

Oxford Farming Conference 2020

Agrifood Trade after Brexit

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Politics Briefing:

9.30-10.45am Wednesday 8th January 2020

Thank you to the organizers of the Oxford Farming Conference for giving me the opportunity to speak in this Politics session.

UK agribusiness faces an unsettled trade environment after the UK leaves the EU on the 31st January at 11pm GMT this year. Talk of ‘cliff edges’; ‘trading on WTO rules’; trade agreement rollovers; threats to food standards and animal welfare requirements from unfair trade agreements fills the media, contributing to a general sense of uncertainty about what the future holds for UK agrifood trade.

In the time available to me today, I want to try and shed some light on what I believe will happen next; what the risks and opportunities are for UK agrifood trade policy going forward; and how all this might affect your business.

1. Agrifood Trade during the transition period: 11.01pm GMT 31st January-31st December 2020

During this transition period, the basis on which UK agribusiness trades with the EU will not change. UK agrifood exports to the EU will not pay tariffs, and the regulatory requirements for things like food, hygiene and animal welfare standards will all stay the same.

UK agribusiness also trades with non-EU countries. Some of this trade currently takes advantage of the terms of approximately 40 trade agreements negotiated by the EU: trade with 10 of the UK’s top 50 export markets is covered by EU trade agreements.

After the 31st January, UK agribusiness *should* still be able to take advantage of these EU trade agreements during the transition period. I will say more about what happens with these agreements after the transition period in a moment. I say that UK agribusiness *should* be able to take advantage of these trade agreements quite deliberately. Technically, these agreements stop applying to the UK on the 31st January, but the EU has agreed that the UK can continue benefitting from these agreements until the end of the transition period, and has notified its trading partners accordingly. The EU cannot force these countries to give the UK access to these agreements.

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In July 2018, Liam Fox announced these countries had agreed to allow the UK to continue benefitting from these agreements, but it's worth saying that this consent can be withdrawn at any time. If your business takes advantage of these EU trade agreements, it's a good idea to monitor these countries' position on this point, especially if the transition arrangements are extended despite the terms of the new EU Withdrawal Bill.

2. Agrifood trade after transition: 31st December 2020-

EU-UK trade

The UK must negotiate a trade agreement with the EU that comes into force by 31st December 2020 to avoid 'trading on WTO rules' with the EU. The revised Political Declaration provides that the EU and UK will negotiate a free trade agreement (not a customs union). This FTA aims to provide tariff free trade in goods to include agricultural products; the UK and EU would set their own regulatory standards, but the agreement envisages some kind of regulatory co-operation to avoid unnecessary barriers to trade. Customs checks may still occur, but both parties stress they are aiming to use new technology to make these checks as easy as possible so goods are not unduly delayed at the borders: this aspect of the FTA is obviously critical for agricultural trade.

How fast the EU-UK trade deal can be done depends on how contentious the issues are, so it's difficult to predict whether a deal can be reached and brought into law in time. Some trade negotiators say trade agreements can take about 2-3 years to negotiate. These agreements tend to be ones that focus on commitments on goods and some agreement on mutual recognition of standards. More complex trade agreements have taken longer to negotiate. For example, the EU-Canada agreement took seven years to negotiate, and some agreements like the Transatlantic Trade and Investment Partnership between the EU and the USA (TTIP) could not be concluded at all. The EU and UK are in a unique position because frictionless trade already exists, **but every trade negotiation is hard**. I would point out too that Greenland's exit from the EU took 3 years to negotiate on a single issue - fishing.

If the EU and UK do not reach agreement by 31st December, then if your business **exports** to the EU, you will pay the EU's WTO tariff rates (which are high for agriculture), and you must still meet all the EU's food, hygiene and animal welfare standards. The position for goods crossing the Irish border is different, but in all other circumstances there will be customs checks on goods exported to the EU from the UK. Some UK agricultural goods would be eligible to access the EU at lower tariffs through the EU's tariff quotas, although access through these would be limited. UK businesses would be competing with other exporters for access to these quotas.

If your business **imports goods**, the situation is a bit different. As part of the government's No-Deal planning, the UK will bring in a temporary tariff regime if a trade deal cannot be reached between the UK and EU. I should add here that the WTO compatibility of this temporary regime is questionable, and some WTO members may object to it. If it comes in, the temporary tariff regime will apply to all imported goods, irrespective of origin, subject to some exceptions, including trade across the Irish border. The Withdrawal Agreement's arrangements will apply there instead.

As has been widely reported, under the TTR all UK tariffs on the majority of imported goods will be removed (and some quotas introduced), although tariffs on beef, lamb, pork, poultry and some dairy products will be retained. In the short term, the UK will still have the EU's regulatory standards, with the result that all agrifood imports must meet these standards in order to be imported into the UK.

UK trade with non-EU countries

The UK has already reached agreement with 50 countries to rollover the terms of their trade agreements with the EU, so their terms can apply to the UK too after the end of the transition period. Canada and Japan, with which the EU has comprehensive trade agreements that include agriculture, have yet to agree to roll over the terms of those agreements, primarily because their markets are similar size to that of the UK and those countries believe they can secure a more advantageous deal with the UK. The UK and Japan have signed an 'exchange of letters' keeping the current arrangements in place, but these are not legally enforceable, and the situation might change.

3. Risks and Opportunities for UK agrifood trade

Risks?

- i. **To be effective in trade negotiations, the UK needs to align its domestic policy priorities with its international trade ambitions.** Agricultural policy is devolved in the UK, but trade policy is not. Domestic agrifood policy flexibility seems to be squeezed between the negotiating objectives of both the US and EU trade agreements. Whilst there are advantages to UK agribusiness of an agreement with both the USA and the EU, it is not entirely clear yet how the US and EU's different regulatory regimes will fit with domestic agricultural policy in England and the devolved nations going forward. To be an effective, the UK must align its international trade ambitions with its domestic priorities. Trade-offs between sectors to secure 'the best deal' are an inevitable part of trade negotiations, however.
- ii. **Trade negotiations involve many countries, not only the two (or more) countries that are hoping to conclude an agreement.**
The UK is a member of the WTO and so must abide by its rules. The WTO rules enable major exporters to negotiate 'compensation' if any of the UK's

new trade deals compromise these exporters' own trade flows. There have already been objections by 20 countries, including major agrifood exporters, Russia, Brazil, and the USA at the WTO over the EU-UK proposed tariff quota split and the EU's so-called 'amber box' subsidy allocation.

iii. **Trade regulation does not stop at the border.**

The UK is an independent member of the WTO and so its rules apply to the UK. WTO rules also regulate domestic policies, for example, financial support paid to farmers. Whilst the UK government intends to replace the current EU Direct Payments with 'public money for public goods', such payments must still comply with WTO rules, specifically, those in the WTO Agreement on Agriculture. For the trade nerds in the audience this means that just because a farm payment is given for environmental purposes, does not make it automatically compatible with the 'Green Box'.

iv. **'Trading on WTO rules' could be problematic.**

Without an EU-UK trade deal and if trade deals with many other key non-EU countries remain unfinished, the UK faces an uncertain future. Whilst 'trading on WTO rules' is an option at the moment, the WTO is undergoing 'headwinds' of its own, as its dispute settlement appeals process remains stymied by President Trump's opposition to the appointment of new Appellate Body members. The WTO system remains strong for now, but the US-China trade war is challenging the organisation's rules.

Opportunities?

i. **The UK is not going to head off into the trade equivalent of the Wild**

West, where anything goes unless the UK negotiates meaningful trade agreements. Subject to what I said about potential WTO headwinds, WTO rules govern the maximum tariffs on goods (including food, feed and drink) its members levy; and in some cases, there is the possibility to export agricultural products to a WTO member at a lower tariff than the set maximum (i.e. the MFN tariff) even without a trade agreement in place. WTO members cannot discriminate between domestically produced goods and imported goods, nor can they offer better terms of trade to one WTO member over another, other than in accordance with the rules. The WTO rules provide a baseline for your business if there is no relevant trade agreement with the country you want to export to.

ii. **WTO rules do not stop countries adopting policies designed to protect the natural environment, that guarantee animal welfare, good quality healthy food and strong food safety standards.**

WTO rules instead affect the way these policies are implemented. WTO members can refuse to import goods on if those goods fail to meet specific regulatory standards, including animal welfare, food safety and environmental standards.

iii. **Trade agreements do not only eliminate tariffs.** Trade agreements can help meet important domestic priorities, like the shift to ecological and sustainable agrifood production methods to combat climate change. They can be used to

guarantee food safety and food quality standards beyond those in the WTO, together with animal welfare standards; they can embed net carbon emissions targets and meet the other requirements in the UK government's proposed Agriculture and Environment Bills e.g. the EU-Canada trade agreement covers competition policy that could be used to govern issues with fairness in agrifood supply chains. That agreement also contains a chapter on trade and sustainable development. Of course, both parties to any trade agreement must be willing to negotiate such a comprehensive deal.

The UK has opportunities to be a thought-leader in trade if it explores the full potential of trade agreements to meet these key challenges of the twenty-first century.

In conclusion: the way UK farmers, and the food, feed and drink industry trade will change, but I think there are opportunities for the UK to provide global leadership in agrifood trade by entering into trade agreements that support the production of high quality healthy food, for healthy people and a healthy planet.

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