



**Exiting the European Union Committee
inquiry examining the UK's negotiating
objectives for the withdrawal from the EU**

Call for written evidence:

**Written evidence submitted by the Agriculture
& Horticulture Development Board (AHDB)**

7 November 2016

Executive summary

- AHDB has identified the key areas likely to have the biggest impact on UK agriculture as a result of Brexit - Trade, Access to migrant labour, Regulation and Farming support. The submission details:
 - The economic significance of the UK food and drink industry and the crucial role played by tariff-free access to the EU single market.
 - The reliance of the agricultural sector and associated food processing sectors on relatively lower-skilled labour and why a future trading solution requires the industry to maintain access to a supply of labour that enables it to remain competitive.
 - Why the EU's external tariff barriers are particularly important in the agriculture and food arena.
 - The Impact on protected food names to be promoted in the EU or abroad with the financial support of the EU.
 - The complexity, time and resources involved. Two years is insufficient time to prepare business models and adjust to new trading arrangements.
 - AHDB's expertise, independence and resource to provide support in a number of areas.

1. **The Agriculture and Horticulture Development Board**

2. The Agriculture and Horticulture Development Board (AHDB) is a statutory levy board, funded by farmers, growers and others in the supply chain. Our role is to inspire change, stimulate innovation and identify opportunities for businesses to become more profitable. We do this by being the centre for the generation and sharing of independent and evidence-based knowledge, best practice, information and services. We exist because we can deliver greater value collectively than levy payers can do on their own. AHDB raises levies from the meat and livestock sector (cattle, sheep and pigs) in England, horticulture, milk and potato sectors in Great Britain and the cereals and oilseeds sector in the UK. The AHDB's remit covers 75% of total UK agricultural output.
3. The funds raised from each commodity sector are used only to the benefit of the sector from which they were raised. Levy is invested in a wide range of activities including R&D, marketing, exports and market intelligence. Because the levy is statutory, AHDB is classified as a Non-Departmental Public Body and comes under the sponsorship of the Department for Environment, Food and Rural Affairs.
4. ***What should be the UK's objectives in negotiating its future economic and political relationship with the EU, looking at both risks and opportunities?***
5. Whilst the Agriculture & Horticulture Development Board (AHDB) is not in a position to comment directly on the UK's objectives, we can provide a view on which areas are likely to have the biggest impact on UK agriculture. We have identified four key areas of concern for the food supply chain - Trade, Access to migrant labour, Regulation and Farming support. The latter is mainly a matter for the UK government post-Brexit, so is only covered briefly below. However, the other three will form part of the UK's relationship with the EU.

6. **Trade**

7. The UK food and drink industry is a global force representing the UK's fourth largest exporting sector, with exports of agricultural commodities alone valued at £6.25 billion a year. The UK's trading relationship with the rest of the world underpins the productivity and profitability of its farm businesses, as well as exposing them to the peaks and troughs of global market dynamics.
8. Barriers to trade in the form of tariffs or regulation and the level at which these are set will be key to the continued competitiveness of the UK's farming and growing sectors. Across all sectors, trade with the EU will be changed radically if the UK loses tariff-free access to the EU single market and imposes tariffs on EU imports. Whether these will represent an opportunity or threat depends on each sector's reliance on imports and exports, both within and without the EU. It would create considerable uncertainty for all businesses involved in trade in agricultural products.
9. In some sectors, UK processing capacity is lower than needed to cope with all production and produce is exported for processing elsewhere in the EU. In some cases, the processed products are then returned to the UK for consumption. This is because globalisation, combined with shocks such as BSE and Foot and Mouth Disease, have affected investment decisions and the structural evolution of the processing sector over the past 40 years. Future trade agreements could impact the viability of some agricultural products as a result, if raw materials are subject to tariffs when exported for processing.
10. Nearly two thirds (62 per cent by value) of UK agricultural exports are to the EU, with seven tenths (70 per cent by value) of agricultural imports from the EU. The UK is a particularly high net importer for dairy products, pig meat and vegetables. 90 per cent of beef and lamb exports and 70 per cent of pork exports go to the EU.

11. The EU's external tariff barriers are particularly important in the agriculture and food arena. Tariffs are high for commodity products, and higher for processed products. Beyond any agreed quotas, these effectively restrict access to the EU for low cost production. Further details can be found in the AHDB Horizon research report [*'What might Brexit mean for UK trade in agricultural products'*](#).
12. Whether EU tariff rate quotas (TRQs) would continue to apply to imports to the UK will be determined during the negotiations over Brexit. The split of TRQs between the UK and the rest of the EU will also form part of any agreement. A number of important TRQs cover imports of agricultural products into the EU, covering commodities such as sheep meat, beef, butter, cheese and cereals. As well as providing some access to the EU market for traditional trading partners, these can help balance supply levels.
13. As part of Single Market there are no issues trading with the EU with regard to non-tariff barriers but non-tariff barriers currently affect trade with the rest of world. The principal risk would be if the UK sets its own rules with regards to rules of origin, labelling and other criteria. This will lead to divergence from EU standards, potentially meaning additional technical barriers and paperwork when exporting to the EU. There are a range of options for future trading relationship with the EU, each of which has pros and cons. Further details can be found in the Horizon research report from AHDB entitled [*'What will an UK/EU trade relationship look like post-Brexit?'*](#)
14. Further details of the potential implications for individual agricultural sectors can be found in the Horizon research report from AHDB entitled [*'What might Brexit mean for UK trade in agricultural products'*](#)
15. Although it is not a focus of this inquiry the decisions about our trading relationship with the EU will also have a large bearing on our future relationship with non-EU countries. Further details can be found in the Horizon research report from AHDB entitled [*'How will Brexit affect the UK's trade outside the EU'*](#)
16. **Movement of Labour**
17. Brexit would have a significant impact on access to agricultural labour if there was no free movement of people. The agricultural sector and associated food processing sectors are reliant on relatively lower-skilled migrant labour. It is therefore imperative that a future solution allows the industry to maintain access to a supply of workers that enables it to remain competitive.
18. The seasonal nature of demand and falling unemployment in the UK have resulted in the UK agricultural industry becoming increasingly reliant on a supply of labour from Europe. Employers in the UK agricultural and horticultural sectors, along with those further up the supply chain (i.e. food processors), hire both permanent and seasonal migrant workers. Maintaining this supply of labour is an important factor influencing the competitiveness of the agricultural industry, and the wider economy post-Brexit. It is a major component of the industry's total cost of production. Figures from Defra put the value of paid labour at £2.5 billion in 2015, equating to around 14% of total financial inputs.
19. Based on figures from the June Census, the number of regular employees in UK agriculture, excluding seasonal, casual and gang labour, is 115,000. If we include seasonal, casual and gang labour, the total rises to 182,000. If we include farmers, directors and their spouses the figure for employees in primary agriculture would rise to 476,000.
20. On best available data, our estimate is that around 20% of the 115,000 regular employees in the sector are migrant workers. It is important to highlight these figures are likely to underestimate the true extent of EU and other migrant workers. While

they will capture those migrants who have settled in the UK and are working in permanent roles, these figures will not include seasonal workers coming to work in the UK for short periods of time.

21. ONS figures show migrant workers are also vitally important in other parts of the food supply chain. In 2014 migrants accounted for 38% of the workforce in food manufacturing, the highest percentage of any sector. Of these, 14% were recent migrants, again the highest for any industry.
22. If migration is restricted and no exceptions made for agricultural labour, it seems likely that the industry will go through structural change. By changing the relative cost of factors of production, it could divert businesses into less labour-intensive production systems and change the nature of UK agricultural production. However, changes of this kind will take time to implement and require significant investment, so businesses would be likely to be adversely affected in the short-term. Horticultural businesses would be particularly vulnerable to a reduction in affordable, seasonal labour.
23. Restricted access to migrants would push up wages to attract UK workers and increase costs of production, resulting in product becoming less competitive on domestic and export markets. Alternatively further mechanisation of processes could reduce requirements. However, many parts of the sector do not lend themselves to easy automation.
24. Further details can be found in the Horizon research report from AHDB entitled [*'The impact of Brexit on the UK agricultural workforce'*](#).

25. **Regulation**

26. We expect that EU standards will be key to trading with the EU. UK businesses would need to comply with them in order to trade with the EU. Such standards relate to a number of areas covering issues such as food labelling, food safety and plant and animal health. Any divergence could lead to increased paperwork, certification and limited opportunities to trade with the EU.
27. In order to export agricultural goods from the UK, an Export Health Certificate (EHC) is usually required. These are frequently issued on the basis that the UK follows EU sanitary, phytosanitary and veterinary standards. Complying with EU standards is also important to non-EU market access as bilateral trade agreements may be underpinned by these. This could mean that bilateral agreements will need to be renegotiated or at least updated. Failure to do so could therefore result in the loss of market access for key markets.
28. Under the EU quality system, a named food or drink originating either from the EU or from outside the EU, once registered at European level, will be given legal protection against imitation throughout the EU. Any individual food producer or group of food producers can apply for EU protected food names. This is, however, a demanding process as it entails making a detailed and well-argued draft product specification and nomination of an inspection body.
29. To date, there are 77 UK registered products which have a sales value of €1,059 million. 15 applications are still in the pipeline.
30. In principle, non-EU products can benefit from EU protection. Already registered protected food names should be able to benefit from EU protection against imitation provided there is a reciprocal agreement between the UK and the EU. When it comes to future applications, UK products would need to be already protected under a UK protected food name scheme (no such scheme yet exists), so as to be able to apply for the EU protection.

31. Once the UK ceases being an EU member, it will no longer be possible for UK protected food names to be promoted in the EU or abroad with the financial support of the EU. However, UK agricultural producers might still see some potential in using EU protected food names as a valuable marketing tool to differentiate their products on the EU/International markets and thus improve their competitiveness and profitability.

32. **Farming support**

33. Many UK farmers are heavily reliant on support through the Common Agricultural Policy (CAP), particularly, beef and sheep farmers. The level of support given by the UK government following the exit from CAP would be key in determining farm incomes. Further details can be found in the AHDB Horizon research report [‘Agricultural policy models in different parts of the world’](#).

34. ***What will have to be included in the negotiations to leave the EU under Article 50 and to what extent will this include provisions relating to the UK’s future relationship with the EU?***

35. Our understanding is the Article 50 negotiations are mainly concerned with extracting the UK from the EU. Any negotiations about future relationships will be separate but running in parallel with those on Article 50. Article 50 is likely to include issues such as how TRQs will be split, PGIs and movement of labour.

36. ***Is there a case for the UK seeking to negotiate transitional arrangements in the event that it is unable satisfactorily to reach agreement on its future political and economic relationship before it has left the EU under Article 50?***

37. In the absence of any kind of deal we will end up trading with the EU on WTO terms. That will be incredibly disruptive. A transitional period that allows more time to adjust and avoid major disruptions would be far more desirable. Examples of the impact that WTO terms could have on particular sectors can be found in the AHDB Horizon research report [‘What might Brexit mean for UK trade in agricultural products’](#).

38. ***Does the Government have the capacity and the appropriate structures to meet its objectives?***

39. AHDB is not in a position to provide a response to this question. However, the amount of work required to cover all of the subsequent renegotiation of non-EU agreements alone is considerable. Many EU Trade and Association agreements cover hundreds of products, services etc. These take time to negotiate and will require considerable resource.

40. AHDB has the expertise, independence and resource to provide support in a number of areas relating to trade in agricultural produce.

41. Any queries relating to this submission should, in the first instance, be directed to Andy Hutson, Public Affairs Manager, Agriculture & Horticulture Development Board, Stoneleigh Park, Kenilworth, Warwickshire CV8 2TL. T: 024 7647 8877 E: andy.hutson@ahdb.org.uk