

## **Cornwall Council – Written evidence (FFT0010)**

### **Who is submitting this evidence?**

Cornwall Council is a local authority in the very far South West. It comprises of the county of Cornwall as well as the Isles of Scilly. Cornwall and the Isles of Scilly (CIoS), as a region, has below average exports and improving our trade performance has been identified as a key element of increasing our productivity, which stands at £17,634 GVA per capita in 2017, equal to 64.6% of the UK average<sup>1</sup>. In 2017 CIoS had a trade deficit of 2%<sup>2</sup> which is below UK average, it is a priority to increase this. CIoS is a rural region with agricultural producing 6% of its GVA, double than the UK average<sup>3</sup>. With many Cornish people employed in the agricultural industry, any trade initiatives which strengthen or weaken agricultural trade will impact CIoS greatly. CIoS produce high-quality products including meats and dairy products, some of which are geographically protected such as Fal Oysters and Cornish Clotted Cream. The agriculture sector is of importance to CIoS and any non-tariff trade barriers which may lengthen or increase costs to UK businesses, will impact local producers. Increases in non-tariff trade barriers will impact our exports, which goes against our ambitions to increase trade.

As a region with low exports, it has significant potential to grow. CIoS does not want any trade initiatives which has the potential to reduce trade. Reducing non-tariff barriers has an opportunity to increase trade and with-it economic output and productivity. As the EU is CIoS main trading partner, we would not want a future trade initiative to reduce our access to the EU market. Thus, reducing non-tariff barriers with the EU as part of the future relationship is of vital importance to us.

### **1. What are likely to be the key non-tariff barriers affecting future UK-EU trade in goods and how could these affect the operations of UK businesses?**

Differing standards, a potential move away from mutual recognition of standards and divergence in key policy intervention that will lead to an unlevel playing field are issues which could pose a significant barrier to trade with the EU, even if some form of trade deal is agreed before December 2020.

**A divergence in key policy intervention** such as state aid, funding for R&D, support for agricultural production, risks leading to an unlevel playing field between the UK and EU with the implication that some UK businesses will struggle to compete on the EU and on the UK domestic market. Future cooperation or alignment on such policies would help mitigate any risk of unfair

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<sup>1</sup> Cornwall Council (2019) – *Economic Monitoring Monthly Update*. Available from: <https://www.cornwall.gov.uk/media/40235763/08-19-emmu-aug-2019.pdf>

<sup>2</sup> Cornwall Council. (2019). *Trade in goods and services*. Available from: <https://www.cornwall.gov.uk/media/38162289/trade-in-goods-and-services-may-2019.pdf>

<sup>3</sup> Cornwall Council (2018) – *Agri-food and fisheries*. Available from: [https://www.cornwall.gov.uk/media/35807058/new-frontiers-2018\\_part\\_2\\_13\\_agri-food-and-fisheries.pdf](https://www.cornwall.gov.uk/media/35807058/new-frontiers-2018_part_2_13_agri-food-and-fisheries.pdf)

advantage of EU businesses based on state support. UK businesses, including local businesses in Cornwall and the Isles of Scilly, may struggle to compete with products and businesses from the EU if these businesses or sectors have had state support in the form of state aid or R&D investment over and above what is available to UK firms. Without cooperation on implementing a level playing field the UK will increase inequalities within the country through competition and this will have a negative effect on the overall economy.

**An absence of mutual recognition of standards** could lead to a significant increase in checks and paper work on both sides of the UK-EU border. Agricultural checks and border delays are likely to be key non-tariff barriers in the future. Custom checks on animal, animal products, and plants are required when products are entering the EU customs union. Moving away from the current position where the UK and EU mutually recognise checks, standards and inspections will increase the price and time of exporting products to the EU and making them less competitive in the EU market. If there is no agreement on animal and phytosanitary checks, this industry could suffer from an increase in exporting prices.

**Mutual recognition of standards is based on common standards.** Any divergence between UK and EU product and safety standards going forward is likely to increase the cost for businesses that will need to comply with two different sets of standards if they wish to sell to both the UK and EU market. It will also increase the costs of border checks as mutual recognition of standards cooperation is less possible the more divergence there is between UK and EU standards. A contrast in standards between the UK and EU will increase border checks and delay the trading process, making trade more time consuming and expensive. For example, some industries in food and drink production have estimated an increase in £1.3 million per year with just a 15 minute border delay<sup>4</sup>. There is also estimations that even a 2 minute border check at Dover will cause up to 17 miles of lorry queues, increasing congestion, air pollution, and higher fuel consumption. Not only is this bad for our climate fight, but congestion and fuel consumption will cost firms more. So much that a study from CIPS predicted that if there was a 30 minute delay at borders, it could result in 1 in 10 UK businesses to go bankrupt<sup>5</sup>. UK businesses will have to pay more for importing and exporting products to the EU, which may result in higher consumer prices and/or lower margins which will affect business profitability. If the UK compromise their high standards of products in order to achieve trade deals with external countries then the EU may not be confident in UK goods, causing the EU having to check goods twice, increasing border delays and increasing the cost of trade between the UK and EU.

## **2. What are likely to be the most important technical barriers to UK trade with the EU? How could these be addressed in the future UK-EU trade agreement and what precedents exist in other trade agreements?**

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<sup>4</sup> BEIS (2019). *The impact of Brexit on the processed food and drink sector.*

<https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/381/381.pdf>

<sup>5</sup> CIPS (2018). *Brexit custom delays could bankrupt one in 10 firms.* <https://www.cips.org/supply-management/news/2018/september/brexit-customs-delays-could-put-one-in-10-firms-out-of-business/>

It is recommended that current standards of UK products are not compromised by any other trade deals, and that the UK and EU agree a mutual recognition of standards framework. Additional checks on products exporting into the EU will increase the cost and delays in trade. There is a worry that if the UK starts to lower product standards and allows a large influx of non-EU products into our market with different standards than are allowed in the UK (e.g. components in the car industry), for example from China or the US, this could result in border delays when trading the finished goods with the EU. CIOs have a large agricultural and food & drink sectors, and with Certain food and drink products having short shelf lives they may not be fit for sale or command a lower price if they have to go through longer border checks.

Currently there are phytosanitary checks as part of border customs when products come into the EU's custom market. CIOs worry that when the UK leaves the EU, especially if this is without an FTA, animal and phytosanitary checks will apply to us. Given the high importance of EU exports, as well as our agricultural sector, an increase in export costs and delays could cause economic losses in our agriculture and fishing industries. For example, CIOs landed £7.1 million worth of crab, a lot of which is exported to our main export partners in the EU. Delay and rising costs in exporting through border checks would increase the price for the industry, as well as making crab more expensive in the EU market and making it less competitive. This also works the other way around, with additional checks on seafood and agricultural products, we would see higher consumer prices for EU goods in the UK. Therefore, in order to keep agricultural and fishing industries profitable, there needs to be no or limited border checks. This could be through the UK and EU agreeing on a free trade agreement which would limit border checks and allow ease of trade to continue.

Increasing our trade and lowering tariffs from external markets have the potential to alter our high standard of agriculture in the UK through introducing cheaper competition<sup>6</sup>. Increasing our trade with external countries creates a risk that we will erode the EU's confidence in our products as well as products being infiltrated through the UK market from third party countries, and potentially this could lead to more border checks between the UK and EU. In order to mitigate these impacts, the UK needs to be careful when negotiating non-EU trade deals, not to allow lower standard products to overwhelm our supply chains. This will also help manufactured goods produced in the UK to continue to be a high quality. The UK and manufacturers need to be fully transparent about their supply chains, in order to give the EU confidence that the finalised product is compliant with EU regulations. This should give the EU reason to shorten compliance checks at borders and the flow of goods can continue to be quick, increasing the value of our perishable goods in the EU.

### **3. What form of regulatory cooperation should there be between the UK and EU, including cooperation with EU agencies?**

The UK and EU should as a matter of priority continue close cooperation on product and safety standards and as a matter of priority agree a mutual recognition of standards framework. It would also be preferable if the UK and the EU had an open and constructive dialogue on state aid and remained aligned

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<sup>6</sup> NFU (2020) *South West Agriculture strategic framework 2020*

where possible to ensure that UK businesses are not disadvantaged by higher levels of state support in the EU and to avoid an unhealthy and costly propping up of industries in the UK or the EU to secure competitive advantage for a sector through state aid . The Common Market Authority (CMA) have been tasked with developed a new UK state aid regime after the current transition period is over. It is crucial that areas such as CIoS are involved in these discussions including around developing a regional state aid map for the UK.

It is also important to note that if there a divergence on state aid, and the EU relaxing measures the UK could lose out. If our state aid regime is fixed, and EU state aid is relaxed or altered, UK businesses could be at a disadvantage.

**4. How could the UK and EU minimise the costs and disruption associated with any testing and compliance processes that will be required, including conformity assessments? How effective would mutual recognition be in keeping these to a minimum?**

The UK and EU should as a matter of priority continue close cooperation on product and safety standards and as a matter of priority agree a mutual recognition of standards framework. This will keep non-tariff barriers to a minimum and will minimise costs and disruption and will allow trade to continue. If UK and EU standards continue to be comparable and a mutual recognition framework is in place, then testing and compliance processes will be shorter in time and require less resources and staff and as such will be cheaper.

**5. What arrangements on rules of origin should there be between the UK and the EU? What precedents are there for bespoke arrangements in other trade agreements?**

Protected Food Names are extremely important to CIoS, so the UK should consider mutual recognition of EU Protected names in return for EU mutual recognition of whatever DEFFRA put in place to replace Protected Food Names

**6. What improvements should be made to existing customs facilitations, such as trusted trader schemes, particularly for the benefit of small and newly-established businesses?**

CIoS are concerned that any disruption in cross border trading with the EU will require more resources at ports and will increase costs to businesses. Currently the nearest port to Cornwall with the resources and staff to do checks on fish is Plymouth. In 2017 Newlyn port in Cornwall had the 2<sup>nd</sup> highest value of fish landed in England at just under £30 million<sup>7</sup>. Newlyn to Plymouth is over 75 miles and this increase in land transport will result in higher emission which does not align with the UK governments commitment to carbon neutrality by 2050. Therefore, ports like Newlyn, need investment and more facilities in order to get ready for more checks to export and import produce.

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<sup>7</sup> MMO (2017). *UK fisheries statistics 2017*.

**7. Are there any other areas where the UK or EU should be more ambitious in reducing the costs associated with non-tariff barriers?**

Manufacturing is an important sector for much of the UK and especially for CIOs. However, attention needs to be pointed towards agricultural products. Agricultural trade is unable to go too far afield due to the perishability of food products, and as such the EU will continue to be a big agricultural market for the UK. It is therefore important to reduce the costs of non-tariff barriers in agriculture, as not all products can sustain long haul travel, especially without climate damaging technology such as refrigeration units being powered for days, maybe weeks. Therefore, agricultural non-tariff barriers will need to be lowered, in terms of cost and time, in order that we can continue to sell and buy agricultural products at similar prices and sustain our agricultural sector.

**8. What impact would the absence of a UK-EU trade agreement at the end of the transition period have on non-tariff barriers and, consequently, UK businesses? How prepared are UK businesses for this situation and what should they be doing to get ready?**

A no deal Brexit scenario would result in longer delays at British and EU borders, disrupting the continuous trade in goods we enjoy in the single market. There is also a worry that without a deal on the level playing field, the checks could be even longer. A huge divergence on state aid could also cause unnecessary competition on some of our industries from the EU, as well as a scaled back trade deal with the EU. Many businesses in CIOs are reliant on the EU market, from cheaper inputs to manufacturing to exporting their product to EU markets. CIOs largest export markets in the EU are Ireland, France and Germany, and the EU as a whole represents 55% of our exports and 44% of our imports in 2016<sup>8</sup>. CIOs businesses therefore will have big impacts if non-tariff barriers are increased due to a no deal scenario. A no deal scenario would rise costs for consumers and hinder our exports in CIOs, it is also feared that a no deal scenario would increase inequality in the UK, both on a local level and regional. A no deal scenario would not support the governments levelling up agenda.

**26 June 2020**

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<sup>8</sup> Cornwall Council (2016). *Brexit preparedness*