

Dairy UK – Written evidence (EEH0025)

1. Dairy UK is the trade association for the UK dairy processing industry. Dairy UK is a processor-led organisation representing farmer-owned co-ops and private dairy companies producing safe, nutritious and sustainable dairy foods. Its overarching mission is to promote the consumption of great tasting British dairy products at home and on the international market. Dairy UK members collect and process milk produced in the UK, providing employment and contributing to the UK economy. Further information can be found at www.dairyuk.org
2. The policy areas we are responding to are environment, food trade and agriculture. The relevant provisions in the agreement are those covering:
 - trade in goods
 - SPS and TBT measures
 - rules of origin
 - level playing field clauses.

Trade in Goods

3. Agreement to zero tariffs for trade in goods is a significant achievement. Imposition of full MFN tariffs by either party would have caused major disruption to the UK dairy sector. UK dairy exports to the EU would have been rendered completely uncompetitive resulting in a significant displacement of product back onto the UK market. The sustainability of many dairy businesses could have been compromised. At the same time UK tariffs on EU imports would have placed UK consumer prices under significant pressure which would have eroded UK consumer demand for dairy products. The Government is to be commended in achieving a no-tariff outcome.
4. Whilst the UK is not subject to tariffs, all trade in goods including food will be subject to the full range of trade administration requirements reserved for EU non-members. These are extensive and necessarily bureaucratic, consuming both time and resources. They can also create waste through the rejection of goods by customs authorities because of incorrect paperwork.
5. Export trade administration requirements represent the imposition of unproductive costs onto the UK dairy sector, which, given the scale of the EU dairy market and its competitiveness, will probably not be recovered from EU customers. This will place greater pressure on the UK dairy supply chain.
6. It is not possible at this time to fully evaluate the magnitude of these costs. Operating costs may fall as staff familiarity with new procedures reduce errors and management systems are developed to streamline processes. However, it is certain that they will remain significant. They will be further compounded by the imposition of full trade administration costs for inputs and ingredients imported from the EU.
7. Trade costs will also induce change in business models. Frictionless trade allowed the UK dairy sector to meet EU customer requirements at short notice and without stocks. This was particularly useful in clearing the UK

market of surplus bulk cream and skim concentrate. The time delay in meeting all trade administration procedures will introduce rigidities into dairy markets.

8. Dairy companies in both the EU and UK will also have to reconsider where they will source their ingredients or other inputs to reduce their exposure to the inflexibilities created by trade administration requirements. It will take some time before these changes are apparent, but they will inevitably entail a loss of efficiency compared to operating in a large unobstructed marketplace.
9. Whilst not strictly relevant to the UK – EU Trade and Cooperation Agreement, the sheer complexity of meeting the requirements for servicing the market in Northern Ireland from Great Britain will result in some companies retreating from this market, reducing competition and consumer choice.
10. It is difficult to see any benefit arising from these trade administration costs, other than maintaining in place the administrative machinery for the potential imposition of tariffs at a later date.

SPS

11. The SPS measures constitute a further imposition of unnecessary costs on the UK dairy sector.
12. SPS measures are intended to ensure the safety of traded food. Given that the UK and the EU share the same food safety standards by default, then the SPS measures do not substantively contribute to food safety in the short run.
13. Longer term they would only make a positive contribution if there was a significant divergence between the parties. This is unlikely given the strength of consumer sentiment in both markets and the commitment by the UK and EU dairy sectors to high standards.
14. The SPS chapter means that UK dairy exporters will be subject to the same import administration procedures as other non-EU countries. The most significant additional imposition will be the requirement for dairy exports to be accompanied by Export Health Certificates. These need to be signed by qualified vets who have to satisfy themselves that all the information set out in the certificate is correct. This can necessitate physical inspections and the submission of a significant amount of information. This has further added to the costs of undertaking exports to the EU.
15. The UK Government needs to explore with the EU the development of a system based on veterinary authorisation of individual processing plants, as opposed to individual consignments. This approach is already used by several EU countries in their trade relations with third countries. The same model should be adapted to the UK to reduce an unnecessary administrative overhead for the UK dairy sector.
16. The SPS agreement also allows for unilateral action by either party without prior notification to protect food safety. Whilst it is desirable that both parties

should have the power of emergency action, the absence of a requirement for prior notification creates unnecessary uncertainty.

TBT Chapter

17. The TBT Chapter commits both parties to reinforce cooperation in the area of trade facilitation. This is to be welcomed. However, it was clearly an objective of the EU to impose the full burden of trade costs arising from third country status on the UK. The UK will not fully impose its import requirements on the EU until the middle of 2021.
18. Longer term Dairy UK would therefore attach particular importance to the clause in the agreement which commits both parties to establish a single window that enables traders to submit documentation or data required for importation, exportation, or transit of goods through a single entry point to the participating authorities or agencies. This could present significant opportunities to reduce trade administration costs.

Rules of Origin

19. Rules of Origin are required to ensure UK product is entitled to preferential tariffs. However, they inevitably act as an operational constraint on the freedom of businesses to source ingredients and are complex to administer.
20. In general the rules covering dairy products are as satisfactory as could be hoped for. The dairy sector has the inherent advantage that it is largely concerned with processing UK produced milk. There is also some flexibility in the rules for the use of non-UK ingredients, such as fruits for incorporation into yogurts.
21. The Government is to be commended in achieving cumulation for EU product which will allow UK exporters to use EU ingredients without compromising the UK origin of their products. However, this rule is subject to the proviso that EU product undergoes sufficient processing. This has created some ambiguity in interpretation, and we would welcome clarification in this area as it could affect some operators that import and process product for re-export, particularly from the Republic of Ireland.

Level Playing Field Clauses

22. Environment is the area of greatest relevance to dairy under the level playing field clauses. The agreement effectively puts a floor under UK and EU standards from which they can only be further developed upwards.
23. The agreement states neither party shall weaken or reduce, in a manner affecting trade or investment between the Parties, its environmental levels of protection or its climate level of protection below the levels that are in place at the end of the transition period, including by failing to effectively enforce its environmental law or climate level of protection.
24. A number of the subject areas separately identified in the agreement have a bearing on the UK dairy sector. They include:

- industrial emissions
- air emissions and air quality
- nature and biodiversity conservation
- waste management
- the prevention, reduction and elimination of risks to human health or the environment arising from the production, use, release or disposal of chemical substances
- the management of impacts on the environment from agricultural or food production, notably through the use of antibiotics and decontaminants

25. The UK dairy sector is committed to improving its environmental performance. The primary mechanism for delivering this is the UK Dairy Roadmap which sets challenging targets for environmental improvement. Independently Dairy UK will be seeking to develop environmental standards for dairy farming which can be adopted by processors within their own supply chains. Prior to the UK - EU Trade and Cooperation Agreement, Dairy UK was not advocating or seeking any reduction in UK or EU standards in the areas identified in the agreement.

26. The substantive point of concern is how the UK dairy sector will be able to compete with fixed or rising environmental standards when it may be subject to imports from countries not adhering to these standards as a result of the UK's trade liberalization policy. Whilst the UK Government has repeatedly insisted that it will not drop standards, it is difficult to see how this can be achieved when essentially the UK as a service led economy must offer agricultural access if it is to reach agreement with many of the potential trade partners it has identified and entered into negotiations with.