



House of Commons:

ENVIRONMENT, FOOD AND RURAL AFFAIRS SELECT COMMITTEE

BREXIT: TRADE IN FOOD

Call for written evidence:

**Submission from the Agriculture and Horticulture Development Board
(AHDB)**

20 October 2017

Executive summary

AHDB has identified the key areas likely to have the biggest impact on trade in food products as a result of Brexit. The submission details:

- Recognition of the UK's desire for a customs arrangement with the EU that facilitates the freest and most frictionless trade in goods possible, avoiding a hard border and any physical border infrastructure on the island of Ireland.
- A sector by sector assessment of the significance of trade with the EU and potential implications of Brexit on each of these.
- The ability of the UK to develop its own trading relationships on international markets as well as transitioning and developing existing trade agreements.
- The risk of reduced access to the Single Market for the UK agricultural industry, especially if tariffs apply to UK exports to the EU.
- Likely transactional costs associated with customs and border controls affecting the flow of trade with prolonged customs clearance procedures and checks.
- The necessity for farmers to get Brexit ready now and avoid the high-risk strategy of waiting to see what will happen.
- The importance for processors of access to labour, investment in technology and developing export markets outside the EU to mitigate the potential loss of EU markets.

AHDB

AHDB's purpose is to inspire our farmers, growers and industry to succeed in a rapidly changing world. We are the independent go-to place for trustworthy information and evidence-based research. We equip the industry with easy to use, practical know-how which they can apply straight away to make better decisions and improve their performance.

Through deepening our technical, commercial and market insight, and making this available where, when and how the industry needs it, we aim to enable British agriculture to become truly world class.

We will also strategically align our research funding to six new technical themes to accelerate

We will focus our activities on four strategic priorities:

- Inspiring British farming and growing to be more competitive and resilient.
- Accelerating innovation and productivity growth through coordinated research and development (R&D) and knowledge exchange (KE).
- Helping the industry understand and deliver what consumers will trust and buy.
- Delivering thought leadership and horizon scanning.

Inquiry questions and AHDB's response

1. **What challenges and opportunities will the UK food and farming sectors face from new trade arrangements with EU countries after the UK leaves the European Union?**
2. The UK agri-food sector exported £17.7bn of agricultural, food and drink products in 2015 and exports have been on an upwards trend. Over 60% of this value was with the EU, with the EU being an even more significant customer for some of our key agricultural products, highlighted later in this response. The UK's trading relationship with the rest of the world underpins the productivity and profitability of our farming sectors. Clearly, trading relationships and trade flows may change significantly in a post-Brexit landscape, depending on government policy decisions and trade negotiations with various global players, including the EU.
3. The AHDB recognises the government's ambition as stated in the Customs Bill White Paper that "*The UK wants a customs arrangement with the EU that facilitates the freest and most frictionless trade in goods possible, and which, crucially, avoids a hard border and any physical border infrastructure on the island of Ireland.*" Under these circumstances the current arrangements would, in effect, remain relatively unchanged. On this basis, the following comments on opportunities and threats relate to potential outcomes that do deliver this level of frictionless trade and may, as a consequence, result in minor or significant barriers to trade.
4. Barriers to trade in the form of tariffs or regulation and the level at which these are set are likely to have a significant influence on the continued competitiveness of the UK's farming and growing sectors, as well as food prices for consumers. Whether they represent an opportunity or threat depends on each sector's reliance on imports and exports, both in and outside the EU. The trade policy adopted by the UK and other governments will be a deciding factor.
5. AHDB has recently published a report ['What might Brexit mean for UK trade in agricultural products'](#). In short, some of the findings on the current trading situation and the importance of the EU in this trade by sector are outlined below.
6. **Sheep meat:** The UK imports around a third of the sheep meat it consumes, with the EU only supplying 10% of this. In contrast, the EU is very important for UK sheep meat exports, with more than 95% of its export volume destined for the EU. Without free trade, UK exports would be subject to tariffs equivalent to an ad valorem tariff of at least 50%, making it uncompetitive on the EU market.
7. **Beef:** The UK imports just over a third of the beef it consumes and depends on EU supplies of more than 90% of this. The EU market is very important, with more than 90% of UK beef exports shipped to other EU countries in 2015/16. Tariffs would add 50% or more to the value of beef exports, impacting its ability to compete with EU beef prices.
8. **Dairy:** The EU is highly influential for both dairy imports and exports, accounting for 99% and 90% respectively. If tariffs were introduced this would prevent most imports of dairy products into the EU.
9. **Pork:** The UK is a net importer of pig meat, with around 60% of what we consume being imported. Virtually all of this product comes from the EU. The EU also is the main destination for exports, with 70% going to fellow EU member states. The EU is therefore very important for this sector for both imports and exports. If this sector was subject to high tariffs the prices would be uncompetitive, even where production costs are lower.
10. **Potatoes:** Frozen processed potatoes account for the largest proportion of UK imports as the average prices are lower than domestic prices, with 99% of this product coming from the EU. Exports of fresh potatoes are limited due to cost and efficiency of shipping over long distances. Seed exports have traditionally been the focus of most UK export development activity, with the main destinations being non-EU countries. Only a quarter of these exports are shipped to EU countries. The UK crisp export market is growing and 80% of these exports go to EU member states.

11. **Cereals and oilseeds:** UK cereal exports fluctuate season to season due mainly to availability, price competitiveness and quality. UK imports are dominated by wheat and maize. Around two thirds of UK maize imports were from the EU in 2015/16. Imports of wheat accounted for 11% of demand on average over the past 10 seasons, mainly from EU countries. The EU is not key for imports of oilseeds and their products and the UK mainly imports from non-EU countries. However, in terms of export volume, the destinations are predominantly EU countries. In 2015/16 two thirds of barley, 80% of wheat and 94% of rapeseed were exported to EU countries. Oilseeds and grains operate in a comparatively free-trading global complex.

12. **Horticulture:** In the horticulture sector the UK is hugely reliant on imports to meet consumer demands, particularly for out-of-season products. Around 40% of these imports are from the EU. Exports are minimal, with most trade focussed on the domestic market.

13. **Opportunities:**

- On the basis that the UK will be leaving both the Single Market and the customs union and regardless of the nature of its future trading relationship with the EU, it will have the ability to develop its own trading relationships on international markets as well as transitioning and developing existing trade agreements.
- There may be an opportunity for import substitution. In a scenario where there are import tariffs on EU goods the price of the products we import from the EU are likely to rise. This would give a price advantage to British products, making them more attractive to domestic consumers with the potential to displace imports. Arguably the sector with most scope for import substitution would be dairy. However, there would be a layover period before supply of British produce could meet an increased demand and it is not certain that all sectors could do so. What is also unknown is the effect of higher prices on demand with the potential for products to become substituted within the market.
- The UK could flex tariffs in response to the specific needs of the UK market notwithstanding its WTO obligations in relation to not going above the current maxima or in relation to non-discrimination.
- Some agricultural products move to and from the UK and other EU member states for processing. This is particularly the case with trade flows between the Republic of Ireland and Northern Ireland. Once we have left the EU there is a possibility that products could be subject to two lots of tariffs - those on UK exports to the EU and UK import tariffs, making this trade uneconomic. This may present an opportunity to increase domestic processing, creating jobs and reducing costs by avoiding tariffs. Again this assumes a full WTO 'contingency' scenario as described in HM Treasury's Customs Bill White Paper.

14. **Challenges:**

- Reduced access to the Single Market is one of the biggest risks facing the UK agricultural industry, especially if tariffs apply to UK exports to the EU. It would effectively force prices of our exports higher, making them less competitive on the EU market. If we sought to compete, it would put downward pressure on domestic prices.
- While leaving the EU places the UK in a position to capitalise on new markets, the making of new trade deals could present challenges too, depending on their nature. A 'free trade' agenda implies that the UK will also have to look at improving access to the UK market for third countries. This 'unilateral trade liberalisation' scenario is likely to expose UK farmers, growers and processors to increased competition at lower prices. What will be essential under these circumstances is a level playing field in terms of standards and some sensitivity to particularly vulnerable parts of our agricultural sector.
- Reaching agreements on trade is time consuming and there is a threat of a hiatus in trade where continuity is not secured.
- Even with a relatively free trade arrangement with the EU there are likely to be transactional costs associated with customs and border controls, rule of origin etc. In a 'contingency' scenario these controls could be significant and affect the flow of trade with prolonged customs clearance procedures and checks. As an example, according to the UK Chamber of Shipping 4.2 million vehicles passed through the Dover Strait (ferries and tunnel) in 2016. This equates to a vehicle every 8 seconds, 365 days a year and 24 hours a day. This is only possible

because the vehicle move without stopping from ship's ramp to road. Any change in our trade arrangements has implications on trade flows and the costs of doing business.

15. What trade policy objectives should Defra/ the UK Government establish in order to achieve the right balance between the interests of food consumers, producers and processors, and the environment?

16. AHDB is a Non Departmental Public Body (NDPB) and not able to provide a response to this question.

17. How effective are the Government's arrangements for consulting the food and farming sector and for representing their interests within the UK's negotiations with the EU?

18. AHDB is a Non Departmental Public Body (NDPB) and not able to provide a response to this question.

19. How effective are the Government's arrangements for representing the interests of the four nations within the UK's negotiations for trade in food?

20. AHDB is a Non Departmental Public Body (NDPB) and not able to provide a response to this question.

21. What can farmers, food producers and processors, and government do to prepare for changes to trading arrangements, including to improve production and to reduce trading costs?

22. While little clarity has been offered on the exact details of Brexit surrounding the future of trade relationships, this is not to say that preparations for change cannot start now. We know that change is coming and that trading costs are likely to increase as we leave the single market. Quite simply, a change in trade policy has the potential to impact trade flows and associated costs. This will impact supply chains. However, AHDB believes waiting is a high risk strategy and we are encouraging our levy payers to consider the potential Brexit impact and understand the potential to prepare for it.

23. AHDB has recently published a Horizon report '[Brexit Scenarios: An impact assessment](#)', aiming to help the industry prepare for the future. AHDB has examined future trade relationships and mapped out a range of possible post-Brexit situations and their impact on UK farming across the six sectors which AHDB covers.

24. In addition, recent [Horizon reports on grain, meat and dairy exports](#) have include building blocks and recommendations. Drawing on these publications, the below lists some areas and issues that we believe different groups should consider.

25. **Farmers:** The evidence is clear, high performing farms are shown to be in strong positions when coping with changes associated with all given scenarios. There is a call for farmers to start preparing for change now to put themselves in the best possible situation as Brexit rolls out.

- Review future scenarios under Brexit and evaluate the potential business impact of the possible repercussions from the UK's exit from the EU and plan accordingly.
- Ensure the business is offering the best systems and practises in the world, with labour and cost efficiency. One example is dairy systems where the AHDB is encouraging dairy farmers to understand their current system, judge its performance and make a conscious, strategic choice about a system that is optimum for them.
- Have a firm grasp of production costs and know if they are competitive.
- Have a contingency plan for under performance and unannounced high costs.
- Be prepared for funding to be reduced or even withdrawn – it is expected that there will be less direct income support to farmers. Consider how viable the business would be under various direct payment schemes.
- Make time to assess how the business is run and its management – conduct a 'hands off' business review – every three to six months.
- The loss of free movement poses a problem with access to migrant labour-making supply tighter and possibly incur higher cost. Looking at labour availability and succession planning is important to ensure businesses ensure have the right practical, business and leadership skills for now and our future. Invest in skills to secure the people your business needs.

- Develop action plans - how to exploit the opportunities and how to mitigate the challenges.
- Look into changing what they produce.

26. **Processors:** UK processors are dependent both on secure domestic supply and imports to operate at capacity and maintain efficiency. These supply chains are complex and involve principally but not exclusively EU suppliers. Key issues will include:

- Access to labour.
- Investing in technology to reduce dependence on migrant labour. (Given the current level of uncertainty, many business are reluctant to do so at present).
- Developing export markets outside the EU to mitigate the potential loss of EU markets.
- Recognise that businesses in the same supply chain can't exist in isolation. Supply and consuming businesses in the same supply chain are largely interdependent on each other. Taking a whole chain approach to driving competitiveness is likely to be highly beneficial. A more collaborative approach that enables farmers to amalgamate production volumes or integrate with supply chains could help the sector capitalize on new trading opportunities.
- If export opportunities look to be challenging and the UK imposes WTO tariff barriers, then there is also an opportunity to focus on the domestic market and displacing imported product from competitor countries. Imported product could be significantly more expensive if the UK imposes tariffs to match the EU. There is scope for import displacement to varying degrees, although issues like carcass balance and seasonality of production would need careful consideration.

27. Government:

- Provide industry with early clarity on new regulatory, trade, customs and labour arrangements to allow for necessary commercial planning.
- Ideally ensure continued access to current markets, alongside efforts to open new markets.
- In the long run, this could include extensive impact analysis of future trade deals with particular notice to the impact on domestic producers.
- Export certification demands are likely to increase substantially given that they may be required for EU countries as well. This is likely to need considerably more resources to prevent the process slowing down. Government resourcing is needed to develop this. This gives scope to further develop electronic systems to support a more efficient certification process.
- Continuing to promote the UK brand through the Great British Food Unit is essential. In addition, Ministerial visits and advocacy to promote trade overseas and a proactive programme of inward visits from the regulatory authorities in key overseas markets ensures raised awareness of UK meat and dairy production and build confidence.