



# Select Committee on the European Union

## International Agreements Sub-Committee

### Oral evidence: UK-US trade negotiations

Wednesday 1 July 2020

3 pm

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Members present: Lord Goldsmith (The Chair); Lord Foster of Bath; Lord Gold; Lord Kerr of Kinlochard; Lord Lansley; Baroness Liddell of Coatdyke; Lord Morris of Aberavon; Lord Oates; Lord Robathan; The Earl of Sandwich; Lord Watts.

Evidence Session No. 1

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Questions 1 - 12

### Witnesses

I: Nick von Westenholz, Director of EU Exit and International Trade, National Farmers' Union; Michael Haverty, Partner and Senior Research Consultant, The Andersons Centre; Elsa Fairbanks, Director, Food & Drink Exporters Association.

## Examination of witnesses

Nick von Westenholz, Michael Haverty and Elsa Fairbanks.

Q1 **The Chair:** Good afternoon and welcome to everyone. This is a session of the House of Lords International Agreements Sub-Committee. This afternoon we have the benefit of evidence from three people who know a lot about the subject we are concerned about in the course of our inquiry into the proposed US-UK trade deal.

Let me introduce the three witnesses: Mr Nick von Westenholz, Ms Elsa Fairbanks and Mr Michael Haverty. I suggest that when they speak for the first time they give their position and responsibility.

We have now had two rounds of negotiations between the UK and US. I ask each of you to begin by setting out briefly the key areas where your members or clients are most concerned about the outcome of the UK-US deal, and where they are most optimistic about the possible outcome.

**Nick von Westenholz:** I am director of EU exit and international trade at the National Farmers' Union.

It is worth saying at the outset that the NFU sees opportunities from a US trade deal, as well as some risks and defensive issues. Probably the overriding point is about many of the opportunities we as farmers think there are for increased exports to the US market. Farmers here are keen to grow their exports all around the world. It is clearly an opportunity to improve returns for their businesses, but often the big question is whether you need a comprehensive free trade agreement to achieve some of those opportunities, or whether you can achieve them outside trade deals.

That is a fundamental question. By its nature, a trade deal is a compromise and a trade-off, so to secure certain things from a US-UK trade deal we will have to give up certain things. As far as food is concerned, that means opening access to our markets.

One of the overriding watchwords about this trade deal is what we are willing to give up to secure greater access. A lot of the opportunities in the US might be achieved by activities and initiatives that can be undertaken outside a trade deal—for example, the promotion of UK produce, market identification and stimulating increased demand in the US for fantastic British produce.

There are regulatory barriers that ought to be lifted outside a trade negotiation. For example, currently we cannot sell any of our great British lamb into the US because of a long-standing restriction under what is known as the small ruminant rule. We have been trying to get that removed for many years, and our concern is that that is the sort of thing that will be thrown into a trade deal and that, therefore, we will have to give up something to secure something we should have had already.

I set that out at the very top. We are certainly not opposed to a US-UK trade deal, but we need to be careful about what we are willing to negotiate and give up to secure greater access for UK food products.

The final brief point I make is one that I am sure all members of the Committee will be aware of: standards of production. There has been a lot of debate around that recently. For us, this is a point of equity. UK farmers are required by law to observe quite significant regulatory requirements in production standards—animal welfare and environmental protection—which will often add direct and indirect costs. It seems to us, as a matter of fairness, that, if we are to compete in our home market against imported products, they should also be required to observe the same rules. That is a critical aspect of the negotiations.

**Q2 The Chair:** Thank you very much for that answer. I will turn next to Elsa Fairbanks, director of the Food & Drink Exporters Association. Let me remind everyone that evidently these proceedings are being broadcast, but a transcript will be produced of the questions and answers you give and you will have a chance to review them before they are finalised.

**Elsa Fairbanks:** I am a director of the Food & Drink Exporters Association. We are a not-for-profit trade body that represents what we call the food and drink exporting community—food and drink producers and many small and large firms that you will be very familiar with that trade internationally.

We also work with organisations and companies that support the infrastructure of exporting—logistics companies or legal and regulatory advice—so we have a very broad perspective on what is happening internationally on a day-to-day basis in the food industry.

The UK food industry is huge. We employ about 400,000 directly and considerably more in the whole supply chain. Something I feel very strongly about is the fact that our industry impacts on virtually every town and city in the UK. We provide employment for a huge range of people—very small businesses and large companies. All my colleagues feel proud of that, because we are providing employment and adding value to a whole range of people.

We surveyed our membership and the wider community recently to understand what people feel about the trade deal. The response showed that roughly 50% definitely felt a trade deal could only improve our performance in the US, but a similar number had concerns because of the potential implications of compromise. The UK has a really strong reputation for high-quality food, certainly in the States. We meet a demand for premium, reliable and safe food with provenance, and that is the whole reason UK exports to the US have been successful. That is fundamental to the outcome of any trade deal.

There is a lot of concern, not least because the food industry is particularly badly hit by the punitive tariffs that the US imposed as a result of the Boeing-Airbus dispute. Many of our companies swiftly moved

from zero tariffs on their products to 25% tariffs in October, just at the point when they were making their seasonal shipments to cover Christmas. It had a huge impact on UK export performance, particularly in the first quarter of this year when many of the products suffered a 25% reduction in exports. That area needs to be addressed urgently in the eyes of our membership.

**Michael Haverty:** I am a partner with The Andersons Centre, an agriculture and farm business consultancy based in Leicestershire serving clients throughout the UK.

We echo the sentiments of the other witnesses regarding a UK-US free trade agreement creating both opportunities and concerns. If we take the latter, first and foremost, from what we hear from our clients, there are issues around standards—a level playing field, so to speak, in the standards UK farmers must adhere to, as previously pointed out, in animal welfare and the environment and on the processing side, which we know are different in the US. There is a view in the industry that that level playing field is important in any additional imports that might come in from the US.

That is linked to the second point: the cost of production competitiveness. As we know, in the US, additives can be used in farming and finishing livestock in particular that result in lower costs of production versus the UK. In some cases they are quite significant. There is a 20% to 21% difference in the cost of poultry production in the US versus the UK. It can be even higher in sectors such as pork.

That encroachment on to the UK market with that lower-cost food is a definite concern for farmers, and we see it mostly in the beef, pigmeat and poultry sectors.

It is important to point out that there are also opportunities, particularly in the dairy sector. Specialty cheese, for instance, has seen significant success in the US market. There is a view that due to the high quality of UK produce, greater sales can be achieved via a free trade deal. If the tariffs that have increased in recent months can be reduced substantially or removed, that would greatly improve the competitive position of UK speciality cheeses in the US market.

There are opportunities for lamb as well—perhaps I will discuss that in more detail—because it is important to balance those against sales to other key markets, particularly the European Union.

One point that clients make quite strongly is about quality and the integrity of UK produce. It is a key reason we are seeing successes in the US market for UK produce, and it is important that is safeguarded in the years ahead.

Q3 **The Chair:** Thank you very much indeed. Before I invite my colleagues to ask questions, may I ask a question of all three of you? The UK published its global tariff recently. In what areas do you think there is

most risk for your members or clients if the US succeeds in gaining significant tariff reductions from those published rates? What are the UK's defensive interests in this area from your perspective?

**Michael Haverty:** I have alluded to the defensive interests from a UK point of view. There are concerns on the beef side in particular. The US has had success with regard to its free trade agreement with Japan in the past year and has increased sales into that market. Comparing prices in the US versus the UK, if US produce is allowed to enter without a tariff, it would be very competitive and would undercut UK produce. That is a definite area of concern.

There was some relief among the food and farming community that the tariffs announced replicated those in place as part of the UK's membership of the EU. However, I would also point out that tariffs are part of the story. We need to consider what was not published, but is due to be published later this year, and the potential for additional tariff rate quota access to the UK market that allows specified volumes of beef and other produce to enter the UK at either zero or lower tariff levels.

Those announcements have not been made. If we look back to March 2019 when there was a 230,000 tonnes tariff rate quota for beef, for instance, available to everyone on an erga omnes basis, a tariff rate quota such as that in the future could severely undercut the competitiveness of UK produce. That is in general terms. If a similar tariff rate quota is available to the US, it would also have significant implications for competitiveness.

That is a key concern. I would say it is replicated in poultry and the pork sector, where some of the evidence suggests that the cost of production difference in the US can be between 30% and 50% in some cases, so there is a key defensive interest there.

**The Chair:** Thank you for reminding us of that; it is important.

**Elsa Fairbanks:** We have had no immediate feedback on the effect of tariffs on the domestic market—we tend to work purely with the international side of the business—but one thing we are very aware of is that most of the current US imports into the UK are for ingredients that are then used for the value-added products that many of our members export. It could be dried fruit or nuts, so in theory it could bring down costs, which would be a positive thing. My understanding is that the duties imposed by the EU tariff regime are higher than the one that will apply in future. Other than that, there has been no real feedback.

**Nick von Westenholz:** I echo what Mr Haverty said. The real issue is where producers in the US have significantly lower costs of production than producers in the UK. That is for a variety of reasons, including the regulatory costs that apply to UK producers, particularly in areas such as poultry, pork and beef where we see US producers with lower production costs.

In a way, there is a question about what tariff level makes it cost effective for producers overseas to export product to the UK. The global tariff has already been discussed. We welcomed it; it has maintained tariff levels as they are, but clearly they are to be negotiated as part of trade deals.

Perhaps something we need to be aware of is that a lot of the discussion about trade and food imports, particularly around standards, focuses very much on the retail sector and the ability of consumers to buy food in stores, and issues such as labelling, but a lot of that competition will be outside the retail and supermarket sector, where margins are already low: out-of-home catering, restaurants, pubs and cafes. That part of the market is where there will be significant competition, and it will be quite difficult for UK producers to compete against the sectors I mentioned where US producers have lower production costs.

**The Chair:** I am going to turn to Baroness Liddell, but I want to let my colleagues know that I have noted that Lords Watts and Kerr have questions arising out of the very helpful answers you have already given. I will turn to them after Baroness Liddell has asked her question and it has been answered.

Q4 **Baroness Liddell of Coatdyke:** Mr von Westenholz's introduction referred to the opportunities. Indeed, in the Department for International Trade's strategic approach it says that lowering tariffs might offer particular benefits to UK food and drink producers. It also referred to cheddar, lamb and dairy products.

I noticed that when Mr von Westenholz was before the International Trade Committee he made the point that we have to be cautious in measuring the costs and benefits. I am finding it difficult to come to a conclusion on the overall scope of the opportunities that exist for exporters either through the US lowering tariffs or the removal of non-tariff barriers. If you balance that against the benefits, where does the positivity lie? Is there positivity between the cost and benefit? Given the remarks the three of you have very helpfully made in your introductions, that is the question sticking in my mind.

**The Chair:** Mr von Westenholz, do you want to answer that question first, given Baroness Liddell cited your evidence to the other Committee?

**Nick von Westenholz:** It is a good question to which there is not a definitive answer because we do not know the terms of the final agreement and what the market access concessions will be. We think that the opportunities for UK farmers are primarily in high-value and high-quality products and more niche markets such as you mentioned: dairy, for example, cheese, and pork, where in recent years we have done a great job in increasing exports, particularly high-value exports to the US market, although they have been somewhat stymied recently because of the retaliatory tariffs the US has raised as a result of the Boeing-Airbus dispute. That should not in practical terms be part of the US trade

negotiations, but it looks like those will be thrown into it. Therefore, there are opportunities there.

Lamb is an interesting one. The US is a big importer of lamb, but already Australia and New Zealand have pretty much between them got the import market in the US sewn up. It will be a challenge for the UK to break into that market; it will not be easy. That will be down more to market promotion and stimulating demand for UK produce in particular.

For lamb, tariffs are not an issue; they are negligible. The issue for lamb is the one I mentioned earlier. We are currently banned from exporting lamb. There are opportunities, but I think they are more niche and probably are therefore not large-scale, bulk commodity export opportunities, whereas for US producers they would be more along the lines of commoditised and mass-market opportunities.

Ultimately, it comes down to the fact that in certain sectors US producers have lower costs of production. They have a very aggressive interest generally in trade negotiations and have not in any way been hiding the fact that they are very interested in entering the UK market and taking a share of that. That is simply a fact that we have to be aware of as part of the negotiations in what we are willing to concede to get greater US market access.

**Michael Haverty:** I would like to make just a couple of points on lamb, for instance. According to some of the estimates I have heard of the opportunities in the US, the scope for increased exports is upwards of £18 million. When we look at costs and benefits, we need to consider also the UK's exports to the European Union at the moment. The value is approximately £350 million per year based on the 2016-18 average. It is important that that trade with the EU is safeguarded as much as possible and to see what increased sales can be achieved in markets such as the US and other markets, including Japan.

There are certainly opportunities for the UK in high-end, high-quality products. We need to consider sectors such as beef. I know that Ireland gained access to the US market back in 2015 due to a veterinary agreement on standards that Ireland put in place. The US accepted them as being equivalent to what was in place in the US. That meant additional controls in Irish meat plants to achieve that. At the time it was thought that sales of up to €100 million a year could be achieved, but the result has been significantly lower—€10 million to €12 million a year. The reason is that there is already a lot of competition in the US market for grass-fed beef from Uruguay, Australia and domestic supply. It is important to remember that there are other competitors in the global marketplace competing against the UK for a slice of that US market.

**Elsa Fairbanks:** The biggest factor that affects particularly food and drink exporters is the exchange rate, which is outside any trade deal. That will and does have an impact. To the credit of many food and drink exporters, they can be fleet of foot and are able to take advantage when the exchange rate is in our favour.

The biggest challenge in the US is not tariffs but the sheer complexity of the market, which has quite a lot of layers that add cost to the end delivery to the consumer. It is a market that has very different labelling regulations from the UK. Any company planning to sell to the US has to make a long-term commitment to extremely expensive food packaging, particularly for small companies. Even for a larger company, having dedicated packaging requires a considerable long-term commitment. It sounds very ordinary and practical, but it is the reality when people are deciding to enter a market with over 140 supermarket chains, most of which expect what are known as listing fees whereby companies have to pay to have a presence on the shelves, so it is an expensive market to deal with.

**The Chair:** It is helpful for us in understanding that.

**Lord Watts:** May I try to get some idea of the scale here? I would be interested to know the level of exports and imports both ways and what the opportunities would be if a trade deal was done.

The second point arising from what we have heard so far is the fact there is a 25% tariff already, so any negotiations would have to lift that 25% just to give us an even keel. To have to shift that 25% seems to be a difficult negotiating position. I would be interested in those two points.

**Elsa Fairbanks:** The 25% does not apply to every food product; it has been quite selective. One could almost say cynically that it was selected for products that attracted high interest in October: sweet biscuits, whisky and pork were affected.

That is not the only issue for companies. Tariff negotiation will always be important anywhere in the world, not least when we are starting to look at the deal that exists for the EU come January. There is a huge amount of concern about the lack of clarity on that among any companies with which we have any interaction.

**The Chair:** Lord Watts, as far as the other part of your question is concerned, we know the level of exports and imports.

**Lord Kerr of Kinlochard:** I was ambassador in Washington at one time. I certainly echo the point Ms Fairbanks made about the complexity of the American market.

Like Baroness Liddell, I have been thinking about the balance here. Looking at the evidence Mr Westenholz gave to our equivalent Committee in the Commons a week ago, it seems he is urging us to be circumspect and cautious. The balance is likely to tilt against us in the agricultural valley of any free trade agreement with the United States. I echo that. I do not see how we are going to compensate for losing our trade advantage with the European Union, where 75% of our agricultural and agri-food exports go, if there is not a free trade agreement with the EU.

The question I focus on is: do our witnesses believe that the Americans mean what they say when they suggest that, unless there is an

agricultural volley to the free trade agreement with the UK, there will be no free trade agreement? That is what the American trade negotiator, Mr Lighthizer, has said, and that is what a lot of people in Congress say.

I remember from my days in Washington that one does a double negotiation with the Americans, particularly in areas such as agriculture. You negotiate with the Executive but the Executive need to sell the deal on the Hill to Congress, where the agriculture lobbies are very strong.

Am I right that our witnesses think there is more downside than upside in this for the agri-business in the UK, but they are concerned that there will, nevertheless, be an agricultural element to the negotiation and that that may be an area where we make concessions to make gains somewhere else in the negotiation? Is that the underlying worry?

**Nick von Westenholz:** In short, yes, that is the underlying worry. Lord Kerr, you will know better than us about the politics of the US when it comes to agriculture and trade. Our sense is that there is a major imperative politically for agriculture to be included as part of a US deal.

There is another question about whether a comprehensive deal can be done at all in the coming months, and even the US trade representative himself poured a bit of cold water on that recently.

Clearly, there is an intent at some point in the future to do that trade deal and it will include agriculture, but there is a worry that UK agriculture could be negatively impacted. That is why we are being circumspect. That is not to say there cannot be a trade deal that benefits certainly some UK farmers, but it will be difficult.

It is surprising that the political messaging we continue to get around not just this but trade policy and all trade deals is nothing but upside for the UK economy and producers right across the board. That seems to me to fly in the face of basic trade theory, which is comparative advantage. Each of the parties to a trade deal specialises in what they can do well and allows the counterparty to specialise in what they do well. It is almost by definition a fact that some parts of one's economy will contract as a result of that or certainly will be out-competed; otherwise, what is the point of doing a trade deal?

It is important that politicians begin to be—I do not know how I can put this—a little bit more honest about that fact. If there are parts of our economy that will suffer negative consequences, we need to understand that now so we can look at things such as adjustment assistance, restructuring and so on to help those parts of the economy mitigate the effects of that. I think that simply saying "All of you will benefit" is deeply unhelpful, and we need to have a more honest conversation about the implications of some of these trade deals.

**The Chair:** I noticed nods at least to some of the things you said. Given the importance of that question and answer, perhaps I may turn to Ms Fairbank and Mr Haverty to see whether they want to add to,

contradict or agree with what you have just said.

**Elsa Fairbanks:** I would certainly agree. Our members and companies we talk to generally on both sides of the Atlantic are concerned that there are, for want of a better word, vested interests in more powerful sectors that will influence the outcome of the deal. Although the food sector is so important to survive and thrive in the UK, it could be the victim of other priorities.

**Michael Haverty:** I would also agree with the sentiments expressed. Agriculture would form part of a trade agreement. In trade agreements that the US has agreed elsewhere, they are very keen to point out how important agriculture is, and bargaining power comes into play here. We need to consider the size of the US economy versus the UK's. The US economy is about 24% of global GDP; the UK is 3.4%. That also has a bearing on these trade negotiations. There will be areas where the UK can be offensive and areas it will have to defend and will come under pressure from the US.

One other brief point I would make is about the US trade representative's evidence at a recent ways and means hearing. He was also implying they would need to know first what happens between the UK and EU to see then where the US would sit as a result of that and what could be done. I think it is important to bear that in mind as well.

**The Chair:** Lord Morris wants to come in. While we are figuring out how to unmute Lord Morris, perhaps I may turn to The Earl of Sandwich, who has a supplementary in any event.

**The Earl of Sandwich:** Chair, would you like me to ask Lord Morris's question, or shall I go straight to mine?

**The Chair:** It might help if you set the context.

Q5 **The Earl of Sandwich:** My question is closely related to that of Lord Morris and is about welfare standards. We have had submissions from several organisations such as the RSPCA, the British Veterinary Association and others that are heavily critical of welfare standards and the lack of legislation in the US. I was surprised at the strength of feeling on this. It has also surfaced in public debate around the trade deal.

Do you think these criticisms are accurate, or are they exaggerated? Would such criticism lead any of you personally to resist almost any trade deal with the US, in spite of all the temptations we have heard about under those circumstances? I know Michael Haverty has already given us some good answers. I am sorry if I am covering the same ground, but because of the evidence we have received it is important.

**Michael Haverty:** Welfare standards are much more advanced in the UK than in the US. From what we see, in the US at federal level what is there is very basic—standards in slaughterhouses, for instance. Members of the US Congress acknowledge that they need to be looked at again in terms of what has happened in recent months in the US.

Some states have welfare standards in place, but the view is that they are very patchy. Some of this comes into production standards and what farmers are allowed to do in US farms—stocking density of poultry, for instance—versus what is done in the UK. It is a key point that needs to be noted. UK consumers rightly value animal welfare very highly. If those standards get compromised or diluted in the future, it is not just about a US trade agreement. What happens in the UK home market as well, which we must remember is still the key outlet for domestic UK produce? That is a key question we must bear in mind.

As for prioritising or otherwise US agreements, it is important to note where things are at in the UK at the moment, because you never start these things from a blank sheet of paper. There is substantial trade with the European Union. While the UK has exited the European Union, there is a view among the farming industry generally that it is still the major market and accounts for two-thirds or thereabouts of exports. That needs to be protected first as much as possible.

After that, it is about replicating the free trade agreements the UK as a member state of the EU had with other countries, and to do that quite quickly so that continuity of trade can be achieved. The UK has achieved a lot of progress on that, but there is more work to be done.

After that, you start to look at the opportunities elsewhere arising from that. As we know, although those markets are large, they are far away and it is much more difficult to trade with them than the closer markets, which you can reach quite quickly with fewer logistical issues.

**Q6 The Chair:** I am very keen to hear Lord Morris's question, but it is not possible to unmute him, so let me put the question that I know he wanted to put.

Noting that the US has said in its negotiating objectives that it is seeking to promote greater regulatory compatibility in agriculture, the question is what that might look like—for example, on sanitary and phytosanitary standards and animal welfare standards. Are there other areas of the UK's regulatory framework regarding agriculture or food production that might also be targets for the US? I do not know whether any of the witnesses feel able to help us on those questions.

**Nick von Westenholz:** I am happy to pick up some of those. There is an interesting intellectual argument about what regulatory approach different countries and trading blocs take to food. The EU and US do take quite different approaches. If I am honest, the UK farming sector has not always agreed with the EU's approach, which is generally a very precautionary one.

Ultimately, the whole point about regulation is to meet the expectations of society and make sure that products are safe, but at the same time to try to stimulate innovation, productivity and so on. It is not an easy thing to do.

One of the key points to remember is that there is a marked distinction between regulation around food safety and regulation around animal welfare and environmental protection and, therefore, production methods. The UK food safety controls are pretty robust. We have the FSA. If things are deemed unsafe generally, they are not allowed into the market, whether they are produced here or overseas. Indeed, that is why things such as the dreaded chemical-washed poultry or hormone-fed beef are banned in the EU and UK on the grounds of food safety.

Frankly, what trade law is very poor at is restricting imports on the basis of production methods—for instance, animal welfare controls at farm level. That is a problem because, if as a society we have decided it is a good thing that certain animal welfare requirements should be imposed on farmers and that is what society wants, presumably those requirements should be imposed on imported products that are competing with UK farm produce, but at the moment that is not at all easy to do. Indeed, it is probably impossible under trade laws.

That is where the concern lies. It is about the scope of some of this regulation and where it can and cannot get into. The big issue for us around standards is not so much to do with food safety; it is to do with the production methods UK farmers have to observe, particularly in relation to the environment and animal welfare.

**Q7 Lord Kerr of Kinlochard:** To pick up Mr von Westenholz's point, will he comment on the idea of two-tier tariffs? I think it is a rather loopy idea, but the idea seems to be that we would retain or impose a tariff on products that did not satisfy our production standards, although they satisfied our safety standards, and we would go tariff-free on those that satisfied both. Presumably, there would be a requirement that those that did not satisfy our production standards should carry a label saying they had been produced to different standards from ours. I do not see that working; I do not see the Americans agreeing it; I do not see the British consumer buying it, but there is a lot of talk about it at the moment. Will you comment on it?

**Nick von Westenholz:** It has recently been described as a dual tariff approach. There has been an idea doing the rounds for a while about what are called conditional tariffs—lower tariffs or preferential access for food produced in a certain way. In the draft EU-Mercosur deal there is a conditional tariff for eggs produced under EU welfare systems in South America.

It is perfectly possible to take an approach of this sort in trade deals. You can deal with issues around production standards much more effectively within a trade deal that essentially exempts you from normal WTO requirements.

It is plausible in the sense it is probably doable, but, as you say, first, the feeling is that it is highly unlikely the US would accept that approach. The second question is about where the higher tariff is set. If you have a dual tariff, obviously you have a lower tariff for the stuff produced to your

standards, but is the higher tariff still prohibitive or will stuff equally be able to come in under that, in which case it is not doing the job it has been designed to do?

Thirdly, there is the labelling aspect. That is likely to be pushed back against fairly hard in any negotiations, but it also comes back to the point I made earlier. Labelling is ineffective in out-of-home eating. It has some effectiveness in shops, although there is even a question mark about how effective labelling really is in supermarkets. It is very weak for out-of-home eating, and, putting the past few months aside, about 50% of the value of food eaten in the UK is outside the home, so it is a pretty big market.

**The Chair:** As much as that? Those were the days.

**Lord Watts:** If America is keen to bring together UK and US regulations, what does that do to our discussions within Europe? It seems to me that, if we move our position towards America, it is likely that will create problems in our negotiations with the EU. On that basis, that seems to me probably why the Americans are waiting for the outcome of the European discussions before they become engaged in real negotiations with the UK.

**Michael Haverty:** Certainly, there would be a big impact on the EU negotiations. We need to remember the Northern Ireland protocol as well. One part of the UK is going to be upholding and implementing those EU standards. So any differences there as to what is allowed in GB and not in Northern Ireland will create additional friction in GB-Northern Ireland trade, which will add significant cost to Northern Irish businesses.

It is important that the US side is also aware of this. We hear in congressional committee hearings of the importance—the sanctity—of the Good Friday agreement and all that that entails. A key aspect is the all-island economy (of the island of Ireland). Protecting that is important, particularly the agri-food industry in Northern Ireland. If this competitive position is eroded significantly, especially in accessing the UK market, which accounts for about 70% of its sales, that will have a major impact on the all-island economy. That is also an important dynamic.

In moving towards US regulation, we can look at ractopamine, for instance—an additive used in pork that can also be used in beef. That is not allowed in the EU. If the UK starts to accept imports containing that, it will create non-tariff issues and potentially access issues in the European market. We should also note that China recently banned some meat imports from Canada because they contained traces of ractopamine. Therefore, it is not just the European Union element; we need to consider other markets and the integrity of UK produce as a whole.

**The Chair:** Thank you for that very important answer. I can assure you that this Committee is well aware of the implications because of the Northern Ireland protocol.

Q8 **Lord Gold:** My question is about genetically modified foods. We know that provisions on genetically modified foods differ significantly between the US and EU and, therefore, the current UK regime. What do you think the Government's approach should be to genetically modified foods?

**Elsa Fairbanks:** Perhaps one should separate personal views from the views of our membership. We need to proceed with great caution because, going back to the importance of the EU, about 60% of our food exports go to the EU; 10% go to North America. To put that in context—I was looking at some figures while Michael Haverty was speaking—nearly 7% of UK food and drink exports go to the Netherlands, so the Dutch market is nearly as important to the UK as the American market; it is at a similar level. We should not lose sight of that.

We should also not lose sight of consumer concerns. There is a huge backlash on the potential changes that are being made to food that British consumers value, and the negative impact on Britain's position as a food producer around the world should not be underestimated.

**Nick von Westenholz:** This is a very interesting issue and some complicated aspects need to be unpacked. Sometimes this gets folded into the debate around standards, but when it comes to GM, or broader plant-breeding issues, it is not straightforward. There could well be traits, either through GM or, perhaps more likely these days, gene-editing that are very beneficial from an environmental perspective. They can reduce the requirement for pesticides and use of water.

All those are quite positive things. We believe they should certainly be looked at as having that potential. They may not be the silver bullet that people want, but they certainly should be, and that should be a science-based decision.

As Ms Fairbanks just said, there is now an additional issue about what the impact would be on trade and, therefore, the potential economic impact on farmers. Once upon a time, we were having these debates as a member of the single market, and the way the debates moved shifted the whole single market with it, or not. Now we have these debates simply as the UK, so when we make these decisions our major trading partners—the US or EU—will stay where they are, and we will have to suffer the consequences of trade barriers being erected either way when that happens.

The simple point is that we need to make these decisions on the basis of science and evidence and of the cost-benefit analysis. What will be the implications for trade of taking a different regulatory approach, throwing all of that into the mix in these important discussions?

**Lord Gold:** I am interested to hear the views of our panel on whether there is any evidence that GM foods are unsafe, or is this just emotional stuff?

**Nick von Westenholz:** That is a very good question, and it was what I was trying to get at. Not necessarily. Many countries around the world

have been growing them for a number of decades now, apparently safely. Of course, there are consumer concerns around them; there may be some environmental concerns, but it comes to the point about science and evidence. I think the science and evidence should be at the heart of it. There may well be sustainability benefits from some of this. We need to look at that and consider it closely, but we also need to consider the implications for trade and, therefore, the economic impacts on farmers as well.

**The Chair:** Does the NFU have a particular position on GMOs?

**Nick von Westenholz:** It has always been the way I just phrased it. We found the EU system too precautionary. We believe there should be a more facilitative regulatory system that allows GM varieties at least to be tested and given the chance to demonstrate whether they are beneficial and then farmers can use them, but there has to be a market—consumers must want to buy it—and, as I say, there has to be an assessment of what the implications are for trade; but we do not believe that de facto GMO is necessarily problematic.

**Lord Kerr of Kinlochard:** The NFU position as described is the one I remember from my days negotiating in Brussels, and I remember that HMG used to espouse the position taken by the NFU.

It seems to me that Mr von Westenholz is absolutely right in his assessment. We are seeing a green surge in Europe; at the weekend in France the Greens were big winners. The absence of the UK from the Council of Ministers reduces those who will argue the case for a less precautionary position, and the tide is going the other way.

I think this is very sad. I was a young man serving in India when that country was the biggest net recipient of food aid in the world. People thought India could not feed itself. GMO is the reason India is now a net food exporter.

**The Chair:** We come to another controversial topic.

Q9 **Lord Oates:** May I turn to geographical indicators? As you will probably be aware, the US trade objectives include preventing improper use of the UK system for protecting geographical indicators, while the UK trade objectives are to maintain effective protection of food and drink names in a way that reflects their geographical origins. How do you see that kind of divergence of view working out, and what sort of things do you think might be captured in the US view or ours by the term “improper use”?

**Elsa Fairbanks:** Perhaps I should comment more from the perspective of the benefit I have witnessed over recent years. I used to work for Food from Britain, a government agency promoting British food overseas. It also played a huge role in the growth of regional food and the provenance of our food round the country.

The encouragement of British companies to be able to benefit from what has been such a strong force in countries such as France and Italy for

many years is very considerable. We are all very proud of our local food now. Local food is for ever being promoted now as the way forward, certainly after what we have all experienced during the pandemic. Anything that weakens our ability to have provenance and quality recognised is a very bad step.

We tend to see America as being all about big corporations. I have worked in America over many years. I am very aware that there are American producers and farmers who are proud of the provenance and quality of their products at a local level. I would hope that somewhere in the negotiation process some of these views could be shared and explored.

**Q10 The Chair:** Do you have a view on what things might be caught by the improper use of geographical indicators? What are they getting at?

**Elsa Fairbanks:** When I saw this question, that was one area I was aware of but was not particularly well informed about. I have looked at this. This was a big issue during the TTIP negotiations a couple of years ago. I was aware of that. Things such as food fraud and various other expressions have been mentioned, but it is not my area of expertise at all. I felt quite sad that it was becoming a negotiation ploy. It is something both sides of the Atlantic should be celebrating.

**Michael Haverty:** On geographical indicators, some of the noises I have heard, at least from the US side, are about preventing the monopolisation of certain products, and agri-food is usually mentioned in that context. That appears to be one of the reasons the US has done this.

From the UK point of view, I would echo Ms Fairbanks's sentiments. Local produce provenance is really important to UK agriculture plc and the perception of UK agricultural products when exporting to the US market. It is very important that products—for example, Stilton blue cheese—are recognised and protected in the US.

On how an alignment or accommodation can be reached, consideration could be given to agreements such as CETA, the EU-Canada trade deal, to see how geographical indicators are facilitated—I know there are terms within it such as "Stilton-style"—and whether there could be greater acceptance of that. But it is very important from a UK point of view that, in the UK market in particular, products such as Stilton get the protection they need so that consumers are not confused in any way about the provenance of those products.

**Nick von Westenholz:** As I said at the beginning, some of the opportunities we are keen to capitalise on in a US trade deal would be around high-quality, high-value and high-end UK produce. That is underpinned in many instances by GIs, or certainly that approach. Therefore, if negotiators are not robust in safeguarding GIs and ensuring they are included in negotiations, that would undermine where some of the opportunities do lie in a US trade deal, so it is very important.

**Q11 Lord Kerr of Kinlochard:** To ask a general question, this Committee is

also going to be looking at negotiations with Japan, Australia and New Zealand, and possibly any bid to join CPTPP. What would our witnesses advise us to look out for that is different from what we have been talking about today—the negotiations with America—in any negotiations with Japan, Australia and New Zealand?

Even more generally, do you detect a government long-term UK strategy for trade in agricultural and food products? Is there a strategy that we are about to uncover, or is it piecemeal Pangloss?

**Elsa Fairbanks:** As an organisation we work very closely with bodies such as DIT and Defra. We are also very aware that our competitors around the world often benefit from significantly more government promotion for their food sector. We recognise that there is always a fight for budget in all these discussions. The DIT has announced its “bounce back” programme, which we completely endorse but, compared with some of the initiatives we see around the world, there is very little support, particularly once we go beyond our so-called target markets, such as the new ASEAN region, which is of great interest to many of the companies we are working with. It has a young population. The UK is particularly strong in so-called health and well-being-type products, which have huge potential in the new ASEAN markets. We would like to see more government support to help these companies find a footing while they have the competitive edge in what they are able to offer.

**The Chair:** I detect you are saying—please correct me if I am wrong—that this is one area in which the Government are not showing they have a satisfactory long-term strategy for handling international trade.

**Elsa Fairbanks:** I think they have an intention and understanding. It would be difficult not to understand the opportunities given the available research, but whether they have the financial backing behind it would be another question.

**Michael Haverty:** In terms of general strategy and how it looks from my perspective, I want to use a baseball analogy, if you will excuse that. It is important, first and foremost, that the UK home market, so-called home plate, is protected as much as possible. That is what other countries do.

In particular, given what we have just been through with Covid-19, we have seen the strain that supply chains are under. If we are dependent on trade with countries far away that have difficulties of their own, that increases the risk. It is very important to protect that home market; that is the base from which you start to build elsewhere.

From there, it is about prioritising the EU market, which is the so-called first base. The US’s trade with Canada and Mexico is much more than trade with elsewhere, and again that geographic proximity is important. A good deal with the EU still needs to be the priority.

From there, it is about replicating deals elsewhere. Negotiation with Japan is under way. It is interesting that Japan has sought a separate

negotiation, as opposed to rolling over a continuity agreement, so it is looking to extract additional concessions from the UK in the agricultural area, because Japan is still a protectionist market and is coming under pressure domestically.

After that, you look elsewhere and see what else could be done. The Asia-Pacific market is certainly a growth area. Becoming a member of the CPTPP is to be considered and should be pursued given where the UK is currently, but it would also be good if there was a greater Atlantic element to that. Canada and Mexico to a degree are the most proximate markets.

It is important to bear in mind that the Atlantic sphere needs to be considered in addition to joining partnerships such as the CPTPP.

**Nick von Westenholz:** I would agree with that analysis wholeheartedly. The home market is critical. Sometimes people have drawn analogies between where the UK is now and the opportunities available with countries around the world such as New Zealand or Australia, which have done some great things in building exports over recent decades, but we are a very different country. We have a huge domestic market and we try to satisfy that. We do not come close to satisfying that through domestic production at the moment, so that home market is really crucial.

As described, the EU market is hugely important as well when it comes to food and non-alcoholic drink. Three-quarters of our exports are to the EU, which is right on our doorstep and has 450 million comparatively affluent customers. It will remain critical. After that, we should begin to look at opportunities, which we are through the coming negotiations, but they are secondary to those important priorities.

**The Chair:** We are due to scrutinise the agreements that the UK will make with the US and the other countries we have been talking about. It would be very helpful to have your guidance on what we should be looking out for in those agreements. I take the point about the importance of protecting the domestic market. I am not suggesting that in terms of protectionism; I understand that from what you were saying. But what should we be looking out for particularly as we look at these agreements?

**Nick von Westenholz:** When the agreements are finalised, it really is about the concessions that have been made and what we might be able to access in return, and trying to make sure they are as balanced as possible.

In an earlier question you asked about strategy. We are now beginning to see some important initiatives almost being retrofitted into a strategy such as the "bounce back" export strategy, which we would endorse. We think it is going to be very important. Market development and promotion overseas will be vital. It is clear that Defra and DIT are beginning to look at those things properly and that will be valuable, but from a domestic produce perspective this is a Government who have picked three of the

largest and most effective agricultural exporters on the planet with which to prioritise trade deals.

It would be, I think, wilfully blind to say that does not pose a risk to domestic producers in the UK. Would it be the strategy we suggested at the outset? Probably not. There are markets for UK produce that we would probably have prioritised. I should say that Japan is one of those we would like to open up a lot more and we would be very interested in that, but we are where we are.

**The Chair:** That answer is a nice British understatement, if I may say so.

Q12 **Lord Oates:** I want to follow up the points about cost of food and production. I think Mr Haverty said at the beginning that US production costs were between 35% and 50% lower than in the UK. I want to get some understanding of what proportion of those costs arises because of poor animal welfare standards and what proportion is due to more efficient production. It may be difficult to get exact figures, but there is a long-running argument, going back to the corn laws, about protection versus consumer food prices, and that is also an obvious potential benefit of a trade deal. It would be good to get some understanding of the differences in those costs.

**Michael Haverty:** The 30% to 50% range relates specifically to pork based on top-level research that we did in advance of this. The additive ractopamine plays a role within that because of the importance of feed in the overall cost of production of products such as pork. It plays a key role; circa 70% of the cost of production relates to that.

I would not be in a position right now to comment accurately on the percentage of total cost that relates to differences in animal welfare practices.

For beef, costs are lower in the US. There are differences in farm prices between the US and the UK. I would echo Ms Fairbanks's sentiments. Exchange rates play a key role when it comes to international trade. They can vary from time to time.

A point probably worth bearing in mind is that, if we go back to 2014-15, in the US the cattle population declined quite significantly due to drought. That did have an impact on price at that time. We are now seeing production rebounding in the US and it is exporting significant volumes again. It is important to make that point. It probably links in with environmental considerations, which I think will increasingly become part of trade negotiations in the future. We hear the European Union talking about a carbon tax.

It is important to look at this from an emissions and environmental impact perspective. Compare UK agriculture with the US in terms of emissions and water usage, particularly the extraction of mains water or water from aquifers. Grass-fed beef here is predominantly reliant on

rainfall. These factors also need to be considered when looking at the overall costs and benefits of a UK-US trade deal.

**The Chair:** This has been a most useful and interesting conversation with the three of you. Is there anything any of you would like to add to what you have said? I would extend that invitation to my colleagues. Do any of my colleagues have any final questions they would like to ask, or comments they would like to make, even if it means going back to some of the topics we were discussing earlier?

**Lord Watts:** I am sorry if I misled anybody when asking my earlier question. What I was trying to get to is that we have been quoted some potential gains from a trade deal on agriculture with the USA. Has any of our witnesses today an idea of the potential gains? When we took further evidence some time ago it seemed they were relatively low.

**Nick von Westenholz:** Obviously, the DIT has made its own assessment for the total gains from the deal across the economy. It showed over 15 years a best case of 0.16% growth in GDP, which is modest. I do not think anything should be sniffed at; it is a gain in GDP, but it is modest, and it comes back to the question about what will be given up in return.

In terms of agriculture, we have not seen the details of the scoping exercise it did, but there are some estimates of potential gains. For example, we have seen, in lamb, suggestions that there might be increased sales of about £37 million over five years. Again, it should not be sniffed at, but it comes back to Michael's earlier point. That would be really valuable as long as it was on top of the huge exports we already make to the EU. It would come nowhere near replacing the loss of that market. That is a five-year figure and it is about one-quarter of the amount we export to the EU in a single year. Therefore, losing that EU market would be enormously problematic. What we really want from trade deals with third countries is to get benefits over and above those we already have.

**Lord Lansley:** I was prompted by that exchange. It seems to me that measuring the benefits of trade deals by increments to gross domestic product is not necessarily the only potential advantage that might accrue. We are a very substantial net importer of food. A lot of our discussion has been about our export opportunities and defensive interests relating to our producers.

What about our consumers? If we import a very great deal of our food, particularly fruit and vegetables and quite a lot of meat and cereals, from the European market and are buying them in euros and paying more as sterling depreciates against the euro, we have a very powerful market lever, which is that we are a very large importer.

Notwithstanding that our witnesses are defending some particular producer interests, how can we deliver benefits to consumers through lower prices while maintaining our standards? Let us leave the issue of standards to one side. Let us say we do not want to diminish the

standards, but how do we deliver lower prices? Where is our leverage on that?

**Nick von Westenholz:** That is a great question. You are right. We have not really captured that yet. I think there is a hope that for some of these trade deals import substitution will come into play in certain sectors and that might deliver benefits. It is difficult to know because there are so many moving parts. As I understand it, modelling those potential effects is very difficult before the actual facts of a trade deal come into play.

UK consumers already have a fantastic range of choice and affordability in food. That is not to be sniffed at. As for improving that, if you look at the prices of basic products in shops, I do not think that trying to drive down food prices even further is a huge imperative. As a percentage of income, only the US and Singapore pay less than the UK for food. Food in the UK is already cheap, and where there is food poverty I do not think it is a result of price; it is due to other economic issues. There is often a focus on getting cheaper food. There is probably not much margin for food ever to become cheaper, and the impact is potentially more starkly felt probably by producers than by consumers.

**The Chair:** That is very clear and helpful.

**Elsa Fairbanks:** I totally endorse the fact we need to be very careful not to confuse food poverty with food prices and look at the much wider issue that contributes to food poverty. It is quite disingenuous for some of our politicians to use it as a short cut to allow some of the trade deal's wider ambitions to be achieved. I would hope that would be taken into account and interrogated very strongly.

**The Chair:** That is very clearly expressed.

**Lord Kerr of Kinlochard:** We will be taking evidence from American witnesses. I am very struck by the small ruminant rule. I have been ruminating; I am a medium-size ruminant. When we see the American witness, I would quite like to use this as an example. Mr von Westenholz, I think you told the House of Commons Committee that there was an undertaking by the Americans five years ago that the rule would be lifted, and that has not been carried out. Could you give us a little note about the rule on small ruminants?

**Nick von Westenholz:** To be clear, it was not an unconditional undertaking, but they consulted on removing it. There does not seem to be any reason for them not to remove it. It is a technical issue about the way the regulation operates, yet they still have not removed it five years later. The broader point is that we often hear criticisms of the EU and UK systems and unjustified barriers. Frankly, everybody does it and the small ruminant rule is a very good example of that, but I am very happy to put something down on paper and provide it to the Committee.

**The Chair:** Thank you very much indeed. Would any of the three of you like to add anything further? You have been very clear and helpful.

**Michael Haverty:** I would like to echo the sentiments of the other witnesses about UK food already being relatively cheap and value for money.

It raises an important point to make on standards. We hear the nuance in political debates quite frequently. UK standards and expectations of farmers still continue to be the best in the world, but when it comes to talking about food at the consumer level there is greater use of the general term "high-quality standards". I think that is a looser term subject to different interpretations. I would say it opens the door for imports coming in that may not be competing on the same basis as UK producers. It is important that that point is borne in mind throughout all of this as well.

We hear "a level playing field" a lot in the Brexit negotiations. It is important in trade more generally, particularly when you look across the UK internal market, of which Northern Ireland is going to remain part. It is vital that that is safeguarded in the years ahead.

**Elsa Fairbanks:** My final comment would be to endorse what has been said particularly by Michael Haverty. We must not lose sight of the importance of the EU market to UK food and drink producers. It is on our doorstep and is a market with very similar consumer patterns. I cannot understand why we should even consider walking away from that. We must remember that the US is our second largest export market, and our third largest export market, just behind it by a very small percentage, is France.

**The Chair:** That is very clearly put.

**Nick von Westenholz:** I have nothing more to add. I would absolutely echo those comments. To say anything else would just be repeating them.

**The Chair:** Let me thank all three of you. It has been very informative indeed. It will help us enormously in our task of considering the things we need to look out for when we do get the opportunity to scrutinise the agreements that are coming. I suspect we will come back to you for further help not simply on small ruminants but more generally on the way the deals are being put together. On behalf of the Committee, let me thank you very much indeed.