

International Trade Committee

Oral evidence: Trade and the Commonwealth: Australia and New Zealand, HC 521i

Wednesday 23 May 2018

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[Watch the meeting](#)

Members present: Angus Brendan MacNeil (Chair); Mr Nigel Evans (Chair); Mr Ranil Jayawardena; Mr Chris Leslie; Julia Lopez; Catherine West; Matt Western.

Questions 1-89

Witnesses

I: Peter Dawson, Policy and Sustainability Director, Dairy UK, Liz Murphy, Chief Executive, International Meat Trade Association, Kevin Roberts, Chair, Hybu Cig Cymru – Meat Promotion Wales, and David Richmond, Trade Strategy Manager, Fonterra Co-operative Group.

Written evidence from witnesses:

- [Fonterra Co-operative Group](#)
- [Dairy UK](#)
- [International Meat Trade Association](#)
- [HCC – Meat Promotion Wales](#)

Examination of witnesses

Witnesses: Peter Dawson, Liz Murphy, Kevin Roberts and David Richmond.

Q1 **Chair:** Good morning to our panel. Thank you for coming. Please give your name, rank and serial number, from my left to right.

David Richmond: Good morning, Chair and fellow Committee members. I am David Richmond from Fonterra Co-operative Group, a New Zealand-based dairy company. I am its trade strategy manager, with responsibility for Europe, Russia, the middle east and Africa.

Liz Murphy: Good morning. I am Liz Murphy, CEO of the International Meat Trade Association. Our members are primarily dealing with importing from and exporting to countries outside the EU, but we also have members who are very much involved in the European trade in meat as well—all meat: beef, lamb, pork and poultry.

Kevin Roberts: Good morning. My name is Kevin Roberts. I am the chairman of HCC, the agricultural levy board in Wales for livestock. We collect a levy on cattle, sheep and pigs—although the pig sector is very small—and we spend that money on marketing and promotion of the product, and research and development.

Peter Dawson: Good morning. I am Peter Dawson, policy and sustainability director of Dairy UK. We are the trade body representing milk processors in the United Kingdom.

Q2 **Chair:** Thank you. I have two points of business. For the sake of transparency, I should say that I keep a few sheep in the Hebrides and I have a few lambs—nothing to clog the wheels of international commerce, sadly. Secondly, I will have to go at 10.15 am, as I have an urgent meeting at the Home Office, and I shall hand over to my able and glamorous assistant, Nigel Evans. First, to the representative from Dairy UK, by way of introduction, could you give us an overview of the dairy industry in the UK? Who are our main trading partners for dairy products?

Peter Dawson: I will give a quick overview of the supply chain. There are around 12,000 dairy farmers in the UK, employing in total about 50,000 people. They produce annually around 15 billion litres of raw milk, the overwhelming majority of which—99%—is sold on to around 90 major milk processors. Around half of the raw milk supplied by those farmers is then processed into liquid drinking milk. Because that product is not generally easily tradable and it has priority of supply, the UK is almost completely self-sufficient in drinking milk. The remaining half of raw milk then goes into the production of dairy products such as butter, cheese, yoghurts and cream, a significant proportion of which is exported outside the UK—around a quarter. But in production of those products we are not self-sufficient, so we rely on a significant amount of imports into the UK to meet domestic demand. Around 90% of those imports come from the European Union. About 80% of our exports go to the European Union, the

remainder going to countries outside of the EU. In total, wholesale value of production by the dairy industry is about £8.8 billion. The thing to point out is that our main trading partner is the European Union.

- Q3 Chair:** Mr Roberts, can we have a similar overview of the meat industry in Wales and the wider UK?

Kevin Roberts: Some of the statistics will be for the UK, because getting statistics at a Wales level is quite difficult on things like imports. Overall in Wales, the number of sheep holdings is about 14,000 and the number of beef holdings is 7,500. Some 80% of Wales is either uplands or hills and so, put to pasture, really only suitable for livestock farming. It is a fragile sector. About 80% of the net farm income in Wales comes from EU subsidies, so it is quite a vulnerable sector. Cattle production in the UK is about 900,000 tonnes, of which Wales makes 5%. Imports amount to 412,000 tonnes and exports amount to 144,000 tonnes. Sheep production in the UK amounts to 287,000 tonnes, of which 22% is produced in Wales. Imports are 109,000 tonnes, and exports are 98,000 tonnes. Although that looks like parity, the products are different. We consume a lot of legs in the UK but we do not produce enough, so a lot of them come from our New Zealand colleagues.

About one third of Welsh sheep meat is exported, and 95% of that goes to the EU. I probably represent the sector and place that is most at risk from a hard exit from the EU. On consumption per capita, beef is slightly rising at around 18 kilograms per person per year; lamb consumption over the past three years has been fairly static at around 5 kilograms, but in the long term it is declining.

- Q4 Chair:** That is not great news about lamb consumption declining—we need to get a message out there that lamb is a thing to eat. You would think I had a self-interest there wouldn't you? Liz Murphy, would you like to add anything to that?

Liz Murphy: I think Kevin has covered it very well, but I want to re-emphasise a couple of things. The key characteristic of the meat sector is that we disassemble our raw material. That makes us quite different from other sectors that take raw materials and build up a finished product. I agree with Kevin about the import and export flows. Because the consumer does not eat all the bits of the carcass, international trade for us—both import and export—is extremely important for balancing the market.

- Q5 Chair:** David Richmond, could you give an overview of the trade you have with the UK, and say what other markets you trade with?

David Richmond: Certainly. Historically, until the early 1970s, the UK was a very large—if not the largest market—for the New Zealand dairy industry, but with the UK joining what is now the EU, effectively overnight that industry lost its access to the UK. Today the UK represents a very small market by value for New Zealand. For example, in 2017, 0.11% of New Zealand dairy by value came to the UK, which is very small. For markets outside the UK, in 2017, New Zealand exported around 12.5



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billion US dollars-worth of dairy products, and those went to more than 170 countries around the world. The largest export market is China at just under 3.5 billion USD, which represents just over 27% of New Zealand's total dairy exports. Our remaining other large markets are Australia, the United States, Japan and the United Arab Emirates.

- Q6 **Mr Jayawardena:** I am sure we will discuss possible future FTAs with Australia and New Zealand, and it is easy to talk about that. Before we do so, however, can anything be done right now outside an FTA to make trade between the UK, Australia and New Zealand better or fairer?

Kevin Roberts: I am happy to have a first shot at that. I have read the Australian submission of evidence, and it seems to me that the biggest opportunities are in services. You don't need an FTA for services, although often there are measures in there to improve service access. FTAs are largely about tariffs, and reducing them over time. That is one issue that you can address outside an FTA. The other largest export potential for us is cars, and it seems to me that the Australian Government are about to abolish the new car tariff. There are opportunities accruing outside a full FTA.

- Q7 **Mr Jayawardena:** Are there any other points? You talked about disassembling. Are there opportunities around that?

Liz Murphy: Yes. FTAs aren't just about tariffs; a lot of FTAs that are agreed now are very much about trying to make goods move more quickly and flexibly. For our sector, the veterinary agreements are crucial. You say, "What might be done now?" I think having meetings and setting up a working group on veterinary issues between ourselves, Australia and New Zealand would be a good preparatory thing. Obviously, from an export point of view, we are already exporting pork to Australia and New Zealand, but there are further opportunities that we think we could make in that direction.

- Q8 **Mr Jayawardena:** We are talking about exports. What about imports? The Chairman has rightly raised the issue of lamb. Several of you represent the meat industry. Would my contention be right that consumer demand remains high, but of course products, meat, can be delivered perhaps more seasonally—and in that context we have complementary economies—with Australia and New Zealand?

Liz Murphy: Yes, indeed. In our submission, if you see the graph showing the way production is in the southern hemisphere versus the northern hemisphere and how the imports work, you can see a complementarity to it. So there is very much that possibility, particularly with lamb—the possibility of supplying good-quality lamb to the consumer all year round.

One thing with the lamb sector particularly is that it is the most expensive meat in the UK—unfortunately, as it is my favourite meat—but equally, we need the supermarkets to keep it on the shelves, and New Zealand's supplies enable us to do this all year round. I wouldn't like it to become like a venison product: you wouldn't know, when you went into the



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supermarket, whether the product you wanted was there or not. New Zealand has done a lot to support consumer demand in the UK.

- Q9 **Mr Jayawardena:** So trade with New Zealand—and, indeed, Australia—would give consumers greater choice and perhaps a more competitive price when New Zealand has the capacity to export to the UK and consumers demand it.

Liz Murphy: Price is an interesting thing. From a New Zealand point of view, at the moment there is a zero tariff for imports of lamb into Europe.

- Q10 **Mr Jayawardena:** Under the tariff-free quotas?

Liz Murphy: Under the tariff-free quota. That is not the case for Australia, because they have quite a small quota, but New Zealand have quite a large quota, and that is not filled at the moment, so it is not necessarily the case that by reducing that tariff, you will get a flood in, because it depends on the whole global market for meat, which is very complex.

- Q11 **Mr Jayawardena:** I wonder whether we could get the view of one of our importers.

David Richmond: We don't send a lot to the UK, so I think for us, the biggest barrier is the tariffs at the moment. Out of an FTA, that would be one of the things we would be looking for—improved market access. Outside that, the areas that the UK and New Zealand could work together co-operatively on would be at the WTO, for example, on subsidies to farmers and market-distorting practices. That would be to the benefit of the dairy industry globally, so I think that's where there could be some fruitful work done together.

In the absence of the Chair, Mr Nigel Evans was called to the Chair.

- Q12 **Chair:** Is the New Zealand lamb now going to Asia, as opposed to coming here, because of the prices?

Liz Murphy: Obviously, a lot is going to China and places like that, but again, we come back to the different parts of the carcass. Certain things are going to China, and obviously certain things are coming to Europe, and to the United States as well.

- Q13 **Mr Jayawardena:** In any case, the received wisdom from me today, listening to you, is that the gravity model does not apply in this context, because you are exporting all over the world, to all sorts of different markets, based on consumer demand, and it's working.

Liz Murphy: It depends what the value of your product is. Obviously, the products that are coming from Australia and New Zealand—both beef and lamb—are very high-value products. Therefore, the transport cost is not that much of an issue. But if you are exporting, for example—

Mr Jayawardena: Widgets.

Liz Murphy: If you are exporting offal or low-value products, the gravity model, I suspect, comes more into play.



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Kevin Roberts: We already co-exist with New Zealand and, to a lesser extent, with Australia within our market, so it's about how much more. Your point about counter-seasonality does work. I think we can probably co-exist with New Zealand and Australia in lots of export markets—as Liz said, maintaining lamb on the shelves all year round. It does work. I don't want to be defensive about liberalising the market. It is about sequencing and timing, really. It would not be good news if we had a hard exit from the EU, because we currently export a lot of lamb.

- Q14 **Mr Jayawardena:** Would labelling be critical in any future regulatory system, so that only Welsh lamb is labelled as such, not lamb that is processed in Wales?

Kevin Roberts: No, Welsh lamb has a protected geographical indication currently.

- Q15 **Mr Jayawardena:** No, my question is about whether labelling is important to you.

Kevin Roberts: Yes, absolutely. We believe it is a premium product. It outsells the market, so consumers being aware of that is a very positive aspect in this market and in overseas markets. It is not a very defensive stance, other than if we have a hard exit from the EU. The sheep sector in the UK is in trouble, and—because Wales has much of it—that is particularly the case in Wales.

Mr Jayawardena: I cannot imagine that the people of the EU would want to deprive themselves of Welsh lamb, but thank you very much for your—

- Q16 **Chair:** What sort of tariff do you think would be a block to Welsh lamb being exported to the European Union under hard Brexit?

Kevin Roberts: We would then revert to WTO rules. The average import tariff into the EU for lamb is 50%.

- Q17 **Chair:** That is a lot.

Kevin Roberts: You made a point that consumers in the EU would not want to deprive themselves of Welsh lamb, but they probably couldn't afford it.

- Q18 **Mr Jayawardena:** Ah, so the EU is a protectionist racket, in that it is trying to keep your meat out.

Kevin Roberts: Not ours currently.

- Q19 **Mr Jayawardena:** Your contention is that they would want to keep it out to protect their domestic markets.

Kevin Roberts: That is why we end up with a fragile sector in agriculture. It is highly protected by these import tariffs, and it is subsidised. If you do that for 40 years, or probably since the war, then you are going to end up with a sector that is very vulnerable. It takes a while to change and drive a different sort of paradigm in agriculture. It is about sequencing and timing. We can solve these issues, but it will take time.



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Chair: Before we go to Julia on this point, I call Matt.

Q20 **Matt Western:** Can you just revisit the figures you quoted at the outset in response to the Chair's question? When you were talking about subsidies, you gave a couple of numbers. Can you just repeat those?

Kevin Roberts: The numbers in terms of holdings?

Q21 **Matt Western:** I think you were quoting the amount of subsidy that the sector was receiving.

Kevin Roberts: The profit of the average Welsh farmer is made up of about 80% subsidy. If we are about to change the subsidy regime, as we will do—the signals have been made by all the politicians—that will have a dramatic effect at the same time as we perhaps lose some trading opportunities. It is not a good combination of events.

Q22 **Matt Western:** It's a very fragile sector.

Kevin Roberts: Very fragile. It goes back to my point that if you do this for 40, 50 or 60 years, you will end up with a fragile industry.

Q23 **Julia Lopez:** I think my question has been covered, so I would like to look at the area of working together with Australia and New Zealand to try to penetrate some of the Asian markets that we talked about as the high-growth markets.

I was talking to Mr Richmond last week about what happened in New Zealand when the UK joined the EU. That was a very difficult time for Australia and New Zealand: they had to make massive efficiencies and to change the way in which their producers worked. I wonder if there have been any discussions with the Kiwis and Aussies about how they changed what they did and how they realigned themselves to Asian markets. In your view, are there any opportunities for working together with them to fulfil some of the demand coming from Asian markets?

Kevin Roberts: I went to New Zealand on an outward mission in March of this year. At the end of the week we looked at areas where we could work together. It is absolutely the case that one of the opportunities for the UK meat industry is to drive exports. If we have to displace an amount of subsidy, one of the ways of doing that is to make the markets work better for farmers here in the UK. We have evidence that shows and demonstrates that the better the export performance, the better the farm gate price. Theoretically, it sounds logical, but we have evidence that the more we export, the higher the farm gate price—not necessarily the retail price, but farmers are getting a better share of the cake. There are definitely areas where we can co-operate and work together, in markets for fresh lamb particularly. With counter-seasonality, that argument works well.

Yes, we learned from them about the consequences of them removing their subsidies and, actually, they did it in a very short space of time. Although their industry recovered well, there was some fallout for quite some time, and some rural communities are only just recovering from the



consequences of those changes. We can learn those lessons, but actually the lesson to be learned is not to do it overnight—phase in those changes.

Liz Murphy: I would endorse what Kevin said about New Zealand and Australia—that we can work very well together and see some opportunities there. On the New Zealand experience, what was interesting, although extremely painful, was that you saw a reduction in their sheep flock but an increase in their production, so it drove efficiency, but in a fairly dramatic fashion. In terms of the future, the other thing that we have to remember is that we have to get veterinary protocols agreed with these Asian countries. That is something that the Government can work on now, because it is not an EU competence, but a UK Government competence. We would certainly encourage more work to be done in that area, and we have put that to DEFRA already. Helping us, with the New Zealand and Australian experience with some of those markets, might be very productive.

Q24 **Julia Lopez:** Mr Richmond, from your experience in New Zealand, what are the lessons that you think we should be learning?

David Richmond: As a small country at the bottom of the south Pacific that is incredibly reliant on exports, we have had to find ways to overcome that tyranny of distance over a number of years. That has been done through diversifying exports, finding new export markets and innovating in the way we manage our supply chains.

What you have seen—at least from our business, Fonterra—is that investment has typically followed improved market access through free trade agreements. While FTAs address the issues around tariffs, they also give a framework for understanding the rules of the game when you are operating in a market. They give you certainty about investing and what your infrastructure might look like there.

That is what we have seen through our business investments in the EU, for example. As I mentioned last week, we have a manufacturing facility in the Netherlands that we built about five years ago. One of the by-products produced there is lactose. We send that lactose to a joint-venture partner that we have in the UK, where it is further refined into a product called galacto-oligosaccharides—GOS for short. From there, it is sent down to a Fonterra manufacturing site in Australia and blended with New Zealand ingredients, and then sent back out to China and south-east Asia as infant formula.

In terms of working with UK businesses, that has enabled us to take New Zealand understanding of dairy know-how and manufacturing, in partnership with our UK partner, to improve their processes here to the betterment of the UK farmer, then we have been able to leverage New Zealand's trade agreements and access to markets in Asia and south-east Asia to ultimately sell our product there. When you are looking at free trade, the tariff piece is important but, equally, the framework and the certainty about the rules of the game that it provides you with are equally valuable to the collaboration between companies in both countries.



- Q25 Julia Lopez:** It is the case that there is a very high demand for that kind of milk formula in China. When I was last in Australia, there was a limit placed on the number of formula boxes you could buy in an Australian supermarket, because people from China were coming over, buying it from the Australian supermarkets and sending it back to China, because it was such a valuable product.

David Richmond: Correct. We have the same challenges in New Zealand at the moment as well. Asian consumers, particularly in China, are looking for products that are safe, they know where they have come from and there is transparency around the food safety standards. They have typically looked to New Zealand and Australia as a source for that. Being able to tap into that, from the UK's perspective, would obviously be incredibly valuable.

- Q26 Julia Lopez:** Is Dairy UK involved in any of these discussions?

Peter Dawson: Not directly, but we are aware that there have been a number of missions to New Zealand to try to draw upon their experience of deregulating their industry. The message we are getting back is that, while they did survive and they did accrue benefits in the long term, the speed of the adjustment that they undertook was perhaps not the optimal way to go about it, and if they had given themselves a longer transitional period they would have got greater benefit. That is the lesson that we have learned.

In terms of harnessing expertise that New Zealand may have, yes, there are a number of Dairy UK members who are in partnership with New Zealand, but I should point out that we have our own domestic GOS manufacturer, and they are already active in far eastern markets independently of the advice or expertise they could draw upon in other countries. So yes, we do have an export market-orientated industry that would be quite capable of taking advantage of the opportunities available in the far east.

- Q27 Chair:** If we lifted all the tariffs on agricultural products from Australia and New Zealand, what impact would that have on the UK industry?

Peter Dawson: That would very much depend on the extent to which Australia and New Zealand decided to take advantage of that opportunity. I would have thought that in the longer term it would make sense for them to spread their market interests and minimise their exposure exclusively to the far east, so I think it is unlikely that they would forgo that opportunity.

- Q28 Chair:** What is the price differential between the far east and here? What is so attractive about sending it to the far east?

Peter Dawson: Broadly speaking, we are now operating in a global price environment. There is a general commonality of prices across all world markets. For New Zealand, proximity means that freight costs are such that they can get a better margin out of it, but if they established a position in the UK domestic market for premium consumer products, they would get a greater margin and possibly, in the longer term, greater



market stability in their income stream. So I think they would take up that opportunity, especially since both countries still have production costs that are significantly below the UK level. That is particularly true of New Zealand. I think they would take advantage of it, and that would pose a significant competitive challenge to the UK dairy industry. We would like to rise to that challenge, but we would like to be given the opportunity and timeframe to adapt to it. If tariffs were to be removed, we would like to see that done incrementally, over an appropriate transition period—not radically but over a period of time.

Q29 Chair: Do you think there should be a transition period in any trade deal that we do on their products coming into the UK?

Peter Dawson: Yes, I think that would be appropriate.

Q30 Chair: Do you agree with that, Kevin?

Kevin Roberts: I do. If the progress of movement through that transition was commensurate with how well we were doing in opening up export markets for our product, there would be a synergy in that. It is all about timing and sequencing. In terms of what would happen in the sheep and beef sector, New Zealand currently has good market access through the TRQ. It does not take up the entirety of its TRQ, so one would think it is satisfied with its access currently into the UK. It is how that is divided up between the EU and the UK after exit that is of particular interest to them going forward. I guess the challenge will be around liberalisation for Australia, which has a very small quota. It may well be that they are competing with each other for the off-season in the UK, because lamb is seasonal. Beef is probably a bigger challenge. But we should be able to cope with these things over time.

Q31 Mr Jayawardena: Does Dairy UK believe that the British consumer would prefer to buy British milk?

Peter Dawson: There is no archetypal British consumer; there are 60 million of them, but—

Q32 Mr Jayawardena: Well, I'm asking the question: on balance, do you think British consumers would prefer to buy British milk?

Peter Dawson: The priority for the British consumer, according to the information provided by retailers, is value. Provenance, though, is important to a portion of consumers. Some consumers would give priority to buying British, but it is not the main driver of consumption.

Kevin Roberts: But it's probably not milk, is it? Liquid milk—

Q33 Mr Jayawardena: Hang on, I asked a question about milk specifically. On milk, if the big focus for the consumer is value, and I would contend that providing value is not simply about cost, what is Dairy UK doing to demonstrate that domestic farmers here are delivering value, rather than simply focusing on protecting the market from outsiders?

Peter Dawson: We are not focusing on protecting the market from outsiders.



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Q34 **Mr Jayawardena:** You have asked for tariffs to be maintained.

Peter Dawson: No, I didn't ask for them to be maintained; I asked for an appropriate transition period—

Q35 **Mr Jayawardena:** But you asked for them to be maintained for a period of time, rather than for them to disappear. You have said that you want to be protectionist in some way, and that protects your market. I am asking what you are doing to demonstrate that British farmers and British milk have value—consumers can buy milk and see from the labelling whether or not it is British—and to boost the number of consumers who believe that provenance is important.

Peter Dawson: Just to clarify, I asked for phased elimination, not for retention. On communicating to consumers the importance of dairy products in general, and specifically UK dairy products, we are engaged in a generic advertising campaign to reconnect with consumers about the benefits of consuming dairy products. I hope people will have encountered some of that advertising material. Most of it has focused on social media, but we will be moving towards a poster advertising campaign fairly shortly. Yes, we are active in that area and in trying to encourage the consumer to consume British dairy products.

Q36 **Mr Jayawardena:** What are you doing specifically to encourage consumers to consume British dairy products and British milk, rather than simply, as you said a minute ago, to consume dairy products? There is a difference, I am sure you would agree. What are you doing specifically to generate the value of British products in the eyes of consumers?

Peter Dawson: As a trade body, we are trying to communicate the message to stakeholders and the consumer about the standards prevailing on dairy farms in terms of animal welfare and environmental benefits, as well as the quality and safety of British dairy products. That is general messaging, but as a lobbying organisation it is not our primary activity. We don't have the resources to engage in a multimillion pound generic advertising campaign.

Q37 **Mr Jayawardena:** It seems that you would rather lobby the Government to retain some level of protection, rather than go to the consumer and make your case.

Peter Dawson: May I reiterate that I have not asked for the retention of protection?

Q38 **Mr Jayawardena:** No, you have asked for a phased elimination.

Peter Dawson: But that is not retention of protection, is it? It is about the scale and manner in which we eliminate protection.

Q39 **Mr Jayawardena:** Okay, so on day one is there a tariff in place—yes or no?

Peter Dawson: Yes, there will be a lower tariff in place after you have initiated the process of reduction.

Mr Jayawardena: There you are.

Kevin Roberts: If I could just help my colleague here. Almost all British milk and dairy products are labelled with the Red Tractor label, so consumers can find it.

Mr Jayawardena: Labelling is absolutely critical.

Kevin Roberts: Red Tractor is all about promoting the standards of production for British dairy products.

Q40 **Chair:** Liz, if tariffs are lifted, will it mean decimation for the British agriculture industry because everybody is going to buy cheap meat from Australia and New Zealand?

Liz Murphy: Let me just make it clear that we are saying is tariffs eliminated and no quotas either—that's the idea. There is a need to take into account some sort of a transition, but reducing tariffs does not always lead to reducing prices. It is a matter of all sorts of other factors, including what the power is between the importer and exporter. The exporter knows full well that the importer is not paying a duty, and therefore they will be looking to get a higher price for their product than they did in the past. It's not as simple as saying that the whole thing will come down and cheap product will come in, or whatever.

Q41 **Mr Jayawardena:** So that is good for domestic production because you are not competing against cheap products from outside.

Liz Murphy: Well, you are not competing against a duty.

Q42 **Mr Jayawardena:** No, if there is no duty you said that the exporters from a third jurisdiction would say, "Well, we're going to export but at a higher price". Then the domestic producers are not competing with cheap product at half the price from outside, because those producers are asking for more anyway.

Liz Murphy: That is one scenario, but I am saying that it is a complex scenario. Quite often people say, "Getting rid of duties will drop prices", but it doesn't always happen that way. We have a situation in beef where, when you import under a quota, you pay a certain duty. If you import at full duty, obviously you pay a lot higher duty. Our members are paying different prices for exactly the same product because the exporter knows that this consignment here will pay full duty and that consignment there will pay the other one. But there are a whole load of other factors and therefore you would not want to do the whole thing overnight.

Chair: David?

David Richmond: No is the short answer. You would not see a flood of New Zealand dairy products coming to the UK. There are a couple of reasons for that. Yes, New Zealand is a large exporter of dairy products: 95% of what we produce is exported outside of New Zealand, but in the world scale of milk production we are actually very small. We only produce around 2% of the world's total milk. Our supply coming out of New



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Zealand now is likely to be heavily constrained, so you will not see the 5%, 6%, 7%, 10% growth in milk coming out of New Zealand, as you have seen historically. I would also add that the UK is a highly efficient dairy producer in its own right and a large exporter. It is the fifth largest dairy exporter in the world after the EU27, New Zealand, the US and Australia. So, in its own right, it is a strong competitor on the global market.

If you think about the way in which New Zealand dairy operates, or at least Fonterra, for that matter, we are incentivised to send our products to markets in the world where we get the best return for them. That is what our farmers pay us to do. If we were to send products into the UK at below what we could get elsewhere, then we should not be in our jobs. If you flip the question around, it is whether the UK is prepared to pay over and above what we are already getting from China and south-east Asia for New Zealand dairy products. If they are not, they will not come to the UK.

- Q43 **Matt Western:** Just to follow up on Mr Dawson about drinking milk. I am keen to understand. We talked earlier about lamb and subsidies and so on and how fragile that sector is. Currently, how viable are UK milk producers? For example, how much are they receiving per pint produced?

Peter Dawson: If you are asking what is the importance of the current direct payments to dairy farmers in the UK, it is a significant proportion of dairy farmers' income or profit. It varies depending on milk prices. If you are looking for an average figure, I would say that if a dairy farmer is getting around 27p per litre from their milk price, they receive in addition anywhere between 1.5 to 2.5 equivalent pence per litre as a result of the direct payment, depending on the size of their operation and their historic entitlements. Once you take account of costs and whatever, that is a not unimportant part of the profitability for dairy farms. The removal of that subsidy will have an impact on the dairy industry. It will require dairy farmers to improve their productivity in order to maintain their competitiveness in the existing commercial environment, which, if we get the sort of deal we are looking for with the European Union, will not significantly change, so the industry will have to undergo a period of investment and restructuring to raise its game to compete. It is quite an important factor. Against that background you have to look at what would be the potential impact of any free trade agreement the UK might choose to negotiate after leaving the European Union.

- Q44 **Matt Western:** The Secretary of State for International Trade has suggested that Australia and New Zealand should be our top priorities in seeking a free trade agreement, certainly the top priorities after the United States. Do you agree with him?

David Richmond: We believe there is a strong case for New Zealand and Australia to be prioritised as FTA partners. As the New Zealand Government submission articulated, there are strong relationship reasons that we are natural FTA partners, and that includes the fact that we share historical roots and values. We work together collaboratively across a multitude of international organisations. Up until yesterday, New Zealand



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was one of only six WTO members that didn't have a trade agreement with the UK, under the EU, either under negotiation or agreed, so we are pleased to see that the EU mandate has now been progressed.

We see a New Zealand-UK FTA as a great example for setting a benchmark for a high-quality, ambitious FTA for the UK. We see that there are advantages in that then being a message that can be shared to other trading partners, in terms of the type and quality of agreement that the UK is looking to negotiate. New Zealand has a history of negotiating high-quality agreements, and we expect that doing so with the UK would be a relatively simple task—within the context of FTAs, which are complex.

Liz Murphy: We would also have New Zealand and Australia as a high priority for FTAs. We feel that they are trusted trading partners with quality products. In fact, tomorrow is the 136th anniversary of the first Dunedin ship arriving from New Zealand into London carrying frozen lambs. That was the first consignment of frozen lambs, so it is quite apt that we are talking about this today.

I agree with David. Somebody said the other day that the United States, the EU and China are the most formidable partners to negotiate a trade deal with. I see a lot of synergy between us, Australia and New Zealand, which would give us a basis for benchmarking future FTAs as well.

Kevin Roberts: I do not see them as priorities. I can understand why they would be opportunities for Australia and New Zealand. I am not sure what the huge opportunity is for the UK in New Zealand, particularly, which is a small economy in world terms. It is a first-class agricultural products producer, but overall it is a small economy of probably 200 billion.

Australia is slightly more attractive—it is a much larger economy—but I am not sure what the opportunities would be. Looking at the submission from Australia, it is around services, which don't need to be embedded in an FTA, or cars. However, as I said at the start, I think they are going to abolish the tariff on new cars anyway.

It poses threats in the short term for our sector. If I had the call on where we would look for FTAs, it would be where there are growing populations and growing consumption, not just of agricultural products but of all products, so I would look at China and the far east as my priorities.

Peter Dawson: No, it wouldn't be a priority for us. In the end, what we would look for in an FTA, in the interests of our industry, is greater market access opportunities. At the moment, there are no real significant impediments to trade with either Australia or New Zealand; tariffs are low or non-existent and the regulatory barriers are surmountable. We are trading with and exporting to those countries, so I don't think an FTA would actually improve the commercial position of the UK dairy industry in those two markets.



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Our priorities would be, logically, the European Union first, and thereafter—in order—would be the likes of Canada, America and China. They would be our priorities, in terms of gaining greater market access opportunities.

Kevin Roberts: I have to add that clearly I am assuming that we will have an ongoing relationship with the EU. If we don't, that will absolutely be the priority.

Q45 **Matt Western:** The news yesterday was that the EU27 has announced that it is seeking an FTA with Australia and New Zealand, which they are looking to conclude by the end of October. What are the implications for a UK deal with Australia and New Zealand?

Kevin Roberts: I think my comments would probably mirror those I made on a UK FTA with Australia and New Zealand. If the UK stays within the EU, it would have access through the EU FTA. If it is outside, we will negotiate on our own. I am not sure that I can add any more than I added on the UK, Australia and New Zealand.

Peter Dawson: I do not know to what extent the UK Government would seek to secure an understanding with Australia and New Zealand that the UK could retain a portion going forward of whatever benefits and opportunities were accrued as a result of the EU FTA. That is the aspiration of the Government with existing EU FTAs, and the Department for International Trade is having discussions with all those countries to see if we can maintain our entitlements under those agreements. I don't know whether the UK will actually seek to do that, but if we did, we would have a ready-made framework for a UK FTA with Australia and New Zealand. If the EU had negotiated a transition period for the elimination of tariffs, maybe that framework would be retained. It depends on the extent to which we secure our position within the EU negotiation, so it is hard to tell at this point.

Q46 **Matt Western:** Last week we were talking to businesses and they were suggesting that they might be interested in seeing a trilateral agreement between the UK, Australia and New Zealand. Would you agree with that? Do you have any comments?

Liz Murphy: I am not quite sure what the advantages would be of that. I don't know whether the person who suggested that gave some more background to it, but I think it would be simpler and easier to do two individual ones.

Kevin Roberts: I can't see any difference particularly. If I can just step back to your point about the EU, Australia and New Zealand free trade agreement, they may well exclude agriculture products from it. They do that quite often—sensitive products are excluded from an EU deal. On the basis of the earlier conversations we had about how much tariff there is at the border into the EU, they may well choose to do that.

Q47 **Matt Western:** Finally from me, I have a question for Mr Dawson, Mr Roberts and Ms Murphy. To what extent have you had opportunities to



feed into DIT's trade strategy? Have you had any?

Kevin Roberts: Our normal routes into Government are into the Welsh Government, so we wouldn't have sight of that. I know that my organisation has not fed into the DIT strategy. I cannot ascertain whether the Welsh Government have either. I am sorry that I can't answer that, except to say no for HCC.

Liz Murphy: We have been engaging with DIT. We are very keen to engage more with DIT. The engagement might possibly be a little bit more structured. We have been down a couple of times to the WTO in Geneva and talked to a number of the member countries there and their missions down there. What has struck us is how industry and Government work, at a very early stage, very closely together, by actually scoping out what wants to be done, and then industry is very close to Government all the way through the negotiation. We know there are sensitivities in terms of what you can say and what you can't say, but they seem to get around that issue. Industry has grown up about how it feeds into Government and how it must retain that secrecy. That will be an interesting thing for us to develop more.

Peter Dawson: There isn't a formal structure as yet for us to engage with DIT. Most of our contacts have been through DEFRA. Just to build on those comments, we would like to see some sort of formal structure for us to engage with the development of UK trade policy going forward.

Q48 **Chair:** Liz, earlier you mentioned the EU-New Zealand veterinary agreement. Is it vital that the United Kingdom rolls this over post-Brexit?

Liz Murphy: Yes, I think that we have to remember import and export. One of our members does export pork, interestingly, to New Zealand. Veterinary agreements are crucial, because once tariffs start coming down, non-tariff barriers tend to go up. Both with New Zealand and Australia, the more we can come to an agreement on recognising each other—the important thing is the outcomes. Sometimes systems are different, but the outcomes in relation to consumer food safety and animal health safety are crucial. One of our particular concerns with relation to the EU is that while there is a lot of talk about customs border checks, the real issue for us—for our exports going to the EU—will be border checks on the veterinary side. So, any time in international trade where we can find a way of reducing and minimising those checks, while still maintaining protection and reassurance that nothing is coming in that shouldn't come in, that's to be welcomed from our sector.

Q49 **Mr Leslie:** I am sorry for arriving slightly late; I was just asking my colleague whether I had already missed this issue. This question slightly steps away from the Australia-New Zealand concern, which I want to ask about as well. However, in your panoply of anxieties about this current policy change, how high is this question of Australia-New Zealand versus other issues: Europe; America; tariff-rate quotas? To get a sense of proportion—what you're spending your time on—I would just love to get a relative sense about this.



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Liz Murphy: I will leap in here, because I think the crucial thing is our relationship with Europe. If you look at the percentage of trade that we do with Europe, the first-off thing has to be that we get a workable relationship with them. Coming back to talking about reducing duties or whatever, 95% of our exports of lamb go to Europe. If we are treated as a third country with Europe, we have no way of getting that lamb into Europe and that will be the crucial disaster for that sector.

Q50 **Mr Leslie:** Are you any nearer some certainty on that?

Liz Murphy: No.

Q51 **Mr Leslie:** What preparations can your sector make, or what preparations is it making, for scenarios?

Liz Murphy: Do you want to come in again, Kevin?

Kevin Roberts: I represent the place in the sector that is most at risk from a hard exit—the sheep sector in Wales. Wales is overweight in sheep and 30% of its production is exported to the single market. If we lose that market because we revert to WTO rules and tariffs—at 50% tariffs for sheep-meat into the EU—we lose the market. We then have an excess of supply in the UK market and we tend to export the elements of the sheep that we don't want to eat. So we've then got a big consumer challenge about trying to persuade consumers in the UK to start consuming parts of the sheep that they don't normally consume.

Q52 **Mr Leslie:** What do you mean? Can you give an example?

Kevin Roberts: Lots of forequarter cuts, lots of offal.

Q53 **Mr Leslie:** Right. So those would have to be sold within the UK, effectively?

Kevin Roberts: Yes. We currently consume lots more legs than we produce. Of our sheep production, 20% is legs. We consume 40% in the market. That's why we coexist very well with New Zealand; they supply lots of legs.

Q54 **Mr Leslie:** On the continent—in the EU27—they eat more of the rest of the—?

Kevin Roberts: Forequarters, so more slow cooking, more forequarter and more offal.

The modelling that's been done on that scenario is that we'll have a 30% oversupply—a 30% reduction in price. And so the consequences are enormous for Wales. You then get the knock-on into sheep production being the only economic activity in the most remote rural communities—

Q55 **Mr Leslie:** So that is definitely your priority; this issue today is a little bit niche, to say the least.

Kevin Roberts: Sorry, but almost irrelevant in the grand scheme of things.



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Q56 Mr Leslie: Is that frustrating? And do you feel as if you're being heard on the more important things, within Government or Parliament?

Kevin Roberts: The Government—the Welsh Government particularly—understand the consequences of a hard exit and they seek free and unfettered access to the single market.

I think everyone knows it's a priority and they know the consequences, not just in the sheep sector or the agriculture sector—

Q57 Mr Leslie: Preparedness, then, for scenarios—I want to bring in others as well.

Liz Murphy: Our frustration at the moment is that we feel there are some questions that Government could answer and they're not being answered.

Q58 Mr Leslie: Such as?

Liz Murphy: Practical things. For example, if we fell off the cliff next March, at the moment New Zealand or Australia meat plants are listed on an EU site, so those plants are approved. We would like to know—although people say to us, "Of course it's logical that those plants will still be approved," we're starting to have people who are going to have contracts, but they haven't got in writing that those meat plants will still be approved.

Q59 Mr Leslie: Is that because of the futures, the nature of the market—?

Liz Murphy: Contracts start—

Mr Leslie: Yes, because we are already casting ahead a year.

Liz Murphy: Yes, casting ahead, particularly when you get down to the autumn of this year, that will become increasingly important. Can you still deal with your supplier if we fell off the cliff in March 2019? We have an answer which kind of says "Don't worry about it; it will be okay," but that is not the same as actually going into and agreeing a contract with somebody and then finding you can't deliver. On the export side, equally, every pack of meat has a health mark on it, which at the moment has the words "EU" and a number—then "UK". We are asking what is that health mark going to be in future. We want to encourage the Government to answer some of those questions, which, I think, then, will give more confidence to industry that decisions are being taken.

Q60 Mr Leslie: When do you need to know in order for future prices—futures—to not start really being adversely affected by this risk? If I were buying pork belly futures, or lamb futures, or however you do it, I would start pricing that in from, as you say, the autumn; that sort of is for the price where it begins—

Liz Murphy: It was interesting; we had a board meeting last week and for the first time some of our members say they are sourcing chicken from the EU and their suppliers are now saying "We can't enter a contract with you, because we don't know what the situation is going to be post-March." Now, we all hope there is an implementation period; so they are now



beginning, our members, to realise the impact, because people are beginning to be reluctant to enter into contracts.

Peter Dawson: We broadly have very much the same priorities; future relations with the EU are the main concern of the dairy sector at this point in time, and FTA with Australia and New Zealand is much lower down the priority list. In terms of preparedness, yes, we broadly have the same issues. Just elaborating further, one of the questions we have is the administration of export health certificates to the European Union. If we are to be treated as a third party then we will need these certificates to be available to UK exporters to the EU; so we have concerns as to whether or not there will be enough capacity within the Animal and Plant Health Agency to issue those certificates and enough vets available to sign them off. Those are the sorts of issues that we would like to have clarification on from the Government.

David Richmond: I think, for business, stability and certainty are the most important thing in understanding the rules of the game that you are operating within, and at the moment business probably doesn't have that level of stability and certainty, which makes understanding what steps you are going to be taking in the future a challenge. For the dairy industry, or for us, I guess we are in a unique position that we have manufacturing in New Zealand coming into the EU and the UK. In Australia we are the largest milk processor as well. We also have joint ventures in the UK and physical assets in the EU 27 as well; so there are lots of moving parts for us involved in this.

In terms of priorities, the trading arrangements between the EU 27 and the UK are incredibly important, given the volume that is traded between the two. To put in into perspective, the disruption to trade flows that resulted from Russian sanctions for the EU would pale in comparison to disruption in trade flows between the EU 27 and the UK, which is a big challenge for UK dairy and EU dairy, but also for dairy markets around the world—because of that disruption.

Q61 **Mr Leslie:** Just to wrap up, as I am conscious that others might want to ask questions, with my perspective: it is very intriguing to think of a UK free-trade agreement with New Zealand and Australia, but, given that the EU are doing this and, if I can be a bit facetious, slightly outfoxed our Secretary of State by getting in there first—personally, I am struggling to see the point of the Secretary of State right now, but putting that to one side—it sounds like for the business community, generally, it would be simpler and more effective to try and retain our existing relationships with the EU and let the EU deal with these new trade relationships with Australia and New Zealand rather than embarking on the arrangement that we have set ourselves on. Set aside whether you feel it is—you can wind it back or not.

Kevin Roberts: Staying in the customs union is an easy success for the agricultural sector in the UK. Its biggest risk is losing access to the single market. As Liz said, 95% of exports of sheep meat from Wales go to the single market. That is the biggest risk.

Q62 Mr Leslie: Is that your view as well?

Liz Murphy: Yes. The customs union is one thing, but the problem is shifting our product. The single market is the bit that is important.

Q63 Mr Leslie: So when Parliament potentially votes on this in the next few weeks, it sounds like your preference would be for us to retain the customs union.

Kevin Roberts: I think it is the easiest way of solving the issue. If you could get some kind of free trading arrangement that mirrored it and gave you the same benefits that would also work.

Peter Dawson: Could I just say that Dairy UK itself has made no decision in principle about whether we wish the UK to stay in the customs union? Our formulation is that we would like the greatest possible continuity of existing arrangements. I cannot go any further than that.

Liz Murphy: That would be a good way of putting it.

Chair: I don't know what that was code for.

Mr Leslie: I'll take that as a strong steer.

Liz Murphy: If you can find a political way of doing that.

Chair: You've cheered Chris up no end.

Q64 Julia Lopez: Going back to the matter at hand, which is the potential deal with New Zealand and Australia, what would be the impact of the UK aligning with a risk-based approach to regulation, favoured by Australia, rather than the precautionary approach adopted by the EU?

Kevin Roberts: As I said earlier, I went out to New Zealand and they are incredibly well joined up. The industry, their NGOs and the Government out there are really well aligned in terms of seeking regulatory outcomes. A more outcome-based and a more risk-based approach to regulation would work very well for us. The EU approach to this is very much rules-based, so regardless of whether you can achieve the outcome on your farm, let's say, on a pollution issue, even if there are no risks you still have to follow the rules—even though the rules may add nothing to the outcome that is being sought. A more outcome-focused approach to regulation and a more risk-based approach would certainly be a big advantage for us here.

Peter Dawson: I broadly agree with those sentiments. A risk-based approach to regulation would be beneficial, but you would then have the challenge of explaining to your future trade partners exactly how you are implementing your food safety regulation. Unfortunately, our experience in the dairy sector is that the Government are already having difficulties explaining the operation of the existing system, let alone a transition to a new system.

Q65 Julia Lopez: Explaining to who?



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Peter Dawson: Specifically there was a food inspection mission sent from Brazil in May 2015. That was a systems inspection visit to check not just the industry systems but the Government systems for food safety. Unfortunately, the Brazilian delegation was not quite satisfied with the information that they received on the operation of Government food inspection systems and they raised a number of queries. Three years later, those queries have not been addressed. There is a challenge there. Whatever regulatory system we decide to adopt, we need the diplomatic resources to explain how they operate to any future trade partners.

Kevin Roberts: New Zealand has 167 different FTAs, or arrangements with different countries where these outcomes-based regulations work, don't you?

David Richmond: Yes. We export to more than 170 countries around the world now, so I do not see it being an insurmountable task by any means. New Zealand officials would certainly be more than willing to work with UK counterparts to pass on the experiences that we have had in doing that. By doing an FTA with the UK, that sets the framework for a working partnership for areas like that. I can only see it being beneficial for both sides.

Liz Murphy: The key to the veterinary side is confidence—confidence in the country that is being exported to with the importing countries. We need resources in terms of people in our embassies around the world who have the veterinary expertise who can talk. Vets like talking to vets, and we must always remember that.

Q66 **Matt Western:** Can I pick up on one thing you were discussing a moment ago? That was certification. I hadn't really picked up on the importance of that before. I just want to be clear. Any meat that is slaughtered then gets certified, and that has to abide by certain rules and regulations, but those places where it is certified—it has to be approved by the EU. Is that the way it works?

Liz Murphy: As we are working within the single market at the moment, we can just produce and send on a commercial document. That's why it's so easy. If we become a third country, we will have to complete the EU veterinary import certificate, and that would be signed off by a vet either at the meat plant or at the cold store. Obviously, given the number of transactions that go on currently with the EU, and leaving aside the tariff issue, there would be a huge workload from issuing these certificates, vets having to sign them off and so on. That's the kind of difference in the situation that we would have.

Q67 **Matt Western:** It's not an area I am at all familiar with, but that may mean that the farmer and the vet—well, the vet is working with the processing plant.

Liz Murphy: If the vet at the meat plant—well, for us, it's the meat plant; for others, it may be the dairy—

Q68 **Matt Western:** At the meat plant. Not the farm?



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Liz Murphy: Not on farm—

Matt Western: But it's just an additional cost.

Liz Murphy: But there will be information from the farm that will provide the ability for the vet to sign it off at the meat plant.

Q69 **Matt Western:** That's interesting; thank you. To what extent is the existing regulation of agricultural products complementary or in conflict between Australia, New Zealand and the UK? Mr Dawson?

Peter Dawson: We have a veterinary agreement with New Zealand. That demonstrates that certainly in respect of that country, the regulatory environment is complementary. UK dairy companies are already exporting to Australia, meeting their regulatory requirements, which probably means that the regulatory situation there is also complementary, so we don't see a great challenge in that area.

Matt Western: Mr Roberts?

Kevin Roberts: Likewise. New Zealand and Australia currently have access to our market anyway, so they are meeting those standards.

Q70 **Matt Western:** A question to Mr Dawson and Mr Roberts. Do you have any food safety concerns about agricultural exports coming in from Australia or New Zealand? Mr Roberts?

Kevin Roberts: No.

Peter Dawson: No.

Q71 **Matt Western:** Finally, a question for Mr Richmond. What is your view of the EU regulatory regime? Is it easy for you to navigate when importing produce?

David Richmond: With the regulatory regime you are probably starting to get out of my specific areas of expertise, but we don't have any significant challenges in exporting products to the EU today.

Q72 **Catherine West:** The UK is not wholly self-sufficient in dairy production, as we know, and the market can be affected by seasonal variations, so how should new trade agreements seek to leverage counter-seasonal production and address our domestic shortfall? Specifically, should new trade agreements include seasonal dairy import restrictions to ensure that the UK market is not flooded with imports during the peak season for UK producers?

Peter Dawson: We don't see that there is much of an issue in terms of using trade agreements to have seasonal complementarity, because, as I said in relation to liquid drinking milk, demand is met domestically, and in terms of dairy products, our relationship with the EU ensures that there is continuous supply of those products all year round. There is no shortage or seasonal pricing effects at retail level. So we don't think free trade agreements would need to play a role in addressing that issue, which is not particularly a problem for the UK dairy industry.



Q73 Catherine West: Would new trade agreements support the global dairy supply chain? We talked a lot about China when we had our outreach meeting last week—I'm thinking about other, bigger markets. Do you think that new trade agreements can support that global dairy supply chain?

David Richmond: Absolutely. The dairy industry is one of the most heavily protected industries. It is not uncommon in some markets to have tariffs of between 200% and 400%. You would almost say there is something wrong when there are lower tariffs on grenade launchers and flamethrowers than there are on dairy in some countries. Any trade agreement that is going to lower the tariffs on the trade of dairy can only be a positive thing for consumers, in terms of having access to high-quality dairy products and variety of choice.

Q74 Catherine West: Do you have any comments specifically on cheese? Obviously UK exports of high-quality cheese are something that this Committee has talked about, and we did an outreach event. Do you think the overall quantum of that would go up?

Peter Dawson: Trade liberalisation in general helps to stabilise markets and reduce the impact of supply and demand shocks coming from any individual country. In that respect, that is the benefit that the global dairy industry supply chain gets from trade liberalisation. Beyond that, I cannot really think of any short or long-term benefit.

Q75 Catherine West: From the point of view of this Committee, the market in New Zealand and Australia relative to the EU is quite small, so there is only so much specialist UK Cheddar that could be consumed in the Antipodes, I think. Am I wrong?

Peter Dawson: That is fundamentally correct. We are already exporting Stilton and Cheddar to those markets. They are mature and stable markets, so I don't think there are particularly great growth opportunities in either market. As I said before, they are not one of our priorities for market access opportunities around the world at this point.

Q76 Catherine West: I am not sure whether we would like to see a clash of the titans between Bega and Stilton, for example.

Finally, what impact would addressing Australian barriers around sanitary risk assessments have on the UK's ability to export dairy to Australia?

Peter Dawson: As I said, we are already in the marketplace, so it is not an insurmountable problem. They are rightfully concerned about food safety and veterinary standards, and they have a very tight enforcement regime, which is entirely appropriate. As an industry, we are more than capable of meeting those standards.

Q77 Mr Leslie: I have a similar question about the beef, lamb and meat side of things and the seasonal question. Would it be preferable to have some sort of seasonal restrictions to allow imports to complement domestic production, or is that something that already happens? What is the picture on that?



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Kevin Roberts: It happens by geography, if you like, because the seasons are counter-seasonal. There is no formal arrangement of when the season starts and ends. The friction always occurs around the beginning and end and the overlaps, so I could see slightly more formality to it.

Liz Murphy: I would be in disagreement with that. Any formal restriction is, dare I say it, Government—

Mr Leslie: Government interference?

Liz Murphy: You took those words; I didn't say them. With markets, there is a danger that you exacerbate the peaks and troughs, because Government cannot move as quickly as markets can.

Q78 **Mr Leslie:** It is too much micromanagement. Whenever I go to Tesco—other supermarkets are available—I like a good leg of lamb, but it is awfully expensive. It is now £20 to £25 for a decent family-sized leg of lamb. I don't know whether we have already asked this, but could you just explain why it is so expensive, when we have good domestic production on our own doorstep? I do not quite understand. Can you say in layman's terms why it is so much and what can be done? Why can't we consume more domestic lamb?

Kevin Roberts: It is always a left-field question, isn't it? The resources are quite expensive. Land is expensive, labour is expensive, and lamb is expensive to process because it is a small animal. It costs almost the same to process a sheep as it does a cattle beast. The processing chain is complicated, so you end up with a product that is quite expensive. It is a premium product, and that is why export markets are so important to the UK industry. We largely talk about import here, but the solution to the UK's issues is about exporting. That is why I said right at the start that I am not overly defensive about this. It is about sequencing and timing and giving the UK industry time to adjust to the competition. It has been protected for too long. We need to seek out the growing markets with affluent communities that can afford that expensive, premium product.

Liz Murphy: I was just going to add that you talked about a leg of lamb, and that is what the majority of people are interested in. If you find that you are not selling the other parts, the one penny down on the price of another cut means that you have to put it on that leg of lamb. That is where it ends up. I am like you: I love lamb. However, it has unfortunately become more and more expensive, but it is a costly product.

Q79 **Mr Leslie:** Why has it got so much more expensive? It feels as though the inflation has been quite steep. I don't see that there is a massive price difference between New Zealand lamb or Welsh lamb.

Catherine West: Sterling.

Mr Leslie: Is it sterling?



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Liz Murphy: I know that it goes against you and me, but the export market actually helps the price and helps the price to the farmer. The problem is that, if we said we won't export and we would keep it all here, farmers would go out of business and we wouldn't even have the lamb. We are in a bit of a Catch-22 situation.

Kevin Roberts: One point I made right at the start was that, in general, 80% of the net farm income for a sheep farmer in Wales comes from subsidy. Actually, removing the subsidy will just exacerbate the whole thing. You will need more money to balance the books, and that is why export markets become so vital. You can't keep increasing the price of lamb in the UK, because consumers will move to a different product.

Liz Murphy: The other important point is that the retailers, if you ask them about lamb, probably don't make money out of it over the whole year.

Kevin Roberts: Also, one of the key aspects of the work going forward is to drive more competitiveness and efficiency into our industry. There are things we can do to make the whole thing more efficient and effective, but the farmer would hope that goes to his bottom line to displace some of the subsidy, rather than reducing the retail price of the product. I think it will remain a premium product, unless we crash out of the EU, because the prediction then is that prices will fall by 30% because we will have an over-supply. That is the simple laws of economics.

Q80 **Mr Leslie:** But you then have lost the industry domestically.

Kevin Roberts: Crikey, yes.

Q81 **Mr Leslie:** So you might temporarily get a cheaper leg of lamb, but it would all be foreign lamb.

Kevin Roberts: Eventually. The industry would really struggle to cope with a reduction of that magnitude unless there was some other kind of intervention. It would have to be intervention on a grand scale, much larger than we currently have.

Mr Leslie: 100% subsidy.

Q82 **Matt Western:** Just to pick up on that, butchers have told me that they have seen the price of lamb going up by something like 47%, which is quite striking. Is it possible to give us some specific information after this meeting—via email or whatever—and a breakdown of how? I know you have alluded to some of those points, but it is such a significant figure, and we are seeing much higher prices for food in this country year on year. I want to drill into that, so if that is possible, I would really appreciate it.

Liz Murphy: Yes.

Kevin Roberts: As Catherine pointed out, the weakness of the pound is making imports much more expensive on all commodities.

Liz Murphy: I think it is also a supply issue. We could give you some information on that.

Q83 **Matt Western:** I just want to turn now to geographical indicators. I think it is right to say that the EU, Australia, New Zealand and the UK have very different approaches to geographical indicators. To what extent do you see that variance in approach being an issue in striking an FTA?

David Richmond: Anything and everything can be worked through as part of a negotiation, so obviously geographic indicators would be part of that discussion. For Fonterra, we don't oppose the concept of geographic indicators at all. Where we probably have some slightly different views from the EU is around the terms that are protected and what we would typically think of as generic or common terms being given protected status. That would be for the negotiators to work through, but we are not opposed to GIs per se.

Liz Murphy: It is not really my area.

Kevin Roberts: PGIs, under the EU regime, have been quite valuable for Wales's export of lamb particularly, but also beef, into EU markets. EU consumers understand what PGIs—protected geographical indications—are, and in some markets you can get a premium for having that status. It also works in some other third country markets. Labelling, and origin labelling per se, would be important. In particular, Wales is looking to launch a Brand Wales proposition across all its products and its tourism industry to try to promote Wales as a place, and you can build that into some aspects of food labelling. I am not sure that it would be a hold-up. In fact, New Zealand have just launched their own Brand New Zealand, haven't they?

David Richmond: Correct. We already have specific legislation about wines and spirits protection for GIs, which I am less familiar with, but I understand that that passed recently. As I say, we certainly acknowledge that well-constructed GIs have an important role in protecting intellectual property. It is where it starts to encroach on generic or common terms that there are some challenges in limiting the commercial value for processes, and they start to stifle innovation as well.

Kevin Roberts: The important point about GIs and PGIs is, when we leave the EU, what will the status of British PGIs be within the EU? Will we end up having to replicate that as a piece of UK legislation? Will it be recognised by the EU? Those are important aspects about PGIs on leaving the EU.

Peter Dawson: The dairy sector has a number of PGIs, the most significant of which is Stilton. The industry has invested quite highly in that PGI, and we would like to see the level of protection it has at the moment retained in any future free trade agreement. I do not know whether New Zealand might regard that as a generic cheese, but that is not the view of the British dairy industry.

David Richmond: I don't think we have any concerns around that, Peter.

Catherine West: We are kind of getting into the negotiations here.

- Q84 **Matt Western:** To come back to Welsh lamb, you were talking about the Welsh branding type thing as a generic. Would you like to see anything specific in respect of Welsh lamb—some sort of designation or a PGI?

Kevin Roberts: It is a PGI currently. You have to meet the requirements of the PGI to brand your lamb and beef as Welsh. It needs to be born and reared in Wales and slaughtered in an approved abattoir to meet those requirements. What we would like to do—HCC is the custodian of the PGI brands—is to underpin that with more tangible aspects of quality, so that there is not just a perception of quality, but some genuine traits of quality sit under it.

- Q85 **Catherine West:** You will be pleased to hear that this is the last question. In the Asia-Pacific markets—the Asian markets where Australian and New Zealand dairy and meat producers have seen growth since the 1970s—what are the opportunities for growth for UK producers? Could approved relations with Australia and/or New Zealand help them to realise those opportunities?

Liz Murphy: From the perspective of access into markets, access to China in particular would be huge. We have seen what the benefit has been in our pork sector of having access. We are desperately frustrated with getting veterinary approval for poultry meat at the moment, so again we come back to veterinary protocols in those countries. Again, some co-operation would be really helpful.

Kevin Roberts: China and the far-east markets would definitely be a priority for the Welsh sheepmeat and cattle sector, not just for premium products, but also for offal, skins and hides—those things that we talked about. If you can transform the value of those, which have negligible value currently in the UK, you can make the whole product more competitive. Absolutely, we want ongoing relationships with our colleagues in New Zealand and Australia in how to open those markets up, and, because of the counter-seasonality, keeping lamb in particular on the shelves all year round would be a benefit.

Peter Dawson: In the dairy sector we see a lot of opportunity in the far east, particularly China. The benefit of any FTA with Australia or New Zealand in exploiting those markets might come from just sending a broader political signal that we are interested in further free trade agreements with those countries. In so far as UK dairy companies are in partnership with Fonterra, perhaps our trade relations with New Zealand will help our ability to exploit those markets.

David Richmond: I would echo Peter's comments. Lots of UK dairy companies are already trading into those markets today without FTAs, so you are not starting off at a zero base there anyway. In terms of a New Zealand-UK FTA, it builds the framework, like I said earlier, for a collaboration between New Zealand businesses and UK businesses, and it could be that there is some expertise or experience that New Zealand has around operating in those markets, which could be to the benefit of UK

businesses. Depending on the rules of origin approach that is taken, there could also be some benefit from leveraging New Zealand's trade agreements into those markets, in terms of access for UK-origin products or as part of global value chains.

- Q86 Catherine West:** Does New Zealand currently fill the demand from China? If so, what categories is that in? Often what they choose as consumers is not what we would choose.

David Richmond: New Zealand cannot fill the demand from China. It is our largest export market. It is around 27% of total dairy exports. It is a large export market for lots of other dairy producers as well, such as the EU 28, including the UK. The products are very varied. Their tastes have changed over time. Typically they have previously taken dairy powders—whole milk powder and skimmed milk powder—but you are starting to see it move into fresh dairy and slightly higher-value products as well, including some of the cheeses and UHT milks. So they are very broad consumers of dairy now. It is an incredibly large market and one in which there is certainly enough space for everyone to play.

- Q87 Catherine West:** I am sure that the stocks will be going up, because China has just announced that people can have as many babies as they like, so I assume that baby milk—I am only guessing—will go up.

David Richmond: It's a large infant formula market.

- Q88 Catherine West:** On the question of the 40% that currently goes to the EU in non-leg lamb, is there any reason now why, through our arrangements with the EU, more of that is not going to China at the moment?

Kevin Roberts: We currently don't have access to the market, from the UK into China. The first thing to do is get market access, which is largely a veterinary process. It is under way. We could probably assist in some of those balance issues. Of course, the EU issue will materialise well before we can get a market in China. Back to the main point: the most important thing is an ongoing relationship with the EU.

- Q89 Catherine West:** Finally, in the Committee we have had a lot of discussion about the CPTPP—the Comprehensive and Progressive TPP. Do you have a view as to whether the UK should be seeking to secure new arrangements or sign up to that kind of thing, which is almost off the shelf?

Liz Murphy: It would be good as an option, and I certainly would not remove that, but it might be more complicated than just signing up to it. Therefore we wouldn't say that that will be ahead of having any bilateral agreements with New Zealand and Australia. But yes, it could be a useful way.

David Richmond: CPTPP is an open agreement, from my understanding, so there is certainly the opportunity for the UK to join, should it wish to. I would say that bilateral agreements with New Zealand and Australia offer a slightly easier entry point, rather than going straight into CPTPP with 11



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members. Trying to negotiate under that set of circumstances is not going to be particularly quick or easy, so New Zealand and Australia bilaterally would probably be a nice entry point.

Peter Dawson: I don't have enough information on that issue to come up with an informed view, unfortunately.

Catherine West: I think it is a bit early from its point of view as well, I would imagine.

Chair: I am having lunch with a delegation of Portuguese MPs later—I just hope it is lamb. We will see. I don't know what they are serving in the House of Commons Debate restaurant. I thank the witnesses for their participation in today's hearings.