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UK-New Zealand Free Trade Agreement:

An Agri-food Sector Perspective

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About the author

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Introduction

After 16 months of negotiations, the UK and New Zealand governments reached agreement in principle on a free trade agreement (FTA) on Wednesday, 20 October 2021. Negotiations between the two countries on the details continues. To put this in context, a central Brexit objective of the UK Government was and continues to be a "Global Britain", i.e., the UK would seek to negotiate free trade agreements with a number of countries around the world. The draft UK-Australia Free Trade Agreement last June (yet to be concluded), and the recent UK-New Zealand (UK-NZ) agreement, are the first significant post-Brexit trade deals that are not a rollover of existing agreements that the UK enjoyed as a member of the EU.

The UK Department of International Trade's earlier internal estimate was that the impact of a free trade deal with New Zealand (NZ) would change UK GDP by between +0.1% and -0.1%. The UK government sees the benefit of the deal as "paving the way" for the UK to join the *Comprehensive and Progressive Agreement for Trans-Pacific Partnership* (CPTPP). This consists of 11 countries including Canada, Japan, Australia, New Zealand, Mexico, Malaysia and Chile. The UK Government's stated ambition is to conclude negotiations to join the CPTPP by the end of 2022. Former UK Trade Secretary and incumbent Foreign Secretary Liz Truss said that joining the CPTPP would be a stepping-stone to improving trade relations with the US.

The elements of the draft UK-NZ FTA which address the agri-food sector are based on a "zero-tariff zero-quota" model, following a transition period during which NZ will be provided with increasing but limited access to the UK.[1] This is similar to the UK-Australia FTA.

This brief analysis sets out the main elements of the FTA in relation to future access by New Zealand (and Australia) to the UK beef, lamb and dairy product markets. It gives a brief overview of the global market situation for these products, and a summary of the current situation in the UK market. It also comments on the potential implications for future Irish exports of beef, lamb, butter and cheese to the British market. Where relevant, the paper sets out the combined impact of the UK deals with NZ and Australia.

Background: Current UK Import Controls

The UK Global Tariff

Following the UK's departure from the EU, the UK government replaced the EU common import tariffs by its own system, known as the UK Global Tariff. The following table sets out the current EU import tariff levels for the basic beef, lamb and dairy products (which applied 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 Friday, 1 January 2021. (The world market price is from published data by the UK Agriculture and Horticulture Development Board, AHDB, and relates to 2016 – 2018).

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

Product	EU Common Tariff	Effective Tariff	UK Global Tariff
Beef carcases, fresh/chilled	12.8% + €1,768	70%	12% + £1,470
Beef carcases, frozen	12.8% + €3,041	120%	12% + £2,541
Lamb carcases, fresh/chilled	12.8% + £2,277	76%	12% + £1,860
Lamb carcases, frozen	12.8% + €1,675	46%	12% + £1,400
Butter (fat not over 85%)	€1,896	32%	£1,580
Cheese (Cheddar)	€1,671	57%	£1,390

[1] The terms "tariff" and "duty" are used interchangeably in this paper.

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 high or very high for beef, lamb and the main dairy products, butter and cheese.

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

Over recent decades, NZ, 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 (TRQ's), and this continues post-Brexit. The TRQ's provide for a fixed annual quota of imports at zero tariff. The TRQ's are agreed within the framework of the World Trade Organisation (WTO). New Zealand had a particularly large TRQ with the EU28 for cheese of over 228,000t annually. This is being shared on a 50:50 basis between the EU27 and the UK for the future, i.e., a TRQ of 114,000t to the UK. Australia has a TRQ of 15,349t for lamb and a TRQ of 4,648t for beef to the UK.

New Zealand and Australia Tariff Quotas to UK for Beef and Lamb from 2021 (tonnes)

	New Zealand	Australia
Beef	0	4,648
Lamb	114,000	15,349

Beef

Overview of Global Market and UK Market

The top four global exporters of prime beef are Brazil, Australia, Argentina, and New Zealand. The EU27 has been importing similar volumes as it exports, and is a minor player in the global market. The top three beef importing countries are China, US and Japan, who between them accounted for 50% of global imports in 2019. Australian and New Zealand agri-food exports to China have grown rapidly in recent years.

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.

In addition to price, food safety standards are a major determinant of international trade patterns.

The UK is a deficit market for beef. Based on 2018 data, the UK imported 380,000t of beef, of which 340,000t came from EU countries, and a further 30,000t came through tariff quotas from third countries. The UK also exported over 100,000t to the rest of the EU. Ireland supplied about 260,000t or 75% of imports from EU countries. The UK market accounts for about 50% of Ireland's beef exports, and is currently our highest priced market.

Details of UK-NZ FTA on Beef (as announced by NZ Government)

The UK will remove import duties (tariffs) on NZ beef imports over 10 years, i.e., duty-free from Year 11, but a safeguard clause will apply until Year 15. During the first 10 years following the entry into force of the Agreement, a duty-free transitional quota will be made available for beef originating in NZ. The quota will increase in equal annual instalments from a level of 12,000t in year 1 to 38,820t in Year 10. If the quota is filled in any year, any further imports from NZ will be subject to the normal UK Global Tariff.

The following table summarises the import deal for NZ, and also includes the comparable data for Australia under the recent UK-Australia draft free trade deal.

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The following table summarises the import deal for NZ, and also includes the comparable data for Australia under the recent UK-Australia draft free trade deal.

UK Tariff-free Beef Imports from NZ and Australia under Draft FTA's, Years 1-10 (tonnes)

	New Zealand	Australia	Combined
Year 1	12,000	35,000	47,000
Annual increase	2,980	8,333	11,313
Year 10	38,820	110,000	148,820

During Years 11 to 15, a product-specific safeguard will apply to NZ beef. Trigger volumes will increase in equal annual instalments from 43,056t in year 11 to 60,000t in year 15. If the trigger volume is exceeded in any year, the UK will apply a duty (tariff) of 20% to any additional beef imports from NZ for the remainder of the year.

UK Tariff-free Beef Imports from NZ and Australia under Draft FTA's, Years 11+ (tonnes)

	New Zealand	Australia	Combined
Year 11	43,056	122,000	165,056
Annual increase	4,236	12,000	16,236
Year 15	60,000	170,000	230,000
Year 16 and after	No limit	No limit	No limit

The product specific safeguard will be removed at the end of Year 15. UK imports of beef from New Zealand and Australia will be tariff-free and quota-free from Year 16.

Lamb (Sheep Meat)

Overview of Global Market and UK Market

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. China's imports of NZ lamb were greater than EU imports in 2020. Imports to China of lamb from Australia have grown from almost zero in 2000 to about 140,000t 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. TRQs for lamb (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 NZ has had an EU TRQ of 228,000t, its actual imports have fallen in recent years to 144,000t in 2016, and to 99,000t in 2019, a utilisation rate of 43%. Australia has a UK TRQ of 15,349t 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 80,000t within TRQ's and exports of a similar volume of domestic lamb to other EU countries. The UK accounts for only 23% of Ireland's lamb exports, while over 70% goes to the EU.

Details of UK-New Zealand FTA on Lamb

The UK will remove duties on lamb imports from NZ after 15 years, i.e., duty-free from year 16 onwards. During this time, a duty-free transitional quota will be made available for imports from NZ as follows:

Years 1-4:	35,000t per year
Years 5-15:	50,000t per year

If the quota is filled in a given year, further imports to UK from NZ will be subject to the normal UK import tariff (UK Global Tariff).

The relationship between the existing WTO tariff for NZ lamb into the UK market (114,000t which has not been filled in recent years), and the draft UK-NZ FTA import quota is clarified by the NZ government as follows: "In any given year, trade can only occur under the FTA quota once the utilisation of NZ's WTO country-specific sheep meat quota into the UK has reached 90%". In other words, NZ will have to export at least 102,600t to the UK under the existing WTO quota before it can avail of the transitional quota under the draft FTA.

NZ is currently a much larger exporter of lamb to the UK than Australia. The proposed FTA for NZ is different in detail from the draft UK-Australia FTA earlier this year. In the case of Australia, sheep meat tariffs will be eliminated after ten years. During the transition period Australia will have access to a duty-free quota of 25,000t, rising in equal instalments to 75,000t in Year 10. In the subsequent five years a safeguard clause will apply on sheep meat imports exceeding a threshold of 85,000t in Year 11, and increasing by 10,000t per year, to reach 125,000t in Year 15. The level of the tariff applying to imports above these quotas would be 20% for the remainder of the year.

NZ and Australia will have duty-free and quota-free access to the UK market from year 16.

Butter and Cheese

Overview of Global Market Situation and UK Market

In the case of butter, New Zealand is the major global exporter, with annual exports in the region of 475,000t. The EU is next, with net exports of about 200,000t per year. Australia is not a significant net exporter. China is the largest importer, with annual imports in the range of 100,000t to 140,000t.

In the case of cheese, the EU is the largest net exporter at about 800,000t per year, followed by New Zealand with exports of about 340,000t per year. Australia has annual net exports of about 70,000t. The main importers of cheese are Russia, Japan, China and South Korea.

Although NZ is the major exporter of butter and a significant exporter of cheese, its recent strategy is to increase production of whole milk powder (WMP) for export to China and other Asian markets. Currently WMP accounts for 66% of total NZ dairy product output, compared to 55% a decade ago.

In 2018, Ireland's total exports of butter were valued at €1,125m, and €247m or 22% went to the UK. Total Irish cheese exports were valued at €814m, and €409m or 50% went to the UK. In volume terms, taking 2017–2019, Ireland's annual average exports of butter to the UK were 53,000t, and its exports of cheese to the UK were 123,000t.

Details of UK-NZ FTA on Butter

Tariffs on butter imports to UK from NZ will be phased-out in equal steps over five years. The current UK import tariff on butter is £1,580/t. (The draft UK-Australia FTA also provides for the phasing out of tariffs on butter imports from Australia over five years).

During this transition period, a duty-free quota will be made available on butter imports from NZ to UK, starting at 7,000t in year 1 and increasing in equal steps to 15,000t in Year 5. (A similar arrangement is to apply to UK butter imports from Australia). From Year 6, butter imports to UK from NZ and Australia will be duty-free and quota free.

UK Duty-free Butter Imports from NZ and Australia under Draft FTA's (tonnes)

	New Zealand	Australia	Combined
Year 1	7,000	5,500	12,500
Annual increase	2,000	1,500	3,500
Year 5	15,000	11,500	26,500

Details of UK-NZ FTA on Cheese

Tariffs on cheese imports to UK from NZ will be phased-out in equal steps over five years. The current UK import tariff on cheddar cheese is £1,390/t and on other natural cheese is £1,540/t. (The draft Australia FTA also provides for the phasing-out of tariffs on cheese imports to UK from Australia over five years).

During the transition period, a duty-free quota will be made available on cheese imports to UK from NZ, starting at 24,000t in year 1 and increasing in equal steps to 48,000t in Year 5. (A similar arrangement will apply to UK cheese imports from Australia).

UK Duty-free Imports of Cheese from NZ and Australia under Draft FTA's (tonnes)

	New Zealand	Australia	Combined
Year 1	24,000	24,000	48,000
Annual increase	6,000	6,000	12,000
Year 5	48,000	48,000	96,000

From Year 6, cheese imports to UK from NZ and Australia will be duty-free and quota-free.

Sanitary and Phytosanitary Measures (SPS)

The NZ government paper on the FTA points out that NZ and the UK already benefit from a "world-leading" sanitary agreement that recognises the equivalence of sanitary measures by both countries for the protection of public and animal health. It states that the FTA will build on this and existing WTO obligations. It states that imports will have to meet the same food safety and biosecurity standards in NZ and in the UK, but that both countries recognise the importance of independent SPS regimes.

The UK FTA with Australia is likely to raise more issues than that with NZ in relation to SPS standards. This arises not least because in Australia growth promoters may be used in beef production, but the industry there seems to have the capacity to produce hormone-free beef where the market requires it. The UK-Australia FTA indicates that the UK is taking a liberal approach SPS and Animal Welfare standards. The text refers to "the importance of independent SPS regimes", "recognition of the principle of equivalence of SPS measures", "recognition of regionalisation", and "provisions that affirm Australia and UK right to regulate on animal welfare". The message coming through from the UK-Australia FTA is that the UK is prepared to accept lower health, food safety and animal welfare standards on imports than currently apply to UK domestic production.

The Protocol on Ireland/ Northern Ireland

The Northern Ireland (NI) agri-food sector will be protected against lower import tariffs and potentially lower food safety standards under the Protocol on Ireland/Northern Ireland (the Protocol). Also, under the Protocol, Northern Irish exports to NZ and 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 is likely to strengthen the EU position on the necessity of the Protocol in relation to trade from Great Britain (GB) to NI.[2]

Concerns for Future of Ireland's Agri-Food Exports to Great Britain

<u>All Agri-food Sectors</u>

Clearly the EU-UK Trade and Cooperation Agreement (TCA), based on zero-tariffs and zero-quotas, was very important in providing access to the GB in 2021.[3] However, it must be noted that the UK has not yet implemented a number of non-tariff checks and controls on imports from EU countries. On Wednesday, 15 December 2021, then UK Co-Chair of the Withdrawal Agreement's Joint Committee and TCA's Partnership Council, Lord Frost announced further delays to the implementation of checks and controls

The draft FTA's with New Zealand and Australia provide a formula and timetable for zero-tariffs and zero-quota access to two third countries to the GB market. These two countries are major agri-food exporters, and both have long-established political and economic links to the UK.

<u>Beef</u>

Data from Bord Bia shows that the market in GB currently has higher cattle prices than any EU country. The GB market continues to be largest and highest-priced market for Irish beef exports. Currently global prices are relatively high for the main food commodities, meat, dairy and grain. The implications of the UK-Australia FTA and NZ-UK FTA are that these countries are likely to gain a significant share in the UK market over time, and this brings a risk of erosion of the UK market price. Their market strategy may be guided by a desire to become less reliant on China, on the one hand, and a desire to have a presence in the UK market for political and strategic reasons, on the other.

The UK beef market consists of three elements, retail, manufacturing and food service. In the retail beef segment (supermarkets), Irish beef is well integrated into the British market, and British and Irish beef are viewed as being interchangeable, based on shared production standards and shared companies. In the manufacturing segment, which is important for the lower-value cuts, strong commercial arrangements are in place between the main Irish processors (who also own processing facilities in Britain) and the main market players, including McDonalds. Ireland's position is most vulnerable in the food service segment, particularly the lower-priced element, as this segment is most likely to look to imports based on price.

Thus, in the immediate future years, the Irish position in the UK beef market may not face a major threat. It is possible that the greatest threat may come indirectly from these two agreements (based on zero-quotas, zero-tariffs, and different health and safety standards) setting a template for wider FTA's between the UK and a number of third countries, such as the US and Brazil.

[2] The working assumption in this paper is that the current EU-UK discussions on the Protocol will not result in the removal of the Protocol or in any fundamental change to it.

[3] Great Britain (GB) refers to the geographic area comprising of England, Scotland and Wales. It does not include Northern Ireland

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 480,000t and imports were 265,000t, a surplus of 215,000t annually, when the UK is excluded. 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 local. Thus, switching Irish exports from the UK to the EU26 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 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 future situation in relation to NZ lamb in the GB market is very unclear. Currently NZ is a major player in the UK but is not filling its existing quota. Sheep meat production in NZ is declining. The FTA provides for a major increase in future exports to GB and gives NZ the opportunity to shift exports from other markets.

Dairy Products

The transition period for both countries for butter and cheese, at five years, is quite short. Thus, the impact on the UK market is likely to be seen quickly, particularly for butter.

New Zealand can be expected to become a significant exporter of butter to GB, but may not be very significant in the case of cheese, as it has tended to prioritise soft cheese exports to Asian markets. Australia is likely to become "a player" in the UK cheese market.

In the case of both Australia and NZ, having sought the FTA, they may decide for political and strategic reasons to establish a presence in the UK dairy product market. Taking all factors into account, it seems likely that Irish exports of butter in particular will face a more competitive environment in the GB market.

Key Conclusions

- Agreement on the broad terms of a UK-New Zealand free trade agreement (FTA), together with a similar recent agreement with Australia, establishes a key element of UK food policy, i.e. the UK is opening up its food market to imports from non-EU countries around the world.

- The two FTAs are based on a "zero-tariff zero-quota" model. In the case of beef, and also in the case of lamb from Australia, tariffs will be eliminated after ten years. (Tariffs on NZ lamb will be eliminated over 15 years, but NZ already has a major role in the UK market under the WTO tariff quota). During the transition period, duty-free quotas will increase annually over the period. For the following five years, imports can continue to increase, subject to a safeguard clause. For beef and lamb, Australia and NZ will have free access from Year 16. Tariffs on Australian and NZ butter and cheese will be eliminated over a relatively short period of five years, and they will have free access from Year 6.

- From the perspective of UK farmers, the FTA's are coinciding with great change in domestic UK agriculture policy. The UK government is phasing-out the previous CAP-based direct payments. Future payments from government to farmers will be based on the principle of "public money for public goods", mostly environmentally related payments.

- Australia is a major global exporter of beef and NZ is a major global exporter of lamb and dairy products. Both countries may decide to reduce their reliance on China for exports, due to major imbalance of power in favour of China, and look to more stable future markets. How Australia and NZ manage their future exports to the GB market will be a major determinant of prices and of returns to all suppliers, including Irish exporters and domestic UK suppliers.

- The UK has sought participation in the Trans-Pacific Partnership involving 11 countries including Japan, Canada and Mexico. If this is achieved, it may result in a further opening-up of the UK agri-food market.

- The UK continues to be Ireland's largest market for agri-food, accounting for 37% of our exports in 2020, valued at €5.3bn, while 32% went to other EU countries and 31% to the rest of the world. The UK share stood at 45% in 2010. The negative impact of the two FTA's on Ireland's success in the GB market is likely to be greatest for beef, bearing in mind the importance of the UK market, but the impact may be gradual over the next decade. The negative impact is also likely to be significant for our butter exports to the UK. For lamb, the negative impact is likely to arise from UK market displacement, affecting the EU market.

- An issue of further concern, both to domestic UK food suppliers and importers from EU countries including Ireland, is the potential risk to food safety, animal health and plant health from increased imports from countries with different health and safety standards to those currently in place in the UK.

- The Ireland/NI 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 of Australian beef, for example, these are unlikely to be accepted by the EU. This situation is likely to strengthen the EU position on the necessity for the Protocol on trade from GB to NI.

- Two other relevant issues, not discussed in this paper, are the negative environmental implications of transporting food literally half way around the world, and the current issue of high transport costs and shortage of transport infrastructure.

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