

# **National Farmers' Union – Written Evidence (AUT0007)**

## **Introduction**

1. The NFU welcomes the opportunity to provide evidence on the UK-Australia negotiations. The NFU wants to see an international trade outcome that supports farmers to grow their businesses and to grow food for Britain and beyond. To do so, the government must take a bold but composed approach during trade negotiations with partners like Australia. This approach must ensure that British farmers can continue to produce food to the current high standards of which they are proud; ensure they can do so on a level-playing field with producers elsewhere in the world; and maintains access to current markets for domestic produce, while growing demand at home and abroad.
2. In this context the NFU aims to provide the committee with an overview of what we believe the key issues will be for agriculture in these trade negotiations. We would be happy to provide supplementary evidence as the negotiations progress, or orally to the committee.

## **General comments**

3. Trade is fundamental to farming, the value chain it services, and the consumers who buy our products. Along with growing the domestic market developing new markets abroad is essential for the future of agriculture. To achieve this ambition, the government must understand both the offensive and defensive interests when engaging in trade negotiations. Liberalising trade through a reduction in tariffs with third countries may bring benefits for the UK economy, including the creation of some opportunities for British agri-food exports. However, any FTA concluded will also increase market access for those countries to the UK, thus increasing competition for UK businesses. Any agreement concluded must be balanced, must encompass the whole agri-food value chain, and must put adequate measures or safeguards in place to respect domestic production standards and for those sectors deemed as sensitive. This could include significant periods of adjustment for market access concessions, specific safeguard clauses to ensure action can be taken to avoid damaging price falls for domestic producers and adequate financial support to help any farmers affected by trade deals to adjust .
4. Australia represents a market of almost 24 million inhabitants, compared to the UK population of 65.6million people and at present trade between both parties is well balanced. The value of UK food,

feed and drink exports in 2017 was £410million and imports £423million (HMRC data). However, the structural gap between markets means that there is potential for this modest trade deficit to widen, to the detriment of the UK.

5. Liberalising trade through a reduction in tariffs with third countries like Australia may bring benefits for the UK economy, although the DIT scoping assessment<sup>1</sup> that accompanied the UK mandate estimated that GDP would increase at most by a very modest 0.02% (full tariff reduction and 50% of non tariff barriers addressed). This is equivalent to £200 - £500m for the UK economy. The DIT modelling finds that in this scenario imports from Australia would be expected to increase by 83.2%, primarily in sectors where Australia producers possess the comparative advantage, for example semi-processed foods and agriculture.
6. The NFU's priority remains to secure a close and comprehensive relationship with our principle trading partner, the EU. Nothing should be agreed with other trading partners which could preclude the UK from securing an FTA with the EU which offers free and as frictionless trade as possible. We therefore believe that discussions about the EU and UK future relationship should be concluded first, before completing trade negotiations with other trade partners.
7. Alongside Australia, the UK is currently negotiating trade agreements with the EU, US, New Zealand, and is working on securing the so-called trade continuity agreements, which seek to roll over existing EU FTAs. It has also just concluded an FTA with Japan to replace the EU-Japan EPA which we are currently party to. A number of these partners, including the EU, the US and New Zealand, are prolific and competitive global agricultural producers and exporters. The NFU is concerned that although market access concessions granted may look small across each of these negotiations individually, cumulatively it may amount to a significant liberalisation of the UK market. It is vital the government assesses the cumulative impact of all market access offers currently being considered.

## **Trade and standards**

8. The NFU believes that to enable and support a thriving British agriculture sector it is crucial that the UK's future trade policy respects domestic production standards. To do otherwise would

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<sup>1</sup> <https://www.gov.uk/government/publications/uks-approach-to-negotiating-a-free-trade-agreement-with-australia/uk-australia-free-trade-agreement-the-uks-strategic-approach#chapter-4-scoping-assessment-for-a-bilateral-free-trade-agreement-between-the-united-kingdom-and-australia>

contradict the government's own stated commitment to upholding our high animal welfare and environmental standards and would undermine British farmers. This principle is something which should be upheld in every FTA negotiated by the UK Government.

9. UK farmers and growers are proud of their high standards of production – whether in terms of food safety, environmental protection or animal welfare and indeed many other factors of operation. Many of these standards are underpinned by law, but these regulatory requirements often result in comparatively high costs of production for UK farm businesses. Often, global competitors have less stringent requirements, giving them a competitive advantage over UK producers, through production methods that fall below the expectations of the UK public. It is important that UK farmers are not put at an unfair disadvantage through the imposition of extra costs, both direct and indirect, that are not shared by overseas competitors who are exporting food to the UK. Equally, recent analysis by the consumer group Which? demonstrates that UK consumers have a clear desire that food imports adhere to the same high standards as UK producers. The research found that most people in the UK would feel uncomfortable eating food produced using methods not currently in the UK, with nearly three quarters (72%) saying that food from countries with lower standards should not be available here<sup>2</sup>.
10. The government set out in its negotiating mandates for Australia very clear parameters for trade talks; including a commitment not to undermine our high environmental protection, animal welfare and food standards. To have this embedded from the outset of the talks is critical and is an important factor in ensuring that these trade deals work for both UK farmers and consumers. The government also acknowledges that any liberalization of the UK's import tariffs must consider the sensitivities of UK agriculture, which will provide further reassurance to UK farmers. Nevertheless, with formal talks underway, there is no doubt that UK negotiators will come under significant pressure to find ways of allowing greater access for Australian agrifood goods, many of which may have been produced in ways that would be illegal in the UK. Our negotiators, therefore, must ensure that that this pledge made in the UK mandates remain forefront in their minds and that it is translated into specific commitments in the draft legal texts.
11. The NFU welcomes the recent establishment of a Trade and Agriculture Standards Commission and awaits its recommendations to government and Parliament on the policy strategy needed to ensure balanced, reciprocal and fair deals with trading partners

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<sup>2</sup> <https://www.which.co.uk/policy/eu-exit/5462/tradeconsumerdeals>

around the world that uphold UK standards of production. The NFU continues to seek demonstratable assurances that future trade policy decisions will not result in a flood of sub-standard imports on to the UK market. Given the high impact that trade agreements invariably have on consumers and the economy, including primary producers, the negotiation and ratification of trade agreements should be subject to a high level of democratic scrutiny and accountability at all stages.

### **Accession to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)**

12. As the committee notes the UK Government has expressed strong interest to use a UK – Australia FTA as a stepping stone to joining the CPTPP. While the NFU supports the multi-lateral phased reduction of average tariff levels for agricultural products, notwithstanding the issue of production standards mentioned above, we believe that the protection of sensitive goods on a global market should be a priority when negotiating trade deals. As such, CPTPP includes major agricultural exporting countries who already enjoy preferential access to the UK market in the form of Tariff Rate Quotas (TRQs) for certain key commodities – these include beef, sheep meat, sugar and certain dairy products. This preferential access is provided for in the UK WTO schedule and will be maintained. As a result, the NFU is concerned that in becoming a partner in the CPTPP, the UK Government will be asked to increase market access for sensitive agricultural products.
13. UK agricultural producers could benefit from increased access to the CPTPP market. Areas in which there is potential to expand exports of high-quality UK produce include the beef, sheep and dairy sectors. However, further exploratory work of the potential benefit gained from exporting to these markets through joining the CPTPP would need to be undertaken in order to give a comprehensive overview of the potential for UK agricultural exports.

### **Parliamentary scrutiny and stakeholder engagement**

14. Parliament should be given an active and formal role, significantly more than is currently provided for by under UK constitutional arrangements through the Constitutional Reform and Governance Act 2010 (CRAG). At present, MPs are not guaranteed a vote on the final form of any trade agreements signed by the UK with other countries and so may not be able to exercise any influence should there be concerns about the impact of these deals on their constituents. This makes the UK an outlier compared to

most countries around the world, and in particular those with which it is currently negotiating trade deals.

15. The NFU believes that Parliament should be given formal powers with respect to mandating, negotiating and approving future trade agreements. This should include a requirement for parliamentary approval of both the UK's negotiating mandate, without which the government would be unable to start formal negotiations, and the final text of any agreement, without which it would not come into force. Formal mechanisms to allow Parliament to remain updated during negotiations and to express any concerns (or indeed approval) with the progress of those negotiations should also be established. This could include arrangements to allow the executive to share sensitive information with Parliament in confidence if necessary. The NFU believes this approach would improve democratic accountability for UK trade policy, while allowing freedom and flexibility to the executive in negotiating the details of individual trade agreements. Given talks are already underway with a number of trade partners, including Australia, specific consideration will have to be given to providing effective scrutiny of these negotiations.
16. The government has a manifesto commitment to have 80% of trade covered by Free Trade Agreements (FTAs) within three years. These FTAs will have a huge potential impact on local economies and communities across the UK, for better or for worse. There seems little convincing argument to retain the weak and obscure arrangements under the CRAG, and a number of Parliamentary select committees have examined the issue recently and concluded the process for scrutinising trade deals is in need of reform<sup>3</sup>. The NFU believes new and clear arrangements that improve Parliamentary oversight and democratic accountability are critical as we "take back control" of our independent trade policy.
17. Whilst the UK government is responsible for international relations and treaty making, the devolved administrations and legislatures are likely to have at least some responsibility for the application, administration and oversight of the obligations that trade agreements give rise to. It is NFU Cymru's view that the Welsh Government and the National Assembly ought to have an appropriate degree of involvement by being sighted of relevant documents ahead of such agreements being entered into, as well as

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<sup>3</sup> House of Commons International Trade Committee, [UK trade policy transparency and scrutiny](#)

House of Lords Constitution Committee Report, [Parliamentary Scrutiny of Committees](#)

House of Lords EU Committee, [Treaty Scrutiny working practices](#)

House of Lords EU Committee, [Scrutiny of international agreements lessons learned](#)

the development and approval of implementing legislation which underpins concluded trade agreements. NFU Cymru also advocates a role for Welsh Government and the National Assembly for Wales in developing the UK's negotiating mandate, and the scrutiny of trade negotiations. By extension, this approach should be reflected across the constituent parts of the UK.

18. Stakeholders should also be actively consulted and kept abreast of developments prior to the commencement of, and throughout, any negotiations. The NFU has welcomed the opportunity for a representative to apply join the DIT Strategic Trade Advisory Group (STAG) and has a place on the Agri-Food Trade Advisory Group (TAG). We will need to assess in the weeks ahead whether this structure provides sufficient opportunity for industry to scrutinise and feed into negotiations. We would welcome further details from government on its plans to keep stakeholders informed as trade talks progress, including under what circumstances government can withhold the publication of relevant documents, and the governance structures that are established to ensure organisations representing relevant interests are properly involved.

### **Key offensive interests for UK agriculture in UK-Australia negotiations**

19. In agricultural terms, Australia is one of the major global players and as such represents direct competition for UK agricultural producers. As a result, there are limited opportunities for UK agri-food exports in Australia. Transport costs effectively reduce the price competitiveness of UK exports to Australia; it is this rather than the headline Australian tariffs which act as a barrier to market access. Currently in Australia 76.8%<sup>4</sup> of tariff lines for agricultural product are set at zero. The UK Government should look to secure the reduction of the remaining tariffs where they exist.
20. **Dairy** - There is potential for the UK dairy industry to export more premium cheese, especially high-end Cheddars, to Australia. Although the volume opportunity is small it could be at high price. Tariffs on Cheddar are typically 1.22AU\$/ kg (£0.67/kg), so securing elimination of this duty must be a priority for UK negotiators.
21. **Pork** - There is also opportunity for UK exports of pigmeat but for this to be realised UK negotiators must seek to address the complex non-tariff barriers in place on pork imports to Australia. Citing Porcine Reproductive and Respiratory Syndrome (PRRS)

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<sup>4</sup> [https://www.wto.org/english/res\\_e/statis\\_e/daily\\_update\\_e/tariff\\_profiles/AU\\_E.pdf](https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/AU_E.pdf)

concerns Australia has a strict import regime for pig meat, including specific requirements for the heat treatment and deboning of meat. For some products heat treatment would need to be carried out within Australia, e.g. for certain products containing bones. Uncooked pig meat may only be imported from Canada and New Zealand. Denmark, is presently able to export uncooked, de-boned pig meat to Australia, on the condition that the meat is heat treated before release on the market. As a result of these conditions, there are no live pig imports allowed including pig semen and frozen embryos –an important export market in pigs, where we are exporting high quality genetics around the world. Given how unproductive the Australian pig herd is, there is opportunity to try and address this unjust restriction. Australia also permits the use of growth promoters such as ractopamine which are banned in the UK, but which has allowed the USA and Canada to become major exporters to Australia. Instead, UK market opportunities lie in the export of premium products, such as outdoor bred, as opposed to basic commodity products.

22. **Geographical Indications (GIs)** - The NFU supports maintaining a system that protects current GIs and develops new ones, ensuring strong protection in third countries when trade agreements are negotiated. The issue of GI protection is a sticking point in the negotiations between the EU and Australia, so we would anticipate Australia would likely take a similar view in a UK only context. The UK has a number of GIs on agricultural products and ensuring they receive protection in any future trade deal must be a priority for the government.

### **Key Defensive interests of UK agriculture in UK – Australia negotiations**

23. Australia already enjoys preferential access to the UK market through a series of Tariff Rate Quotas (TRQs) held at WTO level for key commodities including beef, sheep meat and sugar. The UK has already replicated this access in the UK goods schedule it filed in Geneva in July 2018 – albeit adjusting volumes based on historical use in a UK only context.
24. It is worth noting that in “normal” (pre Covid) circumstances, consumers spend on eating out is almost equal to that spent on food and drink in grocery retail and in 2019 the sector was worth £81.1bn to the UK economy<sup>5</sup>. Although volumes are smaller, higher ticket prices add value and tight margins mean there is greater

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[https://projectblue.blob.core.windows.net/media/Default/Consumer%20and%20Retail%20Insight%20Images/Reports/FoodServiceReview20192976\\_191118\\_WEB2.pdf](https://projectblue.blob.core.windows.net/media/Default/Consumer%20and%20Retail%20Insight%20Images/Reports/FoodServiceReview20192976_191118_WEB2.pdf)

incentive to use cheaper raw materials. As such, market insight suggests that whilst Australian imports may not directly land on UK retail shelves, they are much more likely to be destined for the food service or manufacturing sectors. Within the food service sector there is little to no visibility on the country of origin for the consumer at the point of consumption, although there is mandatory food labelling in B2B transactions. For example, for a business selling fresh chicken there is mandatory country of origin labelling of the primary ingredient if sold within retail. However, if the chicken is to be cooked within a school or hospital there is no "point of consumption" origin labelling of the primary ingredient, only labelling of the primary ingredient when it enters the food manufacturing facility. Origin would not necessarily be transferred onto the pack of the finished product.

25. **Sheep meat** - We know that Australia would like to increase volumes of sheep meat into the UK market. They consistently fill the WTO TRQ they hold for import into the EU and a large proportion of this volume is destined for the UK. The Australian's generally produce larger carcasses which are grain fed in feed lots, which contrasts with our largely extensive grass-based systems. The Australian product would be highly competitive on the UK market due to lower cost of production. The AHDB calculates the AUS cost of production at \$188 /100kg lamb liveweight verses \$419/100kg liveweight (UK lowland). This is because of several factors, including land, fuel and labour cost alongside much lower breeding costs which are around a third of that borne by the typical British farmer<sup>6</sup>. The NFU believes that sheep meat should be treated as sensitive in the negotiations with Australia. However, there is also an opportunity for collaboration. Australia has the potential to act as a hub from where UK producers can reach Asian markets. The UK and Australia should look to work together in accessing these markets in a way which would make the most of opposing seasonality in production cycles, hence ensuring year round supply for customers.

26. **Beef** - We expect the Australians to be very offensive in seeking access for beef on the UK market. Australia is one of the world's largest producers of beef and exports about 1 million tons, mainly to the Asian countries and the United States. Current exports to the EU (and hence UK) are facilitated by the quotas held at WTO level. In this regard Australia is a major user of the quota granted by the EU for grain fed high quality beef in compensation for the ban on hormones. In a similar way to lamb, Australian beef

has a much lower cost of production than is borne by UK producers and would be highly competitive on the UK market, in part this is due to the use of hormone growth promoters and the feedlots systems. The NFU believes beef should be given sensitive status in these negotiations.

27. **Crop production** - Australia is also a very competitive crop producer and compared to the UK, farmers in Australia have access to a larger crop protection toolbox - including active ingredients and biotech - when managing pests, weeds and diseases in their crops. The NFU has long voiced its disagreement with what it sees as the EU's overly precautionary and bureaucratic system for regulating plant protection products (PPPs), believing the system should be driven by the science and be risk-based rather than hazard-based. The current government has talked about championing innovation and bioscience, with an aspiration that the UK is a world-leader. This fits with the NFU's long-held view that the challenges faced by the farming sector, society and environment need the best science to be turned into innovative solutions, improved practices, and new technologies. However, the size of opportunity for any regulatory reform will largely depend on the outcome of the EU - UK negotiations, hence these should be concluded before any deal is agreed with other partners. UK crop production (arable, horticulture and sugar industry) delivers a high regulatory baseline e.g. the professionalism of pesticide use, protecting water, minimising contaminants and providing full traceability from the farm to the finished product; but this comes at cost. It is unfair to ask UK farmers to comply with this high regulatory baseline, whilst competing with imports grown using technologies that are banned here.
28. For example, since the ban on using neonicotinoid seed treatments the UK has lost its net export status and has become a net importer of Oilseed Rape (OSR). This is due to UK farmers inability to control Cabbage Stem Flea Beetle (a pest which eats OSR and limits yield) and this year the UK is expected to import half of its OSR requirement. Although trade can be sporadic in the 2016/17 marketing year the UK imported 120,000 tonnes of OSR from Australia which would likely been grown using the same neonicotinoid seed treatments which UK farmers are banned from using. These Australian imports undercut UK prices putting further pressure on farm margins.
29. **Sugar** - Australia is a major sugar exporter to the world market, and Australian sugar currently has reduced-tariff access to the UK via several TRQs held at WTO level. They would also have access to the UK market via the new Autonomous TRQ which is

proposed for raw sugar in the new UK Global Tariff. Australia is one of the most competitive sugar producers in the world and is the third largest world sugar exporter after Brazil and Thailand. There are over 25 active substances permitted for use on sugarcane in Australia that are illegal for any use in the UK. These include products such as Paraquat that have been banned in the UK the grounds of environmental impacts. The UK homegrown sugar industry is the third lowest cost sugar producer in the world , but growers in the UK cannot compete on the same terms as sugar growers elsewhere who have access to state support or technologies that are illegal in the UK. We would therefore want to see in any UK – Australia FTA how the government would provide a level playing field for UK farmers with their Australian arable farming counterparts.

**18 September 2020**