



House of Commons:

INTERNATIONAL TRADE COMMITTEE

Call for written evidence:

**Submission from the Agriculture and Horticulture Development Board
(AHDB)**

14 December 2016

Executive summary

AHDB has identified the key areas likely to have the biggest impact on UK agriculture as a result of Brexit - Trade, Access to migrant labour, Regulation and Farming support. The submission details:

- The difference between membership and access to the Single Market and likely implications for UK trade.
- Interim measures - the economic significance of the UK food and drink industry and the crucial role for maintaining tariff-free access to the EU single market.
- The complexity, time and resources involved. Two years is insufficient time to prepare business models and adjust to new trading arrangements.
- UK agriculture is heavily reliant on trade to the EU market so ensuring interim measure to maintain tariff-free access to this market is imperative.
- Free Trade Agreements (FTAs) are in actual fact preferential trade deals with very few, if any, conferring the same extensive benefits of the Single Market.
- The range of post-Brexit trade options and the different potential implications on UK agriculture.
- AHDB's expertise, independence and resource to provide support in a number of areas.

AHDB

AHDB's purpose is to inspire our farmers, growers and industry to succeed in a rapidly changing world. We are the independent go-to place for trustworthy information and evidence-based research. We equip the industry with easy to use, practical know-how which they can apply straight away to make better decisions and improve their performance.

Through deepening our technical, commercial and market insight, and making this available where, when and how the industry needs it, we aim to enable British agriculture to become truly world class.

We will also strategically align our research funding to six new technical themes to accelerate

We will focus our activities on four strategic priorities:

- Inspiring British farming and growing to be more competitive and resilient.
- Accelerating innovation and productivity growth through coordinated research and development (R&D) and knowledge exchange (KE)
- Helping the industry understand and deliver what consumers will trust and buy.
- Delivering thought leadership and horizon scanning

Enquiry questions and AHDB's response

1. Transition

2. ***The implications of the “sequencing” of the steps towards Brexit (triggering Article 50, the two-year negotiating period, formally leaving the EU) for negotiating new UK trade arrangements.***

3. Trade policy is one of the Union's longest-standing exclusive competences and its status is now defined by the Lisbon Treaty. Where a competence is exclusive, “only the Union may legislate and adopt legally binding acts, the member states being able to do so themselves only if so empowered by the Union or for the implementation of Union acts”. It would appear to be in the UK interest to start negotiations with potential trading partners as soon as is practical, although no deals can be concluded until the UK leaves the EU. However, as trade is an EU exclusive competency, with the EU negotiating on behalf of its member states, this activity will not be welcomed by Brussels.

4. However, part of the withdrawal agreement will likely be designed to ensure a smooth legal transition for those international accords binding the UK by virtue of EU participation. It is in the interest of both the EU and the UK to ensure clarity in discussions with third country partners. This implies that the UK will need to discuss future relations and the management of the transition with the EU's existing, and future UK, trade partners.

5. ***The necessity and potential for the UK to make medium-term transitional trading arrangements pending the conclusion of long-term agreements.***

6. Parameters

7. The amount of work required to cover all the subsequent re-negotiation of non-EU agreements alone is considerable. Many EU Trade and Association agreements cover hundreds of products and services etc. These take time to negotiate and will require considerable resource.

8. UK agriculture is reliant on trade to the EU market so ensuring interim measures to maintain our relationships are imperative. AHDB has the expertise, independence and resource to provide support in a number of areas relating to trade in agricultural produce.

10. Whether the distinction between so-called “Soft Brexit” and “Hard Brexit” is a useful one.

11. Two types of Brexit are being discussed: “hard” and “soft”. There is no definition of what is to be considered as a “soft” or a “hard Brexit”. However, the distinction between the two would relate to the type of deal the UK negotiates and how close or how far we will be from the EU.
12. There is a general understanding that a “hard Brexit” would see the UK trading under the WTO rules giving the UK a similar status to Russia or Brazil who can trade with the EU nations but face tariffs and vice versa or trade via an FTA, such as Canada. However the UK would not have to pay contributions to EU budget, would not have to sign-up to free movement rule which was a top issue during the EU referendum campaign and the government would be able to negotiate FTAs with non-EU nations.
13. Conversely, a “soft Brexit” could take different shapes. It may mean that the UK would consider joining the European Economic Area membership. Or that the UK seeks to stay inside the Customs Union. Alternatively it could describe a progressive Brexit process where a transitional arrangement of some form would be negotiated so as to allow a smooth transition towards a comprehensive and broad FTA.
14. Ultimately, the real impact will depend on a wide range of policy choices (immigration, UK regulations and policies, trade) which will produce different outcomes. The choices will define the model for the UK’s relationship with Europe outside of the EU, not least whether the UK seeks to remain a ‘member’ of the Single Market or only seeks (tariff-free) ‘access’.

15. The difference between “membership” and “access” in relation to the EU Single Market.

16. Full membership substantially reduces the costs of trade within the EU. Whilst some costs such as transport and cultural barriers e.g. language remain, the Single Market eliminates tariffs (border taxes) and customs checks and, importantly, reduces non-tariff barriers.
17. Access to the Single Market is not the same and does not necessarily require membership of the Single Market.
18. Outside full membership, there are various models for the UK’s post-Brexit relationship with the EU, which can be grouped under three main headings:
 - Exit the EU but become a member of the EEA and of EFTA, retaining membership of the Single Market (the “Norwegian model”).
 - Exit the EU and join EFTA but not the EEA, with EU relations governed by a framework of bilateral agreements and some limited access to the Single Market (the “Swiss model”).
 - Total exit from the EU and the Single Market. In this model the UK could seek to join the EU Customs Union (as Turkey has done); access the EU market under the World Trade Organisation (WTO) rules; or negotiate a special deal from scratch under a new FTA.

19. What trade-offs might be involved in securing privileged access to the Single Market.

20. The key trade-off that the UK would face outside the EU would be the same trade-off that has always dominated the UK’s European policy. There are economic benefits from accessing the Single Market but these come at the political cost of giving up sovereignty over certain decisions.
21. The trade-off between markets and immigration lies in the heart of the debate on the UK’s post-Brexit future. There cannot be full access to EU markets without conceding full freedom of movement.
22. If the UK were seeking to access the Single Market by opting either for the Norway or the Switzerland models, it would have to respect the four freedoms of the internal market (free movement of goods, people, services and capital) and related policies (competition, transport, energy, and economic and monetary cooperation). In addition, the UK would give up its influence over all EU decision making, including how to govern the Single Market. In this sense, it would mean giving up even more sovereignty than being part of the EU.

23. The UK could seek to access the Single Market via a FTA. The extent to which the UK would be subject to the rules on freedom of movement, in exchange for receiving freedom of capital, goods and services, would depend on the deal negotiated. However, there is no guarantee that a new FTA could be negotiated, or how long it would take (it generally takes between five to 10 years). However, FTAs are in effect preferential trade deals with few, if any, conveying the same extensive benefits of the Single Market.

24. ***The implications of Single Market access for UK trade in services (particularly “passporting rights” in respect of financial services).***

25. AHDB is not able to provide a response to this question.

26. ***EU Single Market access and membership.***

27. Models for UK-EU trading relations

28. ***Membership of the European Free Trade Association, with or without membership of the European Economic Area / additional bilateral arrangements with the EU.***

29. Exit the EU but become a member of the EEA and of EFTA, retaining membership of to the Single Market (the “Norwegian model”):

- The UK would enjoy near-full membership of the Single Market. It would not need to participate in the EU’s common foreign and security policy or the EU’s justice and home affairs policies.
- EEA members also do not participate in the CAP so UK could introduce its own agricultural policy although uncertainty on level of support to be agreed.
- Free trade within the EEA but members are not part of the EU’s Customs Union, which means that they can set their own external tariff and conduct their own trade negotiations with non-EU countries.
- EEA members effectively pay a fee to be part of the Single Market by contributing to the EU’s regional development funds and costs of the EU programmes in which they participate.
- There are other downsides to joining the EEA in addition to the membership fee and the need to follow EU regulations. While EEA members belong to the Single Market, they are not part of the deeper integration that occurs within the EU. For example, as an EEA member Norway does not belong to the EU’s Customs Union so Norwegian exports must satisfy ‘rules of origin’ requirements to enter the EU duty-free. With the growing complexity of global supply chains, verifying a product’s origin has become increasingly costly. Part of this cost would be borne by UK firms.
- The UK would still be able to access migrant labour to support agriculture as freedom of movement of labour would need to be upheld but limiting immigration was a key issue in the Brexit vote.

30. ***A bespoke UK arrangement, such as the “Continental Partnership” model proposed by the think-tank Bruegel.***

31. Under the Bruegel model, the UK would:

- Continue to trade with EU as part of the Single Market with possible labour market limits.
- Be able to introduce own agricultural policy.
- Need to contribute towards the EU budget.
- Be unlikely to be negotiate bilateral FTAs with non-EU members.
- Contribute to the EU budget albeit at a lower level.

32. From a political point of view the Continental Partnership proposal would constitute a significant concession by the EU to the UK on the movement of labour, which seems unlikely.

33. Other bespoke arrangements could be possible as the Government has stated that it will look towards a unique relationship with the EU.

34. *Maintaining a Customs Union with the EU, on the same or similar terms as certain other non-EU states.*

- No longer in the Single Market but in the Customs Union. The Customs Union allows free movement of goods with the EU with no requirement to adopt many EU regulations linked to the Single Market but this could lead to differing standards.
- UK would be able to introduce its own agricultural policy but uncertainty on level of support.
- Required to adopt EU external trade policy for imports but not able to access existing and future EU trade deals with third countries for exports.
- While Turkey does not fund EU budget (as the deal it agreed was linked to joining the EU in future) the UK would be required to do so.
- Uncertainty on level of UK government support for agriculture within future policy.
- Likely that migrant workers from EU would find it harder to work in agriculture due to no free movement of people.

35. *A bilateral free-trade agreement, such as the Comprehensive Economic and Trade Agreement with Canada.*

- UK would have power to agree future trading arrangements with EU and others.
- No contribution to EU budget.
- Not required to follow EU rules and regulations but this could lead to differing standards and rules leading to non-tariff barriers.
- Not part of the EU Customs Union leading to rules of origin issues.
- No longer party to any trade agreements negotiated by the EU with third countries.
- Likely that migrant workers from EU would find it harder to work in agriculture due to no free movement of people with the EU.
- UK able to introduce own agricultural policy but uncertainty on level of support.
- The Canadian agreement does not create free trade across all traded products. It limits significant access to Canada for EU food and agricultural products and vice versa. The deal will take seven years to eliminate tariffs on 91.7% of agricultural lines. The remainder are sensitive products, offered under a TRQ (dairy, beef and pork) or excluded altogether (chicken, turkey meat and eggs). The Canadian dairy TRQ will only allow approximately 18,500 tonnes of EU cheese (4% of the Canadian market). Similarly, the EU will only allow 80,000 tonnes of imported Canadian pork, equating to 0.4% of EU consumption.

36. *Trading under World Trade Organisation (WTO) rules only (including the “most favoured nation” rule and the relevant schedule of tariff concessions).*

- No contribution to the EU budget and the UK would not be required to follow EU rules and regulations. However, differing standards and rules may become non-tariff trade barriers with the EU or others.
- UK would be able to introduce its own agricultural policy but uncertainty on level of support.
- The UK would not be in the Single Market and would likely trade under the ‘most favoured nation’ which would lead to the imposition of tariffs for UK exports into EU and likely vice versa adding to prices within the UK. EU tariffs on meat and dairy are very high (up to 87% ad valorem for frozen beef carcasses) and this would result in UK products being uncompetitive on the EU market and elsewhere. This is a significant issue for UK meat exports which are dependent upon EU access. For example, 96% of UK sheep meat and 93% of UK beef exports to the EU. Similarly, 91% of UK oilseed imports are from the EU and so the imposition of tariffs would have a significant impact on costs in the UK. The net result is tariffs acting as a barrier to UK exports.
- Loss of access to EU agreements with non-EU countries.
- It is likely that migrant workers from EU would find it harder to work in UK agriculture due to likely controls on the movement of people.

37. **Other issues:**

38. ***The nature and extent of the EU's external tariffs, customs checks and non-tariff barriers.***

39. The EU's tariff barriers are important in the agriculture and food arena. Tariffs are high for commodity products, and even higher for processed products. Beyond any agreed quotas, these effectively restrict access to the EU for low cost production. Tariffs into the EU do differ by product, being as high as 87% for frozen boneless beef.

40. The UK is highly dependent on the EU market for agricultural exports, particularly for livestock sector with 96% of UK sheep meat exports and 93% of UK beef exports destined to the EU. For example, current EU livestock tariffs would effectively end these UK exports. Further details on tariffs can be found in the [AHDB Horizon report: What will an UK/EU trade relationship look like post-Brexit?](#) Tariffs affect the whole supply chain as they would cover both imported product ready for retail consumption through to inputs costs such as machinery, feed and fertilisers.

41. If the UK was not a member of the Single Market or Customs Union, goods arriving in the UK from the EU would potentially undergo lengthy customs clearance. In 2015, the UK, imported over 111m tonnes of product from EU countries via its ports so needing customs inspections would add to the paperwork required, create a significant delay in supplies required and ultimately add cost.

42. As part of Single Market there are no issues trading with the EU with regard to non-tariff barriers but non-tariff barriers currently effect trade with the rest of world. The principal risk would be if UK sets its own rules with regards to rules of origin, labelling, packaging and other criteria this will lead from divergence from EU standards leading to additional technical barriers and paperwork when exporting to the EU.

43. Technical barriers such as restrictions on genetically modified foods and country of origin labelling can also become obstacles but they are often deemed necessary for a range of reasons, from environmental protection, safety, national security to consumer information. Therefore how do we ensure that standards are genuinely useful, and not arbitrary or an excuse for protectionism.

44. ***Whether the UK will be able after Brexit to continue trading under the terms of existing EU bilateral free-trade agreements with certain countries (on the basis of so called "grandfathering").***

45. The EU has 34 bilateral and FTAs in place, which cover 60 partners. If the UK and other countries were to simply continue allowing each other tariff-free market access without a formal new trade agreement, other WTO members might claim they should have the same rights. WTO rules countries are not supposed to discriminate among trade partners.

46. At present goods arriving from Mexico into the UK can currently be shipped anywhere in the EU. That would no longer be true if the UK leaves the EU Customs Union. Two separate deals for Mexico would be required, one with the EU and one with the UK which may not be attractive to Mexico. It therefore seems unlikely 'grandfathering' would work.

47. ***The terms on which major economies outside the EU (such as the USA, China and India) are able to trade with the rest of the world.***

48. Trade between WTO members takes place using the applied WTO tariffs unless there are FTA's in place. For example, the US currently trades with Mexico and Canada via the North American FTA (NAFTA). China is looking to develop its own Regional Comprehensive Economic Partnership, which includes India and other Commonwealth countries, such as New Zealand and Australia. The US is the EU's largest goods trading partner, with total trade in 2015 valued at \$600 billion but has to pay EU tariffs to trade. The US has been negotiating the Transatlantic Trade and Investment Partnership (TTIP) FTA with the EU but this is in doubt following the US election.

49. ***The possibility and desirability of the UK adopting a unilateral free-trade, low-tariff or uniform-tariff approach.***
50. This could open the UK market up to imports from lower-cost overseas producers. Price is the number one consumer consideration when purchasing food and so they are likely to prioritise price over product origin, eating quality and animal welfare, etc. Cheap imports would likely lead to lower retail prices but UK domestically produced product being uncompetitive leading to falling prices and significantly reduced agricultural incomes, especially for the livestock and dairy sectors. The lack of an EU export market would compound this leading to a considerable negative impact on UK farming. No detailed modelling has been undertaken but it is plausible to assume significant restructuring and contraction of the beef herd and sheep flock, with implications for food companies and jobs based around these sectors in particular but also others.
51. ***Whether trading models operated by countries that belong to the Commonwealth might be applicable to the UK and the lessons of the UK's historic trading relations with the Commonwealth before 1973.***
52. India, Australia and New Zealand are members of the Regional Comprehensive Economic Partnership, a Chinese led FTA which is currently being negotiated. Australia has also developed FTAs with a number of markets including China, Japan, New Zealand and the US to develop its export trade.
53. New Zealand would no doubt wish to maintain access to the UK for sheep meat post-Brexit, as it currently accesses the UK market via an EU fixed quota. FTAs with Commonwealth countries could open up UK agriculture to strong competition from lower cost producers.
54. Since the UK became a member of the EU, UK trade with Commonwealth countries has fallen. A 2012 House of Commons Library report states that in 1973, UK trade in goods with the Commonwealth constituted 18% of the UK's total trade in goods. By 2011, this figure fell to 10% accounting for an estimated 10% of all UK goods exports and 12% of all UK services exports. With regards to imports, the Commonwealth accounted for an estimated 7% of all UK goods imports and 10% of all UK services imports.