Northern Ireland Meat Exporters Association (NIMEA) – Written evidence (NIP0011)

About NIMEA

The **Northern Ireland Meat Exporters Association** is the representative trade body for beef and lamb processors in Northern Ireland. The industry is worth £1.3bn and directly employs 5,000 staff, supporting 20,000 farmers in the red meat supply chain. Our members serve retail and foodservice customers throughout the UK, European Union and the Rest of the World. NI operations include primary processing (abattoirs), deboning / cutting facilities and packing operations which primarily source raw material in Northern Ireland, but also have key sources of supply in Great Britain and Ireland.

Introduction

The protocol creates a unique set of problems that are very different to the No Deal issues faced by GB counterparts. While the rest of the UK economy continues to prepare for No Deal, NI business is now preparing for very different issues with insufficient time to adapt.

Covid has been extremely challenging in the meat sector, both in financial terms and because it has monopolised the attention of businesses and representative bodies with consideration only turning back to Brexit recently. The UK government has only started to engage formally in the last fortnight though the Brexit Engagement Forum.

Summary

The risk for NI Meat Processors is that instead of having "the best of both worlds" members are "caught between two stools" where NI business has the obligations of EU membership without the benefits, and unable to compete effectively in the UK internal market where members sell 70% of their produce. **These risks are greatest in a no-deal scenario where divergence between the UK and the EU will be greatest. A trade deal with zero tariffs / zero quota a regulatory equivalence agreement will resolve many of the most significant issues with the protocol.** The UK government can ensure the sustainability of the protocol works by ensuring that costs arising from it with respect to UK trade are not borne by NI businesses.

Worst / Best Case Scenarios

The worst case scenario is No Deal at the end of the transition period which would result in significant divergence. Northern Ireland agri-food businesses would continue to apply the EU customs code and single market regulations and this would immediately mean tariffs on inputs from Great Britain and mandatory regulatory checks on products of animal origin in line with EU Official Controls.

Any subsequent decisions by the UK government to reduce tariffs on red meat imports from third countries either through trade agreements or by issuing autonomous quota (such as the arrangements agreed under the 2019 temporary tariff schedule which would have allowed imports of 230,000t of beef on an MFN basis and no mechanism to measure quota usage on product transiting NI) would severely weaken the competitive position of NI beef farmers and processors in the domestic UK market which accounts for over 70% of NI red meat processors' sales. Competitors in the US and southern hemisphere operate have much lower costs of production due to differences in scale and standards. This is a particularly acute issue in beef and lamb which have been protected, unlike some other agri-food sectors. The removal of tariffs would allow some large global suppliers to significantly undercut prices and on steakmeat alone this was estimated by members last year to have the potential to impact by £120/head on farmgate prices. Analysis by AFBI in 2017 showed that a No Deal Scenario with unilateral trade liberalisation could cost result in beef and sheep prices falling by 45% and 29% respectively in the UK[1].

If the UK fails to rollover existing FTAs, then NI will lose access to key markets like Canada since the protocol does not give NI businesses direct access to EU FTAs. Meanwhile, depending on the definition of a qualifying good, Canadian product may have unfettered access to the UK market through NI.

The best case scenario is a comprehensive zero tariff / quota FTA which includes an agreement to minimise divergence on standards which will reduce the level of checks / inspections required on GB to NI trade and help protect the place of NI in the UK internal market.

NI to GB trade

Unfettered Access

Businesses that are established in Northern Ireland require unfettered access to the GB market, however, it remains questionable what unfettered means. The EU remains insistent that Northern Ireland businesses will have to provide summary declarations on NI to GB trade. This will inevitably come at a cost for NI business and it is essential that NI business does not have to absorb these costs given the impact on competitiveness.

It must be understood that unfettered access may mean certain compromises for the integrity of the UK internal market and the question of "who or what" should have unfettered access. The protocol makes provision for a UK government minister to define a qualifying good which would be eligible for unfettered access.

There is a serious concern that if qualifying goods are defined too widely, it would create an effective backdoor for traders who add no value in the NI economy, to legitimately access the UK market with goods in free circulation in the EU without requiring customs procedures. The agri-food sector is low margin and vulnerable to an uneven playing field where competitors trading goods in free circulation in the EU (including non-EU goods), could have equivalent access to the UK internal market as a bona-fide Northern Ireland business which has invested in the region and is adding value to the NI economy.

On the other hand, if a qualifying good is too narrowly defined, this could also lead to unacceptable delays and fetters on GB to NI trade and it could undermine NI businesses who operate complex cross-border supply chains. It is

[1] https://www.afbini.gov.uk/publications/afbi-report-post-brexit-trade-agreements-uk-agriculture

also essential therefore that the approach and the associated controls are balanced and that the free flow of freight which is essential to allowing NI businesses compete in the UK internal market is not compromised. **The definition of a qualifying good is an extremely complex issue and great care needs to be taken with decisions on this matter. The key point should be to ensure that the benefit flows to businesses that add value in the NI economy.**

Commercial Discrimination

There is a high-degree of importance attached to integrity and reputation and any approach that allows NI to be seen in the UK as a backdoor, could be damaging and potentially lead to commercial discrimination in the UK market. **Furthermore, there needs to be regulatory protection for NI businesses against any commercial discrimination in the UK market that could arise due to inconsistent evolution of marketing standards across the different parts of the UK.** The UK could help achieve this through common frameworks on the internal market, but we are not aware of any current engagement on this and the concern is that these frameworks may not have any legislative basis.

Competitiveness

There is a serious risk that if GB farmers / businesses have access to technology that cannot be legally used in Northern Ireland, that this could undermine the competitiveness of NI industry. For example, were widespread use of genetically modified technology, hormone enrichment or specific herbicides to be eligible for use by GB farmers, this could potentially reduce their production costs, leaving NI farmers at a disadvantage.

Remaining tied to EU rules will potentially come at a cost and it would be therefore reasonable to expect agricultural support levels in Northern Ireland to reflect the different set of standards that will be applied by farmers.

GB to NI trade

Risk of Divergence (SPS)

EU controls require that 100% of consignments from GB to NI are subject to SPS documentary and identification checks at a border control post. However, the greatest delays and costs will arise from physical checks which are risk based and can be as high as 20% of red meat consignments and as low as 1% of consignments where equivalence agreements are in place. Estimates vary as to the impact of these additional costs, but additional costs could be up to 6% of product value. High-levels of divergence with large volumes of non-EU compliant product in free circulation in the UK may drive higher levels of checks. Therefore, it would be in the interest of NI businesses that divergence is minimised.

SPS veterinary capacity

These arrangements will require GB vets to issue unprecedented volumes of export health certificates and there is a question over the capacity of the veterinary sector to provide this service to the retail and food processing sectors for GB to NI trade as well as the increased requirements on EU and global trade. This is a serious risk.

Risk of Divergence (Customs and At Risk Goods)
The ability to procure, process and market GB raw material is challenged by the Protocol. NI processing businesses are primarily concerned with processing NI origin beef and sheep meat, but the availability of both GB origin raw material is essential to the sustainable operation of the sector. In order to meet the service levels required by UK customers and to optimise operations, NI processors have an ongoing requirement to access GB red meat inputs. The operating models of several Northern Ireland red meat processors depend on access to GB raw material where sister operations in GB provide vital throughput for NI boning and packing operations. The majority of this material is marketed in the UK.

Under the terms of the Protocol, raw material imported from GB for commercial processing, would be subject to a tariff as it is considered to be "at risk" of entering the EU market. This tariff may be rebated once it can be demonstrated that the product has been consumed in NI or returned to the UK market. The disassembly nature of the meat processing industry makes this a complex task as it would appear that a form of reconciliation will be required to establish where all of the products taken from imported GB carcases have been sold. This will create a serious administrative burden.

It will also have unmanageable cash flow implications. The government has said that businesses will be rebated these tariffs, but the key questions are what administrative procedures will be necessary to secure a rebate and after how long. The seasonal nature of the meat trade, means that by necessity, some products must remain in cold-storage for months before being sold. If the tariff paid on carcase beef at the point of import to NI from GB, cannot be rebated until a reconciliation establishes where *all* of the derived end-products have been sold, this will cost millions in working capital on an ongoing basis.

The example of a NI company procuring 20 loads of GB carcase beef per week for further processing in NI highlights the demand on cashflow. The tariff on one load of beef would be £40,000. In the optimistic scenario that the business would receive a rebate after 2 months, the ongoing working capital cost of tariffs would be £6.4m. If the rebate interval was 6 months, the working capital cost would be £19.2m. Given the level of margins in the sector, none of this is workable for a NI business.

Unless a workable solution to this issue is found, then these issues will effectively stop this trade flow if there is no Free Trade Agreement between the UK and EU. This will have a direct and immediate impact on NI businesses' ability to serve UK customers from NI sites. The risk is that without access to GB raw material duty free, NI processors may not be in a position to tender for large UK contracts due to uncertainty about adequate supplies, and over time the business here will be less about adding value, with primary product exported to GB for further processing there. This will cost jobs in NI and businesses will be incentivised to add more value in GB. This will weaken the position of the entire industry NI industry / economy and a solution is required.

A deal between the UK and EU that removes tariffs and quotas will go a long way to resolving this problem. However, in the event of No Deal, flexibility will be required on the UK and EU sides to provide arrangements that allow NI businesses to continue to participate in the UK internal market with respect to procuring and processing GB-origin raw material and this may require a system that allows trusted NI traders to pay tariffs at the point of export or provides a bespoke tariff free quota between the UK and EU to facilitate this traditional GB to NI trade.

Costs of Doing Business

The barriers to trade, within the UK internal market, on goods moving from GB to NI should not be borne by Northern Ireland businesses. These will be significant costs and will arise as a result of SPS and customs checks. EU Official Control Regulations require that these costs are recovered from businesses and it is essential that an agreement is reached whereby the cost of delivering these controls and the associated business administration costs are covered by UKG, otherwise this will undermine the participation of NI industry in the UK internal market.

Engagement and Preparation

The issues we are dealing with are complex and without precedent. Business cannot prepare until it knows the rules on fundamental issues like "at risk trade" and "qualifying goods".

These are decisions that impact upon the very participation of Northern Ireland in the UK internal market and businesses need input into the development of these rules. Engagement to date has been high-level / brief and at this stage it is hard to be certain that the key problems are understood, never mind being prioritised in a way that will deliver solutions that work for NI businesses.

The level of engagement needs to be deep, extensive and sector specific to establish how businesses and whole industries remain competitive, but this has only started. It will then be necessary for government to implement these policies and businesses will then have to prepare to ensure that they can comply. It is difficult to see how all of this can be achieved in six months and an extended period of implementation would appear to be inevitable if significant damage to NI business is to be avoided.

Pressing Actions for Joint Committee

The priorities for NIMEA are as follows:

- Urgently outline the controls on GB -> NI trade and engage with industry to establish the workability of these controls and work to establish alternative solutions where these controls compromise NI business' ability to participate in the UK internal market.
- Develop an impact assessment on the costs to NI business of the protocol :
    - directly in terms of customs / SPS processes and the business cost of compliance
    - indirectly in terms of impact of competitiveness and the ability of NI business to participate in the UK internal market
- Agree state-aid arrangements to allow the UK and EU to compensate and mitigate for the costs established above.

22 June 2020

Timescales

While the government appears making progress on its systems for implement the protocol, much of the important detail is yet to be agreed at the Joint Committee and is still subject to negotiation. The first step on the critical path is government readiness. Businesses cannot start preparing to comply with procedures that have not been designed, agreed and built. Once the government is ready, business can start implementing changes, but as yet it is unclear what these will be and with just six months to go, it would seem very unlikely that all of this will be achieved this year.

Business Preparations and Covid

Business attention only turned back to Brexit in late May, with Covid having been the dominant issue since February. Covid had a significant and well-publicised impact on the meat sector globally and as a result, it was the priority issue for NIMEA and its members from late February until the end of May, as businesses were primarily concerned about protecting the health of their staff and securing the food supply. It was literally impossible to engage on Brexit during this period, not least due to a lack of bandwidth within businesses and trade bodies, but also due to the fact that government also prioritised Covid and many Brexit officials were moved to Covid duties.

Will the protocol solve the issues it was intended to?
The protocol will solve some of the problems that it intended to but it will not solve them all and it has created other problems. It was designed to avoid a border on the island of Ireland and keep Northern Ireland in the UK Customs Union and that has been achieved, but there are deficiencies arising from the protocol that undermine NI's place in the all-island economy and UK internal market. For example:

- There are serious direct and indirect cost implications for NI businesses, particularly those trading with GB
- The ability of NI processing businesses to procure essential raw material from UK suppliers is undermined by the protocol unless practical and imaginative solutions are found to facilitate this trade
- Northern Ireland origin products will not have access to EU 3rd Country FTAs meaning that members will not have access to important markets like Canada unless the UK manages to ensure that it gets EU FTAs rolled over. This will mean that NI businesses will not be operating on a level playing field with Irish competitors.