Submission from Department for the Economy.

Northern Ireland Executive Department with responsibility for trade issues.

Free Trade Agreement:

1. The Department is supportive of a Free Trade Agreement (FTA) being reached between the UK and Australia, providing opportunities for some companies in Northern Ireland. However, the extent to which NI importers / consumers will be able to access goods under the terms of the UK-Australia FTA is limited to the extent to which product standards and regulations are aligned with, and in scope of, the Ireland/Northern Ireland Protocol.

2 We recognise and welcome potential opportunities created for the Northern Ireland financial and cyber security sectors through the mobility and professional services provisions of the FTA. Also, the removal of trade barriers to exports gives potential to Northern Ireland advanced manufacturing, machinery and transport sectors to grow. This is to be welcomed.

3. However, the FTA published on 16 December 2021 does not deliver on UK interests as sensitive agriculture sectors are not given sufficient protection from imports. Notwithstanding the broader point made at Paragraph 1 above, our biggest concerns arising from the FTA is the impact on the beef and sheep sectors.

4. The Tariff Rate Quotas (TRQs) established are well in excess of current import levels. The final TRQs prior to the removal of all tariff protection of 170,000 tonnes for beef and 125,000 tonnes for sheep represent 16% and 49% of UK consumption respectively. Clearly if Australian imports approach anything close to these levels, there will be a major impact on domestic producers.

5. The beef quota has been set at 35,000 tonnes from the first year, which is an almost tenfold increase on Australia's current beef TRQ of 3,761 tonnes which carries an in-quota tariff of 20%. The sheep meat quota will double Australia's access from the first year.

6. The safeguard mechanism in years 11 – 15 of the FTA, is applicable in year 11 if imports exceed 110,000 tonnes for beef (representing 10% of UK consumption) and 75,000 tonnes for sheep meat (representing 29% of UK consumption). This volume of imports from Australia would already present significant difficulties to domestic producers, therefore the safeguard mechanism is set at too high of a level to offer protection and after 15 years there will be no protection.

7. The UK Government has stated that Australia will not be exporting significant amounts of beef to the UK or that Australian imports will replace imports from other countries. Whilst recognising the appeal of Asian markets to Australian exporters, it is likely that Australia's insistence on achieving a rapid and very sizeable increase in market access signals an intention of making significant use of it.

8. It would be expected that Australia will seek to increase exports of both beef and sheep meat to the UK following the implementation of the FTA. Australia exported 1.03 million tonnes of beef in 2020 which was a decrease of 190,000 tonnes on 2019. Therefore it is certainly conceivable that Australia could export at least a further 170,000 tonnes to the UK over a period of 15 years. There is no guarantee that Australian exporters will focus only on the Asian market for future growth opportunities and neither is there any guarantee that Australia exports to the UK will only impact on other countries exports of beef to the UK.

9. It should be pointed out that should EU exports of beef to the UK fall, this will be most significant for the Republic of Ireland and a surplus of beef on the Irish market will have negative consequences for the market in Northern Ireland. Furthermore if Australian beef displaces imports from other countries to Great Britain, this gives rise to concerns that it will also displace sales of Northern Ireland beef in our largest market.

10. The level of market access given to Australian beef, sheep and dairy products is unprecedented in FTAs between a country with defensive agricultural interests in sensitive products and a large agricultural exporter of these products. Normally such agreements are characterised by low volume TRQs and high out-of-quota tariffs. For example the agreement between the EU and Mercosur (not yet implemented) saw a TRQ of 99,000 tonnes agreed for beef (with a 7.5% duty) which caused significant concern from the agricultural industry. On a pro-rata basis, this would equate to a TRQ of around 10,000 tonnes for the UK which is in stark contrast to level of market access in the UK/Australia FTA.

11. The outcome on SPS standards appears to be satisfactory, however, concerns remain in relation to animal welfare and anti-microbial resistance (AMR) as Australia allows the use of growth hormones to increase the weight of cattle, electro-immobilisation and tail docking of cattle, and mulsing of sheep, none of which is permitted in the UK. The retention of tariffs on imports of pig, poultry and egg products is welcomed.

12. The FTA includes articles on non-regression from current standards on animal welfare but the provisions are weak. Ongoing co-operation on animal welfare and AMR may be beneficial but there is no guarantee that this will result in the same level of standards in these areas in the future. The UK should have taken the differing animal welfare standards and approach to AMR into account in the negotiations on market access for beef, sheep and dairy products.

Economic Consequence of Free Trade Agreement

13. In terms of potential economic consequences of the deal for farmers, Australia has a number of distinct advantages over Northern Ireland, and the rest of the UK, in terms of the land available for farming, climate and lower standards that allows it's farmers to be able produce at a considerably lower cost. Analysis by the Department of Agriculture, Environment and Rural Affairs (DAERA) shows that under normal conditions, Australian sheep prices can be £1/kg lower than the GB price and for beef around £1.10/kg lower than the GB price. Consequently

there is a lot of potential for Australian beef and sheep exports to the UK to expand substantially over time as tariffs are eliminated.

14. Australian beef and sheep products have the potential to undercut UK producers and to reduce Northern Ireland's market share in GB for these products. GB is by far Northern Ireland's most important market accounting for around 70% by value of beef and sheep meat processed in Northern Ireland. We expect that the FTA will have a negative impact on Northern Ireland farmers from loss of market share in GB arising from increased Australian exports of beef and sheep meat.

15. The FTA will reduce the competitiveness of Northern Ireland products on the GB market which as outlined above is by far the most import market for Northern Ireland agri-food products. Greater divergence in tariff policy between GB and Northern Ireland will result in more trade friction between GB and Northern Ireland in order to prevent goods from accessing the EU market without paying the EU tariff.

16. The FTA also gives rise to concerns of the potential impact on the UK Internal Market as it will create a divergent tariff regime between GB and Northern Ireland. Australian imports could come into GB at zero tariff which would undermine the competitiveness of Northern Ireland agricultural products in the GB market but when these goods are moved to Northern Ireland, they would be subject to a tariff unless they meet the not at risk provision in the Protocol. That will complicate goods movements from GB to NI further and a divergent tariff regime within the UK does not protect the UK Internal Market but rather does the opposite. Therefore the UKG should carry out an assessment as to whether section 46 of the UK Internal Market Act is being complied with.

Future Trade Deals

17. The UK is currently in the latter stages of negotiating a free trade agreement with New Zealand, has launched negotiations with India, is developing mandates for the review of the Canada and Mexico continuity trade agreements and has commenced accession negotiations to the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP). We now expect that many countries negotiating FTAs with the UK or those seeking an FTA in the future, particularly New Zealand will push for a similar level of agricultural access to that given to Australia. Northern Ireland also has defensive concerns with New Zealand (dairy, beef and sheep).

18. There is concern at the level of market access already granted for sensitive agricultural products. For example for lamb, 125,000 tonnes have been granted to Australia (prior to all tariff protection being removed) and New Zealand currently holds a TRQ via the WTO of 114,205 tonnes which when added together equates to 94% of UK consumption.

19. The cumulative impact of FTAs is likely to put further pressure on UK agriculture particularly if they are concluded on the same basis as the FTA with Australia. Furthermore, without adequate safeguards, accession to CPTPP

creates the possibility that agri-food products produced and processed anywhere within the block could be eligible for export to the UK without tariff. There are opportunities in obtaining greater access to the Asian market. However there must be realism about the economic potential for this to occur with lower cost producers and that most countries seek to prevent imports replacing domestic production to a significant extent.

Impact Assessments

20. The Government's revised impact assessment has moved away from using a regional apportionment approach in the main model to addressing potential differential regional impacts in the sensitivity analysis. The impact assessment highlights gains in services sectors and potential expansion in the manufacture of machinery across the UK. However, economic benefits of FTAs do not arise without reallocation of resources within the economy. While the impact assessment shows a small economic gain to the UK economy, there are significant reductions in output in agriculture, forestry, and fishing (around -£94 million) and semi-processed foods (-£225 million). When the sensitivity analysis is applied this results in a forecast reduction of 0.04%, or £16m, for the Northern Ireland economy. It also forecasts that in the same scenario Northern Ireland would be the only UK region to experience an overall decrease in economic output resulting from a specialisation in agriculture and semi-processed food, particularly beef and sheep.

21. The agriculture and food processing sectors in Northern Ireland are a significant element of our local economy, with around 78,000 employed in these sectors (based on 51,301 total farmers and workers and 24,945 food and drink processing full time and 2,034 employment agency workers), and around 4% of Northern Ireland's Gross Value Added (GVA) equating to nearly £1.7bn at basic prices. The impact assessment is believed to accurately reflect the negative impact that will be felt in Northern Ireland from the FTA. There are concerns that given the commitment by the UK Government that trade deals must work for all parts of the UK, it did not seek a different outcome on agriculture which would have avoided a negative impact on Northern Ireland. It is worth noting that the impact assessment was only shared the afternoon before publication, allowing no time to discuss the impacts on Northern Ireland.

22. Whilst an early analysis of the impacts of this deal for Northern Ireland would have been helpful there is now a need to go further. The UK is negotiating or seeking to negotiate individual trade agreements with various countries, however, the assessment of the impact of these agreements needs to be considered on a cumulative basis. An impact assessment of the combined impacts of the proposed Australia and New Zealand agreements needs to be prepared. This in turn should set the baseline for assessing impacts, to be expanded, as additional new or revised deals such as Canada, Mexico, India and accession to the CPTPP are negotiated.

23. Ultimately, the interaction between the provisions of UK Free Trade Agreements and Northern Ireland's legal obligations under the Protocol are

complex and create uncertainty in two key regards: firstly, the extent to which NI importers and consumers can access the full range of goods covered by the agreement, and; secondly, the effect on the competitiveness of NI suppliers within the UK. With limited success, officials continue to press their UK counterparts for greater clarity and assurances around the interaction of trade policy and the Protocol.

January 2022