

# The Provision Trade Federation – Written evidence (EEH0023)

## Introduction

1. This response is submitted on behalf of the Provision Trade Federation (PTF).
2. PTF is a food trade association representing processors and traders in a range of staple dairy, meat and fishery products. We also provide the secretariat for the UK Seafood Industry Alliance, in whose name we have made a separate submission relating to the fisheries aspects of the TCA.
3. Collectively these sectors account for roughly **20% of UK household expenditure on food** (around **£24 billion a year**) and support some **130,000** jobs.
4. Our membership consists of businesses of all shapes and sizes which source supplies and raw materials from the UK, EU and elsewhere to meet demand here and in many existing third country export markets for value added products.
5. We are also part of a wider coalition of food trade bodies (the Food and Drink Industry Trade Association Roundtable) which has been working collectively on UK-EU future relationship issues, as well as providing a focal point for liaising with Government.

## Background

6. PTF has been in existence for over 130 years – and was founded at a time when the UK was the world’s pre-eminent manufacturing and trading nation and needed to expand its imports of food, particularly from what are now Commonwealth countries, to help the rest of the economy grow and prosper.
7. But for nearly 50 years, the EU has been by far the UK’s largest trading partner, supplying nearly half of our total food needs. The EU has also been the major customer for our much smaller export sector, accounting for more sales than the rest of the world put together.  
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8. During that time, UK and EU supply chains have become closely integrated, with many businesses trading raw materials, other ingredients and semi-finished products prior to final marketing to consumers. Manufacturing often takes place on multiple sites in different countries, including dispersed packing and distribution models to be closer to points of sale, further enhancing economic and resource efficiency.
9. The EU’s Single Market and Customs Union guaranteed a free and frictionless business environment – in which it was as easy to move to goods to Milan as to Manchester - as well as giving high levels of tariff protection against more competitively priced third country imports. The Common Agricultural Policy also provided publicly funded financial support to primary production, as well as

specifying marketing and other standards, complementing health, safety and consumer protection measures under EU food law.

10. It is therefore no surprise that, during the negotiations, the majority of food businesses advocated for a future UK-EU relationship based on continued **free and frictionless** reciprocal market access, while allowing for future divergence in respect of external trade and certain aspects of environmental and regulatory policy, consistent with maintaining high standards of consumer and resource protection.
11. In almost all the (land-based) sectors which the PTF represents, the UK is a deficit market – and likely to remain so for many years to come, especially given the investment, labour, and other capacity constraints of expanding domestic production, including international terms of trade with potentially lower cost producers elsewhere. The position in respect of seafood is addressed in our parallel submission on behalf of the UK Seafood Industry Alliance.
12. In the case of dairy, the majority of UK's external trade is currently with Ireland – which accounts for over 85% of Cheddar imports (the most commonly consumed cheese in the UK). Overall, the UK is only about 54% self-sufficient in cheese and around 75% self-sufficient in butter and condensed milks. We also import significant quantities of milk powders, partly because of a lack of drying capacity in the UK. These powders are used in a wide range of food products. There are similar capacity constraints in some other aspects of dairy processing (including yogurts and dairy desserts), which again mean that many operations are integrated with facilities in neighbouring EU countries, such as France, Belgium and the Netherlands, in addition to Ireland.
13. In the case of pig meat, the UK is only around 56% self-sufficient. The majority of trade is with Denmark, Germany, the Netherlands, Spain and Ireland, who form the major sources of supply. As in the case of dairy, pork supply chains are often complex and integrated. This helps to maximise utilisation of the whole animal (carcase balance) in the interests of both commercial viability and reducing the environmental impacts of production.
14. All these sectors are characterised by high levels of tariff protection in producer countries around the world – and the new UK Global MFN tariff essentially replicates rates set in the EU's current external schedules, for countries with which we have neither continuity trade agreements nor other new arrangements. Similar considerations apply to many other areas of UK food and agriculture outside the PTF remit.

### **Relevant provisions of the TCA**

15. The main relevant provisions of the TCA in respect of tariffs are in Heading 1 of Title I of Part 2 of the Agreement. These provide for zero tariffs or quotas on bilateral trade, subject to products meeting the relevant **rules of origin** based on the principles of bilateral cumulation for goods 'wholly obtained' in either of the parties. As explained in more detail below, these are already posing problems for some business models, meaning that trade is not 'free' in all cases.

16. General rules in respect of regulatory measures are set out in Title X of the same heading and essentially require compliance with the relevant pre-existing provisions of both parties – which, in the case of the UK, are effectively those of the EU transposed as retained law under the terms of the earlier Withdrawal Agreement. Specifically, this requires the parties applying to each other the full range of border and other procedures which would otherwise apply to third countries in respect of issues such as Sanitary and Phyto-sanitary (SPS) controls, customs declarations, VAT and other similar measures.
17. This means that movements of goods which were previously ‘frictionless’ within the Single Market are now conditional on the completion and pre-notification of both customs and SPS documentation in advance of shipment, as well as being subject to risk-based physical compliance checks on arrival, which in the case of Products of Animal Origin (POAO) can only be via designated Border Control Posts. These arrangements came into force from 1 January for movements from GB to the EU but are subject to phased introduction from the EU to GB under the UK’s Border Operating Model.
18. Separate arrangements apply to Northern Ireland under the Protocol to the Withdrawal Agreement. This provides for Northern Ireland to be part of both the UK and EU customs territories while remaining within the Single Market for regulatory and related purposes, effectively necessitating similar checks on movements from GB to NI, though these too are currently subject to a limited degree of phasing-in. The UK Government has in fact now asked for these ‘grace periods’ to be extended to at least 1 January 2023 in the light of current operational difficulties.

### **Initial impact assessment**

19. Early experience of these new arrangements has presented a mixed picture, partly coloured by other disruptions to supply chains and routes to market resulting from ongoing Covid 19 factors, including the cost and availability of container freight and road haulage.

### ***Exports (and transport issues)***

20. Traffic volumes across the short straits routes into France and into the Netherlands and Belgium are still running below normal for the time of year. This is partly because of difficulties meeting new export procedures and partly because many companies shipped stocks ahead of the end of transition in order to avoid problems. Many lorries are also leaving the UK empty to avoid the risk of delays on departure having delivered their inbound loads – on which there are currently minimal checks under the UK’s phasing in arrangements. But the absence of return loads (most hauliers are actually based in the EU rather than the UK) is distorting the economics of their operations and leading to further increases in rates.
21. UK exporters, unable or unwilling to pay these higher rates, or to risk delays to their own loads, are accordingly having to divert products to the domestic market (resulting in lower returns) or to reduce output, or both, adding to cumulative impacts on profitability. Interruptions in supply to EU customers may

also result in permanently lost business if those customers manage to source elsewhere in the meantime.

22. They will in any event face increased costs associated with the new procedures, in terms of staff time and training, the need to engage customs agents, fees for veterinary inspections, loss of flexibility in consolidating loads (groupage), longer journey times and potential loss of value from consequential reductions in shelf-life. Some of these can be expected to reduce over time as all concerned become more familiar with what is involved. But the best possible outcomes will still represent a net increase in administrative and other costs and burdens compared to what were previously frictionless arrangements.
23. In the meantime, the number and complexity of possible Export Health Certificates (over 150 different versions are available on the relevant Defra website, depending on the exact product specification) – and differences of interpretation as between different official certifiers as to the supporting information required – are themselves causing delay and confusion. Current rules also require the original signed copy of the certificate to accompany the load, even after having being pre-notified and entered on the EU's TRACES NT computer system. Composite products, such as pizzas, may require multiple certificates for each different ingredient of animal origin.

### ***Preparedness and information campaigns***

24. Although many of these rules were known in advance of the TCA being concluded, most businesses had little or no direct experience of their practical operation, or sufficient understanding of the meticulous care required to ensure that all reference numbers exactly matched on all the different sets of paperwork required, or the need to pre-notify at both ends of the journey and arrange for a customs agent to be physically available to attend the designated point of entry on arrival. Unofficial estimates suggest that over 80% of shipments are currently failing to comply with all requirements, even though a much smaller number are currently being refused entry.
25. It is debatable as to where responsibility for some of these issues lies. But the very short time between the deal being agreed and coming into provisional effect – over a holiday period and in the middle of a pandemic – clearly has not helped. In effect the various systems are being tested in a live-running environment, with all the attendant problems that might be expected from that. Although Government repeatedly made clear that many of these changes would have been required regardless of the outcome of the negotiations in respect of tariffs, many doubtless saw the difference between deal and no deal in much more binary terms and were waiting for the final terms of any agreement to become known before engaging in detail on the steps they would need to take.
26. Preparations were also undoubtedly hindered by the Covid 19 pandemic. Most food businesses were working flat out, either to keep shop shelves full, or to adapt their operations to the loss of foodservice and hospitality routes to market as a result of the various phases of lockdown – as well as investing in making their workplaces Covid secure and managing staff absence levels. For smaller businesses in particular, management time was at a premium during this period. The volume, complexity and stop/start nature of the various phases of

Government communications campaigns did not help – to the extent that, nearly two years ago, PTF and other food trade associations combined to produce their own EU Exit Foodhub website to bring together all food specific sources of information in a single place with a series of Frequently Asked Questions designed to facilitate ease of access.

27. The weeks since 1 January have seen Government produce the kinds of step by step guides and webinars that industry had consistently been calling for in the run up to the end of transition. But many questions still remain unanswered.

### ***Imports***

28. The direct impact of the TCA on imports has yet to materialise as mirror image UK border measures will only take effect from 1 April. But problems over **rules of origin** are already beginning to surface, particularly in respect of EU products clearing customs here and re-exported without sufficient further processing to confer UK origin. Typically these involve movements from mainland EU to the Republic of Ireland via the so-called GB 'land bridge' rather than much longer sea crossings direct from countries like France or Spain – also known as the distribution hub model. But there are other examples of products made in the EU using UK ingredients, which then acquire EU origin only to lose it again if re-imported for onward distribution without further processing.
29. The types and extents of processing capable of conferring a change of origin are also unclear. 'Simple' repacking – involving the breaking of bulk and placing into smaller units – may not qualify. But operations involving cutting or slicing by machine could do so. Similar questions arise over practices such as the maturing of cheese, or some forms of blending. Government advice is that these need to be considered on a case by case by the relevant customs authorities, who can make retrospective decisions about duty liability even after a product has been traded and sold.
30. The central problem appears to be that the bilateral cumulation model agreed by the negotiators is the standard model for third country 'Canada-style' trade deals, where products originate and are processed in country A before being shipped and sold to country B. This is not designed to deal with cases where products move from A to B and then back to A, or from A to B and on to C, where C is in the same customs territory as A.
31. Pending further clarification, many businesses again seem to have paused existing operations, artificially suppressing normal trade flows and (temporarily) minimising potential impacts.

### ***Northern Ireland***

32. Decisions taken in the context of the Withdrawal Agreement that Northern Ireland would remain subject to EU Single Market and Customs Union rules, while still being of the UK customs territory, was always going to pose a series of practical problems in respect of the movement of goods from GB to NI, particularly those subject to SPS provisions. The Northern Ireland Protocol also pre-dated the conclusion of the TCA – though developments in connection with the then UK Internal Market Bill foreshadowed some of the difficulties which

have now become apparent. Given the sensitivity of those issues – and the fact that they are the subject of live ongoing discussions – it would not be appropriate to comment in detail here, other than to note that many of the issues described above have also been in play in respect of trade between GB and NI.

### **Implications for future trade deals**

33. A primary feature of the UK's negotiating position throughout the Brexit process was to achieve the freedom to conclude a series of independent trade deals around the world – encapsulated in the concept of Global Britain.
34. As noted earlier, food and agriculture are generally subject to much higher levels of tariff and non-tariff barriers than almost all other classes of goods in international trade. New deals necessarily involve the reciprocal liberalisation of some or all of those protections, often in a graduated process over several years. It is almost inevitable in that context that the UK will have to make concessions on its existing (Global MFN) tariff rates – and potentially some areas of regulation – either to secure greater access for its own food exports in other markets, or even to achieve improved access for other (non-food) sectors.
35. It is also likely that such developments will take place while the UK's own food and agriculture industries will still be adapting to the consequences of EU exit and the potential changes to existing business models and supply chains which those may bring. Projections based on a static analysis of past trade flows may not be a reliable guide to either future threats or opportunities. But any more dynamic analysis presents its own practical and methodological problems.
36. Two key questions would seem to result: the UK's ability to respond positively to increased competitive pressures from greater exposure to world market prices; and the extent to which this might require technological or other changes to production methods or standards which could call into question the basis of regulatory alignment implicit in the TCA.
37. These go the core of the remit of the independent Trade and Agriculture Commission established by the Government, which is due to produce its initial report in coming weeks. PTF would be happy to provide the Committee with further comment in the light of the Commission's recommendations.
38. Account would also need to be taken of environmental, land use and other resource constraints on increasing domestic production – together with related questions in respect of the integrity and sustainability of current food systems in the context of food security and climate change, together with issues of diet and health, being examined as part of ongoing work on a National Food Strategy.
39. As set out in our Changing for the Better manifesto last year, PTF believes that the UK needs a comprehensive food strategy across Government, industry and civil society to address these issues – and trade policy should be one of the instruments for delivering this, rather than a determinant of it.