National Farmers Union – written evidence (AUT0028)

Quota administration in UK – Australia FTA

1. The NFU is incredibly concerned that the market access concession granted to the Australian's will have a distorting and potentially damaging effect on the domestic beef, lamb, dairy and sugar sectors. The volumes during the phase have been agreed, however the way in which the quotas are managed can still have a significant effect on the way in which the increasing volumes impacts the UK market. The NFU's overriding objective for managing the quotas is to ensure the various transition phases are managed in a way which minimises the disruption to domestic markets and upholds our high standards of food safety, animal welfare and environmental protections.

Beef and Lamb

2. Australia says it is not looking to flood our market. Still, we know even a relatively small increase in imports can distort and damage our domestic beef and lamb markets. For example, if the UK imported just 7,000 tonnes of sirloin steak, it would replace 20% of the UK prime cattle kill, taking the top straight off our market. In comparison, if the Australians sent us 7,000 tonnes of lower value beef for manufacturing or mincing, the impact would be much less severe.

3. For beef and lamb we think the quotas during the fifteen year transition period should be managed as follows:

4. Tonnages should be expressed as Carcase Weight Equivalent (CWE). This term signifies that an estimate of the carcase weight has been made based on the actual 'shipped weight' of the product that is received. The calculation is made through an agreed formula that works out how much material (such as skin, blood and parts removed during evisceration) has been taken off the carcase in processing the product. This is a standard term used in international trade and is the metric by with the existing quotas for Australian lamb are managed.

5. The quotas should be managed by a licence system that ensures robust certification on UK standards, including guarantees on non-hormones and residues. Licenses would help improve market transparency as import volumes can be seen ahead of time.

6. The quota volumes should be spread across the marketing year and allocated into quarters. This would ensure imported product is evenly distributed across the year, recognising the seasonality of our market. This would ensure product does not flood the market at key times of year, such as at Christmas. For lamb, quota should be heavily allocated to the first half of the year and not the latter, when British product is in season.

7. The quotas for beef and lamb should be split between fresh and frozen product. Currently, 25% of Australian beef exported around the world is fresh, and 75% is exported frozen.

8. The quotas should be further split between boneless and bone in product.

9. For the sheep sector, the quotas should be split into lamb and mutton. Currently, 60% of Australian sheep meat is exported as lamb and 40% as mutton. This would reflect the dominance of Australian mutton exports.

10. The profile of Australian national exports of beef:

Fresh boneless	25%
Fresh bone in	1%
Frozen boneless	67%
Frozen bone in	7%

11. The profile of Australian national exports of sheepmeat:

Fresh Or Chilled Boneless Lamb	4%
Fresh Or Chilled Boneless Mutton	0%
Fresh Bone in lamb	20%
Fresh Bone in Mutton	2%
Frozen Boneless Lamb	7%
Frozen Boneless Mutton	8%
Frozen Bone in Lamb	29%
Frozen Bone in Mutton	30%

Dairy

12. Quotas should be managed by a license system for all the reasons identified elsewhere.

13. Quotas should be managed on a monthly / quarterly basis. The UK has peak milk production in the spring and has insufficient processing capacity to deal with excess fats (cream, butter etc) on the UK market. Any quarterly allocations should take this into account and the volumes in Q2, which would coincide with UK spring flush, should be lower to reflect increased domestic supply.

14. Any dairy products entering the UK under quota should meet UK import standards.

15. Quotas for dairy products should be managed at a 6 or 8 digit level and at the very least, the cheese quota should be separated into processing / not for processing.

Sugar tariff free quota management preferences

16. Production methods: Ideally, access to the duty free TRQ would be on the basis of demonstrating it has been produced in ways that align with UK regulations in a similar manner to the Hilton beef quota. One example would be to require any qualifying sugar to come from cane which is certified, through a bespoke add on to their existing voluntary industry certification scheme, to ensure that none of the pesticides approved for use on cane in Australia that have been actively banned in the UK have been used on that crop. As an add-on to their existing scheme, it would also mean meeting all the existing certification rules too.

17. Import licenses: we would prefer to see import licenses rather than first-come-first-served, and for these to be issued on a monthly basis with the annual volume subdivided into smaller chunks through the year. Licensing is beneficial because:
    - Companies importing sugar can better plan, knowing they will get tariff free sugar when booking the shipment rather than creating a free for all where there's a risk the quota may be exceeded by the time a ship docks
    - Licenses improve market transparency as import volumes can be seen ahead of time. The sugar market, particularly post-Brexit, is very opaque with very little initiative from Defra thus far to provide visibility of key market indicators.
    - The risk of market disruption from a large volume of sugar arriving tariff free within a very short part of the year is reduced. With FCFS, one year's volume could all arrive in Nov/Dec for example, then the next year's volume arrive in Jan/Feb, meaning 2 years' worth of TRQ arriving within 4 months. Licensing across the year avoids this.
    - Similar to the above, because calendar years are not the same as crop years, imports in any calendar year under FCFS are likely to be loaded towards the crop year that delivers the better return. This has the effect on the market of capping the opportunities the homegrown sugar industry has to take advantage of favourable market conditions when prices are high in the cycle. Being able to take these opportunities is crucial for any business operating in a volatile commodity market to offset the pressure caused when prices are at the low end of the cycle.

18. Definition of year: The TRQ year should be aligned to the sugar marketing year – October-September. This would ensure a consistent TRQ availability in each market year, rather than a fluctuating high/low import scenario, making planning and forecasting easier for all involved.

19. Scope: We believe the TRQ volume should be subdivided in a balanced manner between raw and white sugar.

NFU Position on Use of Safeguards in FTAs

20. We support bilateral safeguard clauses in our FTAs that are modelled on the WTO SSG provisions, and which allows for bilateral targeted action when either price or volume is disproportionately affected by an increase in imports.

21. To be effective, bilateral safeguard clauses would reinstate MFN tariffs if increased quantities of originating goods under a specific FTA, in absolute terms or relative to domestic production, were to enter the UK market leading to significant market disruption. We advocate the following key principles as being fundamental characteristics of effective safeguards:

    a) **Product coverage** - specific measures should apply to the most sensitive sectors. In the case of Australia, these are considered to be beef, lamb and sugar. More generic bilateral safeguard clauses should apply across all agri-food products.
    b) **Level of detail** – the safeguards should be calibrated to work at a level of detail that has a meaningful effect, and at least at 6 digit HS code level (therefore differentiating between fresh/ chilled and frozen carcases, and bone in / boneless cuts)
    c) **Thresholds** – safeguard measures should be triggered when clearly set volume thresholds are met, for example as a proportion of total domestic production or total imports. These thresholds must be established using the best evidence to ensure they act as an effective safeguard against unacceptable levels of harm to domestic sectors.
    d) **Permanence** – safeguard measures should remain in place for the lifetime of the treaty, beyond any transition period when tariffs are phased out. There should be a review mechanism after 10–15 years to ensure that trigger volumes remain appropriately set.

22. The weakness of many bilateral safeguard clauses not modelled on WTO trigger thresholds based on volumes is that direct causal effect of harm must be shown as a result of the increase in imports. In practice, this makes these types of clauses very difficult, if not impossible to apply.

23. We should retain the ability to use Special Safeguard Clauses under the WTO Agreement on Agriculture, and as set out in the UKGT for those products it covers.

24. If applied, safeguard measures should be allowed to remain in place for as long as deemed necessary to counter the harm that would otherwise arise from volumes of imports above the relevant threshold, without limitations on when and for how long safeguards can be deployed.

25. Some existing bilateral safeguards require evidence that domestic industries are adjusting in order for the safeguards to remain in place. If such a requirement is to be considered for inclusion in UK FTAs it must be accompanied by a clear requirement for government adjustment assistance for effected domestic sectors. Failure to adjust should not be a reason for lifting any safeguards in operation under an FTA.

26. It should be possible to apply safeguards provisionally - this should be automatic once a request is made to prevent any further damage occurring to domestic industry.