

## **International Trade Select Committee**

### **UK Trade Negotiations: Agreement with New Zealand**

#### **Submission from the Provision Trade Federation**

#### **Introduction**

1. This submission is being made 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, sourced from the UK, EU and international supply chains.
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 across the UK.
4. Our comments relate primarily to the proposed liberalisation of trade in agricultural and food products, together with related regulatory and technical provisions, including Sanitary and Phytosanitary (SPS) measures.

#### **Overview**

5. New Zealand is currently the world's largest dairy exporter, accounting for around one third of global trade in dairy products. It is a highly competitive low-cost producer benefitting from extensive areas of pasture and favourable climatic conditions. Similar considerations apply to its meat industries.
6. Prior to the UK's membership of the EU, New Zealand was a major supplier to the UK, not least because of a degree of complementarity in respect of seasonal availability.
7. But that relationship changed dramatically with the imposition of high EU external tariffs needed to protect subsidy payments under the Common Agricultural Policy.
8. That forced a radical re-orientation of New Zealand's own support policies and led to the emergence of what is now a world class food and farming sector, selling into a range of global markets, notably in China and the Far East.
9. Exports to the UK have fallen to historically low levels, below even the few concessionary quotas accorded by the EU in recognition of New Zealand's previous ties to the UK.
10. In these circumstances, a purely static analysis would suggest any major redirection towards the UK market as being unlikely. But much will clearly depend on the consequences of EU exit on the future evolution and competitiveness of the UK's own food and farming sectors, including the impact of other free trade agreements which may be in prospect.
11. Environmental factors (such as emissions limits or alternative land uses) are also likely to play an increasing role in the economics of production in the UK, including through cost pressures on key inputs (such as feed, fuel, fertilisers

and labour) which may increase the relative differential with suppliers in New Zealand, notwithstanding the effects of similar pressures on them.

### **Specific questions**

#### ***How good a deal does the AiP represent for the UK?***

12. Current UK trade with New Zealand only amounts to some £2.3 billion, or around 0.2% of total UK trade. While there may be some benefit to some UK exporters of increased tariff free access to New Zealand, the relative size of the two markets (5 million as compared to 67 million) means that the balance of advantage in terms of liberalisation is likely to be heavily in New Zealand's favour at an aggregate level. This is even more likely in the case of most agricultural and food products where the UK is a deficit market and New Zealand a net (and highly competitive) exporter. UK consumers may benefit from some price reductions and a small increase in choice. But the dynamic effects of this on the UK's domestic production are not yet knowable, not least because of the many other variables involved.
13. Some argue that a deal with New Zealand enhances the prospect of UK accession to the CPTPP. But New Zealand (and Australia) are already well established in those markets and in terms of food likely to be able to outperform potential UK exporters in all but the most specialised high-end (branded) product areas. Depending on what may be agreed in respect of Rules of Origin (notably in relation to diagonal cumulation) it is possible that reciprocal access to the UK market could more than offset any benefit for UK food and farming.

#### ***To what extent has the Government achieved its stated negotiating objectives?***

14. Most of the Government's negotiating objectives were set at a high strategic level, based on shared commitments to an open international trading system and the benefits of trade liberalisation per se. Specifically in relation to food and farming, there were also aims in relation to protecting UK production and environmental standards, including animal welfare. On what is so far in the public domain it is not yet possible to form an assessment as to how effectively these have been achieved.

#### ***How are the terms of the AiP between the UK and New Zealand likely to affect you, your business of organisation or those you represent?***

15. PTF represents processors and traders in dairy, meat and fishery products. These are all areas where the balance of advantage from trade liberalisation would seem to lie heavily in New Zealand's favour. In many cases, even the transitional limits on expansion provide for exports at or above current levels. There are clear explanations for this in terms of the UK's prior membership of the EU and the patterns of trade which both New Zealand and the UK subsequently developed over the last 40 years. While these may be unlikely to change in the immediate future, the potential for New Zealand significantly to increase its exports to the UK in the medium to longer term may prove to

be a factor in the evolution of the UK's domestic production, which currently faces an almost unparalleled set of challenges (and unknowns).

***What is likely to be the impact on of the agreement on:***

***The UK's economy as a whole?***

16. PTF is not able to make any assessment of the impact of the agreement at a macro-economic level, other than to note that the volumes of trade are extremely small in relation to UK GDP and unlikely to have anything other than marginal consequences for the economy as a whole.

***Particular sectors of the UK economy?***

17. As already noted, food and farming are in a relatively vulnerable position, particularly the dairy and meat sectors. How that is likely to manifest itself can only be a matter of speculation at this stage.

***The UK's devolved nations and English regions?***

18. Agriculture is a highly regional activity. Depending on how trade and production evolve, there could be significant differential impacts in different parts of the country (especially in respect of sheep meat).

***Social, labour, environmental and animal welfare issues?***

19. The AiP purports to provide sufficient safeguards to prevent any erosion of current UK standards. But this remains to be tested.

***UK consumers?***

20. UK consumers will see some modest price reductions on some imports, with relatively early effect. Any negative impacts on UK domestic production will take much longer to emerge and may be difficult to differentiate from the consequences of other trade deals, or on the UK's departure from the EU itself.

***How well is the Government communicating its progress in negotiations – and how much is it listening to stakeholders during those negotiations?***

21. PTF did respond to earlier Government consultation exercises on the potential scope of the UK-NZ deal. But we have had no direct engagement since negotiations began – and only the most general read-outs of progress as part of wider stakeholder networks. It is also unclear when full texts are likely to be available or what, if any, outstanding points remain to be resolved. We would not consider ourselves as having been close to this process at any point.

Written evidence from Provision Trade Federation (ANZ0008)

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