Keeping the cost of food and drink in check will be the UK Government's number one priority as a no-deal Brexit kicks in.

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As the Brexit shambles in Westminster continues, some insights into the UK Government's thinking around food and farming emerged just before our MPs were to vote on a "No Deal" on 13th March. Announcing the UK's applied tariff regime for the first 12 months after Brexit the UK Government said it was "*designed to minimise costs to business and consumers while protecting vulnerable industries*". As we come out of the EU trade club under Brexit there has been much head scratching at Westminster to come up with something that keeps food price inflation in check yet somehow protects agriculture.

One of the ways the EU protects its farmers through import tariffs – an entry tax that imported products have to pay to come into the EU market. The EU has placed significant tariffs on most agri-food products which, alongside rules about standards that imported products must adhere to, provide a massive hurdle for cheap food producers (think Australian, Argentinian, Brazilian beef). The EU club is not fully closed to outsiders as there are a number of arrangements in place that provide preferential market access to some products from some countries. Most know that New Zealand have free access to the EU market for up to 228,000t of sheep meat. Lesser known is that global beef producers can access the lucrative EU beef market tariff free for about 67,000 tonnes of "high quality beef"; have reduced tariffs for 45,000t of non-hormone grain feed beef; whilst beef from Canada and Ukraine have further zero-rated access. It is not as much of a free-for-all as you may expect though, as all exporters have to comply with exacting EU standards and regulations – just as we do.

Getting your head around tariffs is complex as every product has its own tariff rate, often as a percent of product value, but often with a fixed fee per 100kg, meaning exchange rates become important. For example, for fresh or chilled boneless beef (the most important UK exports to the EU for 2018) the EU tariff would have been 12.8% of value (termed *ad valorem*) plus a fixed €3.034/kg – an effective tariff rate of 65% of product value. For sheepmeat the most common export to the EU is fresh or chilled lamb carcases and half carcases which have an EU tariff of 12.8% of value plus €1.713/kg - an effective tariff of 76% of product value. Unfortunately these are the kind of tariffs that UK exporters would face under a no deal Brexit. The likelihood is nearly all of that extra cost would be pushed back to the farmgate –significantly restricting our ability to export to the EU. These additional costs are also of a size that a further fall in Sterling against the Euro is unlikely to be large enough to offset. Potentially lower priced markets would be sought where possible e.g. North Africa for lamb.

This leads me back to the 13th of March announcement. The UK has informed the WTO that its "bound tariff" rates are identical to the EU – that is the maximum tariff the UK could apply to any product is the same as the EU. The announcement on the 13th March, however, related to the tariff rate that the UK Government will "apply" for 12 months after Brexit. The UK has chosen to reduce or remove protection for most agri-food products coming into the UK – a calculated action to make sure there is limited post-Brexit food price inflation (after all, there are 66 million consumers, 47 million voters and only 200,000 farmers - one farmer for every 330 citizens).

It is incredibly complex to work out the ramifications of this decision as the UK also has zero or reduced rate tariff quotas, exchange rates will come into play and changes to the make–up of imports and exports will affect markets. The UK has placed tariffs on some products that we normally source from the EU (beef, cheese, pork, etc.) meaning higher cost EU product could lead to wins for British farmers. However, global markets will be more competitive in the UK and will create a ceiling on price gains (i.e. if beef prices rose significantly then the tariff barrier is less of a hurdle for low cost producers – and we know Mr Trump and his pals across the pond would dearly love us to take some of their hormone beef).

There was also an announcement that the UK would not apply tariffs on product between Northern Ireland and the Republic of Ireland leading some to question how this would not simply become a smuggling route for product into the rest of the UK. A quick summary of the announced UK tariffs for key sectors include:

- **Cereals:** there will be <u>no protection for farmers</u> from EU and worldwide imports of wheat, barley, maize meaning UK prices may be squeezed downwards at times of low global prices. Barley exporters to the EU would be faced with €93/t tariff whilst wheat flour would be faced with €172/t and malt €131/t. Oilseeds are unaffected as they are already at zero tariff.
- **Fruit and Veg:** there will be <u>no protection for UK producers</u> (other than green beans) and anyone exporting will be faced with EU tariffs.
- **Potatoes**: Imports of potatoes into the UK will have <u>zero tariffs applied</u>. Most of our trade is with the EU and their tariffs are relatively modest, although it will add cost to UK potatoes exports. For example, EU seed potato imports have a 4.5% tariff with new potatoes (May to June) have a 13.4% tariff. Not-tariff barriers such as plant health would be the main initial barrier to UK seed potato exports to the EU.
- **Sheepmeat**: UK farmers would be <u>protected to the same extent as EU</u>. Importantly, UK exports of sheepmeat into the EU would be faced with significant tariffs under a no deal Brexit whilst New Zealand (up to 114,000t) and Australian lamb (up to 15,000t) can still enter the UK tariff free. The likelihood is UK lamb becomes uncompetitive in the EU market and with over-supply in the UK prices will fall. However, NZ lamb will still likely have a market due to carcase balance and seasonality issues (we export carcases to the EU and import a lot of legs from New Zealand).
- **Beef**: The UK is a significant net importer of beef but <u>some protection has been announced</u> for the sector. In 2018 AHDB estimate we imported 340,000t tariff free from the EU (mostly from Ireland), 30,000t at reduced tariff (20%) and 10,000t at full EU tariff rate. The UK has announced that it will allow 230,000t to enter tariff free on a first-come-first-served basis to anyone meeting our standards. This will be for the first 12 months after Brexit in addition to 55,000t pre-existing tariff quota – at 20% level- that the UK agreed to take. AHDB estimate that leaves 95,000t of beef imports that would face full UK tariffs - that are about half the EU rate. For example, the UK tariff for fresh of chilled boneless beef would be 6.8% of value plus €1.601/kg compared to 12.8% of value plus €3.034/kg in the E). Beef and beef product

exports to the EU (estimated by AHDB to be an average of 127,000t between 2013-17) would likely become uncompetitive due to the EU tariffs. This may mean that much of this product remains in the UK and offsets the imports that would likely need to come in to the UK at full tariff rate – so no upturn in price? This is a situation the Irish are monitoring very closely - with much of their beef industry reliant on the UK market if other countries can supply cheaper beef, and meet our standards it could lead to a beef sector crisis in Ireland.

- **Pork:** Most pig meat products coming into the UK will have to pay tariffs – albeit at a much lower level than the EU affords its producers. For example, salted bacon UK tariffs would be €0.09/kg compared to the EU rate of €0.687/kg. Again, UK exporters will be faced with more significant tariffs than imported product. Whilst there may be some opportunity for increased domestic market penetration there remains an issue over carcase balance (UK consumer is picky) and the cull sow trade to Germany is important.
- **Dairy:** Other than some cheese and dairy fats the UK will have zero tariffs on dairy products. This means the dairy sector remains exposed to EU product and also global suppliers now. For the products that the UK have included some tariff protection the level of protection is much lower than the EU afford (simply as the EU supplies most of our dairy imports). For example, UK cheddar exports going to the EU would face tariffs of €1.671/kg whereas imports into the UK only have a €0.221/kg tariff.

Meanwhile the Irish Agricultural Minister, Michael Creed, has promised a "substantial" aid package if they suffer losses as a result of the UK's new tariffs on beef. These could come in the form of grants, intervention and private storage aid. The UK Government and Scottish Governments have also been considering similar interventions, specifically for the UK sheep sector in the result of a no-deal Brexit, and full EU tariffs for lamb.

Some folk ask me why we cannot just keep things the way they are? That, ultimately is what Theresa May's "deal" (or "remain" in the EU) would allow – a period of *status quo* as negotiations around a future Free Trade Agreement take place. It should be noted here that this 'Implementation Period' would also provide time to make the necessary administrative changes to enable a smooth exit, such as UK abattoirs, cutting plants and cold stores receiving EU market access approval; UK product and packaging labels to be adjusted; and for any new customs procedures to be put in place. It is clear that both EU and UK politicians want a close trading relationship in the future, but in the event of a "no deal" Brexit we would no longer be able to freely access each other's markets on preferential terms due to World Trade Organisation (WTO) principles.