

## ITC Call for Evidence – Agreement with NZ – April 3<sup>rd</sup> 2022

### National Sheep Association submitting written evidence to the inquiry for UK trade negotiations: Agreement with New Zealand

#### Summary

1. The National Sheep Association welcomes the opportunity to provide written evidence to the International Trade Committee on the agreement between the UK and New Zealand (NZ). Trade is fundamental to the UK's sheep sector, with a large proportion of our own sheep meat being exported to markets around the globe. The UK sheep sector in general is committed to high health, high welfare, and high environmental standards, often surpassing those of our competitors. NSA seeks a trade outcome that supports the best interest of UK sheep farmers, helping them thrive and provide access to stable markets providing an opportunity to grow their business within a sustainable national framework, and provide a high-quality product for Britain and beyond.

#### How might the UK-New Zealand FTA affect you, your business or organisation, or those that you represent? If possible, please describe the current situation and what you expect to change as a result of this agreement.

2. NSA maintains the government must take account of the risks that come with a Free Trade Agreement, and the trade-offs across business sectors, especially when NZ are already a highly competitive exporter that has in recent years suppressed domestic lamb prices to below the costs of production. A liberalisation of trade through an increase in TRQ volumes with third countries like NZ may bring wider benefits for the UK economy. However, any free trade agreement (FTA) concluded will also increase market access for those countries to the UK, thus increasing competition for UK businesses. NZ exports circa 90% of its production and has a low level of population and therefore consumption. Consequently, there are no appreciable opportunities for the UK to export sheepmeat to NZ. In 2020 the UK imported approx. 37,000 tonnes and in 2021 31,000 tonnes of NZ lamb as part of a TRQ of 114,000 tonnes although this volume was down on previous years due to concern over market disruption relating to Brexit and also because new opportunities grew in Asia.  
NSA would draw government attention to the crisis seen by the sheep sector in 2015 under current WTO quotas, seeing NZ lamb being sold on shelves at the height of the domestic production season, prices for UK lamb at this time did not cover the cost of the production. It still remains to be seen how the government proposes to protect the sector in the future when current quota volumes have had impacts across several years.  
The UK sheep sector is to see little benefit from this trade deal and puts a sector already suffering the consequences of a volatile marketplace at further risk.

#### What opportunities or potential costs does this agreement present for: particular sectors/ UK consumers?

3. The past 3 years has not been a true reflection of NZ imports to UK markets, disruption from Covid-19 has had a profound impact with NZ staying out of the UK market due to uncertainties over Brexit, and Covid having had an impact on trade, buying patterns and the shipping industry, both in a period where Asia has been an attractive market for NZ exporters. However, the Ukraine crisis has highlighted just how volatile the marketplace is with UK farmers struggling to budget for feed, fertiliser and fuel prices that have tripled overnight, the impact of NZ lamb imports produced to a much lower cost have the potential to outcompete any UK comparatives making it a particularly attractive market for importers.
4. Closer to home, exports have struggled with changing demand from Europe during Covid-19, in the past taking up to 92% of exports, due to closure of food services, limited household gatherings, lorry driver shortage, lack of border control points and friction at the end of the Brexit transition. The unprecedented events over the past few years highlight the desperate need for the government to prioritise the UK's food security and ensure that sensitive sectors are given the protection necessary. NSA believes that any agreement concluded must be balanced and must put adequate measures or safeguards in place to respect domestic production standards and for those sectors deemed as sensitive. The detrimental impacts of this

trade deal could be far reaching, far beyond farming businesses themselves but also impacting on the rural communities, their services and infrastructure, and landscapes and tourism sectors that rely heavily on the sheep sector to maintain them.

5. Furthermore, NSA is concerned that any increase in NZ sheepmeat trade to the UK would undermine plans to further raise the UK's animal welfare and environmental standards and could further disconnect the UK public from our domestic farming activities. We have long criticised UK retailers for price promoting NZ product and not UK product (with NZ lamb sometimes being retailed for prices less than the stated import price. We have also criticised co mixing of lamb/mutton from several countries without stated percentages of the content, and confusing packaging that makes it difficult for consumers to make well-reasoned purchase choices.

**Are there any barriers which you anticipate would prevent you, your business or organisation, or those you represent from taking full advantage of the agreement? If so, what might help you overcome these barriers?**

6. We fail to see how the UK sheep sector could take any advantage from this trade agreement. Cost structures are different with the UK's costs being higher due mainly to higher environmental, welfare, traceability, and food safety regulations and expectations. While it is appreciated that NZ have similar animal welfare and environmental ambitions and their cost of production is significantly lower than in the UK, giving NZ a competitive advantage. While it is possible that an increasingly competitive marketplace could result in lower product prices for consumers this is likely to be a short term effect and if UK producers are squeezed out of production then in time competition will decrease, forcing prices upwards. We believe consumers are best served by stability in prices and availability with stability also likely to ensure food security. On average the cost of production for lamb in NZ is less than in the UK and many large exports across the world including Australia and Spain, which can be attributed to several things. NZ has a much smaller population – 5 million in comparison to the UK's 67 million meaning much less competition for land making it more accessible and farms tend to be larger. In the UK competition for land increases prices and rents. Furthermore, NZ farmers have reliable sources of cheap seasonal labour and being an exporting nation tend to concentrate seasonal production, even closing down slaughter plants for several months. They don't need to slaughter in order to keep food in front of people throughout the year. Differences in climate, higher UK environmental standards, and approaches to livestock management mean NZ livestock can be kept outside for much longer periods, reducing housing, equipment and labour cost due to significantly larger numbers of sheep being managed per labour unit. Furthermore, fallen stock in the UK comes under tight regulation and disposal serves as another increasing cost, on average £17/per adult sheep. Although NZ are now committed to improving animal health and welfare as the FTA outlines, the UK has been a world leader for quite some time with a vast array of legislation being legally binding whereas NZ tend towards a more voluntary approach. We would like to see a more formal approach to improving animal welfare standards in line with the UK, and further detail on the Welfare Standards Committee along with proposed members, we ask also for detail around standards and targets for the future to progress animal health and welfare in line with the UK.
7. NZ sheep farmers benefit from scale and extensive systems giving the ability to expand at a lower cost than in the UK as mentioned previously, along with a more forgiving approach to environmental standards, for example poor water fringe management, extensive poaching, growing catch (or cover) crops on steep slopes resulting in run off & increased water pollution. If a Free Trade Agreement is agreed with NZ we would like to see legally binding commitments to improve environmental practices equivalent to UK standards.

**How well has the Government communicated the likely impacts of this agreement for you, your business or organisation, or those you represent?**

8. Not well. We believe the Govt has misrepresented the likely impact on our industry. We also believe the 15 year transition has been communicated as an industry protection, while industry would question the potential inevitable outcome of total liberalisation. Especially when considering the special measures and safeguards put in place. The NSA understands the FTA to mean the UK will fully liberalise sheep meat after 15 years (duty-free from Year 16 onward).
  - a. During this time, a duty-free transitional quota will be made available for originating imports of sheep meat from New Zealand. This quota volume will be set as below:
  - b. Years 1-4: 35,000MT per year
  - c. Years 5-15: 50,000MT per year
  - d. If this quota is filled in a given year, any further originating imports of sheep meat from New Zealand will be subject to MFN base rates.
  - e. For sheep meat imports, a duty-free transitional quota will apply during the 15-year transitional period. New Zealand will only be able to utilise new access to the UK sheep meat market once they have filled 90% of their existing World Trade Organization (WTO) quota. This means that the UK will be able to act if there is a surge of lamb imports from New Zealand under their existing access.
  - f. Additionally, there is a general bilateral safeguard mechanism. This will provide a temporary safety net for industry if they face serious injury, or threat of serious injury, from increased imports due to tariff elimination under this deal.
9. To put this into context, at current domestic produced consumption rates 125,000t NZ would be able to account for 28% of the domestic market share, couple that with the 40% from the Australia FTA this could be catastrophic for domestic production. With such pressure from the two biggest exporting sheep meat nations there will inevitably be times when a price war comes into play, further undermining sheep farmers when input costs are increasing. We consider this FTA presents significant risks for British sheep farming, driving global carbon footprint to increase and undermine British producers.
10. We also have concerns over the practicality of applying special measures in practice, in particular clarity over whether these would be a remedy to a damaged marketplace or does government have reliable practical intelligence to prevent damage to UK producers. We would like clarity on who will preside over these special measures and whether government will be guided by industry intelligence and forecasting but also whether the government can provide any assurance that the volumes set out in the quota will not be detrimental to British sheep farmers, especially considering that any disruption to NZ trade in China and Asia would result in the UK market being swamped. Furthermore, we would like assurances that a 15-year transition is not just prolonging the inevitable flooding of UK market with no long-term protection for UK producers.
11. The risk of this trade deal opening the door to future FTA's could set a precedent for a liberalised marketplace, as mentioned earlier the impacts of NZ fulfilling their current quota saw devastating impacts to the sheep sector in the UK. This deal does not look at the consequences for the sheep sector or the impacts it could have in the local communities, businesses, landscapes, and tourism. NSA feel that jeopardising the market place and potential income of these businesses will in turn limit reinvestment in the farming landscape.

**What lessons and inferences for other current and future negotiations can be drawn from how the Government approached, and what it secured in, the FTA with New Zealand?**

12. The Government has taken little account of the impacts and poor opportunities this FTA provides for the sheep sector in the UK. There has been poor recognition of the likely impacts to UK producers. It is hard to see how this deal will provide any direct benefits for UK farmers. There may be some opportunity to collaborate in areas such as promoting our respective high standards on the world stage, but these benefits could have been achieved without an FTA in place.  
We consider that this FTA deal, and other similar deals, along with new environmental land management policies, risk Britain reducing its food production capacity. Recent & ongoing volatility should have galvanised home production as a priority for Government. If we reduce our production capacity and have food security policies based more on being a wealthy country that can source food from elsewhere in the world then we are not preparing to be resilient against climate related disruption, political unrest, or resource limitations. If this deal were to be successful we would expect to see the economic potential of this deal reinvested to those sectors detrimentally impacted by this FTA, to support, improve and develop sectors directly, including investing in British products and export markets, similar to the eight new attaches, for British lamb to allow for some chance to thrive under what will be extremely challenging circumstances. However for some we fear this may all be too little too late.
13. Britain should aspire to increase its food self-sufficiency levels, within environmental boundaries, and the direction our newly formed policies are taking us in are not at all clear. In relation to sheep farming, we produce a high quality protein (mainly meat) from land often unsuitable for other forms of food production, and in lowland situations we are increasingly becoming recognised as being a central part of regenerative cropping rotations and building soil fertility. Reducing our production capacity and allowing FTAs to undermine it undoubtedly negatively affects our food security.