



House of Lords:

EU EXTERNAL AFFAIRS SUB-COMMITTEE

**RESPONDING TO BREXIT:
FUTURE TRADE IN GOODS BETWEEN THE UK AND THE EU**

Call for written evidence:

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

20 October 2016

AHDB

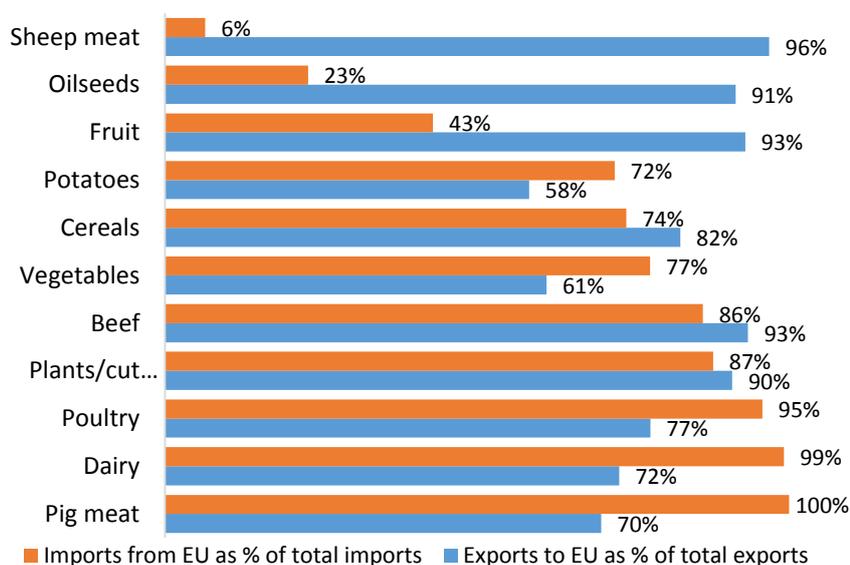
The Agriculture and Horticulture Development Board (AHDB) is a statutory levy board, funded by farmers, growers and others in the supply chain. Our role is to inspire change, stimulate innovation and identify opportunities for businesses to become more profitable. We do this by being the centre for the generation and sharing of knowledge, best practice and providing independent evidence, information and services. We exist because we can deliver greater value collectively than levy payers can do on their own. AHDB raises levies from the meat and livestock sector (cattle, sheep and pigs) in England, horticulture, milk and potato sectors in Great Britain and the cereals and oilseeds sector in the UK. The AHDB's remit covers 75% of total UK agricultural output.

The funds raised from each commodity sector are used only to the benefit of the sector from which they were raised. Levy is invested in a wide range of activities including R&D, marketing, exports and market intelligence. Because the levy is statutory, AHDB is classified as a Non-Departmental Public Body and comes under the sponsorship of the Department for Environment, Food and Rural Affairs.

Enquiry questions and AHDB's response

- 1. What is the importance of EU trade to your industry? What is the percentage of UK businesses (value added) in your sector either directly trading with the EU or producing for other businesses that are trading with the EU? How many jobs in your industry depend on trade with the EU, how many jobs are there in your industry?**
2. The UK exported £18bn worth of food and drink in 2015, of which £10.7bn was to the EU. However, the UK imported over £38.5bn worth of food and drink of which £27bn was from the EU. EU trade is therefore key to the UK agriculture/food and drink sectors.
3. Although not all businesses in food supply chain will export most sell outputs at prices that are determined by commodity markets. As such the value of exports from the UK will influence the domestic prices that farmers and wholesalers achieve.
4. Nearly two thirds (62% by value) of UK agricultural exports are to the EU, with seven tenths (70% by value) of agricultural imports from the EU. The UK is a particularly high net importer for dairy products, pig meat and vegetables. Over 90% of beef and lamb exports and 70% of pig meat exports go to the EU (see chart below sourced using UK HMRC data for further detail)
5. Ireland, France, Germany and the Netherlands are the main EU nations that the UK trades with.

UK imports and exports, 2015



6. Based upon the fact that nearly 2/3 of UK exports by value are to the EU it can be assumed that many jobs in the UK are currently dependent on trade with the EU. However, AHDB is not able to quantify this.
7. According to the Defra June Survey, in 2015 a total of 476,000 are employed in agriculture of which: 294,000 are farmers, business partners, directors and spouses, 183,000 are regular, salaried or casual labour 67,000 are seasonal, casual or gang labour.
8. According to ONS 2014 figures, a further 400,000 are employed in the food and drink manufacturing sector.
9. It is not possible to state how many jobs depend on trade with the EU but as outlined above UK-EU trade is significant and many jobs in agriculture and food and drink will be connected to it.
10. ***What are the most important elements of the current UK-EU relationship for the success of trade by your sector? What are your sector's main concerns? What would be the best case and the worst case scenario post-Brexit?***
11. We have identified four key areas of concern for the food supply chain. These are Trade, Farming support, Regulation and Access to migrant labour.
12. From a purely EU trade perspective, remaining in the Single Market would be the best case scenario for agriculture and the wider supply chain in the short term. This would ensure there were no barriers to EU trade, either in the form of tariffs or non-tariff barriers.
13. If remaining in the Single Market is not an option having tariff free access for agricultural and food products will be important. In this case, there are likely to be increased costs of trade and increased bureaucracy and compliance costs with trading. AHDB published a Horizon research report¹ which highlights the external trade tariffs for importing to the EU. If the UK were subject to these tariffs it would make our exports uneconomic. Where we are a net exporter this would most-likely cause domestic prices to fall.
14. Further details can be found in the attached AHDB Horizon research report entitled '*What will an UK/EU trade relationship look like post-Brexit?*'
15. A worst-case scenario for UK agriculture in the short term would be that barriers for imports are reduced at the same time that barriers to exports are increased. For instance, the UK would be subject to the EU external trade tariffs if a preferential trade agreement is not reached. If the UK chose not to place reciprocally high tariffs on EU imports domestic production would be adversely affected.
16. ***Are tariff barriers important to your sector and if yes, in which areas? Would they apply to the whole product or to parts of it (supply chain)? What would be the likely impact of UK exports to the EU, and UK imports from the EU, being subject to tariffs?***
17. The EU's external tariff barriers are particularly important in the agriculture and food arena. Tariffs are high for commodity products, and higher for processed products. Beyond any agreed quotas, these effectively restrict access to the EU for low cost production.
18. Further details can be found in the attached AHDB Horizon research report: '*What might Brexit mean for UK trade in agricultural products?*'
19. Whether TRQ's would continue to apply to imports to the UK will be determined during the negotiations over Brexit. The split of TRQs between the UK and the rest of the EU will also form part of any agreement.

¹ AHDB Horizon report – What might Brexit mean for UK trade in agricultural products – 12 October 2016

20. A list of current tariffs for key agricultural products can be seen in the attached document. Tariffs into the EU do differ significantly by product being as high as 87% for frozen beef down to 3.8% on whole, fresh sweet potatoes and so if a free trade deal was not reached, then the imposition of these tariffs would be significant for some sectors.
21. Tariffs affect the whole supply chain as they would cover both imported product ready for retail consumption through to inputs costs such as machinery, feed and fertilisers.
- 22. Which non-tariff barriers (NTBs) are most important in your sector? What role does mutual recognition play? What role do rules of origin play? What role do labelling requirements play? What other issues with customs/market access could arise with Brexit?**
23. As part of Single Market there are no issues trading with the EU with regard to non-tariff barriers but non-tariff barriers currently effect trade with the rest of world. The principal risk would be if UK the UK sets its own rules with regards to rules of origin, labelling and other criteria this will lead from divergence from EU standards leading to additional technical barriers and paperwork when exporting to the EU.
24. With regard to trade with non-EU countries then non-tariff barriers exist and include sanitary and phytosanitary (SPS) measures and technical barriers to trade. In practice these measures are often the hardest to agree in trade agreements, as seen in the recent Transatlantic Trade and Investment Partnership (TTIP) where issues such as antimicrobial treatments and hormone-treated beef are highly contentious. The EUs broad approach is to ensure a level playing field, regulating and restricting imports of products where regulation prevents production within the EU.
25. Technical barriers to trade can also become obstacles but they are often deemed necessary for a range of reasons, from environmental protection, safety, national security to consumer information. Therefore the same basic question arises again: how to ensure that standards are genuinely useful, and not arbitrary or an excuse for protectionism. Examples of technical barriers to trade include country of origin labelling and restrictions on importation of genetically modified products.
- 26. How would supply chains in your industry be affected by changes to the framework for UK-EU trade? How likely is it that supply chains would be interrupted/sourcing would be changed because of the imposition of tariffs on components? Would supply chains be more affected by tariff barriers or by NTBs?**
27. The effect on supply chains would depend on the nature of the future trade agreement with the EU. The imposition of tariffs for importing from and exporting to the EU could have a significant impact on input costs e.g. feed, fertiliser and machinery. The effect of supply chains of tariffs or NTB's will depend on the relationship for trading with the EU. Further details can be found in the attached AHDB document: What might Brexit mean for UK trade in agricultural products?
- 28. What is the significance of standards elaborated by the EU (even if transposed into UK law) in your sector? What is the significance of standards elaborated by UK bodies? What about international standards (even if transposed by EU / national law)? If EU standards were no longer mandatory, would you regard this as an advantage, or would you comply with them anyway to trade with the EU?**
29. We expect that EU standards will be key to trading with the EU. The UK would need to comply with them in order to trade with the EU. Such standards relate to a number of areas covering food labelling, food safety and animal health. Any divergence could lead to increased paperwork, certification and limited opportunities to trade with the EU. In order to export agricultural goods from the UK, an Export Health Certificate (EHC) is usually required. These are frequently issued on the basis that EU sanitary, phytosanitary and veterinary standards equivalent to the UK standard. Where agricultural products are produced from different production systems these often cause non-tariff barriers to trade. Complying with EU standards

is also important to non-EU market access as trade agreements may be underpinned by these. This could therefore result in the loss of market access for key markets.

30. In your sector, do you think there would be a difference in the impact on small and medium sized enterprises in comparison to large companies of a change to the EU-UK relationship? If yes, what would it be and why?

31. The impact of a change in the relationship would impact firms of all sizes. EU rules and regulations affect businesses across the whole supply chain. Although not all businesses will be directly involved with exporting, access to the Single Market influences domestic prices. If a future EU/UK relationship created additional barriers to trade the effect of these would be felt greatest by businesses involved with exporting and importing from the EU.

32. What would be important for the Government to consider when revising its anti-dumping and countervailing duties regime and import tariffs?

33. It would be important for the Government to consider the level of support in other countries where production may be heavily subsidised when considering tariffs. These producers would have a price advantage over domestic supply due to increased subsidies, lower levels of regulation, application of science which may currently be banned in the EU e.g. hormone use in beef production and GM in crops, particularly with regards to the environment and animal welfare.

34. What are the potential opportunities and challenges for your sector from leaving the EU in terms of Intellectual Property law (in particular the Unitary Patent/Community Trademarks).

35. AHDB is not able to provide a response to this question.

36. How would you assess the likely impact of Brexit on your access to labour? What percentage of the workers in your industry come from within the EU? Do you expect there to be a difference in the impact of Brexit on high-skilled and low-skilled labour from the EU?

37. The impact of Brexit would have a significant impact on labour if there was no free movement of labour. The agricultural sector and associated food processing sectors are reliant on relatively lower-skilled labour.

38. The seasonal nature of demand and falling unemployment in the UK have resulted in the UK agricultural industry becoming increasingly reliant on a supply of labour from Europe. Employers in the UK agricultural and horticultural sectors, along with those further up the supply chain (i.e. food processors), hire both permanent and seasonal migrant workers. Maintaining this supply of labour is an important factor influencing the competitiveness of the agricultural industry, and the wider economy post-Brexit. It is a major component of the industry's total cost of production. Figures from Defra's agricultural accounts put the value of paid labour at £2.5 billion in 2015, equating to around 14% of total financial inputs.

39. Based on figures from the June Census, the number of regular employees in UK agriculture, excluding seasonal, casual and gang labour, is 115,000. If we include seasonal, casual and gang labour, the total rises to 182,000. If we include farmers, directors and their spouses the figure for employees in agriculture would rise to 476,000.

40. It is challenging to accurately measure the number of these workers who are EU migrants. A good starting point is the Government's official figures provided by the Office for National Statistics (ONS). These show there were more than 22,000 EU-born migrants working in agriculture in 2015. These numbers have increased steadily in recent years, rising 41% since 2011.

41. It is important to highlight these figures are likely to underestimate the true extent of EU and other migrant workers. While they will capture those migrants who have settled in the UK and

are working in permanent roles, these figures will not capture seasonal workers coming to work in the UK for short periods of time. Given this, it is not unreasonable to view the 22,517 EU nationals as accounting for around 20% of the 115,000 regular employees in the sector.

42. Accurate figures for seasonal migrant labour in agriculture are not captured. However, it is clear that EU migrants are likely to be filling the majority of these roles.
43. According to an NFU study in 2015, horticulture was already experiencing labour shortages. Looking ahead, the results of the study also show an anticipated worsening of labour availability by 2018.
44. ONS figures show migrant workers are important in related sectors of the economy. In 2014 migrants accounted for 38% of the workforce in food manufacturing, the highest percentage of any sector. Of these, 14% were recent migrants, again the highest for any industry.
45. Agriculture has one of the highest proportions of hard to fill vacancies. Manufacturing, including food processing businesses, has a similarly high share of such vacancies, with both over 45%.
46. If migration is restricted and no exceptions made for agricultural labour, it seems likely that the industry will go through structural change. By changing the relative cost of factors of production, it could divert businesses into less labour-intensive production systems and change the nature of UK agricultural production. Horticultural businesses would be particularly vulnerable to a reduction in affordable, seasonal labour.
47. Restricted access to migrants would push up wages to attract UK workers and increase costs of production resulting in product being uncompetitive on domestic and export markets. Alternatively further mechanisation of processes could reduce requirements. However, many parts of the sector do not lead themselves to easy automation.
48. Further details can be found in the attached Horizon research report from AHDB entitled '*The impact of Brexit on the UK agricultural workforce*'.
49. ***What proportion of your industry's raw material imports currently come from the EU? How much of your industry's raw material imports are covered by FTAs between the EU and third countries, or by preferential agreements the EU has with African Caribbean Pacific (ACP) states and Least Developed Countries (LDCs)?***
50. The UK is reliant on imports from other nations particularly with regards to machinery, fuel, feed and fertiliser. The attached AHDB research report '*How will Brexit affect the UK's trade outside the EU?*' highlights current patterns of food and drink trade outside the EU. The UK currently imports over £0.5bn of food and drink imports from Sub-Saharan Africa.
51. ***How would trade in agricultural products between the UK and the EU be affected by the UK leaving the EU's common agricultural policy (CAP)?***
52. This would depend on the nature of the support scheme adopted by the UK government and trading relationship with the EU. Many UK farmers are heavily reliant on support through the CAP, particularly, beef and sheep, cereals & oilseeds, potatoes and dairy farmers. The level of support given by the UK government following the exit from CAP would be key in determining farm incomes. Further details can be found in the attached AHDB Horizon research report: '*Agricultural policy models in different parts of the world*'.
53. ***How would the renegotiation of tariff-rate quotas between the UK and the EU in the WTO affect your industry? Which countries would take an interest in this renegotiation and try to influence it?***
54. EU annual Tariff Rate Quotas exist for Australian and New Zealand lamb. In 2015 the UK imported 68,800 tonnes of New Zealand and 13,900 tonnes of Australian product at zero tariff. These two countries are likely to wish to maintain access to the UK market, post-Brexit.

55. For cereals a number of EU TRQ exist. For wheat, just over 307,000 tonnes can be imported from any country at a tariff of \$16 per tonne. An additional 250,000 tonnes can be imported duty-free from Ukraine. A separate TRQ for malting barley enables 51,000 tonnes to be imported at a duty of €8 per tonne. For maize a total of 280,000 tonnes can be imported into the EU duty free from non-EU countries. Ukraine has a separate TRQ and can import up to 400,000 tonnes of maize into the EU duty free each year.
56. Other highly relevant TRQ's include butter and cheese. New Zealand's butter and cheese may enter the EU at 74,693 tonnes for butter and 11,000 tonnes for cheese per annum. In 2014, the UK was the main importer for this butter importing 11,631 tonnes out of the EU total of 50,000 tonnes imported. Other important TRQs exist for beef and sugar.
57. If the UK is no longer able to have access to product via an EU TRQ at tariff free or reduced tariff rate then this is likely to lead to an increase in the UK price as it can no longer benefit from importing at a reduced price.
- 58. *What impact do you expect Brexit will have on the protection of UK geographical indications?***
59. Under the EU quality system, a named food or drink originating either from the EU or from outside the EU, once registered at European level, will be given legal protection against imitation throughout the EU. Any individual food producer or group of food producers can apply for EU protected food names. This is, however, a demanding process as it entails making a detailed and well-argued draft product specification and nomination of an inspection body.
60. To date, there are 77 UK registered products which have a sales value of EUR 1,059 million. 15 applications are still in the pipeline.
61. In principle, non-EU products can benefit from EU protection. Already registered protected food names should be able to benefit from EU protection against imitation provided there is a reciprocal agreement between the UK and the EU. When it comes to future applications, UK products would need to be already protected under a UK protected food name scheme, so as to be able to apply for the EU protection.
62. Once the UK will stop being an EU member, it will no longer be possible for UK protected food names to be promoted in the EU or abroad with the financial support of the EU. However, UK agricultural producers might still see some potential in using EU protected food names as a valuable marketing tool to differentiate their products on the EU/International markets and thus improve their competitiveness and profitability.