

To: House of Commons International
Trade Committee

Date: November 2021

Contact:

The NFU represents 55,000 members across England and Wales. In addition, we have 20,000 NFU Countryside members with an interest in farming and rural life.

NFU response to House of Commons International Trade Committee inquiry into UK trade negotiations: Agreement with New Zealand

Introduction

1. The NFU welcomes the opportunity to provide evidence on the Agreement in Principle (AIP) that has been reached between the UK and New Zealand. Trade is fundamental to farming, the value chain it services, and the consumers who buy our products. UK farmers are proud to produce safe, high quality and affordable food that the public trusts and enjoys. The NFU supports an international trade outcome that support farmers to grow their businesses and to produce food for Britain and beyond.
2. The government must understand both the offensive and defensive interests when engaging in trade negotiations. Liberalising trade through a reduction in tariffs with third countries like New Zealand may bring benefits for the UK economy. However, any free trade agreement (FTA) concluded will also increase market access for those countries to the UK, thus increasing competition for UK businesses. the NFU believes that any agreement concluded must be balanced, must encompass the whole agri-food value chain, and must put adequate measures or safeguards in place to respect domestic production standards and for those sectors deemed as sensitive.
3. In this context the NFU aims to provide the committee with an overview of the key issues for agriculture stemming from the agreement between the UK and New Zealand. We would be happy to provide supplementary evidence when the agreement is signed and legal texts are available to scrutinise.

How good a deal does the AIP represent for the UK?

4. The announcement of this trade deal with New Zealand, coupled with the Australia deal signed earlier this year, represents a significant liberalisation of the UK marketplace. This means we will be opening our doors to significant extra volumes of imported food – whether or not produced to our own high standards – while securing almost nothing in return for UK farmers. The NFU is not against free trade, but deals must be balanced in respect of offering reciprocal benefit. They should also put adequate measures or safeguards in place to respect domestic production standards and for those sectors deemed as sensitive
5. UK farm businesses face significantly higher costs of production than farmers in New Zealand. For example, despite the UK being amongst the top milk producing nations in the world, the cost of producing milk in New Zealand is 25% lower than in the UK. Moreover, the cost of New Zealand lamb production is 63% lower than in the UK. Farm business margins in the UK are already tight due to ongoing labour shortages and rising costs on farm. The government is now asking British farmers to go toe-to-toe with some of the most export orientated and competitive farmers in the world, without the serious, long-term and properly funded investment in UK agriculture that can enable us to do so. There needs to be a coherent approach across government to bolster UK farming's productivity.
6. The NFU is very concerned that we have heard very little from government about how it will work with farming to achieve the gains necessary to compete in this new more competitive

trading environment. This deal with New Zealand offers significant upsides for farmers on the other side of the world who can now access our hugely valuable market but contains little discernible benefit for UK producers, either at home or overseas. This could damage the viability of many British farms in the years ahead, to the detriment of the public, who want more British food on their shelves, and to the detriment of our rural communities and cherished farmed landscapes. The NFU calls on the government to urgently explain how this deal will tangibly benefit UK farming, the future of food production and the high standards that go along with it on these shores.

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

7. In the government's negotiating mandate it made several commitments which are directly relevant for agriculture. The NFU would like to draw the committee's attention to two, firstly a commitment that a trade agreement with New Zealand would not undermine our high environmental protection, animal welfare and food standards. The second was an acknowledgement that any liberalisation of the UK's import tariffs should consider the sensitivities of UK agriculture. The NFU welcomed both commitments from the government.
8. The DIT scoping assessment published alongside the UK negotiating mandate finds that a UK-NZ FTA will have very limited potential gains for the UK economy and the estimated gain for UK GDP is 0.00% (full tariff removal and 50% of NTB costs addressed). Under this scenario imports are expected to increase by 40.3% and exports to increase by 7.3%. The DIT modelling notes that in the long run, New Zealand producers may be able to supply the UK at a lower cost relative to domestic producers. In particular, it notes that UK suppliers of goods such as dairy products, beef, sheep meat (including lamb), vegetables, fruits and nuts may be subject to more price competition.
9. As this is only an AIP and not the full legal text, it is too early to say if the government has achieved its negotiating objectives. On the first commitment we recognise that the agreement will contain chapters on animal welfare and environment. However, as details are scant beyond those stated in the AIP it remains to be seen if the deal will deliver meaningful outcomes in these areas or just political soundbites. In this context, the Trade and Agriculture Commission (TAC) will play a vital role in scrutinising this deal once fully concluded and tasked with identifying if the agreement will uphold our high standards of food safety, animal welfare and environmental protections.
10. On the second objective, as part of the deal the UK government has agreed to eliminate all tariffs on New Zealand imports. Most will be removed at the point the agreement enters into force, but for certain products tariffs some will be phased out over a period of years. Three sectors (red meat, dairy and apples) have been classified as sensitive, which means tariffs are reduced over time rather than immediately. Tariffs on beef and lamb will be eliminated over a period of 15 years, tariffs on cheese and butter will be eliminated over a period of five years and tariffs on fresh apples will be eliminated over three years. These sectors have been classed as sensitive as they represent products where New Zealand is particularly competitive compared to the UK and has the potential to increase its share on the UK domestic market.
11. The NFU wants to see a deal with New Zealand that UK farmers can welcome with confidence. We accept trade liberalisation, provided it is in a fair and balanced manner and takes into account UK product sensitivities, including in agriculture. In this respect, we have concerns about how truly reciprocal the deal with New Zealand is and call on the government to set out as a matter of urgency, where the benefits are for UK farmers. New Zealand represents a market of less than five million people (compared to the UK population of over 66 million people) and the opportunities for exports of agri-food products to New Zealand are minimal and where they do exist, it will be for finished consumer goods that are not necessarily derived from UK agricultural products. This is not just because of population size, but also because New Zealand produces very similar things to us and is largely self-sufficient with the vast majority of

its farmers producing for the export market. For example, New Zealand is 880% self-sufficient in liquid milk and exports over 90% of the beef it produces.

12. Much like Australia, New Zealand is well placed to take advantage of markets like China, Japan, the US and others and as a result, the volume of product coming from Oceania into the UK and Western Europe has decreased. However, we know that currency fluctuations, geo-political issues and variations in supply and demand can all have an impact on global trade flows. In particular, New Zealand is heavily reliant on exporting to China, a market which whilst highly prized can be unpredictable. As a result, countries like New Zealand are keen to ensure they have alternative markets which product could be redirected into if needed. The AIP with New Zealand confirms that there will be a bilateral safeguard which can be applied to all goods and a product specific safeguard for beef. The NFU welcomes the inclusion of both the time-limited product specific safeguard for beef and the bilateral safeguard clause and believes such provisions are prudent in ensuring domestic producers are protected against a surge of imports in the event it should be necessary. However, at this stage there is still no detail as to how exactly these safeguards will work, how the bilateral safeguard will apply, for how long it will endure as an option for the government and as a result, if it will deliver meaningful protections for domestic producers.

How are the terms of the AIP between the UK and New Zealand likely to affect those that you represent?

13. The UK and New Zealand lead the world in terms of climate friendly farming and our farmers certainly feel a kinship with their New Zealand counterparts. However, it's hard to see how this deal will provide any direct benefits for UK farmers. There may be some opportunity to collaborate in areas such as plant breeding or to promote our respective high standards on the world stage, but these benefits could have been achieved without a FTA in place.
14. Although New Zealand has similar ambitions with respect to animal welfare and environmental standards, their cost of production is still significantly lower than in the UK for a number of products, which gives them a huge competitive advantage. Lower costs of production mean greater profit margins for New Zealand producers who can supply a range of markets at different price points, meeting consumer demands in multiple markets around the world. The UK already has the third lowest proportion of household income spend on food in the world. There is no guarantee that increased competition on the market will create savings for consumers, but it will put pressure on domestic producers.
15. For example, the cost of production of lamb in New Zealand is on average 63% lower than in the UK and cost of producing milk in New Zealand is 25% lower than in the UK. There are several reasons why the cost of producing in New Zealand is so much lower, due to a much smaller population – 5m compared to the UK's 67m – there is much less competition for land and farms tend to be larger. The average UK dairy herd is around 150 cows, compared to 440 cows in New Zealand. Competition for land in the UK also underpins rigorous, expensive and time-consuming planning controls that UK farmers and growers often have to navigate when investing in their businesses. Farmers in New Zealand also have access to more reliable sources of seasonal labour and more crop protection tools which helps them better control weeds, pests and diseases compared to farmers in the UK. Differences in climate also means that animals in New Zealand can be kept outside for longer which further reduces cost.
16. When considering the impact of the trade deal with New Zealand we cannot just consider the volume of imports – we must also consider value. A relatively small volume of imports (if high in value) has the potential to significantly disrupt domestic markets. For example, even small volumes of high value cuts of New Zealand beef (such as steaks) could impact British beef farmers. UK beef production is only viable if the high value cuts are sold, creating “balance across the carcass”. If UK farmers are unable to sell these because they cannot compete with

New Zealand (given the differences in costs of production), their businesses will struggle to remain viable only through selling the much cheaper meat cuts like mince and stewing steak.

17. Pre-Covid, UK consumers spend on eating out was almost equal to that spent on food and drink in grocery retail and in 2019 the sector was worth £81.1bn to the UK economy. Although volumes are smaller, higher ticket prices add value and tight margins mean there is greater incentive to use cheaper raw materials in out of home settings. Whilst in the short term (given the high level of retailer commitment to British sourcing of proteins), New Zealand imports may not directly land on UK retail shelves, they are much more likely to be destined for the food service or manufacturing sectors where there is little to no transparency of sourcing or visibility of country of origin for consumers.
18. Ultimately concluding this deal with New Zealand and similarly with Australia represents a significant liberalisation of the UK marketplace. To date we have seen very little from the government on how it will work with the industry to achieve the gains necessary to survive this new more competitive trading environment - promoting exports, driving efficiencies and increasing productivity. If the UK does not take a joined-up approach between domestic policy and international trade, it will be challenging for UK farm businesses to compete with New Zealand either at home or abroad
19. This is in stark contrast to New Zealand where the government is already working with industry and is investing to enable them to grow their exports. For example, it has announced in partnership with industry it will be investing \$(NZD) 6.02 million in a six-year integrated programme called 'Humble to Hero: Transforming the New Zealand Onion Industry'¹. This programme is part of New Zealand's Sustainable Food and Fibre Futures (SFF Futures) fund which seeks to increase exports, lower emissions, improve the environment and employ more people in the food and fibre sector. To date the New Zealand government has co-invested more than \$142 million into 163 industry projects worth almost \$313 million in total. The New Zealand government note that as the trade deal with the UK removes the 8% tariff that the UK currently applies, it is time for New Zealand onion growers to "move out of the commodity market and capture emerging high-value opportunities". The Humble to Hero programme aims to increase the value of New Zealand onion exports by \$(NZD) 31 million by 2027. Meanwhile, in the UK no specific funding is available for onion growers – or any other sector of agriculture - to either grow exports or the share of the home market.
20. UK farmers are also concerned that the deals with New Zealand and Australia will set a precedent for future trade deals with Canada, the USA, Mexico, India and others such as the major agricultural producers in South America. Fully liberalising the UK's sensitive agricultural sectors, even with "phase out" periods for tariffs, undermines the investments that UK farmers have been making, both on farm to improve productivity and deliver environmental or animal welfare gains but also in increasing their market share at home and abroad. At a time when domestic support for agriculture is also being completely overhauled it adds to the uncertainty and ultimately creates an un-level playing field for our farmers to compete on.

What is likely to be the impact of the agreement on the UK's devolved nations and English regions?

21. The NFU would stress the importance of maintaining good lines of communication between the UK and the devolved governments with respect to UK negotiations, not least because many of the obligations that a concluded trade deal will give rise to will need to be delivered, implemented and overseen at a devolved level. This is particularly true in relation to agricultural and environmental matters. The UK economy is not homogenous. For example, the Welsh economy differs from the wider UK economy in that trade with the EU accounts for 61% of its exports, compared to 43% of the UK's exports in 2019. Ensuring that devolved interests inform

¹ <https://www.beehive.govt.nz/release/%E2%80%98humble%E2%80%99-onion-undergo-extreme-makeover>

the UK negotiating position should help identify, avert, and minimise negative impacts that could stem from proposed trade deals as regards their impact on regions of the UK.

22. Whilst the UK Government is responsible for international relations and treaty making, the devolved administrations (DAs) and legislatures are likely to have at least some responsibility for the application, administration, scrutiny, and oversight of the obligations that trade agreements give rise to. It is our view that the Welsh Government and the Senedd ought to have an appropriate degree of involvement by being sighted of relevant documents ahead of such agreements being entered into, as well as the development and approval of implementing legislation which underpins concluded trade agreements. This should include involvement in developing the UK's negotiating mandate and in scrutinising trade negotiations. The NFU does not represent farmers in Scotland or Northern Ireland, but by extension we believe that this approach should be reflected across all constituent parts of the UK.
23. Agriculture, and family farms make a very significant contribution to Wales' cultural life and sense of national identity. The average size of a farm in Wales is 48ha, compared to an 88ha average size in England. The Welsh countryside is characterised by farms of a modest size, typically owned and/or occupied by farming families, who will often have farmed in that locality for many generations. The way in which our patchwork of family farms contribute to cultural life cannot easily be represented quantitatively or assigned a monetary value. Our rural communities are also strongholds of Welsh language and culture, things which are important to our sense of national identity, but which will also be at risk if we get our future trading agreements wrong. NFU Cymry is deeply concerned at the Australia and New Zealand trade deals, the precedent they set, and their likely adverse effect on the future viability of our sector.
24. Livestock and dairy production is predominantly located towards the west of the UK (and very much predominates in Wales), whilst horticulture and arable enterprises are more typically encountered in central, southern, and eastern parts of the UK. The competitive position of Welsh family farms is further eroded by the fact that they are typically smaller and so lack the economies of scale that larger producers elsewhere in the UK might enjoy. The effects of any trade liberalisation which provides a competitor with preferential market access in relation to meat and dairy, as is the case with the deal with New Zealand, is therefore almost certain to be felt disproportionately hard in Wales.

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

25. Stakeholders should be actively consulted and kept abreast of developments prior to the commencement of, and throughout, any negotiations. The government has established a number of forums for stakeholder engagement, including Trade Advisory Groups. The NFU welcomes these important bodies but is yet to be convinced that they achieve the degree of engagement and co-operation between government and stakeholders that is required, and that is often the norm in other countries around the world. The recent Australia/UK Agreement in Principle provides a case-in-point, where the details of the significant tariff concessions conceded by the UK government had not been properly shared, tested or interrogated for their impact by affected domestic stakeholders before they were announced as part of a largely “done deal”. Indeed, the details of these concessions were first encountered by UK organisations such as the NFU when they were published by the Australian government.
26. The NFU also believes that early and ongoing engagement on trade negotiations between government and Parliament is crucial in concluding trade agreements with widespread support and a high degree of legitimacy. One of the lessons of the debates over the recent EU referendum is that the UK public have felt excluded from those making political decisions on issues that affect their day-to-day lives - hence the resonance of the message that Brexit means “taking back control”. The exclusion of Parliamentarians from the process of negotiating

trade deals that can have a big impact on people's lives risks further exacerbating these concerns if future trade deals impact negatively on some sections of society.

27. The NFU believes that Parliament should be consulted at the beginning stages of the treaty process, to respond and voice their concerns when the objectives for negotiations are set. Consultation with Parliamentary Committees and national Parliaments is used both regarding the United States Congress and the European Parliament, which increases scrutiny and transparency in deals struck by their executives. For example, the government has tended to publish scoping assessments – or impact assessments - at the commencement of FTA negotiations. However, as they are released alongside the mandate and in tandem with talks being launched, there is no opportunity for parliament or stakeholders to scrutinise the details. Parliamentary scrutiny needs to form the basis of a mandate being created ahead of talks commencing.
28. In summary, the NFU believes there are a number of measures that should be introduced to improve the scrutiny of trade deals and accountability to Parliament:
 - a. Parliament should have a “yes/no” vote following debate once a finalised Treaty has been agreed by the UK government to decide whether that treaty as drafted should be ratified or not. Furthermore, Parliament should agree to the negotiating mandate before negotiations commence and should be kept updated and consulted throughout the negotiations.
 - b. The devolved administrations should also be consulted throughout the negotiating process, including with respect to draft texts of agreements.
 - c. Stakeholder engagement should involve a higher degree of information sharing, under Non-Disclosure Agreements only where necessary, to ensure proper two-way communication throughout negotiations prior to trade deals being signed.
 - d. Comprehensive economic impact assessment should be published prior to negotiations starting