

Submission from the Agriculture and Horticulture Development Board (AHDB) – Written evidence (EEH0006)

4 February 2021

AHDB

We are a levy funded organisation and the independent go-to source within British agriculture of trustworthy information and evidence-based research.

Our vision is to deliver world class evidence, analysis and services that enable our farmers, growers & industry to succeed in a rapidly changing world. We equip the industry with easy to use, practical know-how which they can apply straight away to make better decisions and improve their performance. Through deepening our technical, commercial and market insight, and making this available where, when and how the industry needs it, we aim to enable British agriculture to become truly world class

Please note: As an evidence-based non-departmental public body (NDPB) AHDB is not in a position to comment/speculate on all questions relating to this inquiry.

AHDB welcomes the opportunity to provide written evidence to the committee and would be happy to provide a witness to give further information at future oral evidence sessions.

Summary

AHDB is responding in relation to implications of the UK-EU Trade and Cooperation Agreement for the food trade and agriculture industries. Our evidence specifically details:

- Implications of allowing for tariff-free and quota-free access to each other's markets for our agri-food sector
- The importance of avoiding the cliff edge, with particular reference to the sheep meat sector
- The significance of not being part of the single market or customs union and subsequent trade friction
- Complexities around Rules of Origin and application of tariffs
- Access to labour for the agri-food sector and potential considerations for businesses

Inquiry questions and AHDB's response

- 1. Please indicate which of the following industries or policy areas you are responding to in relation to: energy, environment, health, food trade, agriculture, fishing, climate change, chemicals?***
- AHDB is responding in relation to the food trade and agriculture industries. As an industry-funded organisation, AHDB is uniquely placed to help farmers, growers and the supply chain prepare for the changes ahead. This includes helping the industry embrace new technologies, techniques and skills to become more competitive and profitable. Each year we invest around £60m in the future of agriculture and horticulture – delivering projects that no one else would. Our work includes opening and developing markets for our farmers and growers products here in the UK and overseas, developing new tools and techniques through innovative Research & Development then delivering them to farmers and growers through our collaborative Knowledge Exchange programmes. We also provide independent Market Intelligence to improve business decision making and help educate the next generation of consumers and farmers.
- 3. What is your assessment of the relevant provisions in the UK-EU Trade and Cooperation Agreement, and their impact on your business or policy area?***
- Provisions in the UK-EU Trade and Cooperation Agreement ahead of the transition period concluding were welcome. However, it is certainly not business as usual as we enter a new era of UK-EU relations and the inevitable change that will bring. Allowing for tariff-free and quota-free access to each other's markets for our agri-food sector is positive news. It goes further than any previous trade agreement the EU has signed, reflects the close trading relationship the UK and the EU share and represents a positive economic solution.
- 5. What do those provisions achieve?***
- Prior to the publication of the UK-EU Trade and Cooperation Agreement we modelled impacts on farm profitability, as measured by Farm Business Income (FBI) and prices of two Brexit scenarios, a Free Trade Agreement (FTA) with zero tariffs and quotas and no FTA, trading using the UK Global Tariff (UKGT) and the EU Common External Tariff (EU CET).
- In general terms trading using the UKGT and EU CET see the biggest impact on prices, with impacts varying depending on whether the UK is a net importer or net exporter. Net importing sectors generally gain from rising prices, provided they can increase production to displace some of the imported products, whereas net exporting sectors, in particular the sheep meat sector see significant falls. Trading under an FTA sees much smaller price changes attributable to the additional trade friction incurred when trading with the EU and a third country, and the additional administrative and logistical challenges that this incurs.
- The agreement highlights the mutual benefits of access to one another's markets and the positive impact on economic growth that international trade brings. In

short, we have avoided a cliff edge which had been a particularly concern for the sheep meat sector regarding trade with the EU. In terms of EU trade the UK is a big net exporter of lamb. The EU is the main destination for UK sheep meat exports, accounting for an average of 89% of total exports between 2013 and 2017, with most product heading to France and Germany. UK sheep meat exports to the EU could have suffered considerably with the introduction of tariffs. This is detailed in our [Horizon Report: Brexit prospects for UK beef and sheep meat trade](#).

9. ***What, if any, challenges arise because of those provisions? How could these challenges be resolved?***

10. While it is welcome that the agreement was made ahead of the transition period concluding, it is important to note that tariff and quota-free access are not the same as being part of a single market or customs union. The UK is now trading with the EU as a third country. As such the so called 'trade friction', the additional physical checks, advance notification of loads, export health certificates, labelling requirements and extra time spent crossing borders all add cost in agricultural supply chains that are designed to be 'just in time' with little room for slippage and where margins are already squeezed.

11. Throughout January, there have been several issues that have emerged, with the limited adjustment period a key challenge for businesses:

- Smaller exporters that are reliant on groupage have been impacted as freight forwarders paused shipments
- Trichinella testing is a limiting factor on our pork exports
- Seed potatoes have not gained equivalence, effectively halting exports of seed potatoes to the EU

More significantly, two key areas now come into sharper focus: Rules of Origin and Labour

12. **Rules of Origin:** New Rules of Origin (RoO) now exist to ensure only UK or EU produce can enter the EU tariff free. These rules are complex and it will take time for the supply chain to fully understand and adapt to the new regime. In the meantime, there will be additional costs for businesses if they have loads refused or tariffs incurred unexpectedly due to these RoO.

13. The RoO stipulate a product imported into the UK from the EU must undergo more than 'insufficient processing' in order to be exempt from tariffs if re-exported to the EU. This has huge implications for the agri-food industry. For instance, if Mozzarella cheese is imported into the UK from EU, machine grated and sent back, that counts as 'sufficient processing'. But if a product is imported into a UK distribution centre, repackaged and sent across the UK, Northern Ireland (NI) and Republic of Ireland, (ROI) as is very often the case, that product entering ROI would now be subject to full EU tariffs as repackaging is considered insufficient transformation.

14. **Labour:** Under the new UK Government points-based immigration system there are a number of routes for migrant workers to enter the UK. Of these, the most

relevant for year round work in the food supply chain is the skilled worker route. This awards points based on a set of criteria, one of the key ones of which is the 'job at appropriate skill level' requirement. To qualify the Government stipulates that jobs require at least level 3 qualifications such as A level or equivalent. This would cover roles including farmers, skilled agricultural trades, horticultural trades, farm managers and production managers in food processing.

15. There is potential for some jobs to attract bonus points due to their presence on the Migration Advisory Committee (MAC) shortage occupation list. However, only a few food supply chain sector roles feature in this list. Of note are butchers, veterinarians, veterinary nurses and agricultural engineers as part of wider engineering codes. The Office of National Statistics occupational classification places many occupations in the food supply chain at a lower level. Farm, horticulture or production workers would not be deemed as at 'the appropriate skill level' by Government to qualify for entry. Many in the industry would argue that these roles are skilled, even though they don't require a high level of qualifications.
16. Seasonal farm or horticultural worker and picking roles are not viewed by Government as sufficiently skilled for the skilled worker route. However, the Government's Seasonal Workers Pilot for 2021 has an expanded quota of 30,000 places – an increase from the 10,000 quota from last year's pilot. The announcement acknowledges that the new quota will not be sufficient to fill all seasonal roles, highlighting that the recruitment of UK workers from 2020 should continue.
17. It is imperative that businesses should consider understanding the new rules, consider sourcing domestic workers, retaining existing staff and to invest in new technology or more efficient labour use. AHDB's range of tools and resources to help businesses can be found on our website here <https://ahdb.org.uk/brexit-toolkit-improve>
18. Moving forward, these issues will need clarification. Currently, it would appear from anecdotal evidence that the EU is imposing the new rules enthusiastically, but not always coherently, and even experienced exporters are finding navigating the new regime challenging. Some loads have been sent back from the EU due to lacking the necessary documentation. In the first week the volume of trade appeared to be reduced from normal trade flow volumes as traders waited where possible to see how the new arrangements will affect them in practical terms before sending high value and perishable loads. However, as the volume increases AHDB is hearing of more issues and delays at border crossings. In particular, the requirement for translations of Export Health Certificates (EHCs) into several different EU languages appears to be causing significant delays.
19. AHDB we will examine further some of the issues, as well as any other practical consequences that arise trading with the EU as a third country. Further analysis is available on the EU exit: food farming and agriculture section of the AHDB website ahdb.org.uk/eu-exit

20. ***What should the UK seek to accomplish with the EU in relation to your industry or policy within the parameters of the Agreement in the short and mid-term?***

21. Levy payer feedback from frequently asked questions on our AHDB EU Exit webpage revealed the key issues that they are keen for the UK to resolve include; Third country equivalence for seed potatoes and processed meat preparations, clarity around the requirements for freight forwarders on groupage loads and Trichinella testing for pork exports.

22. Issues remain relating to the last minute announcement of processes such as Export Health Certificate (EHC) requirements for GB-NI movement and the lack of preparedness of customs agents who are now struggling with capacity. The complexity of the system appears to have been underestimated. Freight operators and customs agents are struggling to generate the required Movement Reference Numbers (MRNs), to submit Trade Control and Export System (TRACES) pre-notifications on time, and to ensure that these match EHCs. There are issues with the system relating to export to retailer depots in Northern Ireland and the Republic of Ireland. These are consolidated loads requiring multiple EHCs and Support Health Attestations (SHAs). These products are freshly produced, with limited shelf life. Some exporters tell us it is not possible to accurately pull the required level of detail in the necessary timeframe to generate the EHC. Their freight partners are then faced with a mammoth task to accurately consolidate all of this information and generate the correct paperwork to accompany the load. They have had delays on deliveries of up to 96 hours and they tell us product has run out of shelf life while waiting for export clearance.

23. Rules of Origin appear to be an emerging risk for food businesses. It seems that the full impact of rules of origin will not be realised for many months/years to come, with many businesses inadvertently breaking the requirements. The process for exporting chilled mince, burgers, meatballs and meat preps from GB and NI appears unviable.

24. ***Further information***

25. Any queries relating to this submission should, in the first instance, be directed to Andy Hutson, AHDB Public Affairs Manager, Agriculture and Horticulture Development Board, Stoneleigh Park, Kenilworth, Warwickshire CV8 2TL. T: 024 7647 8822 E: andy.hutson@ahdb.org.uk