

July 2023

Written evidence submitted by Dairy UK (TFA0018)

Introduction

1. Dairy UK is the trade association representing dairy processors in the United Kingdom. Our members account for around 70% of the milk processed in the UK. Our members include both private companies and cooperatives.

Q1. How coherent and effective is the UK's trade strategy for food and agriculture? Is the Government taking account of the potential cumulative impact of new Free Trade Agreements (FTAs)?

2. There are contradictions within the Government's trade strategy for dairy.
3. The Government has repeatedly stated its desire for greater dairy exports, which is welcome. However, so far, the trade policy pursued by the Government has opened the UK dairy sector to the possibility of greater import challenges than corresponding increases in export opportunities. This will increase the competitive pressure on the sector.
4. In addition, unless this is accompanied by an expansion in domestic raw milk production, then any increase in the volume of exports will only result in a corresponding increase in imports.
5. In respect of achieving an increase in production, there are also challenges in achieving coherence between trade strategy and agricultural policy.
6. Responsibility for agricultural policy is devolved to the nations of the United Kingdom and there are significant differences between them.
7. Defra's strategy for England is set out in the National Food Strategy. It does not give any indication of the Government's aspiration for the scale of the dairy sector. There is only the statement that the Government:

 'will seek to broadly maintain the current level of food we produce domestically, including sustainably boosting production in sectors where there are post-Brexit opportunities including horticulture and seafood'
8. Defra's policy towards dairy may be clarified through the promised consultation on the creation of a Land Use Framework.
9. In respect of the provision of support to agriculture, Defra is phasing out direct income support payments for farmers and reorientating expenditure towards environmental

objectives. This contrasts with the Devolved Administrations where there is more emphasis on retaining elements of income support.

Q2. To what extent has UK trade policy provided benefits to the agricultural and food sectors compared to (1) other sectors of the economy and (2) its international counterparts

10. UK Trade Policy inherently disadvantages UK dairy.
11. When the UK was in the EU the dairy sector benefited from high import tariffs designed to prevent dairy imports. This ensured that the UK was protected from countries with large exportable dairy surpluses, such as Australia, New Zealand and the USA, whilst it was able to exploit the growth in global demand in the rest of the world where most countries have a production deficit and rely on regions with an exportable surplus, such as the EU, to meet domestic consumption needs.
12. Outside the EU the UK has granted or is seeking FTAs with countries with exportable dairy surpluses whilst the opportunities for achieving new market access for dairy are relatively limited. The UK has concluded FTAs with Australia and New Zealand which granted import Tariff Rate Quotas and tariff elimination for dairy products from these countries. The UK is still keen on obtaining an agreement with the USA.
13. In respect of those countries which the UK is negotiating FTAs with:
 - Canada: fiercely protectionist for dairy and the UK may lose existing dairy trade concessions.
 - Gulf Co-operation Council: already largely liberalised for dairy.
 - Israel: inherently small dairy market.
 - India: highly protectionist and extremely sensitive about granting any concessions on dairy.
 - Mexico: any dairy concessions would require trade-offs from other UK livestock sectors so the outcome may be relatively limited.
14. The Government has also launched its Developing Country Trading Scheme which is an expansion of the EU's Generalised Scheme of Preferences. Reduction in dairy import tariffs were granted to 16 countries. However, to take advantage of these reductions these countries have to be approved to export dairy products to the UK and have an approved residue plan (amongst other SPS hurdles).
15. At the most general level, the service sector is the leading segment of the UK economy. If the UK wants trade liberalisation agreements with developing countries with significant agricultural sectors, then it can only be expected that the interests of UK agriculture will be compromised.

Q3. What impact could recent machinery of Government changes, notably the dissolution of the Department for International Trade and its correspondent select committee, have on the development of food and agriculture-related trade strategy and policy and how should any potentially negative effects be addressed?

16. It is too soon to determine the effect of the reorganisation of Government departments but so far Dairy UK's engagement with DBT has been good.

Q4. How could FTA scrutiny and consultation (such as through impact assessment, Parliamentary scrutiny, stakeholder consultation, and the Trade and Agriculture Commission) be improved?

17. There exists no formal machinery for consulting the dairy sector during the process of trade negotiations. There are several ad-hoc arrangements put in place by officials. Dairy UK welcomes this level of engagement, but it does not match the more formalised and structured systems used by the UK's competitors which ensure a close and continuous dialogue during the negotiation of FTAs.

18. The Trade and Agriculture Commission should scrutinise FTAs during the process of negotiation. Scrutiny after the event is of inherently limited value.

Q5. Are the UK Government's trade policy objectives consistent with those of the devolved Administrations, and has it taken those objectives adequately into account?

19. Dairy UK does not have access to or participate in the process by which Devolved Administrations are consulted in the development of trade policy.

Q6. To what extent has the UK exploited potential opportunities for trade in the food and agricultural sectors since its departure from the EU?

20. This is a question that covers all agricultural sectors for which Dairy UK does not have the information to answer.

Free Trade Agreements

Q7. What impact have FTAs signed since the UK's departure from the EU, such as those with Australia and New Zealand, had on the agri-food sector? Have opportunities or concerns arising from those agreements been realised?

21. These agreements have only just come into force. There is no indication yet that either Australia or New Zealand will take advantage of the opportunities granted to them. Both currently are primarily orientated towards servicing markets in the Pacific.

22. The concern has always been that geopolitical events may require these countries to find new markets at short notice. In that eventuality, both could use their superior cost competitiveness to claim a large share of the UK market.

Q8. What impact will the UK's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) have (1) on the agri-food sector and (2) future FTAs?

23. For the CPTPP, except for Australia and New Zealand, none of the CPTPP members have the potential to export dairy to the UK, but the additional concessions granted to UK exports are limited and where they exist, largely in the form of sharing existing CPTPP Tariff Rate Quotas with other CPTPP countries.

- Australia and New Zealand: no change on bilateral agreements.
- Canada and Mexico: access to existing dairy CPTPP Tariff Rate Quotas. As Australia and New Zealand are members of the CPTPP then the UK will be competing directly with these countries for volume. Both New Zealand and Australia have production cost advantages over UK product.
- Japan: Tariff elimination only achieved by 2033. Share of existing CPTPP TRQs
- Vietnam: UK already exports to this market so tariff elimination will help the UK's competitive position.
- Malaysia, Peru, Singapore, and Brunei. Either negligible or nil MFN tariffs so the agreement did not create new opportunities and the UK dairy sector is already a regular exporter to these markets.
- Chile: no current UK exports to this market

Q9. What approach should the Government take to food and agriculture sector priorities and concerns in its ongoing negotiations with the Gulf Cooperation Council, Canada and India?

GCC

24. Dairy UK has no concerns over the negotiations with the GCC.

Canada

25. The Government must protect existing UK access to the Canadian dairy market and then seek its expansion. Under Canada's EU WTO TRQ the UK dairy sector has established an enduring and lucrative position in the Canadian dairy market. As a transitional arrangement it was agreed that the UK could continue to access this TRQ until the end of the year. The Canadians are threatening to terminate this arrangement and force UK exporters to use other TRQs which cannot provide the continuity and security of trade required to service established customers. The Government must secure existing arrangements.

26. It must then in addition seek meaningful expansion of these TRQs to provide UK exporters the opportunity to share in the growth of Canadian cheese consumption. This would be the minimum equitable outcome given that the UK, through the EU's CETA agreement, granted Canada unlimited access to the UK dairy market.
27. Failure to achieve these objectives would undermine any confidence in the willingness and ability of Government to protect UK dairy in FTA negotiations.

India

28. India is potentially a major export opportunity for the UK dairy sector. The Indian economy is growing and purchasing power is increasing. However, the Indian dairy sector is a vital part of the Indian rural economy and is extremely sensitive about the prospect of foreign competition. Nevertheless, there are ways in which opportunities could be found for the UK industry without compromising India domestic production. This would be through focusing on exports of those dairy products not currently produced in India such as high value dairy powders and premium cheeses.

Q10. Should potential new FTAs with specific countries or organisations be prioritised for agri-food reasons and why?

29. The EU is the UK dairy sector's largest market. It accounts for 90% of UK dairy exports. The EU-UK Trade and Co-operation Agreement secured continued tariff free access to this market. UK dairy exporters are now subject to the full rigors of the EU's SPS regime which requires all consignments of dairy products to be accompanied by Export Health Certificates signed by vets. This poses organisational challenges that impede the flow of goods and results in exporters paying veterinarians up to £185 per consignment. These additional costs have undermined the competitiveness of UK dairy products in the EU market.
30. It would be helpful if some way could be found to either reduce the costs of obtaining EHCs, potentially by moving to a system based on veterinary authorisation of production plants instead of consignments, or by some acknowledgement of the equivalence in standards between the EU and the UK.

Standards and welfare

Q11. Is the Government's approach to trade aligned with its commitment to high standards for health (including plant and animal health), food safety, animal welfare and environmental protection, and the UK's right to regulate in these areas?

31. So far the Trade and Agriculture Commission has concluded that the agreements with Australia and New Zealand FTAs are consistent with the Government's commitment to high standards and the UK's right to regulate in these areas.
32. There nevertheless remain abiding concerns in this area. The substantive point is that the UK dairy sector operates to higher standards than just legal minimums.

33. The relationship between the UK dairy sector and its customers and consumers rests on a shared assumption that it will operate to high and rising standards of food safety, animal welfare, and environmental standards. The first two are delivered through the Red Tractor assurance scheme upon which individual companies can attach their own additional standards. Environmental performance is delivered through the Dairy Roadmap which sets challenging targets for improvement at both farm and processing level. Investment of time and resources in all three areas is significant. It would be inequitable if the industry was forced to compete with product from countries that do not match these standards. Greater confidence would be obtained if the Government ensured closer dialogue with industry on these matters whilst FTAs were under negotiation.

Impact on food supply

Q12. What impact has the Government's approach to trade policy had on the security, quality and affordability of the UK's food supply?

34. To date the Government's policy has not had an impact on dairy trade flows. The impact of the FTAs concluded or under negotiation by the Government will only be realised over a period of time.

35. It can reasonably be presumed however that they will increase the competitive pressure on the UK dairy sector. In addition to being exposed to considerable imports from the EU, the UK dairy sector will also have the challenge of imports from countries with significantly lower production costs which could displace UK product from the UK domestic market.

36. This would either compel the UK dairy industry to find alternative export markets or result in its contraction.

Support for businesses

Q13. Is the Government providing sufficient support and guidance for agricultural and food exporters and importers, and how could that support be improved?

37. For exporters, this issue was examined by the recently created Dairy Export Task Force which was established in early 2023 to deliver on the conclusions of the Dairy Export Summit held in November 2022. The Task Force consists of a group of likeminded individuals across the dairy industry who have a shared ambition to grow the UK's dairy exports. The Task Force has been formed with the support of Defra and the then Department of International Trade.

38. The Task Force initially focused on identifying shared barriers to trade and determining what type of activity was needed to support dairy exporters. To obtain industry views on priority activities and target markets a questionnaire was developed and circulated to dairy exporters which received a high level of response.

39. The priority activities identified fell into three distinct areas:

- a. **Trade Administration Processes:** reducing the costs of obtaining Export Health Certificates and creating a 'One Stop Shop' for all export documentation.

Alternative models for trade administration are successfully operated in other major dairy exporting countries. The most efficient and streamlined processes are based on periodic inspections by relevant food safety authorities of dairy processing plants and the remote electronic issuance of Export Health Certificates by those authorities based on the prior authorization of these plants. The presence of vets at individual sites for specific consignments is not required.

These systems take time and collaborative effort to develop and are contingent on acceptance by third countries that they deliver the SPS standards required. Nevertheless, in the longer term they are cheaper and more efficient to operate. Overall, the examples provided by the UK's major dairy exporting competitors provide a clear model for the future development of export administration processes by the UK Government

The government's recently published Border Target Operating Model contains a commitment to create a single gateway for all export processes which will enable all information required to import and export goods to be submitted to border agencies through one system. This will streamline the submission of information. However, for completeness, the scope of this project should include a single window for obtaining the information that has to be submitted, including information for re-export. This would deliver on the clear priority attached by dairy exporters for simplifying administrative processes.

- b. **Information and Communication:** improving the centralisation and accessibility of information on export markets and ensuring a regular flow of updates to exporters.

To enter new markets exporters need reliable information on areas such as:

- Regulatory requirements: tariffs, tariff rate quotas and their administration: rules of origin; SPS and TBT requirements; labelling standards and testing requirements.
- Market Structure: major food importers and distributors

Whilst the government's offering in this area is commendable, the Task Force concluded that more could be done to make the information as targeted and as easily accessible as possible. Accessible information regarding impending changes to regulatory requirements in third countries should also be supplemented by timely notification of impending changes.

- c. Trade Shows: Helping to facilitate and provide support for the AHDB trade show programme.

Trade shows are an excellent way to create a presence in export markets. Exporters can demonstrate their product offering, obtain an appreciation of market opportunities, network with customers and establish their credibility as reliable trade partners. The significant investment in trade shows by the UK's main competitors demonstrates the enduring value of trade shows in developing export opportunities.

The AHDB plays a leading role in facilitating the participation of UK dairy exporters 2023 in major trade shows. The AHDB would welcome further support and resource for their programme of activity to better service their levy payers and exporters.

40. These conclusions have been summarised in a report and circulated to Defra, DBT and the Food and Drink Export Council.

Q14. How effectively is the Government engaging with industry stakeholders and to what extent is it tackling non-tariff and technical barriers to trade for UK businesses?

41. There are opportunities for improvement in this area. The Dairy Exports Task Force could provide a vehicle for close liaison between the Government and dairy exporters in identifying and addressing technical barriers to trade. Whilst these are much less than in other UK livestock sectors, they nevertheless do occur and are a significant factor in determining the pattern and growth of UK dairy exports.