

AHDB (Additional Supplementary – ABR0040)

- Could reduced trade in agriculture and food with the EU be off-set by increasing trade with other non-EU countries or regions?

a. Yes, in some cases, but not immediately as the trade within the EU enjoys the enormous benefits of proximity and speed of delivery (crucial for perishable products) and trade free of official customs controls and duties. Some sectors not only export predominantly to the EU, but also export a significant proportion of their production. The key example is the UK sheep meat sector where approximately a third of production is exported (although due to seasonality at certain times of year this could be as high as 40% of production). Of this over 95% is shipped to the EU and half the total to France. France is major net importer of lamb and the UK is the dominant supplier. It is unlikely that the UK develop alternative markets quickly to account for a significant proportion of this volume.

- Do tariff rate quotas present particular challenges after Brexit?

a. Potentially, especially if these apply to trade with the EU as they would limit tariff-free access, making both our products more expensive in export markets and vice versa which would have the effect of pushing up food prices. It should be borne in mind that for trade outside the EU, where trade agreements exist, these are already based on TRQ type arrangements which in some cases limit the level of tariff-free access. The degree to which the UK will continue to have access to these agreements will depend on how readily we can adopt the trade agreements on a proportionate basis through a rectification procedure at WTO to create UK's own schedules. There are already indications that several major non-EU countries will only agree to the UK's new schedules if they can win some concessions seeking better market access as a precondition to agreeing to the UK's schedules.

- The Prime Minister has indicated the UK will seek a comprehensive free trade agreement with the EU and a bespoke agreement regarding the Customs Union. What impact would this have on the agriculture and food supply chains?

- a. **Such an outcome would be very desirable provided it, in effect, maintained the status quo with no tariffs on trade and veterinary, plant health and food safety equivalency allowing trade effectively to continue as it currently does. If the UK wishes to have the complete freedom to secure similar trade agreements outside the EU then rules of origin are likely to make additional controls inevitable so it is imperative that these controls do not create a situation in which supply chains do not operate as freely as they do now. The specific concerns are around delays at ports/points of entry for perishable goods such as fruit, vegetables and meat. It should also be borne in mind that, as with other industries, food processors also have limited on site storage capacity and operate just-in-time systems so delays can have an impact on production efficiency.**
 - o Will the supply of raw materials, seeds etc be affected differently?
 - a. **Provided that the free trade agreement is comprehensive, all products and commodities will be treated equally. Given that it is more straightforward to establish origin of raw materials as opposed to processed products which may have multiple origin content, the procedure for clearing these could be less complicated.**
- Will official controls, inspections and paperwork be needed each time a product is moved or shipped between the UK and an EU country?
 - a. **Inevitably yes. The UK does not plan to remain in the Single Market, nor does it plan to be part of a Customs Union, as this would limit its ability to negotiate trade agreements with other countries or blocs. Even if it did seek to be part of a Customs Union this does not preclude controls and such agreements may not cover all sectors – Turkey being the prime example where agricultural products are excluded.**
- What impact would new or more comprehensive customs checks, certification requirements and other non-tariff barriers to trade have on your members or sectors?
 - a. **The primary impact will be on the speed and efficiency of transactions. The UK Chamber of Shipping reports that the level of traffic to and from the Continent through Dover and the Channel Tunnel has increased from 1 million**

vehicles a year in 1992 (when, in fact the Channel Tunnel was not yet in operation) to 4 million vehicles today. This, in effect, means that a vehicle is entering or leaving the country through those points of entry and exit every eight seconds. This is only possible because there are no physical checks or other formal procedures taking place at this point as the goods are in free circulation in a single market. Quite simply if a control mechanism which increased the time taken to check a vehicle were to be increased to a very modest 60 seconds, the impact on the flow of vehicles would be dramatic as this is over seven times slower than the current rate. Of course there are technological and procedural solutions to this, including pre-clearing at the point of departure, electronic certification etc. but this type of arrangement does not operate at present and would need to be put in place and operate reciprocally between the UK and, principally, France but also any other EU points of arrival/departure (Zeebrugge, Ostend, Hamburg, etc. etc.).

- Can you explain the practicalities of monitoring and demonstrating equivalent standards, e.g. the resource and timescales involved, and the impact this would have on your sector?
 - a. **This is not necessarily that difficult or onerous as the UK, in effect, already acts as the primary guarantor to the EU of compliance with EU standards and indeed those required in third countries. The EU delegates the responsibility for control to the UK competent authority and the US, for example, work on a similar basis where UK officials receive training from the US authorities on the standards required and how to carry out their checks. The role of the third country authority thereafter is one of carrying out periodic audits to check that the standards in question continue to be met. Normally the primary approval inspections are carried out by the third country inspectors but if, for example, additional sites are to be approved, these can be carried out by the UK authority.**

- What impact would new or higher tariffs for exports and imports have on your members?
 - a. **AHDB is not a membership organisation as such but funded through a compulsory levy on primary producers and in some sectors on processors. As such the primary concern, in terms of trade, will be the effect of tariffs on exports and how these might affect competitiveness and**

primarily in relation to trade with the EU. One should bear in mind that, for the most part, our current trade with non-EU countries is not covered by comprehensive trade agreements, but dependent rather on meeting sanitary and phytosanitary standards so UK exports are still subject to any prevailing tariffs imposed by the importing country. Higher tariffs on exports to the EU (indeed any tariffs as there are none at present) would put UK at an immediate disadvantage over competing countries with continued tariff free access. It is difficult to assess the impact of this without being specific but in the primary agriculture sectors where margins on primary products are low, small additional costs can make products uncompetitive.

Questions arising from the session of 8 February 2017

- During the session, Peter noted that “When you talk about skilled or non-skilled labour, it might be better to redefine that as “hard-to-fill vacancies”. In particular, in some aspects of the agriculture sector where the work is quite hard or not entirely pleasant, working in an abattoir, for example, those jobs may be quite low-skilled, but they are extremely hard to fill from local sources.” Could AHDB provide any statistics about the percentage of skilled and unskilled, or indeed hard-to-fill vacancies, that are taken up by labour from the EU; at what stage in the agri-food supply chain that is and whether they are seasonal or permanent?

a. Unable to provide further detail on this.

- Peter said that: “The reality is that we have seen some great export growth in the cereal sector as well over the same period. What we are seeing is that where we are getting through to non-EU markets we are making progress. If we are looking at this from a positive point of view, there is no doubt that the European Union has been through a financial crisis as well and the markets have been slow, so we need to look further afield when we leave the European Union. We are looking at those markets, but it takes a great deal of time. To get the deal that we have with China on pork took us negotiating around seven years to complete because of the sanitary requirements.” Could he provide examples of non-EU markets where the UK is making progress? Could he also elaborate on the key challenges experienced in securing a deal with China on pork?

a. Detail in the supplementary two-page report forwarded earlier.

- In the session, Peter mentioned that “There are some sectors which will be extremely vulnerable to losing that tariff-free access, were we to lose it, so some form of continued tariff-free access to the European Union would be my absolute number one priority.” Could he elaborate on which sectors he had in mind?

a. As mentioned before, the sheep sector would be especially vulnerable though any of loss tariff free access to EU markets will have a negative effect on the sector in question. There is a risk of looking at the volume of trade as a proportion of production that a particular sector ships and concluding that, if this is low, that the sector can comfortably live without it. The sheep sector is certainly the most affected as a third of production is exported and 95%+ to the EU. There are no realistic short to medium term alternatives to this trade and, although the UK imports a similar volume of NZ lamb the pattern of trade is due to seasonality.

Sectors, such as the cereals sector, have a reasonably low volume of exports as a proportion of production (14% to 18% of wheat and barley is routine exported and 80%+ of this to the EU) However, the ability to export this product is essential to providing market balance and there are years when, depending on production and market conditions, the proportion of cereals exported is higher. The products exported can either command a premium in other markets or, if we were forced to process and consume these domestically, have to be sold at a discount. Either way, this has a direct impact in producer prices and margins.

- In addition, what are the most recent figures for export and import of agricultural goods within AHDB’s research remit to and from the EU and third countries?

TBC - Double checking latest data.

2 March 2017