HOUSE OF COMMONS

International Trade Committee

Oral evidence: UK trade negotiations: Agreement with New Zealand, HC 78

Wednesday 25 May 2022

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Watch the meeting

Members present: Angus Brendan MacNeil (Chair); Mark Garnier; Paul Girvan; Sir Mark Hendrick; Tony Lloyd; Anthony Mangnall; Mark Menzies; Lloyd Russell-Moyle; Martin Vickers; Mick Whitley; and Mike Wood.

Questions 51 - 82

Witnesses

I: Miles Beale, Chief Executive, Wine and Spirit Trade Association; Peter Dawson, Policy and Sustainability Director, Dairy UK; Phil Stocker, Chief Executive, National Sheep Association and David Swales, Head of Strategic Insight, Agriculture and Horticulture Development Board.

Written evidence from witnesses:

– Wine and Spirit Trade Association

– National Sheep Association

Examination of witnesses

Witnesses: Miles Beale, Peter Dawson, Phil Stocker and David Swales.

Q51 **Chair:** Good morning. Welcome to the International Trade Committee's evidence session on the UK trade negotiations agreement with New Zealand. We have two panels this morning; our first panel is a panel of four—we have three here in person and one virtually. I will ask the three in front of me and then the virtual participant to introduce themselves—name, rank and serial number, starting on my left.

Miles Beale: Good morning, Chairman. My name is Miles Beale. I am chief executive of the Wine and Spirit Trade Association.

Chair: Welcome. Good to see you again.

Peter Dawson: Morning. It is Peter Dawson, the policy and sustainability director of Dairy UK.

Chair: Thank you, and thanks for coming.

David Swales: Good morning. My name is David Swales. I am the head of strategic insight at AHDB. We are the levy board for agriculture, based in the UK.

Chair: Thank you very much. Finally, we have Phil Stocker joining us virtually. Phil, name, rank and serial number.

Phil Stocker: Good morning, everyone. My name is Phil Stocker. I am the chief executive of the National Sheep Association, a membership organisation for sheep farmers in the UK.

Chair: Sounds like one of the most important bodies I could think of.

Phil Stocker: Well, thank you for that. I am really sorry that I cannot be with you in person this morning as well. Sorry about that.

Q52 **Chair:** That is fine. We will think of the carbon footprint, which is much better.

Okay, this is just a general question for all of you. Briefly, what is your assessment of the New Zealand free trade agreement? Let's start with Miles.

Miles Beale: Thank you, Mr Chairman. Generally speaking, we think it is a good agreement. We would certainly point to some improvements in, probably, the way the Government went about it and the substance, compared with Australia. It is a very similar outcome, from our point of view. Removal from point of entry into force of tariffs on wines and spirits products going in both directions, which is unadulteratedly good news—good for trade. The difference with the Australia free trade agreement this time is that there is a wine and spirits annexe. From our perspective, that is a very good addition. We would like to have seen it in the Australia free trade agreement, particularly because it supports the avoidance of technical barriers to trade in the future, as well as immediately.

Q53 **Chair:** The wines and spirits annexe is an import/export focus?

Miles Beale: Yes, and it is a lot to do with the non-tariff elements around labelling and things like that. It is a way of making sure that there will not be future requirements for labelling, which would be bureaucratic and unhelpful for the flow of trade. So, yes, it is good.

Peter Dawson: We hold a very much contrary opinion. Our concern is primarily focused on, essentially, the economic and commercial implications arising from the agreement. New Zealand has a clear competitive advantage in dairy, which is well acknowledged by the Government's impact assessment, and it opens up the UK market to potential unlimited New Zealand imports in a fairly short timeframe.

At the moment, the New Zealand dairy industry is more focused on the far east. They have lucrative and growing markets over there, but there may be a situation where they could decide, as a matter of necessity, that they want to reorientate very rapidly into this market. Because of that competitive advantage that they have, they will be able to obtain a market share up to any limit they decide is necessary for the interests of their industry. In those situations, there is the potential for UK product to be displaced, and unless we can find alternative markets abroad, the industry could potentially shrink.

In terms of the countervailing market opportunity made available to us for exports to New Zealand, it is a very small market. There are high transport costs, and the tariff reductions are actually quite marginal because New Zealand already had fairly low tariffs in the first instance. So, overall, we would describe it as a blow to the UK dairy industry.

Q54 **Chair:** I will come back to you about what you have just said in a later question about food security. Before I do, can I turn to David Swales so we hear from all four of you?

David Swales: The deal does create quite a lot of concern across the agricultural industry. Obviously, Peter has spoken specifically about dairy, but the deal does present quite a lot of challenges for other sectors as well. New Zealand is a tiny potential market for exports, so there is very little to be gained for our industry exporting to New Zealand. But they are a very low-cost producer and a major exporter globally, so there is potentially quite a lot of risk which comes with the deal in terms of potential impact to our domestic sector.

AHDB do quite a lot of work to assess the impact of trade deals, and we are currently in the process of doing work to model the impact of this deal, working alongside colleagues at Harper Adams University. I will be happy to share the details of that work once we have it, which will probably be next month. Hopefully not to prejudge the findings of that too much, I think we will see a negative impact in terms of our domestic output and prices on the market for farmers in the UK.

Q55 **Chair:** Phil Stocker, for farmers and crofters, humble or otherwise, that are into sheep, can you tell us what it is looking like?

Phil Stocker: Thank you, Chairman. In any free trade agreement there are going to be winners and losers, and we would see ourselves in the sheep sector as one of the losers. We have often described ourselves as being a sacrificial lamb for, potentially, the benefit of many other sectors. It seems to us that the risks are all with us and the opportunities are all with New Zealand. The opportunities for us to export sheep meat and sheep meat products to New Zealand are tiny—absolutely tiny or remote. We know that there are well-established trade routes for New Zealand lamb coming into the UK so, for us, this is not a welcome trade deal at all.

I would also add that in Britain, where there is a lot of work going into trying to recreate a food culture and food provenance, this deal risks homogenising a protein traded in a global commodity world. In a way, it conflicts with another move within the farming and the food world here in Britain, which is about trying to localise and regionalise food supply chains and maybe focus on food sustainability and food security here in the UK. So, for us, I would say that this is not a welcome deal. It offers us very little.

Q56 **Chair:** You talked of winners and losers there, and we will try to identify losers on the New Zealand side at some stage.

My second question is directed to David Swales, but I will go to Peter Dawson afterwards. DIT's impact assessment expects the agreement to lead to an economic contraction of around 0.35% for agriculture, forestry and fisheries, or £48 million, and around 1.16%, or £97 million, for semi-processed foods. Are these estimates in line with your own analysis and expectations? Will there be a contraction? Will there be a loss? Will there, basically, be money going out of UK agriculture, forestry and fisheries and food processors?

David Swales: I would certainly agree those sectors will be adversely impacted. It is sometimes a little misleading when you look at agriculture as a whole, because there are obviously lots of different components. Phil spoke a bit about the sheep sector specifically, Peter is talking about dairy, and I would probably add the beef sector in as well. It will be those parts of the industry that bear the brunt of that impact. There will be large sectors of agriculture that really are not impacted very much at all, and you will see a much more severe impact on certain sectors. So that is the first point.

The figures in the assessment are probably a little bit of an underestimate. I do not have my own calculated and published figures to share at this stage, but my gut instinct is it is likely to be a bit low. That modelling uses what is called a general equilibrium model. I will not bore the Committee with the details, but I think there are limitations with all models of this type in terms of what you can look at and how you assess. Maybe the nature of our sector makes it quite hard to model in some regards.

Just to give you a couple of examples, the modelling will assume that all beef and all lamb is an homogeneous product—it is all the same. We know that is not the case, and different cuts of beef and lamb have very different prices. So 10,000 tonnes of beef carcase coming into our market would have a very different impact than, say, 10,000 tonnes of fillet steak. The very high-value cuts would basically take the top off the market and have quite a strong impact on the whole industry. So there is potential for the deal to have a much stronger impact than those figures suggest.

The other point I was going to make is that, when you are doing modelling like this, you tend to look at averages over a number of years, and those averages can hide lots of issues. Within the agricultural industry, we are well used to there being shocks to the system in particular years, and freak weather events can have quite a big impact on the market. In terms of political events, we are seeing at the minute with the war in Ukraine what a massive impact these things can have on the food system. These sorts of events are impossible to model.

A lot of our concern with the deal is that it does expose us to risk. What would happen were New Zealand and China to fall out and that trade deal were to break down or tariffs were imposed? New Zealand would then suddenly have quite a lot of product which it would have to find a new home for, and the risk is that we could well see a share of that product landing at these shores, with a much greater effect on our industry than those headline figures suggest.

Q57 **Chair:** Yourself and Peter Dawson are maybe touching on the same thing, and that is the change, since the Ukraine war in February, in the conversation around food security. It was almost impossible to mention food security, and I think no thought was given to food security during the Australia or New Zealand negotiations.

Peter, you touched there on China and New Zealand—as did David—and on New Zealand, in a shock, maybe reorienting its markets elsewhere and having a parachute market here. Can you talk us through what it might mean for food resilience if New Zealand was able to use here as a parachute market for, say, five years and then, after that, China and New Zealand were to make up, if that was the event that David was alluding to?

Peter Dawson: There are various parameters you could feed into this scenario, if New Zealand did fall out with China. Essentially, you are looking at the response of just one company to this, and that is Fonterra, who account for the overwhelming majority of the New Zealand dairy industry and their exports. They are not just exposed to China; they are in markets all over the world, but obviously the UK market is a high-value market—we are a developed country, with the same food culture and no technical problems to enter into the market. If you say you are looking at the scenario of how they might exploit that opportunity over five years, you would be looking at the tariff rate quotas that have been introduced, particularly for cheese and butter, but you should not overlook the fact that some tariffs, such as for milk, cream and yogurt, will be eliminated when the agreement is implemented. The tariffs for milk powders—whole milk powder, skimmed milk powder—will be abolished progressively over four years. So there will be other opportunities outside the tariff rate quotas available to the New Zealand industry.

Then you have to speculate what market they want to get into. Do they want to go into the consumer goods market, presenting branded propositions to retailers, or do they want to go into the food ingredients market, and what impact would that then have on the UK industry? Potentially, a lot of New Zealand market penetration may impact on other importers into the UK market—Ireland, in particular.

After the implementation of six years, there is unlimited access to the UK market. There will be zero tariffs on dairy, so they could put any amount of volume into the UK market if they wanted to.

Q58 **Chair:** Say that, in six years' time, an event happens with New Zealand and China, and New Zealand diverts its stuff to the UK market for, say, a further five years. Then let us say that China and New Zealand make up, and New Zealand goes back to trading with China. What would the effect be on the UK production capacity in the intervening period?

Peter Dawson: There would be a significant shock to the UK industry over that period. Obviously, the industry would seek to adapt as rapidly as it could. It would seek to find alternative markets for its product, and there would be a sort of global displacement of dairy products. China would have to look for alternative supplies, and there would be a chain reaction around the world, but it takes time to find new markets, new routes to market, new customers, and during that period you would expect the industry to be subject to a significant price shock that would result in contraction. I cannot see anything else happening, really. I would have thought it would be fairly self-evident.

Q59 **Chair:** How quickly could it make up that contraction if, say, another shock came in and you could not get product from New Zealand?

Peter Dawson: It takes time to build up productive capacity. In response to short-term price signals such as changes in feed cost, production can vary by about two billion litres over a few years, as the industry decides it does not want to feed more to cows to produce more milk.

In terms of when you want to expand off a base level of production, which is about 14 billion or 15 billion litres, it takes a long time. You need heifers, you need buildings, you need confidence and you need finance, so it will take longer to recover from any production shock than it would take to lose that capacity.

Q60 **Tony Lloyd:** This really follows on quite neatly from this last exchange, and it is a question for Phil, Peter and David. Under the agreement, there are five sensitive areas—cheese, milk, beef and sheep meats, and fresh apples. Those transitional provisions mean that tariff rate quotas and transition periods are there. Peter, that would possibly limit the impact of what you described. The question I have is, are those transition periods adequate to protect our domestic producers? Phil, Peter or David?

Phil Stocker: You could argue that the transition periods are long enough. The bigger question for me is whether they allow us to transition to a place that we want to get to in 15 years' time, and I would argue that they still do not. This takes us back to that question about food security and food resilience. If in 15 years' time we end up with a production and an import and export structure that is very much based on us exporting more and importing more, it may well, in the sheep sector, have very little impact on primary producers, because of our volumes—our volumes could well remain the same—but it will have a massive impact on the infrastructure and retail chain and the way that we consume and distribute products around the UK. If there was to be any volatility or any disruption in that global trade, through political unrest, climate unrest or whatever it might be, the process and infrastructure and the way we balance carcases here in the UK would be lost, and it would not be there to allow us to move to a more resilient system of food distribution and food accessibility in times of disruption. So my answer really is that I think 15 years is long enough for us to know where we are heading, but the question is whether we really want to be where this has taken us in 15 years' time.

Peter Dawson: The transition period for dairy is much shorter. As I said, some of the tariffs are eliminated immediately. There are tariff reductions in powders over four years. The TRQs are phased in over 5 or 6 years, and then there is complete tariff elimination. We would have liked a longer transition period because, as I said, there is potential for much greater competitive pressure on the industry. That will be felt throughout the entire supply chain, including at the processing level, but also, probably predominantly, at the farming level. When we are talking about the farming level, we are talking essentially about small enterprises that are family owned and family run, with limited access to capital. At the same time, the regulatory burden on those dairy farms in the United Kingdom is increasing.

In parallel to that there is going to be a complete reconfiguration of the provision of Government support to agriculture. The path is clear in England: we are moving away from income support towards provision of support for public goods, which is essentially just a compensation mechanism that does not necessarily bring any commercial benefit. The picture in their devolved Administrations is going to be different, but nevertheless there is going to be overall withdrawal of an income support requirement, for dairy farmers to become more competitive. To do that, they are going to have to invest significantly in many areas, but a lot of their focus is going to be drawn to meeting environmental obligations, particularly in respect of water pollution, nitrates and so forth.

At the same time, whilst the Government are providing some measure of funds to help that sort of investment, they are not sector-specific, and we would not think that the total funds available are really helpful. We need, I would have thought, significantly more to help the industry take on the challenge it could be facing.

David Swales: I think I agree with what my colleagues have said. What I would add to the discussion is that I certainly agree that the sensitive sectors are the right ones to identify. For me there is another question about whether the volume is at an appropriate level. It is highly unlikely that we will see anything like those volumes of imports. I would suggest that they are probably set at too high a level to really act as any sort of constraint. If we take sheep meat, by the end of the full period there is a limit of 50,000 tonnes. We already have a TRQ for free trade with New Zealand for 114,000 tonnes, of which they use about 30,000 to 40,000 tonnes a year. You will be looking for an extra 120,000 to 130,000 tonnes of sheep coming on to our market in order for that to be triggered. So it is set at an incredibly high level. It sounds great in theory, but my query would be, is it going to be effective in what it is intending to do?

Q61 **Tony Lloyd:** David, can I just follow up slightly on this? The point you make about it being a very liberal envelope is a real one. Obviously the Australian free trade agreement is already in existence. Should there have been consideration of the interaction between Australia and New Zealand in these figures. Looking forward to future FTAs, what does that mean?

David Swales: That is a really good point. It is interesting that the levels are actually lower than in the Australia trade deal. We have obviously made some sort of change, from one to the other, but there is a little bit of a cumulative effect here. Australia and New Zealand are both agricultural net exporters, so there is relatively little to be gained from an agricultural perspective. What we would love is to actually have some trade deals with countries where there are some positive opportunities for agricultural exports, to weigh up some of the negative ones, so that the industry is in a bit of a better place overall.

The other thing I would say goes back to my comments earlier about the differences for different types of cut. It would be great if that were built into future trade deals. The impact of 10,000 tonnes of beef mince or beef carcase is going to be completely different to 10,000 tonnes of fillet steak. At the minute, the trade deals do not really specify—it is just literally a volume—and New Zealand or Australia could be very specific in targeting very high-value cuts. In fact, they probably will do, and the majority of that trade will be high-value cuts coming into our food service sector, which will have quite an adverse impact on the domestic industry.

Q62 **Tony Lloyd:** You made the point earlier that these were the five areas of greatest sensitivity. Are there other areas? And should we also be sub-dividing the existing areas?

David Swales: Certainly, in terms of the areas AHDB covers, beef, sheep and dairy would be the key ones where New Zealand are obviously big producers and big exporters. Those would certainly be the key ones for me. Those are certainly the key sectors that I think will be impacted.

Q63 **Chair:** Ukraine takes us into sharper focus, so I find it shocking, and I wonder if you do, Peter and David, that when we have spoken to the trade negotiators from both the New Zealand and the Australia trade deal, no consideration at all was given to food security? None. It is just not a part of their negotiating brief. What is your reaction to that information?

David Swales: It is interesting, isn't it? Obviously the focus is very much on the economic benefit for the UK as a whole, looking across all economies. The observation that agriculture is the sacrificial lamb probably is our observation as well in all of this. That could have a detrimental impact on UK food security.

Obviously, in terms of improving trade with relatively stable democracies who produce food, like Australia and New Zealand, it is good for our overall food security to have access to trade with those countries. What we need to do is be sure that we are careful not to damage our own domestic production when we do that. The reality is that we are striking lots of trade deals at the minute, and the initial ones, at least, are not with the countries I would choose—let us put it that way—from a purely agricultural perspective. I appreciate that the Government has to look at broader issues than just agriculture.

Q64 **Chair:** I think the Government take trade deals where they can. Phil, I see you want to come in, and I will take you before Peter, just in case your hand has been up longer.

Phil Stocker: I just want to back David up on the point he made about the importance of that investment in new trade opportunities for us as well. If we are opening ourselves up to more New Zealand and Australian lamb coming into the UK, we have no alternative really—no other option—than to seek other trade export opportunities. There is nothing that is being done at the same scale as the opening up of those import opportunities for New Zealand and Australia.

Although the volume is creeping up back into the European Union, it is also worth recognising that our exports into the European Union are nowhere near as easy and as free-flowing as they used to be. We are losing our export opportunities, and we are not gaining them at the same pace as we are opening our market up to other people. It is worth just considering that, collectively, at the end of that 15-year transition period, both Australia and New Zealand could actually fill the total volume of lamb and sheep meat that we consume here in the UK.

Just relating that back to the question that you have raised a couple of times, Chairman, about food security, in this push towards global trade, we have learned, haven't we, over this last 12 months just how important food security and food resilience are to us? If we go too far down that road of obstructing everything, from a production level, to a processing level, to global trade, and then suddenly we have this volatility, can our food systems really support us and support our food needs? We have to keep our eye on that ball very, very closely.

Q65 **Chair:** Peter, what is your take on the point about lack of thought on food security in the negotiations.

Peter Dawson: Well, it does not seem to have informed Government policy; there just seems to be a generalised rush to secure free trade agreements as soon as possible with any partners willing to line up for them. The whole logic of trade liberalisation is generally true when there is a stable international order where people recognise the benefits of open trade and it is not contested by those parties who suddenly believe welfare is pursued by appropriating the territory of neighbouring countries, at which point it all starts to fall down.

In terms of how we can achieve food security, I do not think we would argue for striving towards self-sufficiency, because that is just not within our power—we do not have the productive capacity for it—but you would have thought that it was rational to minimise our exposure to the risks of an unstable situation and an unstable world market.

One thing we have not yet seen falling out of the Ukraine crisis, which we might if it continues to develop in the way it has, unfortunately, is export bans. One or two countries did announce them, but they seem to have retreated from that position. That will become a real test of the international trading order and agri-food products. I hope we do not find ourselves facing that challenge, but once we do we will have to reconsider exactly what our objectives are in terms of free trade agreements.

Chair: Like in the pandemic, when countries had the impulse not to export at all, which was all contrary to a lot of trade understanding we had up to that point. Lloyd Russell-Moyle, do you want to come in briefly before I take Mike Wood?

Q66 **Lloyd Russell-Moyle:** There are some very interesting discussions here. Phil, you mentioned not only the food security dynamic but the push towards having more locally produced environmental foods. I just wonder, are trade deals without fixed—maybe even increasing quotas rather than reducing quotas—the way forward, rather than our obsession with just cost and liberalisation?

Phil Stocker: I would say that what we need in our market is stability. Right at the beginning of both of these deals, we argued that there should be recognition of the fact that when this started and the TRQs were set, and I think David mentioned this, they were very much around carcase trade—it was whole lamb trade—but that has changed over the years to specialist cuts. That market has changed, and that tonnage, which would have included an awful lot of bone, now does not need to include any bone at all; it could be completely boned products coming, so the actual volumes have increased. So we need stability. Whether those volumes should come down from where they are now, I do not know.

Many people would argue that a level of trade liberalisation will give us an element of food security if there were to be particular production or climate problems here in the UK. The ability to trade is probably quite helpful, but it presents a risk to us. I guess that the volatility it presents is really unhelpful for us.

So we want stability, and managing our way through this is going to be really quite difficult. It is going to be okay for as long as that Asian market and New Zealand lamb volumes into the US and China continue as they are, but if there was to be any disruption, then it is that volatility that is going to really hit our markets and hit our food supply chains.

Q67 **Mike Wood:** This is a question for Phil Stocker. As David was saying, New Zealand currently has tariff-free TRQs for 114,000 tonnes—that is roughly, as I understand it, the total import of sheep meat into the UK on an annual basis. We are told that New Zealand has not filled that existing tariff-free quota since at least 2008, so just how much of a risk do you think there is of the UK market being flooded by New Zealand lamb if this agreement is introduced?

Phil Stocker: The risks of our markets being flooded immediately, initially or at least few years is remote. We have never said we expect our markets to be flooded with sheep meat. What it presents is a level of risk if there was to be volatility in world trade. This comes back to that issue of potential political unrest, or unrest caused by climate change, with some of those big markets in China and the US. If any of those markets and those existing supply chains are disrupted, then New Zealand and Australia will look at us as a favoured market. We are a high-value market. We are a market that is reliable and that pays reliably. It is in those times of volatility that our market could be at risk of being flooded. We did see that, to some extent, back in 2015. For the last two or three years New Zealand has only been fulfilling its quota to about 30%, but back in 2015 they were probably closer to 60% or 70%, and it was really undermining our market, leading to a reduction in our farm gate prices. Farmers were really being hit quite badly during that time. It is not that long ago, and it could happen again.

Q68 **Mike Wood:** The trend over the last couple of decades has been that imports of lamb from New Zealand have been declining rather than rising. Do you expect that to continue, or do you think that would be likely to change if this agreement was introduced?

Phil Stocker: I do not think it would change if this agreement was introduced—until there was volatility in global supply chains and global markets. It is about the risk that this exposes us to, rather than the expectation that there is going to be an immediate flooding of our market.

David Swales: Could I chip it on that question? This is really interesting. You mentioned 2008 as a key year, and it is a key year. It also illustrates some of what we were talking about earlier, because that is the point where New Zealand's trade deal with China came into place. What New Zealand has progressively done over that time is pivoted a lot of its supply—which probably used to come here—and more of that supply now goes to China. To me, that really does illustrate the point we were making around, "What happens if". If there is a falling out, suddenly there is a lot more product there that could make its way on to our market.

Yes, the volumes have been declining. They are between 30,000 and 40,000 tonnes. Part of the reason for that is competition for agricultural land in New Zealand. The dairy industry is where New Zealand is probably concentrating more of its efforts; it is probably a more profitable use of land. The sheep farmers in New Zealand are maybe being pushed out towards more marginal areas as the dairy area has increased. These things do interplay between each other, but make no mistake: New Zealand are a really big exporter, and if situations change they are set up to export. They only have five million domestic consumers, and they could very effectively compete in our marketplace.

Q69 **Mike Wood:** Looking at beef imports rather than sheep meat imports, what do you think the effect of removing trade barriers on imports of beef from New Zealand is likely to be? Which of those trade barriers do you think are most significant in terms of their likely impact on the UK market?

David Swales: My personal view—I have not got the evidence of the modelling yet to support this, but I will supply that in due course—is that the impact on beef could be more adverse than on sheep, because of the quota issue. New Zealand has a quota for beef of around 500 tonnes, compared to the 114,000 tonnes for sheep meat. Because of that low quota and the relatively high general tariffs we have in place for beef, New Zealand does not really look at our market at all. They are very much focused on the US, I think, as their major export market for beef. It is likely that that we will see a bigger increase in our imports for beef than we will on the sheep side.

Q70 **Mike Wood:** Would you expect that to be displacing consumption of British-produced beef or consumption of beef from other existing import markets?

David Swales: Both of those, and that is a really key point. In the modelling work we do, we try to look at it as a network—we use a network modelling approach—and certainly the work we did around modelling the impact of the Australia trade deal shows that, yes, there is an impact on our domestic production and our domestic supply, but quite often we do see a displacement of some imports. Indeed, sometimes it may raise opportunities for us to increase our exports elsewhere—maybe to the EU or elsewhere.

The point Phil made earlier was a really good one: at the minute, we are experiencing increased friction and increased costs in trade with the EU, who are a major market. So any efforts that can be made to make that easier, and to make it easier for our exporters to trade with other markets, will help mitigate the impact of this particular trade deal.

Chair: I will now be taking in Mark Garnier. Any good Committee has different viewpoints and different angles of scrutiny, and myself and Mark Garnier may be the good cop/bad cop in this. He may test the idea of protectionism, which is a very valid thing to do and is necessary work for the Committee, so let us see what he is going to do this morning.

Q71 **Mark Garnier:** Actually, Angus has actually led in rather well to my questions. I will, if you like, play devil's advocate on this. For the last 45 minutes or so, we have been talking about the risks to the UK agricultural industry, and I completely understand that. But all 11 of us MPs on this Committee will be heading home tomorrow, meeting all our constituents over the coming week, possibly visiting food banks and possibly talking to people about the cost of living crisis and the challenges that face all our constituents, which are a very big deal.

To a certain extent, the discussion we have been having so far has almost been about protectionism. It is almost about the Corn Laws and trying to make sure that our domestic producers are not badly affected. But that does have the effect of keeping prices higher on food than could otherwise be the case. I completely understand that there are different costs and all the rest of it, but what would you say to the constituents we are going to have to go and talk to on Friday, over the weekend and next week about the idea that an awful lot of what, potentially, is being said by the UK agricultural industry is about keeping prices high to give security to local domestic producers, when there is an opportunity of getting cheaper food from overseas? Peter, why don’t you crack on?

Peter Dawson: Just as a generality I would say that we are not arguing for protectionism; the boat has sailed on that, and we are moving out of the auspices of the common agricultural policy and income support and all that entails, and we are moving into a different environment. We appreciate that, and we are not going to go against the flow of that. What we are asking for is closer integration between trade policy and agricultural policy.

Given that this is going to impose a greater competitive challenge on UK agriculture, we think the Government should be mindful of the need to assist the industry to meet that challenge. There is a backlog of investment in dairy farms that needs to be met, and we would hope that some of the Government funding that is made available is made specifically available to the sector—given that it has a particular challenge arising from these deals—and to some other particular sectors. That would help the industry to raise its game and raise its competitiveness to meet that challenge. That is what we are asking for. We are not asking for blanket protectionism, because we recognise that that is just not feasible and not consistent with the Government's agenda.

Q72 **Mark Garnier:** That is a very reasonable point to make, so how would what you are asking for be any different from the farming subsidies that we were having from the EU before and where the process is now? Would you advocate, for example, an agriculture bank, where you can get subsidies? Rather like the British Business Bank, you would have a British agriculture bank who could support farming businesses that are relatively capital intensive, such as dairy parlours.

Peter Dawson: Well, I am certainly not advocating a return to the direct income support that was available under the CAP, which was payments linked to land. In the end, that was a very wasteful system. What we are arguing for would be an expansion of the type of schemes DEFRA has been developing—the technology investment funds. There should be a greater funding available, and it should be specifically targeted to dairy. They are developing the model that is there already, which allows money—grant funding—to be made available for investment in particular pieces of kit and infrastructure. That is the thing we would ask for.

Q73 **Mark Garnier:** Phil Stocker, perhaps I could turn to you and sheep. One of the things that has always confused me—this is not just a recent thing, and it goes back over many decades—is why on earth we import lamb from New Zealand when we export lamb to the EU? If the world made sense, we would just eat the lamb we are producing and there would not be any mucking around with this expensive trade. Discuss.

Phil Stocker: It is a really interesting question, and if you look at our consumption and our productive volumes, they are more or less in balance. They hover around that 270,000 to 300,000 tonnes a year, and on average we import as much as we export. It is a really interesting question: why do we do this? The answer is partly around seasonality; it is partly around the fact that we are still a semi-natural farming system, I guess. Virtually all our sheep lamb in the spring, and we get these peaks and troughs of lamb coming on to the market. So we do it in part to balance that seasonality, and we do it in part to balance carcase utilisation as well.

Could the industry adapt to be 100% self-sufficient? It could. Absolutely it could. If you look at the lowlands of Britain and the uplands of Britain, and at the different growth rates and the different breeds, there is no doubt that we could adapt to fill our market on a 12-month period. What we would lose from that, I believe, is that competition and trade. There is no doubt at all that export trade helps put competition into the market and helps to keep prices up.

I feel at the moment that there is really an absence of a vision and a strategy for where the UK wants to go in terms of our trade policies, our food security and our environmental policies and objectives as well. We need to bring all of that together into an overarching vision of where agriculture, food production and land management want to go.

Q74 **Mark Garnier:** You are the chief executive of National Sheep Association, so you have the power to do that within the confines of the sheep industry. What I am also quite interested in is that Beef + Lamb New Zealand Ltd and the Meat Industry Association Inc have told us that trade liberalisation has been one of the most positive things for the New Zealand agriculture industry. Why would that be different here?

Phil Stocker: It is different because of the fact that we are a very different nation to New Zealand. As David said earlier, theirs is a population of some five million, and they would export probably in the region of 90% of their sheep meat production in New Zealand. In the UK, we have a population of some 65 million, and around about 65% of our production would go to feed our domestic population, so the whole structure is very different.

It is also worth remembering that we are going through this transition of leaving the common agricultural policy, with farmers being encouraged to be more productive—that is, more profitable—and to make their enterprises more viable, because there will not be that subsidy available to support farming enterprises that are unviable. Adding value to our product and actually trying to push our prices up is a key part of businesses trying to be more productive and profitable and less reliant on subsidy going forward, with that move towards a reward for public goods.

We are a very different sector, I suppose, to the poultry industry, the pig industry and the dairy industry. We are already in that premium lower-volume and higher-value market, and it can be challenging. But sheep meat production, which has a relatively high cost of production, is delivering an awful lot of public goods, and it fits that whole message around potentially eating slightly less volumes of meat but buying higher-quality meat, with all the environmental outcomes and social outcomes that we know come from British land production.

Chair: Thank you for posing that, and thanks for noting the whisper of time there. Martin Vickers.

Q75 **Martin Vickers:** My questions, initially anyway, are to David. How far do you agree that UK and New Zealand farmers operate on a level playing field in respect to food, animal welfare, environmental standards and so on?

David Swales: That is a big question, when we have just been warned about time. There are a lot of issues there. In a very broad sense, certainly in terms of lamb, New Zealand have been trading with us for a long time, and we actually see New Zealand product in our supermarkets. On a lot of levels, there are quite a lot of similarities in terms of the issues you have you have listed. I certainly would see New Zealand as a closer match to us than maybe Australia—the previous trade deal we signed.

It is certainly worth noting that there are quite a lot of big differences. You mentioned animal welfare, and we do have very different systems. If you compare typical UK farms to typical New Zealand farms, it will not surprise you that New Zealand farms tend to be much bigger and much more extensive than ours. Just due to the sheer scale, I guess they would operate more of an easy care-type route. There is less contact between the farmer and the animals they are caring for. UK farmers might take the view that how we farm here is better in terms of animal welfare. The trade deal broadly sees the standards as equivalent to each other. Sometimes you will get differences in standards across different countries, just because of the geography and those sorts of things. We are probably aiming to do similar things in all of these areas, but there will be some subtle differences in standards.

Where you do get differences in standards, that often does exercise farmers, who will be saying, "Hang on a minute. This isn't fair. I'm producing my product like this, and a farmer on the other side of the world is able to operate to a different standard."

Q76 **Martin Vickers:** Would it be fair to say that we are not quite on a level playing field and that New Zealand have probably got the advantage?

David Swales: They have certainly got a lot of geographic advantages. It is a very good climate for growing grass; we have a good climate for growing grass in the UK as well, but New Zealand is probably one of the best places in the world for that.

Chair: They have a good latitude too, don't they? They have a better latitude.

David Swale: Yes. There are always going to be differences like that, and there are differences in systems. I guess the key challenge for the trade deal is to ensure that those differences can be carefully managed.

Q77 **Martin Vickers:** Did any of the other witnesses want to come in?

Peter Dawson: Just briefly, the New Zealand trade deal and the Australia trade deal have various clauses governing environmental standards and animal welfare standards, but that implies that somehow there is a capacity in the UK to actually verify what is happening on the ground and to check whether they are meeting their obligations under the agreement. We just wonder whether we actually have the institutional capacity to deliver on that. It is going to be a new experience for the UK to administer its own free trade agreements. In terms of agri-food issues, that used to be the responsibility of DG SANTE in the EU. We just wonder whether we have the same institutional capacity being developed in the UK to deliver that for us over here.

Chair: Thank you. I have a feeling that our next question will be brief. It will be Anthony Mangnall, who is also standing for Chair of the EFRA Committee, so this might be the last we see of him, because I anticipate that the overwhelming numbers of MPs will be voting for Mr Mangnall today.

Anthony Mangnall: You are embarrassing me, Chair.

Chair: It is a make-or-break question. In all offices all around the House of Commons at the moment people are watching this question—no pressure, Mr Mangnall. You are talking about farmers and agricultural interests here.

Anthony Mangnall: What a good steer, Chair. Thank you very much. You are driving this Committee incredibly well.

Chair: If you do make it out, you will be a fantastic Chair of EFRA, I must say.

Q78 **Anthony Mangnall:** Thank you. Peter, what is the distance that you would see milk exports go from somewhere like New Zealand?

Peter Dawson: Well, they export all over the world at the moment. It is all in processed product; the biggest product is whole milk powder, followed by butter, cheese, skimmed milk powder. They do not do very much fresh products, but if you look at their pattern of exports, those are just about in every market around the world at this point in time.

Q79 **Anthony Mangnall:** But Asia-Pacific is presumably the dominant focus to their market?

Peter Dawson: Yes, about a third is now focused in that market and particularly to China.

Q80 **Anthony Mangnall:** I will be very briefly here, but it is striking, listening to the conversation that we have had thus far, that it seems to be a lot more about the import impact rather than the export opportunities that we have in the Australia trade agreement or the New Zealand trade agreement in this instance. I just wonder whether we need to be a bit more proactive about looking at how our farmers, fishermen and producers can actually reach new markets, and whether this is what the trade deals are opening us up for.

Peter Dawson: Potentially the—I hesitate to say this—CPTPP agreement will give us some opportunities. India, in theory, gives a lot of opportunities, but that would be an extremely hard nut to crack because the Indian domestic industry is so important to their rural way of life. America is potentially a big market, but that also would have a huge competitive challenge. So, yes, there are other opportunities around the world, but the market opportunities made available by the agreement with New Zealand are very, very small.

Q81 **Anthony Mangnall:** I am going to bring Miles in here. From the point of view of where we are importing large amounts of wine from Australia and New Zealand, you were before us on Australia, and you made some points about how, actually, the trade barriers that are being removed are all very beneficial in the trade agreement, but domestic law is causing a bit of a problem in terms of wine imports. Can you just say a little more about that? At the beginning of this session you also started talking about the annexes in the New Zealand trade agreement. Could you add a little more light on that as well?

Miles Beale: Yes, certainly. There are fewer what ifs to talk about with wines and spirits. There are benefits in both directions. We currently sell something like £3 million-worth of gin to New Zealand. A 5% tariff will go immediately when the agreement comes into effect, and that is a huge opportunity for distillers in the UK. Equally, some low but relevant tariffs on bulk and bottled wine coming into the UK, of between £8 and £12 per hectolitre, will go. Between £250 million and a quarter of a billion pounds-worth of wine imports would, in theory, get cheaper. That is a great benefit for UK consumers so, unlike other products, it is definitely mutually beneficial for wines and spirits. As we know, UK GDP is supported equally by imports and exports.

The problem for us is particularly obvious with New Zealand wine. It is the sixth-largest country of origin for wine on the UK markets, which given New Zealand's size is perhaps surprising. The benefit to UK consumers from this deal for wine imports is about £6 million. If the Treasury goes through with its proposals for taxing alcohol differently, that would be swept away by £180 million additional cost—30 times greater. We are very pleased with the free trade deal and the benefits for UK consumers, in particular for wine, but it is not joined up at all with domestic taxation policy, where you effectively get the introduction of a barrier to trade in a completely different way. It does not make sense.

Q82 **Anthony Mangnall:** Can I just push you on that? Presumably you have been speaking to your counterparts in Australia and New Zealand. The trade negotiation was going on before we announced the change in taxation policy. What are they saying now? Are they suddenly saying, "Actually, the market that we thought was going to be open for our wine producers is now being closed," or "We're going to suddenly see increased prices, which are going to be passed on to consumers," which you do not necessarily want to do; certainly at a time when we are seeing a high cost of living, I think everyone deserves a glass of wine. What is the comment back from your counterparts over there?

Miles Beale: They are extremely worried about it. It is particularly obvious with Australia, but New Zealand as well, because their climatic conditions are generally hotter, the wine is at a higher strength, a higher

ABV, and the Government has chosen to have higher tax on higher ABV products. They are looking at the removal of that opportunity, so it is basically not worth it. Everything they have gained in the trade deal is going to go, and more, if this goes through. We think the Government are beginning to think twice about what they are proposing because it would not make sense. It is not joined up.

Anthony Mangnall: I hope they are listening, but it sounds like giving with one hand and taking with another.

Miles Beale: Yes. Mr Chairman, just on the annexe, there is one point that it would be extremely important for the Committee to hear. We think the additional annexe in this trade agreement, after Australia's, where there was none, is extremely beneficial. It does quite a lot to improve, for example, the variety of wine that will be available on the UK market. At the moment, they have not been able to send some of their wines to the UK because they were not made, if you like, according to a European recipe. Now they are able to do that. They have safety standards that we are very happy with, so there is a mutual acceptance of a winemaking standards point, which is very low cost and low red tape and the way that actually we would like to encourage.

There is one other thing, which is the requirement to have lot codes introduced. That will certainly support traceability and security in terms of reducing any black or grey market dealings on the spirit side. The annexe is extremely beneficial and we hope, again, a model for CPTPP or future agreements.

Chair: Thank you very much. After that exchange, things are changing, I hear. A fellow called Paddy Power has told me that the evens favourite for the EFRA Chair now is Anthony Mangnall. The message that goes out from this Committee to our colleagues is vote early, vote often, vote Mangnall.

Can I thank panel one for their time this morning? In other words has been very enlightening indeed. I am sure there is an awful lot more that you would have liked to say. We do take written evidence, as you know, and if there is anything you feel you did not get out but that you want to get out to the Committee, we will of course accept written evidence. I thank the four of you for being here this morning. Phil, David, Peter and Miles, many thanks. We will take a two-minute break before the next panel.

and Dr Allen—thank you all.