The Select Committee on the European Union

External Affairs Sub-Committee

Corrected oral evidence: Brexit: Future trade between the UK and the EU in goods

Thursday 27 October 2016

10.05 am

[Watch the meeting]

Members present: Baroness Verma (Chairman); Baroness Armstrong of Hill Top; Lord Balfe; Baroness Brown of Cambridge; Lord Dubs; Lord Horam; Lord Risby; Lord Rooker; Lord Stirrup; Baroness Suttie; and Lord Trees.

Evidence Session No. 3 | Heard in Public | Questions 35-47

Witnesses

I: Professor Tim Lang, Founder, Centre for Food Policy, City, University of London; Mr Peter Hardwick, Head of Exports, Agriculture and Horticulture Development Board.

Examination of witnesses

Professor Tim Lang and Mr Peter Hardwick.

Q35 **The Chairman:** Good morning, Professor Lang and Mr Hardwick. Welcome to our Committee this morning. Thank you for coming. I remind you and the Committee that this session is in public and will be broadcast. We will send you a transcript after the session so that you can see whether there are any corrections that need to be made. We would like you in your response to offer a long-term and a short-term view of how you see progress after Brexit. I also urge you to keep your responses quite punchy and concise. The Committee has your biographies, so I will not go into detail about them. You have had sight of the sorts of questions that might be asked, but it is entirely up to the Members of the Committee whether they stick to the questions that have been forwarded to you.

I will kick off by asking you both to give us an overview of the importance of trade with the EU to your respective industries and of how important exports are to the sector and imports are to the UK consumer and the food supply.

Professor Tim Lang: I do not represent a sector; I am an academic. However, I was a farmer a long time ago, and I have a bit of knowledge about farming. I have spent the past 40 years studying the food system and the comments I will make are from that perspective.

What might Brexit do? There are different options and different potential frameworks. At our centre, we wrote four papers before the referendum. We were a very unusual academic group. We anticipated the vote going the way it did, and we were looking at what it might do.

The first point that came out of those papers—I have brought them for your Lordships if you need them, but they are all online—is that, essentially, this is potentially an enormous deviation. The hard scientific evidence says that food desperately needs to decarbonise and to address a whole range of ecosystem issues—water, biodiversity et cetera—and also public health. It is not just a problem of farming; it is the whole culture.

Secondly, in the past 50 years that we have been a member of the European Union or going into it and 'Europeanising', British food culture has transformed. It has gone from brown sludge food—the legacy of Spam and tinned peaches—which I was brought up on, which was, frankly, ghastly, and become something quite remarkable.

Thirdly, it is an entirely and highly divided food system. You can eat as well in Britain as anywhere on the planet, but the diet-related gap between rich and poor is now beyond the Victorian level. Life expectancy has gone up, but at the same time the gap between the top 10% and the bottom is at catastrophic levels. It is crippling the NHS, besides all the social things.

In that context, evidence has been building up dramatically about the food system. Your Lordships have had it, Parliament has debated it, but not enough is changing on it. We are just at a moment, with things like the Paris climate change agreement and the 17 development goals agreed last year at the United Nations. You cannot address the 169 targets unless you address food because food accounts for 70 of them. The food system is a major driver of climate change and has the single biggest consumer impact on greenhouse gases of anything in the European Union, and now we are going to throw all the potential of shifting the food system in a more sustainable direction into a messy 10-year process, which is what Brexit will be. The two-year process of Article 50 might be tight—who knows?—but the aftermath will involve changing not just finance but culture. In that context, I see this as potentially an enormous deviation in what we need to do.

Flip that, and you have to say that in the Brexit process there has to be a steely resolve to make sure that the process of transforming, decarbonising, improving public health through diet and shepherding the food industry in a more progressive direction has to happen. That is the political task. How do we do that? At the moment, we are in great difficulty because we are not getting the framework and we do not know what it is.

The paper that we are preparing at our centre will go into three different scenarios. One major paper in March outlined seven different scenarios that we thought were likely, but we now think it is only three. I am sure they will come as no surprise to you. One is that we stay in. I think that is a possibility. I thought there was a zero possibility on 24 June; I think there is now a 5% chance because of the complexity and the enormity, and from what I am finding out by talking with the British food industry, let alone the public, when prices start going up, as they are now beginning to, the pressure not to destabilise might grow. I give that scenario a 5% chance.

There is a 25% to possibly 30% chance of some sort of customs union, an EEA-lite or something like that, but, frankly, if Britain wants to cut out migrants, that will be impossible because that is one of the shibboleths of the European Union.

I shall end on the most likely scenario by a very long way which is that we join the WTO, but we cannot even start to negotiate that until the Brexit process is over. In political terms, and I have to look at it politically, that means that we are rejecting negotiating the future of the food system with 27 Member States and instead we want to start negotiating with 164 states, plus 27 observers. This is a rather tricky situation. I am highly interested. This is the most significant moment of the past 50 years. It is of the order of the repeal of the Corn Laws in 1846, World War I, World War II and joining the European Union. It is the biggest restructuring of the British food system for the past 50 years. It is in that historical canon of events. I see it as enormously important.

I urge your Lordships not to focus on farming. Farming is a tiny bit—that is why I said I am an ex-farmer—of the food system. It accounts for about 8% of gross value added in the British food system. It is worth £9.6 billion out of the £201 billion that British consumers spend on food. Much more significant are food service and food retail. The food system is highly fragmented now, and you must not get caught up in thinking that this is only about farm exports. They are piddling and small. There is the line of neo-liberals who want a hard Brexit who would quite happily dump farming exactly as they wanted to do in 1846.

The Chairman: Thank you, Professor Lang; that has been very useful. Mr Hardwick?

Peter Hardwick: I am probably not at liberty to speculate like that, so I will answer the specific question: exports to the European Union are extremely important to our agricultural sector. The AHDB represents six primary sectors: cereals and oil seeds; horticulture; dairy; beef and lamb; pork; and potatoes. Broadly speaking, between 70% and 90% of our exports of those commodities go to the European Union. So the EU is extremely important to our exports. There are a number of reasons for that and some of those are unlikely to change, even in the long term. One is that it is nearby. We are talking about fresh, perishable products, and moving them long distances is challenging. That does happen and we have seen that develop.

What is interesting about our exports is that for the most part we are a net importer, but market balance can often not fully tell the story because exports are about optimising returns, about exporting products which have low structural demand in the UK, about affecting the market balance within the UK and tightening the supply chain, and about offering some competition to the major retailers. They provide a floor to the market and they add value. But they are also about business expansion and development, and from that point of view as well they are extremely important. I see Lord Rooker here. He went through the heartache of BSE, as many of us did. We were out of the market for a decade between 1996 and 2006. We have seen that come back, but the harsh reality is that transmissible spongiform encephalopathies (TSE) issues still block most of our exports outside the European Union. The only market that we have a rational discussion of TSEs with is the European Union—so it is extremely important from that point of view.

We also have seasonality issues, which can affect directly the level of supply in the UK. For example, while sheep meat appears to be in balance, the reality is that the lambs are born during a season and at that time of year the market balance can be disturbed if there is not the option of exports. So we have seen exports contribute a great deal to the value of our businesses.

We have seen non-EU exports develop extremely well and I believe that in the long term those opportunities are definitely there and we can develop those relationships with non-EU countries. For example, we have established pork exports to China and they have doubled in the past 12 months from around 50,000 tonnes to close to 100,000 tonnes. Exports are now worth around £34 per pig: in other words, something like 20% of the value of a pig is now attributable to our export work.

That is a very quick summary of where we see exports. Certainly, the European Union is extremely important to us and I believe that it will remain so. For that reason, of course, having tariff-free access is going to be extremely important to our exporters.

Lord Rooker: On the latter point, could you say something about the interaction of the food chain between the UK and Europe? For many foods that end up in the supermarkets, the manufacturing takes place across Europe and the products whizz backwards and forwards, so it is not as straightforward as exporting an animal or a product that is labelled; it is part of the process to manufacture the food because of the complexity of the food industry. There must be a relevance there.

Peter Hardwick: Indeed, there is a great deal of relevance there. In fact, perhaps the best example is the movement of beef, sheep meat—all sorts of other products—between ourselves and the Republic of Ireland. There is a very strong link there. Carcass meat is exported to the Netherlands or Ireland, where it is processed and sent back here or to another member state. Indeed, it is a complex system, and we are definitely very much part of it. If I take sheep meat, for example, we represent something like 38% of the French market and a lot of that product is processed and moved on; it does not necessarily stay in France. We are indeed an integral part of that. Clearly, anything that obstructs that would be problematic.

Lord Trees: Good morning. Examples are very instructive, I think. This is a very complex situation. I was struck by the information about China. The absolute quantity is small but the growth—a doubling in 12 months—is obviously significant. How will Brexit affect that? Was being in the EU integrally necessary in that process?

Peter Hardwick: It is not integrally necessary, but it is integrated. This is a very important point that we will come back to time and again. There has been a lot of discussion about trade agreements—I do not like the words "free trade agreement"; free trade agreements rarely exist—and what are in fact technical arrangements. We do not have a trade agreement with China but we went through an extremely long process to get approval for China, and the certification for that and 360 other export health certificates in the livestock sector alone make specific reference to the EU regulatory framework. So any changes to that will need to be negotiated with the destination countries. In some cases that will be very straightforward. In others it will be more complicated. So while we are saying, yes, the Great Repeal Bill will transpose European legislation into UK legislation—certainly initially; there will be changes over time—the reality is that the regulatory framework will become a British one as opposed to one that is overseen by the European Union. That will need to be explained, because the way the Chinese work is that they come over to the UK and carry out an audit of the regulatory system itself. We tell them that this is the European regulatory system. We are now going to say, "This is the British regulatory system". We will then have to explain how that is managed, who is in charge and so on—always quite confusing with the devolved arrangements that we have in the UK but even more complicated, perhaps, as we go forward, because that will take resource and people.

Lord Horam: Professor Lang, I am very interested in your three outcomes: the 5%, the 25% in the EEA and the WTO. Would not a Government be mad to go down the WTO route, given the enormity of the negotiations that would be involved?

Professor Tim Lang: Yes.

Lord Horam: Could you elaborate?

Professor Tim Lang: For the reasons that Peter Hardwick has just given: the complexity of transforming the regulatory structures of something like the meat trade or horticulture. He talked about meat. The AHDB has a big interest in that. I was a beef and sheep farmer when I knew you years ago, Lord Horam, and on meat there is a huge trade gap. Britain thinks of itself as a meat producer but actually it is a vast meat importer, for the reasons that Peter was just explaining. The trade gap is enormous, by the way. We are in deficit. On British food as a whole, we have a £21 billion deficit. We get 30%—Defra's figure is 29%—of our food from within the European Union. We get little bits from other countries. But if you look at a sector such as horticulture, it has an £8 billion deficit.

When it comes to health, I will give you a very stark analysis of what a hard Brexit—a WTO Brexit—would imply. It would mean Britain trying to flog more saturated fats, alcohol and biscuits—those are our leading sources of food exports—to pay for the good things for public health, such as fruit and vegetables, which is what we bring in. I am speaking very firmly because I want this message to come across. There is huge concern about the trade issue. This arcane issue of trade, which is about money and livelihoods, is actually about public health. It is about the British consumer's enormous reliance on fresh fruit and vegetables, which we are not eating enough of, so we will not prevent the diseases that are crippling the NHS. Your question about a hard Brexit is critical. I personally think it would be folly in the extreme from a food policy perspective not to negotiate a customs union.

Q36 **Lord Horam:** Perhaps Mr Hardwick is the right recipient for this question about tariff barriers. Just how important are they to the sector, and where in particular are they important?

Peter Hardwick: They would affect all our sectors—some sectors more than others—but for the most part the current levels of WTO tariffs would make us uncompetitive. There are some very stark examples of this. It is true right across the piece, but if I take the pork sector—which would be one of the most affected, believe it or not—virtually all our sow exports go to Germany. Cull sows are worth between 50p and 80p a kilo. The cold wind of full WTO or most-favoured-nation—a misnomer if ever I heard one—tariffs to Germany or to the European Union, were we to have to pay them, would be around 42p. So it would be at the low end of the scale, which would almost double the price and make us uncompetitive. That would be terminal for the pig sector—and there are plenty of other examples.

Q37 **Lord Horam:** Apart from tariffs, what other elements of leaving a customs union would cause difficulties: for example, with administration, certification and all that?

Professor Tim Lang: I think price. Perhaps Peter should go first.

Peter Hardwick: Absolutely. In administrative terms, it requires a whole additional set of administration, such as customs controls and the transactional costs of, for example, having to sign export health certificates—indeed, having to have export health certificates. At the moment, when we trade with the European Union, we trade on the basis of a bill of lading or an invoice, but we do not have to have a vet standing in a cull stall or an abattoir signing off documents—at a cost; they charge money for this, as we know. So the transactional costs alone, never mind the tariffs, would go up significantly. Of course, on top of that, we would need to create and agree these export health certificates, which is a very lengthy process; for example, the export of seed potatoes to China has taken years to agree, mostly because of the difficulty of agreeing the fine detail of the export health certificate itself—and that process would have to be duplicated across all our commodities, which would make things extremely complicated.

Professor Tim Lang: I declare an interest; I am a trustee of Borough Market here in London. We let space to 160 small food businesses. Tesco can probably manage this, with its enormous profits—although it is pretty unhappy about it, I understand—but for small companies this is devastating. I will happily walk you round Borough Market and show you the integration of Borough Market with the European Union. I think the British, frankly, are in a fantasy land if they think that leaving the European Union for food—just looking at it through food—is a good thing. This is bonkers, if I may use very accurate policy language.

Peter Hardwick: It is perhaps worth adding, to try to be a little bit optimistic, that there are some opportunities. In time, there are ways around dealing with these transactional issues. An example would be the way New Zealand moves goods around the world. It has an electronic certification system, with pre-clearing of goods, so that documentation can be sent in advance and the goods can be pre-cleared. They have a modernised system. Unfortunately at the moment, the system in the UK is one based on Crown watermarked paper, with documents being sent to and from Carlisle, being handwritten if they have to be changed, and using snail mail to send them around. There is a real issue there, which can and should be addressed. It should be addressed anyway, but this is an opportunity. If there is an opportunity with Brexit, it will be to really address and modernise some of our processes so that we can minimise the impact on industry.

Professor Tim Lang: I advised Australia and New Zealand when they were creating their food standards systems. It took decades to sort out—just two countries. I was heavily involved in the GATT negotiations between 1987 and 1994. It took seven years to bring food into the GATT trading system. These are not light issues. I am pretty well informed about food industry discussions right across the sectors. There are lots of very different positions. The pig industry has a different take from that of the horticultural industry; Peter would agree with this. These issues will not be done very quickly—just like that—by Mrs Leadsom after 2019. They will become enormously complicated negotiations themselves. This is why I said—I hope it was clear—that this is an enormous disruption and we have to make sure that the Government hear loud and strong that it is disrupting people's food. That is not just a financial issue but a morale issue and a public health issue.

Q38 **Lord Trees:** I have a secondary question. I know that it is difficult to estimate the cost of the regulatory burden, but there is a danger that discussions around this will revolve around the actual tariffs—and probably the regulatory costs will exceed the tariffs. It is a difficult question, but are the regulatory costs per kilogram likely to be more than the up-front tariff costs, or less?

Peter Hardwick: The current tariff rates are so high that the regulatory costs would probably be lower, but they would not be insignificant. We have done some work on this at the AHDB and we think that transactional costs alone would be significant. I am not exactly sure but we were looking at something in the region of 8% to 10%, and perhaps a bit more than that. If we remain within a free trade area with the European Union but still have customs controls, the transactional costs are there. I will give an example of the trade between Norway and Sweden. Norway is in the European Economic Area[1], as you know, but it has separate arrangements. It still takes hours for certain types of goods to cross the border between Sweden and Norway, simply because there are some controls. Norway has a highly regulated meat industry, for example, which is totally protected—actually, all its sectors are totally protected—and therefore it has tight control on this, for very obvious reasons. And we all know the cost of food in Norway: it is extremely high.

Professor Tim Lang: Norway imports 60% of its food.

Q39 **Lord Stirrup:** I was going to ask about regulatory and health controls and logistics, but that has been comprehensively covered over the last

[1] Corrected in the transcript from customs union.

several minutes. So I will ask a rather different question, if I may. I want to test the rather apocalyptic-sounding scenario that has been put forward so far. As I understand it, the proposition is that if we go under WTO rules, because of the increased tariffs on these goods, we will be faced with an enormous challenge in exporting what we do now and probably those exports will decline. If I understood what Professor Lang was suggesting, because of the costs on imports, a lot of people will stop buying the fresh fruit and vegetables and all the rest of the things that we import. But we have also heard that we have a massive deficit: we import huge amounts more than we export. Will this not hurt food producers throughout Europe? I realise that we are only a bit of a much larger EU market, but we are a significant part of it. We are the second-biggest economy in the EU. Will there not be an imperative to try to cut some kind of deal that will satisfy food producers throughout Europe? Also, of course, it is important not to look at these issues purely in silos—no pun intended. We have a lot of things where the cards are actually in our favour in these negotiations. So is there not some prospect of something between pure WTO membership and membership of a customs union that will be of mutual benefit to both sides? Do not get me wrong; I understand and accept all the issues and challenges that you are raising, but you have made it sound apocalyptic and I have to say that at the moment I am a bit unconvinced by that.

Peter Hardwick: I do not see it as apocalyptic. If I came across that way, I apologise straightaway, because I think what you have said is correct. I cannot for the life of me see in whose interests it is to have mutually cancelling tariffs at the same level between ourselves and the European Union which push up the price of food to consumers. That is what they would do, and that would clearly be damaging. But when we look at the imbalances between our trade and the European Union's trade, it is easy to look at the European Union as a block, because that is what it appears to be, but if you separate different Member States, there are some very significant interests—for example, French cheese and wine to the UK, Danish pork to the UK or Spanish horticulture to the UK. Certainly these countries will have an individual interest, and in any discussion it would be extremely important to engage with them individually to try to garner their support for some sort of common-sense deal, but I do not think that any arrangement that involves tariffs—this is the most important thing—will work because it will put up the price of goods to consumers. That is something that politicians—not me—will have to explain to consumers when it happens. That is my concern: not that we cannot reach some sort of agreement, because I tend to agree with you that there must be a mutual interest here to try to avoid that situation.

Professor Tim Lang: Very briefly, I agree with all that. I chaired a Chatham House-rule meeting of the food industry. For those who do not know me, I am known as a critic of the food industry, so it was a very interesting situation to be in. It was a very large meeting in which we conducted polls. The number one issue that came from the industry—the entire food industry except farming, interestingly—was currency. The pound is down 17% at the moment, and I can tell you from Borough Market that some of our importers are now asking what they should do. Should they lower their income or pass it on? The second issue was labour. Those were the number one and number two issues for the food industry across the board—in some sectors of the food industry more than others.

In horticulture, you would not get any fresh British vegetables or fruit if it were not for migrant labour. I salute the Government for doing a wonderful U-turn on closing the seasonal agricultural workers scheme—frankly, it was stupid to close it down in the first place—and saying that they are going to introduce a new system. Good, otherwise there will not be any horticulture. There would be no food manufacturing. The food manufacturing sector is the biggest manufacturing sector in the whole country. It uses 31% migrant labour. Food service is by far the biggest employer. Food employs 3.6 million people in Britain at the moment, and food service accounts for 1.7 million of them. About half the labour force of the food sector in Britain is in food service. You cannot put the culinary advance and renaissance that has happened in Britain over the past 40 or 50 years down entirely to European Union membership, but it is heavily associated with it and some of it is as a direct result of that culinary exchange. It is reliant upon a free flow of labour. It is not just an arcane issue about tariffs and things like that which interests people such as your good selves, Peter or me; there are hard issues such as who will be the baristas.

That takes us to really important issues of the long-term failure of Britain to invest in training and skills. I was deeply depressed when Tony Blair rubbished, abandoned and put to one side the report by Helena Kennedy—now Baroness Kennedy—on further education and skills because it is was advanced and good. Those sorts of ideas need to be dusted down very quickly, because if there is a hard Brexit or a soft Brexit or some sort of fudged Brexit, we will need to do an enormous amount of thinking about labour, skills, research and those things. There are some opportunities, but they require investment, and I do not hear the Brexiters talking that language. They are just in a fantasy of some pure neoliberal theory that life is going to be okay out of the EU. Come on—grow up.

Q40 **Lord Risby:** I want to take up the qualitative thread from Lord Stirrup about how we approach this. We are here to hear what you are talking about—and you are doing so in very explicit terms—but you are also here to offer solutions. I am listening to you with great interest. You have extensive contacts in the food industry, agriculture and everything else. You raised the specific issue of health certification. I wonder, given that there is now a transitional phase, what exactly you are doing to represent specifically the ideas that you have been explaining to us in some sort of action plan to mitigate the rather horrific outlook that may exist.

Professor Tim Lang: We are not the Government, but I take your point. For me, the key issue is to get health, quality controls and standards on the agenda. That is the number one issue at the moment. In the fog that we are in, pre-Article 50, people such as Peter and I are working very hard indeed to get these issues on the agenda. There are all sorts of options for what we could do. The Food and Agriculture Organisation (FAO) itself is in transition to becoming a health audit. So within the European Union the institutional structures are in transition. We need to have a working party inside the Food Standards Agency that Jeff Rooker used to chair to now start talking about that. That is why, last week, I was extremely critical of the Food Standards Agency cutting a deal with Tesco to hand over food standards—

Lord Risby: You make all these points—

Professor Tim Lang: These are the specifics.

Lord Risby: May I just say something? I understand all that, but what are you doing specifically? It would be really very useful for us to understand how you are practically dealing with all the issues that you are raising.

Peter Hardwick: I can answer that very directly. I have had a number of meetings with the Secretary of State—the AHDB has, myself included. We also have a number of working groups that work between Defra and the industry, called the UK Export Certification Partnership, in which we have identified the most vulnerable parts of our export situation, particularly with non-EU markets, to deal with the question of the regulatory framework. We are looking at how we target those and make sure that we do not have any hiatus or pause in trade as a consequence of Brexit. We have already gone through a priority list of specific markets that we need to protect—in terms of any risk of losing momentum—and highlighted the importance of that, as well as the key vulnerabilities within our own exports to the European Union. The obvious one is the meat sector, but there is also cereals to the Iberian Peninsula and potato exports: crisp exports, for example, are quite important, in particular to Ireland but also to other parts of the European Union. So we have recognised this risk and identified what we need to do about it. We do need to make sure that we resource it properly in terms of tackling each of these export health certificates that are at risk as a consequence of this.

Of course, the question of how we take a defensive position on protecting our interests with the European Union is more difficult, as you will appreciate, because we do not know what the outcome is going to be. What we and the industry have emphasised is that there is a working arrangement, and that as long as we maintain the same or similar standards to those in the European Union, there should be no specific difficulties with trade. Even where that is not the case—this is another thing that is worth saying—there has been an aspiration in the industry that leaving the European Union would allow us to in some form deregulate or lower our standards. Clearly, we would find it very difficult to explain that to consumers. That does not mean not trying to get rid of red tape or not modernising. That is a very different question, and good examples would be the system of meat inspection and whether that can be modernised or changed or privatised in some form or another.

You can create two-tier markets. They existed just as we joined the European Union; there were export-certified plants and non-export-certified plants. For a country like Brazil—I lived there for a number of years—if you wish to export to the European Union, you have to be registered to supply the European Union, but if you want to supply the rest of Mercosur, and in fact any other part of the world, you do not need the European oval stamp to do so. There will be plenty of markets out there that we will want to supply that are not the European Union. West Africa is one example; we just had a mission out there to look at those markets. West African markets are extremely interesting and developing very quickly indeed, and there is a lot of opportunity there. We do not necessarily need the same type of factories supplying those markets as we have to supply the European Union. So there are some opportunities. But creating two-tier markets has its problems, because if you wish to remain within a single market-type arrangement, goods are in free circulation, and the moment they are in free circulation you have to have a common standard. That is where the difficulty potentially arises.

Professor Tim Lang: It is very risky for quality standards.

The Chairman: Lord Rooker will come in quickly, and then we have a number of questions to get through, so I ask our witnesses to be a little more concise and do what Lord Risby has asked and perhaps offer some wider responses.

Q41 **Lord Rooker:** May I say that it is wholly unreasonable to expect you to have any answers? Because I knew that I was coming to this session of the Committee, I checked, and in the balance of competences operation that the Government performed in 2013-14 in 32 reports, the report that affected animal health and welfare and food safety did not find any red tape. It found that a vast majority of people said that membership of the EU was beneficial because it helped exports elsewhere. I raise a couple of other points. Food is not necessarily controlled by the EU. There is the Codex arrangement, which is intergovernmental, and the World Organisation for Animal Health in Paris, which is intergovernmental—it has nothing to do with the EU.

However, I want to ask you about something that goes back to this issue of regulation. Within the European Union there is the RASFF system—the rapid alert system that works instantaneously when a problem with food is discovered anywhere in the EU. We will be out of that if we leave the EU. What is the solution? If we are isolated, performing the same sort of functions, those who want to cut corners and have lower standards will make it more difficult to export, and we are outside of the rapid alert system. Where will that put consumer safety in the UK?

Professor Tim Lang: There are very two quick options. One is that you do not leave it, and the other is that you duplicate it. If you duplicate it, that means taking the Food Standards Agency from the two floors of

Aviation House that it occupies, having dropped from five floors, back up to five floors, and expand it to take over other buildings. You have to build the capacity to be able to inspect, or you go down a very risky quality direction, which is to have not just two but multiple tiers of standards for different export zones. That is a type of approach to food that is catastrophic for Brand Britain and which, let me remind you, is Defra's current top-line thinking.

Peter Hardwick: First, I am not advocating a two-tier system; I am simply saying that they exist and we used to have them. Indeed, they were problematic, as we know. Even if you took a plant that operated under a separate system—a meat plant would be a good example—parts of that animal will probably go to one system and other parts will go to another, and then you really get into difficulties. If you want to sell your carcass meat to the European Union and your offals to west Africa, you cannot have two plants—you can have only one for the European Union.

Lord Rooker: May I interrupt there? When we were allowed to export to Russia, the Russian standards for meat exports were higher than the EU's, so our plants had to be much better to be able to export meat products there. We were operating a complex system then—obviously we are not now, because I presume there is a ban on exports to Russia at present.

Peter Hardwick: There is. Coming back to the rapid alert system, a number of Brexit options could mean that we would remain with it. Norway is a good example; it is part of that rapid alert system, as is Iceland, Switzerland, and so on. Therefore there are options around that, and there are options to remain in. But I agree; any approach that reduces the perceived or actual level of food safety will be extremely difficult to explain to consumers and will increase the level of risk.

Q42 **Baroness Armstrong of Hill Top:** I want to return to tariffs, because the issue of tariffs is much more complicated for the food and agriculture system than for the rest of trade, both in services and goods. We need to understand that more clearly. Tariffs have been allowed in order to protect some goods in some countries, even within the EU but certainly wider, which is why the tariff regime was different, as I understand it—I am not an expert in this area, even though I represented an area in the north-east of England with a lot of sheep farmers. We need to be able to understand that regime and what we want to protect. Do we want to protect anything in this country? Do we have an interest in how the EU divides up the quota system? Could you say something about that in particular, Mr Hardwick?

Peter Hardwick: Yes. Tariff rate quotas (TRQs), of course, protect British and EU agriculture. They were developed over many years—I could talk for hours on this, but I will not. Essentially, they have been around for an awfully long time, but the current regime was effectively established under the Uruguay round of GATT in 1992 and they have been developed ever since. In many cases, they have not changed very much since then, and some are indeed probably outdated as a consequence of that. Some have changed, as have the volumes of quota that have been allowed. Depending on the sector, the quotas can be pretty limited. If you take the beef sector, for example, the total amount of TRQ allowed into the European Union represents a tiny proportion of total consumption and has not changed much over the years.

Some countries have a large amount of quota; New Zealand, as we know, has a very large amount of quota: 228,000 tonnes into the European Union, which is duty free. But that reflects a difference between consumption and production, so where we are net importers, those sorts of imbalances occur. Those are negotiated. I would say for the most part that the tariffs in place at the moment effectively protect us from a different cost base. That is the harsh reality. You can take a tough line on this and say, "Agriculture's got to survive. Hard luck—we're getting rid of them", and do what the New Zealanders did: go through a hard time but get through it. However, their situation is very different from ours. They are a massive net exporter of all their agricultural products. They are in a very different part of the globe and it is true that they did not have some of the baggage we have. However, even for them it was extremely painful, and it was not fixed in a year or two. It takes an awfully long time.

Therefore the system of tariffs probably needs to be looked at. There is probably scope for the UK to say in time that it will vary some of these tariffs a bit; we could make some of them a little lower and we could even make some of them a little higher. Certainly, as regards negotiation with the European Union, we could have a sensible discussion about having no tariffs at all but with the potential threat, if you want to call it that, of varying them to even things out if we have difficulties as a consequence of exports. But those tariffs are long established. They are reviewed regularly, and as you know, they increase from time to time. The current co-operation agreement with Canada—the CETA agreement—establishes some additional free tariff rate quotas. Of course, if you want an example of how difficult these things are to conclude, CETA is not yet past the finishing post, as we know. But those tariffs are negotiated directly.

There is one question that we all have. We will become a full WTO member on exit, and whether the UK can automatically impose the same rates of tariff as those that apply at the moment for the European Union or whether it has to clear that through a discussion with the WTO is something that I do not think is fully understood. Certainly if we want to introduce variable tariffs, that will involve a negotiation. We cannot just arbitrarily stick tariffs on things; we have to establish them.

However, for the most part, the tariffs reflect a difference in the costs of production in non-EU countries and in those within the European Union, because we believe that we know everything from the costs of our social structure and the costs of health and maintaining the roads to the costs of food production and regulation. That means that we believe that an adjustment should be made, and that effectively is what the tariff does.

Professor Tim Lang: The only thing I would add is that this building, of all buildings, should know that tariffs reflect the power of lobbies.

Q43 **Baroness Brown of Cambridge:** I have a short, sharp question, which I hope will not take too long to answer. It is about non-tariff barriers, which are the most important. In particular, would you like to comment on the sanitary and phytosanitary measures and labelling requirements? If there are others that are more important, then please comment on those too.

Peter Hardwick: Non-tariff barriers are potentially every bit as damaging as tariff barriers—that is absolutely true—and I come back to the CETA agreement as a good example of that. I met the Canadian beef organisation relatively recently. They were coming over to Brussels because they had secured this tariff-free quota but had realised that, because they use anti-microbial washes in their plants, they did not have access for the product. So although the EU has signed up to a tariff quota, the product they produce does not meet some of the other non-tariff barriers.

Some non-tariff barriers are not allowed under the WTO, and animal welfare is one of them. So one has to be extremely careful. If we as a country decide that, as part of our change in regulation, we are going to bump that up, it might be a good idea but we will not be able to trade on it. We may be able to sell it to consumers—and, by the way, I think there is a lot of benefit in it and we are seeing some indication of it being advantageous.

A good example of a non-tariff barrier, which I mentioned earlier, is the TSE regulations. For the most part, we do not have these non-tariff barriers with the European Union at present, which is why the EU is a good partner for us. A lot of the difficulties are based not on science but on local perception. I talked a little earlier about the export of seed potatoes, but let us take as an example the export of cereals to Egypt, which is the world's largest importer of cereals. We have difficulties exporting cereals to Egypt because it has established certain specifications based on a perception that if the moisture content is over 14%, the cereals will rot. We know they will not, but Egypt introduces these sorts of barriers and puts a block on trade. So non-tariff barriers are every bit as important as tariff barriers.

Lord Rooker: Just expanding a bit on this, without loading the question, what would be the benefits on the one hand and disbenefits on the other in respect of trade of the UK being able to change EU standards on, for example, food labelling, GM foods, clothing and using animal growth hormones? Are there advantages or disadvantages to being able to change any of those EU standards that we have got used to working with?

Professor Tim Lang: It depends who you are talking about. From the organised consumer movement's point of view, there is already deep concern. I think that the British public will get quite alarmed because it has got used to labels and has been promised labels for 30 years. Disrupting the system of ratcheting up the labelling standards would alter the tacit contract between the shopper and the production system. You know only too well the risk that follows from food safety scandals. If you start lowering health standards, you make later public health problems more likely.

The Chairman: Lord Rooker, do you have anything else to ask before we move on?

Q44 **Lord Rooker:** I have plenty but I am watching the clock. The complexity of the food industry is a disaster—a sham. I do have one other point, and this came from me refreshing my memory about the balance of competences. The public do not really know that in the main the EU writes the rules on food. They come through international things as well as from the EU, although from the balance of competences point of view, only about 20% of them do. Yet the public also want to know that food is safe and that they can buy foreign stuff in this country knowing that it is okay.

Do you have a view on the public perception of the food industry and the way we import and export? Has that been changed by the decision on 23 June?

Professor Tim Lang: It is one of the sources of anxiety of the food industry. I think that consumers are in a state of ignorance at the moment, and I do not say that lightly. You referred to the rules coming from the EU but they do not; they are done by negotiation, and Britain has been part of those negotiations, as you know only too well, Jeff. That is a much more esoteric, abstract understanding than most consumers have when they are busily shopping, but it is very quickly altered, and the food industry is acutely aware of the sensitivity of that. That is why I talked about there being a problem if you deregulate. I can think of at least one food manufacturer who has said to me, "Don't think that we're not going to take our chance to lower health standards out of this and get rid of what we don't want". That is fine in the short term but in the long term it is bad news, and if we are talking about Brand Britain and Defra's current thinking on the national food plan, it is extremely stupid.

If anything, you want to ratchet up your standards. That is what consumers generally think and expect. They want to be able to shop. Since the 1860 food Act, the assumption in British law has been that food shall be—I quote from the statute—"of the nature, substance or quality demanded". That has been built in through the arguments and the process of Europeanising, and to alter it would be a threat to consumer confidence.

The Chairman: Professor Lang and Mr Hardwick, we will ask you to respond to Question 7 in written evidence because time is running short and we have a number of questions to get through. Perhaps I may turn to Baroness Suttie.

Q45 **Baroness Suttie:** Returning to EU free trade agreements with third countries, which of these, in your view, are the most important, and how important is continued or equivalent access to them? In particular, how significant to your sector are the deals that we currently have through the EU with ACP and the least developed countries?

Peter Hardwick: The reality is that there are a limited number of these in practice. The vast majority of them are association agreements and in some cases they involve degressive tariff arrangements. Taking the example of Egypt, to which half our seed potatoes are exported, there is something like a 10-year degressive tariff arrangement. Certainly that is of interest to us. However, as I said, most of them are association agreements.

If you look at the European Union books, there is only one agreement that is called a free trade agreement—one—and it is with South Korea. That is quite important to us, as it happens. But there are other key ones, including, if I dare say it again, with Canada; west Africa; Vietnam; Russia—if we can get back into exporting to Russia, but of course that is a long way off—Egypt; north Africa; South Africa, which is extremely important to us; and, as I mentioned, South Korea.

Outside that, at the moment the European Union does not have at least concluded trade agreements. It is important for us to engage quickly on this—and we have already raised this with the Government to try to ensure that we have dialogue with those countries, so that where there are tariff-free or lower-tariff arrangements, we secure them. But most of our trade is done on the basis of technical agreements, and that is the key; we need to ensure that we do not lose those.

Most of our trade with ACP countries is with west Africa. That is certainly very important to us. I cannot really comment on the reciprocal arrangements, but I am sure that the ACP countries' continued access to the UK as well as to the rest of the European Union is extremely important. One question that is unanswered at the moment is how these current TRQs will be subdivided between us and the EU. To give the example of New Zealand—I have had discussions with people there, so I know what they are expecting, and that is to have access for 228,000 tonnes of sheep meat to the European Union and access for 228,000 tonnes to the UK. What they mean by that is that they currently have the flexibility to put all or none of it in the UK and all of it or none of it in the European Union, and they are expecting to continue to have that level of flexibility. Certainly, it is extremely important for ACP countries to have access to us. It is extremely important for a number of them, particularly in west Africa but also some Pacific countries.

Q46 **Lord Risby:** I thought you made a very important point when you said that if you are a large organisation such as Tesco or Unilever you can resolve things, whereas Borough Market and other small people are in a very difficult position in having to carry devaluation. I want to come on the functional aspect, which is very helpful to the committee—so thank you. Perhaps this is naive, but if at some point the Government, in the process of their discussions, said that they would match the standards of the European Union identically, would that be efficacious or possible and what would the effect be?

Secondly, you mentioned something very interesting: the bizarre system that appears to operate in this country versus New Zealand in terms of a functional digital system. Obviously, it is critical in our new situation to do that sort of thing, despite perhaps the enlargement of the Food Standards Agency that is involved. Are these flyers? We need not only to analyse the stuff that you have been talking about very comprehensively this morning but to come up with some guidance as to what might be useful in finding resolutions.

Peter Hardwick: Certainly on the latter point—absolutely. I know that the Secretary of State met the dairy sector a couple of weeks ago, when it raised this specific point. It is really just a question of investment; if it means creating a computer system that we do not currently have, that is not beyond the wit of man. I think that we would be able to do that quite comfortably. It is absolutely doable and we have a period of time during the negotiation period. This is completely outside the discussion: it is something that the UK can get on and do. We ought to be getting on and sorting it out, and that is something that we have raised with government and something that the AHDB will be actively involved in pushing.

Professor Tim Lang: As an example, I agree with that. It means having a serious look, and your Lordships could recommend very practically having a clear commitment from the Government to set up specialist negotiating teams and to make them publicly accountable and not just rely on consultants—expensively—which is what they are currently doing. This is a critical practical issue. All the questions that you are asking are extremely good questions, but they cannot be answered until we have some capacity inside government, with the requisite expertise to be able to address what the Prime Minister wants, when we have a clear framework for that.

Capacity is the number one issue to get on with at the moment. The British Civil Service has been slowly eviscerated, and we do not have trade skills and public health skills in the requisite amount. Those are things that you could recommend—and, for me, they are the number one step. As I have made clear—Peter is coming more from the industry side—from the public perception, food is a critically sensitive issue. It needs to be shown in the Brexit negotiations, whichever way they go, that the standard of British food is not going to be allowed to be weakened.

The Chairman: Thank you. We have three or four minutes for the final question.

Lord Trees: I have fairly straightforward questions and perhaps they could be answered by written submission by our witnesses, in the interests of time.

The Chairman: If our witnesses would like to make some opening comments on them and then follow through with some written evidence, it would be helpful to the committee.

Q47 **Lord Trees:** The questions are about the unique strengths in the UK in the food and beverage industry. What are those strengths, and who are our most important trading partners?

Peter Hardwick: Let me say straightaway that the discussions I have had with our trading partners, whether in the European Union or outside, have been—at least up to now—pretty positive. In other words, we have not been told, "On yer bike". They want to engage with us. They certainly see some problems within the European Union, but our non-EU partners in particular, many of whom we already negotiate with bilaterally, see us continuing to do so without too much difficulty. So we have a lot of positives there.

We have a tremendous reputation for food safety and food quality. Across all our sectors, there is a perception from outside and internally that those standards are at the top of the game, if you want to put it that way. We see some really interesting developments in markets. A good example is the export of antibiotic-free pork to the United States. We started exporting that product last year or the year before. It is interesting to see that markets such as China have taken an interest in the same product. You would never have predicted that; you would have thought that it was a high-value product and that they were just interested in buying pigs' heads, tails and feet and that sort of thing. But this is high-quality pork moving into the urban Chinese population, on the back of the view that "Brand Britain" is very strong.

I believe that the brand itself is very strong and that the Union Jack is a very recognised brand and a very strong one. The Britain is Great campaign has had some traction—there is no doubt about that. We have a strong reputation for sustainability, high quality, animal welfare—which is starting to develop—and so on. There is also our uniqueness. There are a lot of unknowns about the UK that are getting out there, including the diversity of cheeses and how strong that is. So, yes, there is a tremendous opportunity for us. I would have to say that Brexit is a complication, and one that we will have to get on and sort out. But it is a complication and it is going to make it harder, there is no doubt about that. But we still have those USPs that we can work with.

Lord Trees: A good note to finish on.

The Chairman: Thank you, Professor Lang and Mr Hardwick, for giving us a very candid and honest overview of how you see the exit of the UK from Europe, leaving us with the slightly optimistic hope that there is work that can be done to make it work. Thank you for coming this morning. The transcript will be sent to you, and if there are corrections to be made we will be happy to do that, and we will make sure that they form a constructive part of our report.

Professor Tim Lang: Good luck.