



UK-Australia Free Trade Negotiations: An Agri-food Sector Perspective



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UK Prime Minister Boris Johnson and Australian Prime Minister Scott Morrison concluded negotiations on the broad terms of a free trade agreement (FTA) at a meeting in London on Monday, 14 June. Negotiations between the two countries on the details will continue over the coming months. To put this in context, a central Brexit objective was and continues to be "Global Britain", and the trade deal with Australia will be the first significant post-Brexit trade deal that is not a rollover of existing agreements that the UK enjoyed as a member of the EU. Trade negotiations with New Zealand, launched in June 2020, are on-going. An early trade deal with the US is off the agenda, and Johnson was recently forced to abandon a visit to India to discuss the opening of trade negotiations.

Within the UK government significant differences are reported between the proponents of "free trade" led by the Prime Minister and International Trade Secretary Liz Truss, and the Minister for Department of Environment, Food and Rural Affairs, George Eustice, who is seeking to defend UK farming interests, and Chancellor Michael Gove, who is concerned about the political implications in Scotland and Wales.

The UK Prime Minister can be expected to sell a UK trade deal as a major justification for Brexit, although the Department of International Trade has estimated that the value of such a deal would boost UK GDP by only 0.1% - 0.2% over 15 years. To put the deal in perspective, the UK exported £4.5 billion of goods to Australia in the year to March 2021, compared with £139 billion to the EU and £45 billion to the US. The UK also exported £5.4 billion of services to Australia, but the combined export of goods and services accounted for only 1.7% of UK exports. Australian goods and services accounted for less than 1% of UK imports in 2020.

The broad terms UK-Australia FTA will be based on a "zero-tariff-zero-quota" model. An FTA with Australia would offer a template for further FTA's by the UK, including with New Zealand, with the US, and with Brazil and other South American countries in the longer-term. Australia is a founding member of the Trans-Pacific Partnership, and the UK has sought to participate in its trade agreement known as the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership). This consists of 11 countries including Canada, Japan, Australia, New Zealand, Mexico, Malaysia and Chile. Trade Secretary Truss recently announced that the accession process to the CPTPP has begun.

This brief analysis examines the main potential implications for the GB beef and lamb sectors. Australia is a major global exporter in these sectors, but current UK import tariffs (very similar in magnitude to EU import tariffs) are relatively high, and current imports from Australia are dependent on tariff rate quotas (TRQ's). It also comments on the potential implications for Irish exports of beef and lamb.

Relevant Issues in the Beef and Lamb Sectors

The following sets out the current EU import tariff levels for the basic beef and lamb products (applying to imports into the UK up to the end of 2020), an indication of the effective tariff rates relative to "world market" prices, and the current UK Global Tariff rates applying since 1st January 2021. (The world market price is from published data by the UK Agricultural and Horticultural Development Board and relates to the years 2016–2018).

EU Common Tariffs and Current UK Import Tariffs (per tonne)

Product	EU Common Tariff	Effective Tariff	UK Global Tariff
Beef carcasses, fresh/chilled	12.8% + €1,768	70%	12% + £1,470
Beef carcasses, frozen	12.8% + €3,041	120%	12% + £2,540
Lamb carcasses, fresh/chilled	12.8% + €2,277	76%	12% + £1,860
Lamb carcasses, frozen	12.8% + €1,675	46%	12% + £1,400

The table shows firstly that the UK Global Tariff is very similar in size to the EU common customs tariff, and secondly, that the effective tariff rates are very high for beef and lamb.

Over recent decades Australia and some other traditional exporting countries have had a certain amount of access to the EU market under the EU tariff rate quota system, and this continues post-Brexit. The EU and UK have agreed the future share-out of the country-specific quotas. In the case of beef, relatively small quotas apply for high-quality beef to a number of countries; Australia had a quota of 7,150 tonnes/year, of which 65% will go to the UK. In addition, "non-country-specific" quotas apply for both frozen beef and manufacturing beef. In the case of lamb, New Zealand has the largest TRQ of over 228,000 tonnes; this is being shared on a 50:50 basis between the EU and the UK for the future. Australia has a TRQ for lamb of 19,186 tonnes, of which 15,349 tonnes will go to the UK.

Beef:

The top four global exporters of beef are Brazil, Australia, India and the US. However, India is not a significant exporter of prime beef, and the US imports similar volumes as it exports. The EU of 28 has been importing similar volumes as it exports and is a minor player in the global

market (see Appendix). The top three beef importing countries are China, US and Japan, who between them accounted for 50% of global imports in 2019.

Current and recent EU import data for beef shows that the tariff levels have been very effective in protecting the market from third country imports. European Commission data shows that the majority (roughly two-thirds) of beef imports over the past five years have taken place under EU tariff quotas.

The average export price for Australian beef in 2019/20 was US\$5.86/kg (€4.88 at €1 = \$1.2), compared to \$4.45 (€3.71) for Brazil, and \$7.06 (€5.88) for the US. (The US price may be influenced by a high proportion of high-value cuts). However, this is an exceptionally high level of Australian price relative to historic levels and reflects a combination of factors. These include (i) the major meat deficit in China in recent years arising from the decline in pig production because of African Swine Fever, (ii) reduced Australian production following the 2019 drought and bush fires, and (iii) some disruption to beef factory throughout in 2020 due to COVID-19.

The price situation over the past decade has been quite different. From 2011 to 2015 beef prices in the main southern hemisphere exporter countries: Brazil, Australia and Argentina were very similar,

and significantly lower than US prices. Since 2015 Australia prices have become decoupled from the other two and have moved closer to US prices. The substantial and rapid increase in exports to China is the main reason for this (while Australian and New Zealand agri-food exports to China have grown rapidly in recent years, the governments of both exporting countries have expressed dissatisfaction in relation to the dominant attitude displayed by China in their dealings).

Climate change is a major factor influencing Australian agriculture, and a significant response in recent years has been the growth in beef production in feedlots, using grain rather than grass as feed. Feedlots have the advantages of large scale and facilitate quality control. Cattle finished in feedlots account for 35% - 40% of production in the past few years.

In addition to price, food safety standards are a major determinant of international trade patterns. The broad position regarding food safety standards of Australian beef is that while hormone growth promoters may be used, the industry has the capacity to produce hormone-free product where the market requires it. The main market, China, requires hormone-free beef, as does Japan and South Korea. In a recent article in the Irish Times, journalist and farmer Tommy Moyles, who has worked on Australian farms in the past, summarised the situation as follows:

During the 1990's the Australian industry got together and developed a standards system, scientifically grading their beef based on taste and quality [...] With tariff-free, quota-free access to the UK, Australians will put their best foot forward, shipping higher-end cuts for British supermarkets and restaurants.

The UK is a deficit market for beef. Based on 2018 data, the UK imported 380,000 tonnes of beef, of which 340,000 tonnes came from EU countries, and a further 30,000 tonnes came through tariff quotas from third countries. The UK also exported over 100,000 tonnes to the rest of the EU. Ireland supplied about 260,000 tonnes or 75% of imports from EU countries. The UK market accounts for about 50% of Ireland's beef exports and is currently its highest priced market.

Lamb

While beef accounts for 22% of global meat consumption, sheep-meat accounts for only 5%. Global exports of sheep-meat are dominated by Australia (36%) and New Zealand (30%). China is the dominant importer; its imports from Australia have grown from almost zero in 2000 to about 140,000 tonnes in 2019. The other significant importers are the EU and the US.

The EU import tariffs have been effective in protecting the EU lamb market. TRQ's (particularly for New Zealand) play a much greater role than in the case of beef in providing third country access to the EU market. However, although New Zealand has had an EU TRQ of 225,000 tonnes, its actual imports have fallen in recent years to 144,000 tonnes in 2016, and 99,000 tonnes in 2019, a utilisation rate of 43%. Australia will have a UK TRQ of 15,349 tonnes from this year and is likely to want to grow its exports to the UK and reduce its reliance on China.

In recent years the UK market has been broadly balanced between imports of about 80,000 tonnes within TRQ's and exports of a similar volume of domestic lamb production to other EU countries. The UK accounts for only 23% of Ireland's lamb exports, while over 70% goes to the EU.

Concerns for UK Agri-food Sector

The National Farmers Union (NFU) have pointed out that British farmers could not compete with the scale advantage enjoyed by Australian farmers. Secretary Truss and her supporters in the Conservative Party suggest that the concerns of the UK farming sector can be accommodated by phasing-in the deal over 10 – 15 years, and by including “tariff quotas” whereby tariffs would apply above a certain volume to protect against excess imports. However, Australia is objecting to such conditions. If the UK agree to a “Without some protection for its domestic production in the event of import surges and/or a collapse in global prices, the FTA sets a dangerous precedent particularly as regards future UK trade deals with South American and Pacific countries.

UK food safety, environmental and animal welfare lobbyists have raised concerns about British high standards being undermined by Australian imports. However, it seems likely that Australia will be in a position to meet UK food safety standards by sufficiently differentiating its produce for export from other production where lower standards apply, including the use of hormone growth promoters.

Supporters of an FTA with Australia within the UK government point to the low level of current imports from Australia, although conveniently ignoring the very substantial tariff levels applying to such imports under the UK Global Tariff.

An FTA with Australia will have particular relevance for the future of farming in Scotland and Wales, where hill and mountain farming based on cattle and

sheep production is very prevalent. This is likely to strengthen the argument of the Scottish and Welsh nationalists that their interests are ignored by the Government in London.

Concerns for Ireland's Beef and Lamb Sectors

Beef

Clearly the EU-UK Trade and Cooperation Agreement, based on “zero-tariff-zero-quota” trade, is very important in providing access to the GB market to-date in 2021. However, it must be noted that the UK has not yet implemented a number of non-tariff controls on imports from EU countries; these are expected to be introduced between Friday, 1 October 2021 and Saturday, 1 January 2022.¹

For beef, the implications of the UK-Australia FTA are that future imports from Australia will use their scale to compete on price to gain market share in GB, thereby eroding UK market prices. These imports are likely to replace some imports from the EU including Ireland (the UK retail beef market is likely to concentrate increasingly on British beef).

It should be noted that, without the UK, the EU is in a surplus situation for beef. European Commission data shows that over the four years 2017-2020, the average annual EU beef exports were 480,000 tonnes and imports were 265,000 tonnes, a surplus of 215,000 tonnes annually, when the UK is excluded. If trade in live cattle is included, the surplus is larger. EU beef consumption has been broadly flat in recent years. The EU beef market is a mature market with well-established supply chains, many of which are relatively

¹ The European Commission sent a political letter and announced its intention to launch legal action if necessary, with respect to the UK's extension of these introductions on Monday, 15 March 2021.

local. Thus switching Irish exports from the UK to the other 26 EU Member States is not easy and likely to be less remunerative than the current UK market.

Lamb

For lamb, Australia is likely to compete in the UK market, thereby both eroding prices and displacing both domestic product and imports from Ireland on the home market. The displaced GB (and Irish) production would be likely to be switched to the EU market. This in turn is likely to put pressure on the French and other European markets; it may also raise charges of "trade displacement" by the EU against the UK.

The Protocol on Ireland/ Northern Ireland

The Northern Ireland agri-food sector will be protected against lower import tariffs and potentially lower food safety standards under the Protocol. Also, under the Protocol on Ireland/Northern Ireland (the Protocol), Northern Irish exports to Australia will obtain the same trade advantages as the rest of the UK. As stated earlier, it seems probable that the UK will accept Australian food safety standards and commitments. However, the EU is unlikely to accept Australian standards as, for example, hormone growth promoters are legal. This situation could add to the existing tension as regards implementation of the Protocol in relation to GB-NI trade. A recent Financial Times Editorial Board opinion piece on the UK-Australian trade negotiations argued that *"the more open an agricultural deal with Australia, the tighter must be the regulatory border between Britain and Northern Ireland"*.

Main Details of Deal in the Agri-food Sector as announced by the Australia Government

The Australian Minister for Trade, Tourism and Investment, Dan Tehan MP, in a joint statement with Prime Minister Morrison, published the following details of the deal for the agri-food sector on Tuesday 15 June.

Beef tariffs will be eliminated after 10 years. During the transition period, Australia will have immediate access to a duty-free quota of 35,000 tonnes, rising in equal instalments to 110,000t in year 10. In the subsequent five years a safeguard will apply on beef imports exceeding a further volume threshold rising in equal instalments to 170,000 tonnes, levying a tariff safeguard duty of 20% for the rest of the calendar year.

Sheep meat tariffs will be eliminated after 10 years. During the transition period, Australia will have immediate access to a duty-free quota of 25,000 tonnes, rising in equal instalments to 75,000 tonnes in year 10. In the subsequent five years a safeguard will apply on sheep meat imports exceeding a further volume threshold rising in equal instalments to 125,000 tonnes, levying a tariff safeguard duty of 20% for the rest of the calendar year.

Dairy tariffs will be eliminated over five years. During the transition period, Australia will have immediate access to a duty-free quota for cheese of 24,000 tonnes, rising in equal instalments to 48,000 tonnes in year five. Australia will also have immediate access to a duty-free quota for non-cheese dairy of 20,000 tonnes.

Key Conclusions

- Negotiations on the broad terms of a UK-Australia FTA were finalised on Monday 14 June. The FTA's early conclusion is very important to the UK Government as a major first achievement in its "Global Britain" strategy.
- The FTA is based on a "zero-tariff-zero-quota" model. In the case of beef and sheep meat, tariffs will be eliminated after 10 years. During the transition period, duty-free quotas will apply which will increase annually over the period. For the following five years, imports can continue to increase at an agreed rate, and a safeguard clause will apply if these rates are exceeded, at a tariff rate of 20%. Tariffs on dairy products will be eliminated over five years.
- From the perspective of UK farmers, the UK-Australia FTA is coinciding with great uncertainty about future domestic UK agriculture policy. The UK government is phasing-out the previous CAP-based direct payments, but little information is available about future payments, other than that they will be based on the principle of "public money for public goods". Food production, the primary role of farmers up to now, is not seen as a public good.
- Without protection for its domestic production in the event of import surges or a future collapse in world prices, it would set a dangerous precedent for future UK trade deals with Brazil, the US and other countries
- Within the agri-food sector, the focus of this brief analysis is on the beef and lamb sectors, where Australia is a major global exporter, and where currently, UK (and EU) import tariffs are very high and imports from Australia are mostly limited to tariff rate quotas.
- Current Australian beef prices are high by historic standards, reflecting some major factors including a meat shortage in China and a drought-related production decline in Australia. Both these factors are likely to prevail in the short-term. However, in the longer-term, globally traded food prices tend to be cyclical. Also, the Australian government has concerns about over-reliance on China.
- A significant response to climate change in Australia is the growth in beef feedlots. These have the advantages of scale and also facilitate quality control.
- An issue of concern within the UK is the potential risk to food safety from increased Australian imports. However, while hormone growth promoters are used in beef farming, it seems likely that Australia will meet UK food safety standards by sufficiently differentiating its production for export from other production.
- The UK is a major deficit market for beef. Heretofore, this was mainly supplied by imports from other EU countries, and imports from Ireland made up about 75% of this. The UK also exported a lower but significant amount of beef to EU countries. Depending on the terms of the FTA, Australia could displace substantial amounts of these imports from the EU including Ireland.
- In the case of lamb, China has become the main export market for Australia in recent years. The UK (and EU) import tariffs are relatively high and prevent

imports. EU (and now UK) TRQs play a major role in enabling imports, but Australia is a small beneficiary relative to New Zealand. Australia will likely wish to increase its exports to the UK and reduce its reliance on China. Currently lamb imports from third countries into the UK are broadly offset by exports of UK domestic production to EU countries.

- For Ireland, the main concern in the case of beef is that the GB market, currently its largest and highest-priced market, will be eroded both in volume and price terms by Australian imports following the FTA. For lamb, where the EU is our main market, the main concern is that increased imports from Australia to GB will cause market displacement, i.e., increased trade from GB to the EU, thereby eroding prices in EU markets.
- The Protocol will mean that the Northern Ireland agri-food sector will be protected against lower tariffs and potentially lower food safety standards. However, while the UK may accept the food safety standards of imports from Australia, these are unlikely to be accepted by the EU. This situation could add to the problems in implementing the Protocol with respect to trade from GB to NI.
- At a general level, the UK-Australia FTA could provide a template for future UK trade agreements. Negotiations are ongoing with New Zealand. The UK has sought membership of the Trans-Pacific Partnership which involves 11 countries including Japan, Canada and Mexico. An FTA with the US continues to be a major goal of the UK

Appendix

Top Beef Exporting Countries, 2019 (000 tonnes)

Country	Gross Exports	Imports	Net Exports
Brazil	2,314	0	2,314
Australia	1,660	0	1,660
India	1,494	0	1,494
United States	1,373	1,387	0
Argentina	763	0	763
New Zealand	623	0	623
Canada	525	204	321
Uruguay	436	0	436
Paraguay	339	0	339
European Union	330	341	0

(Foreign Agricultural Service, USDA, April 2021)

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