-pronged system outlined above allows the German states considerable influence on EU legislative proposals, including trade negotiations. The German states, rather than operating alone, tend to coordinate their priorities, and ‘formulate their common position on EU matters through the Conference of the Länder [state] Ministers for Europe’ (Markesinis and Fedtke, 2006: 241-242). The states’ position is decided by majority decision, and individual states are not allowed to have influential positions on their own. While this weakens an individual state, it increases the collective prospects of having influence.

Conclusions

In this short review, we have presented evidence about the role of sub-national governments outside the UK in international trade negotiations. The available literature is limited, in part because the involvement of sub-national governments in such negotiations is a relatively recent phenomenon. However, the involvement of sub-national governments in international relations, especially around trade (sometimes labelled ‘paradiplomacy’), is an emerging global norm (Cornago, 2006, Lesquesne and Paquin, 2017). It can be seen as a logical outcome of the erosion of the traditional dichotomy between domestic and international
policy spaces that has been driven by globalisation (Omiunu, forthcoming). Globalised supply chains mean that ‘the substantive focus of trade agreements is evolving from the removal of tariffs and related border measures to non-tariff, behind-the-border measures, including regulatory harmonization’ (Goff, 2016: 5) – areas often the responsibility of sub-national governments. As a result, the classic distinction between international and domestic policy spheres can no longer be upheld and new multi-level governance approaches that involve sub-national governments are essential.

In the cases we have reviewed, co-ordination between national and sub-national governments around trade matters has taken two main forms. Sub-national governments have a legislated opportunity to approve a trade agreement (or not), and inter-governmental forums have been established for the discussion of trade matters (see also Walker, 2017). The strength of these mechanisms however varies widely, as the contrasting experiences of American state governments and Belgian regions amply illustrate. Moreover, these coordination mechanisms have emerged from federal constitutional cultures that are quite distinct to the UK’s relatively new, partial and asymmetrical, devolution settlement.

It is clear that sub-national governments in some countries have become involved in international trade negotiations because they hold pre-existing competences critical to the success of the agreement. In Canada, for example, the EU’s interest in accessing government procurement and agriculture markets meant that buy-in from provincial governments, which would become responsible for implementing these clauses of the agreement, was crucial - though the same logic has not been followed in the US.

The evidence available also suggests that sub-national government involvement in international trade negotiations is uneven within as well as between countries. Those that have been pro-active, such as Quebec and Wallonia, have wielded greater influence than the norm. As Wallonia derived much of its influence from Belgium’s pre-existing constitutional framework, Quebec is perhaps the more instructive example for Wales. As well as choosing to be pro-active, Quebec also drew upon its economic standing as the second largest province in Canada (in terms of population and GDP) and therefore a prized market for the European Union, to wield influence. Wales’s economic leverage in future international trade negotiations is less, but the approaches taken to maximise influence may be instructive. They suggest a need for:

- Advanced diplomacy with both the UK Government and EU in order to shape the focus and form of upcoming negotiation processes;
- Pursuing clear and specific priorities, recognising Wales’ position as a small player in complex, multi-way negotiations situated in a context of multi-level governance;
- Recruitment of ‘heavyweight’ lead negotiators with experience in international relations and trade;
- Investment in negotiating teams, affording the government the capacity to engage in wide-ranging negotiations with multiple forums, pro-actively; and
- Engaging in informal influencing outside the negotiations, throughout the process.
References


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