

HORIZON

Bitesize



Assessing the impact
of the UK-New Zealand
free trade deal

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OVERVIEW

New Zealand is a major exporter of lamb, beef and dairy products with China and other Asian countries as its main markets. New Zealand's climate, coupled with economies of scale, contributes to its relatively low costs of production for red meat and dairy.

In February 2022, the UK and New Zealand signed a comprehensive and far-reaching Free Trade Agreement (FTA). This is the second major FTA to be agreed post-EU exit after the one signed with Australia in 2021.

Both FTAs are with major agricultural exporting nations, and farmers may be forgiven for wondering whether this presents yet another headache in the form of cheap imports to the UK market. But what is the likelihood of that happening?

The frequent mention of potential trade partners having lower costs of production and standards is also in the background, but what are the facts?

To answer this, our analysis of the UK-New Zealand trade deal looks at:

- Key products traded between the UK and New Zealand
- UK consumer perceptions towards New Zealand beef and lamb
- Animal welfare standards, and how New Zealand's production methods compare to the UK's

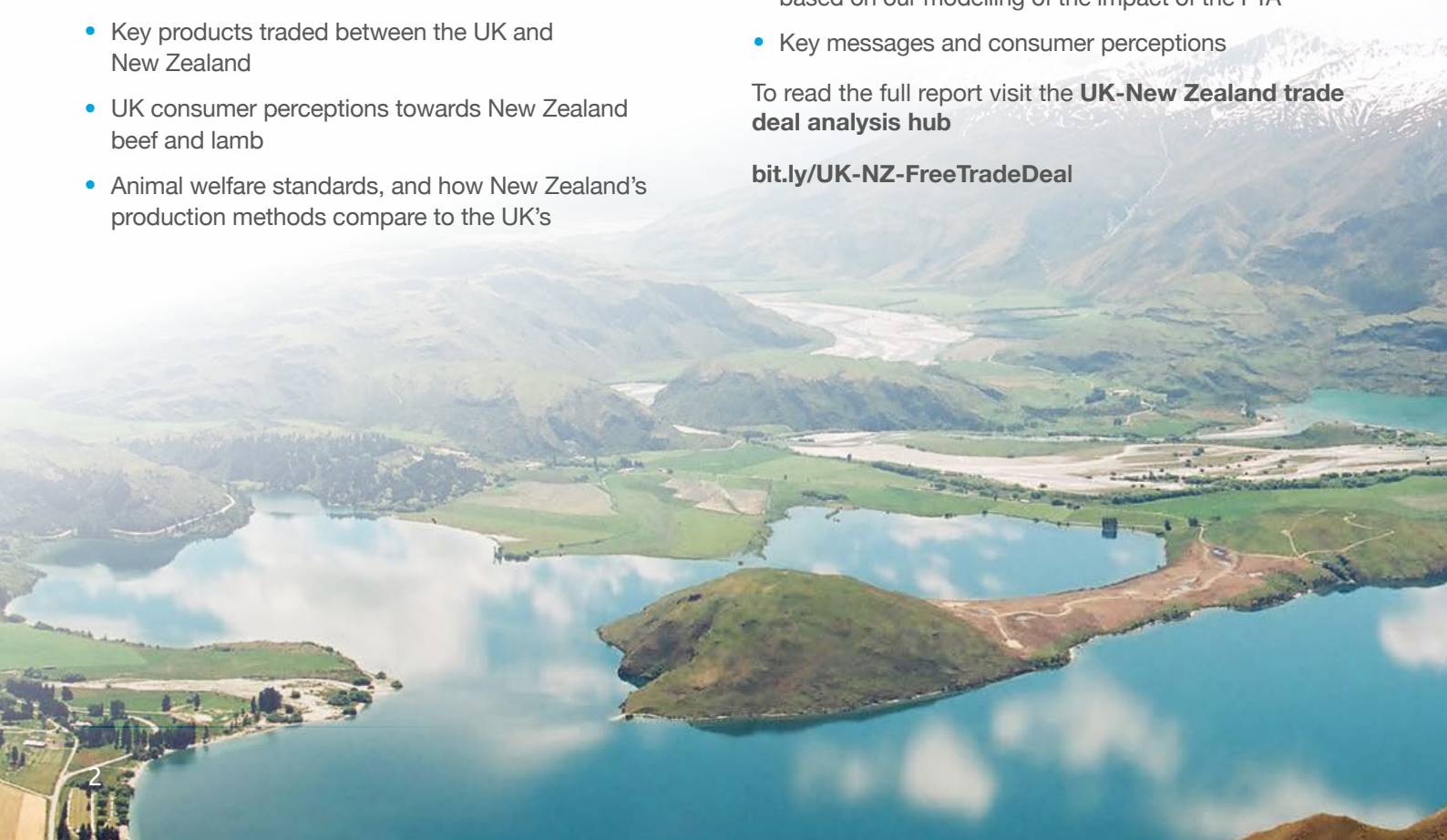
- Current global trade patterns, highlighting areas of the world with the biggest and fastest-growing demand and the potential for New Zealand to increase supply to meet that demand
- Differences between the FTA with New Zealand and the FTA with Australia
- New Zealand's agricultural policies over time and their path to becoming a major agricultural exporter
- Economic modelling, in collaboration with Harper Adams University, of the impact of the new FTA on the UK and other major players. We have used a trade network model instead of more commonly used general equilibrium or partial equilibrium models as it allows indirect impacts of other trading partners within a trade network to be taken into account

This Horizon Bitesize summary gives an overview of:

- The red meat and dairy trade between the UK and New Zealand
- The possible change in trade flows for each sector based on our modelling of the impact of the FTA
- Key messages and consumer perceptions

To read the full report visit the **UK-New Zealand trade deal analysis hub**

bit.ly/UK-NZ-FreeTradeDeal



RED MEAT AND DAIRY TRADE BETWEEN THE UK AND NEW ZEALAND

Percentage of total UK imports that are from New Zealand (2018–2020 average)

Percentage of total New Zealand exports that are sent to the UK (2018–2020 average)

Beef



0.3%

Beef



0.2%

Lamb/sheepmeat



66.6%

Lamb/sheepmeat



10.7%

Dairy



<0.1%

Dairy



<0.1%

Figure 1. Trade between the UK and New Zealand in red meat and dairy products



MODELLING THE IMPACT OF A UK-NEW ZEALAND TRADE DEAL

Further details for each sector are available in the trade modelling section of the UK-New Zealand trade deal analysis hub on the AHDB website, bit.ly/UK-NZ-FreeTradeDeal

It's important to note that the modelling results are not a prediction of the future. Rather they show the effect of a new trade agreement with New Zealand, with all

other factors remaining the same. This means that the modelling results do not build in assumptions around factors which may change in the future. It should also be noted that the model treats all cuts as the same and therefore the impact of carcase balance must be considered alongside the results.

Table 1. A summary of the headline results per sector

	Change in NZ exports to UK (Tonnes)	Change in NZ exports to UK (%)
Lamb	5,800	14
Beef	6,300	740
Dairy (cheese)	260	194
Dairy (butter)	1,700	209
Pork	0	0



MODELLING THE CHANGE IN TRADE FLOWS PER SECTOR

The chosen network for each sector consists of the UK, New Zealand, EU, USA and China.

Lamb and Beef

The model predicts that New Zealand will increase its exports by diverting some of its existing exports (notably from China) coupled with a small increase in production. In reality, an increasing output is unlikely as sheep numbers in New Zealand have been falling. As a result, UK imports from New Zealand are likely to be less than the 5,800 tonnes that the model predicts (as shown in Figure 2 below).

The new FTA will reduce the current level of non-tariff barriers, in both directions. This will lead to reduced costs for New Zealand exporters supplying the UK market.

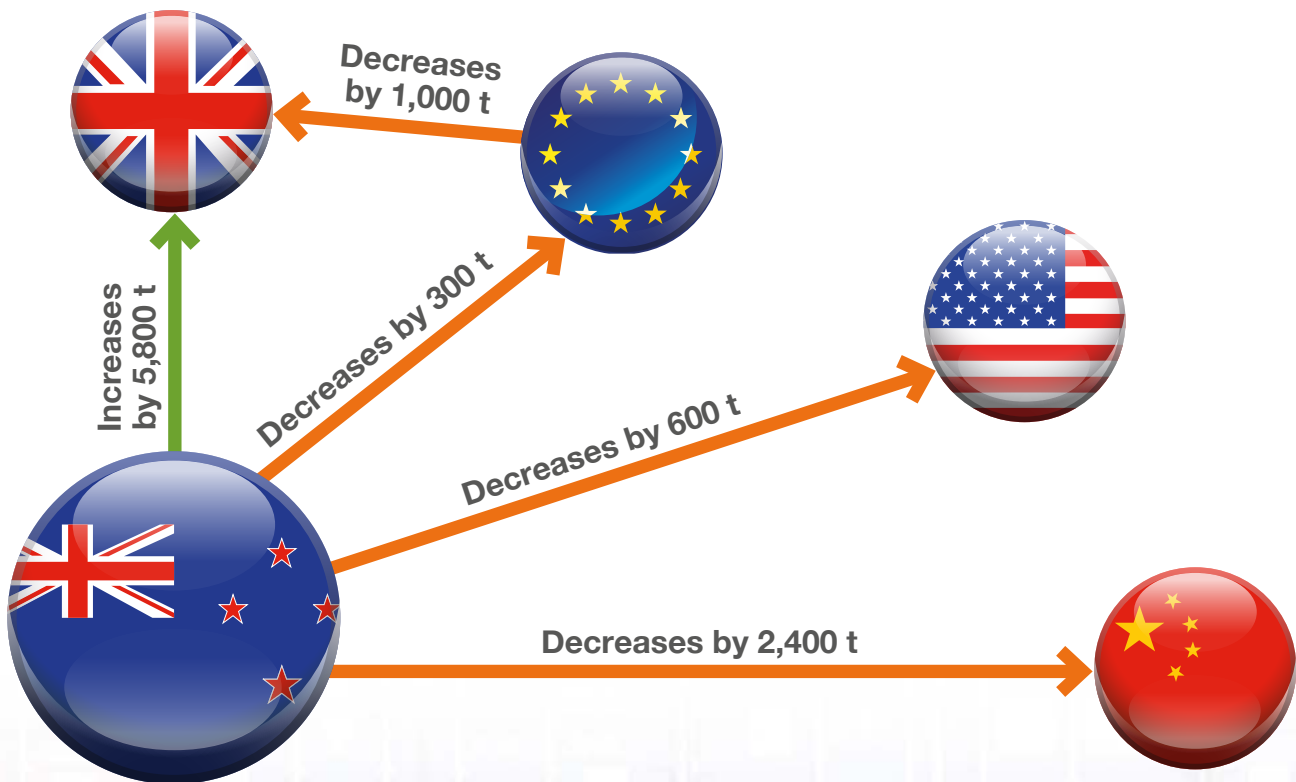


Figure 2. Main changes in trade flows within the network for lamb



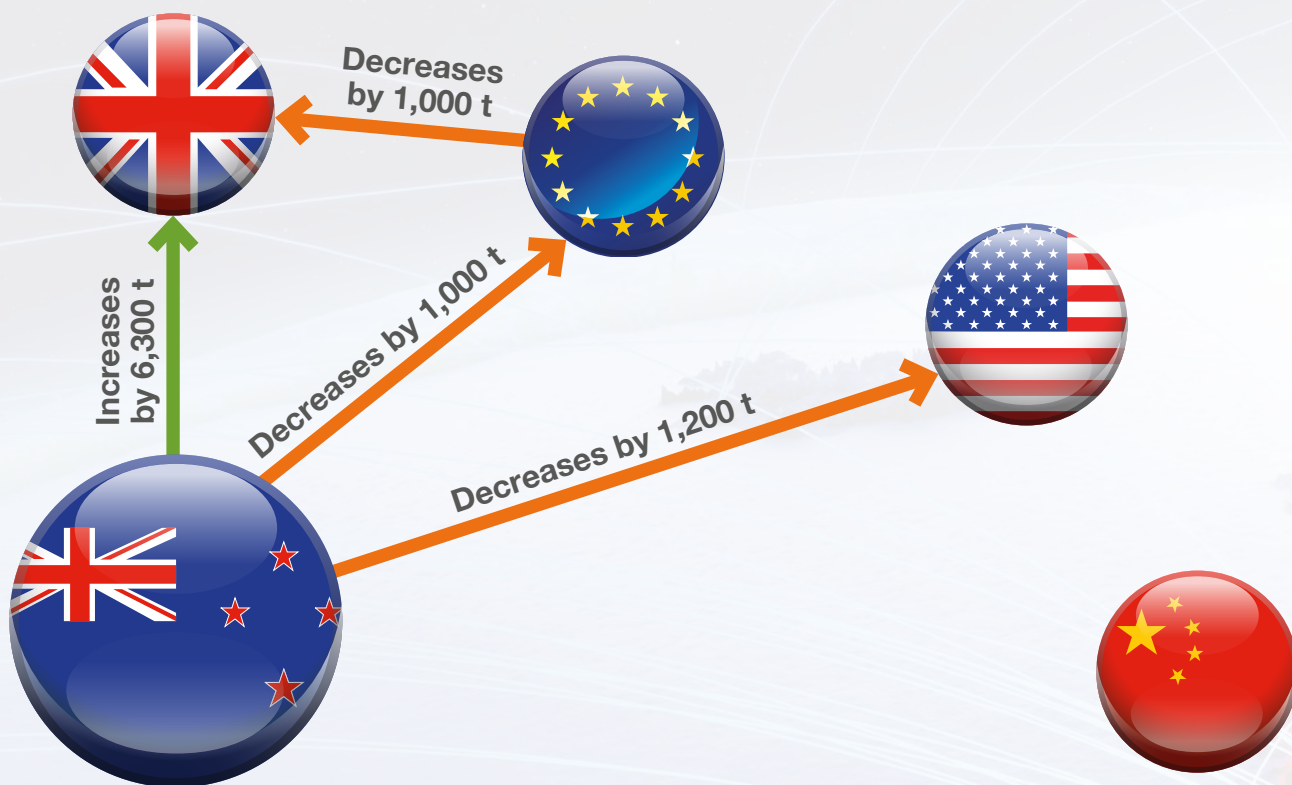


Figure 3. Main changes within the network in trade flows for beef

Figure 4 shows how beef trade within the network could change. To send more beef to the UK, New Zealand will increase output and reduce the amount of beef it sends to the EU and USA.

We have also run the model to see the effect of what could happen if tensions between New Zealand and China resulted in China banning New Zealand beef and lamb imports. Under this scenario, New Zealand lamb exports to the UK would increase by 29,000 tonnes (69%) and beef exports would increase by 7,400 tonnes (830%).

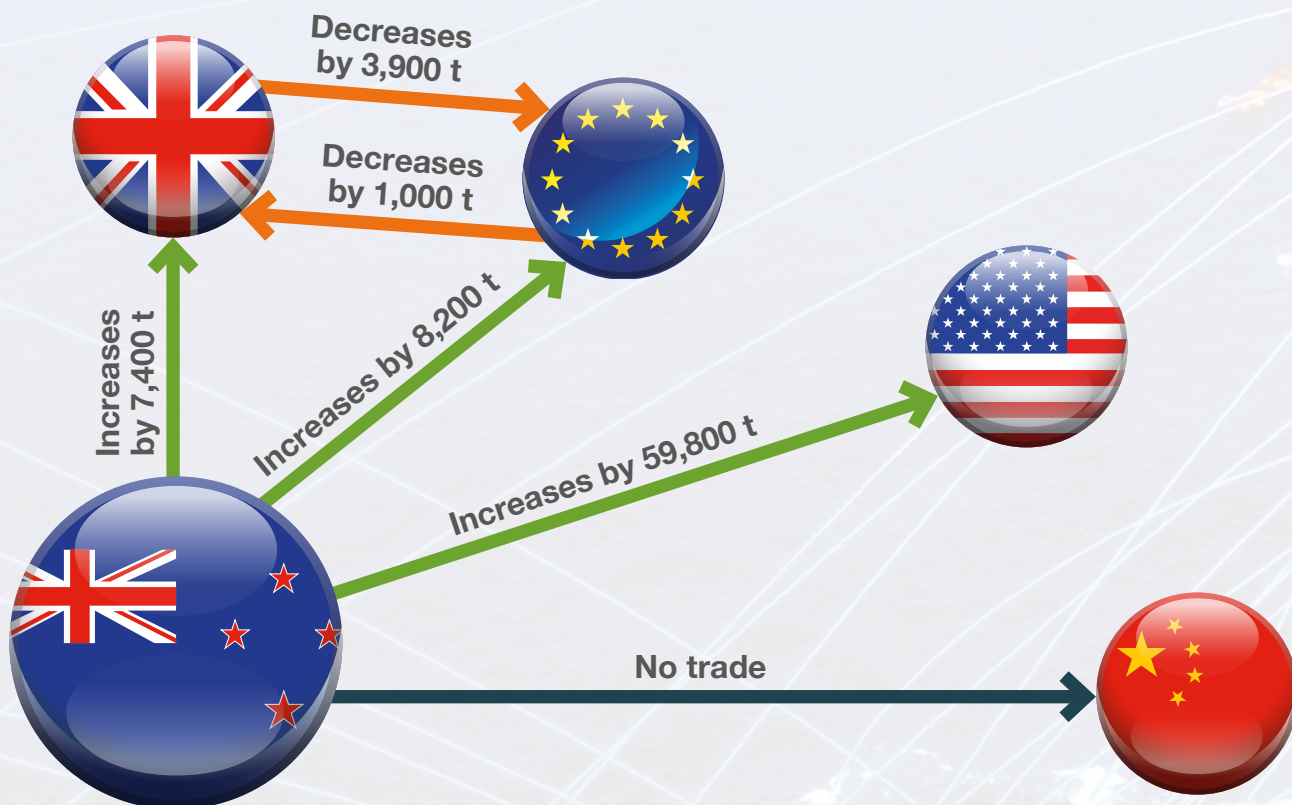


Figure 4. Main changes in trade flows within network if China banned all NZ beef imports

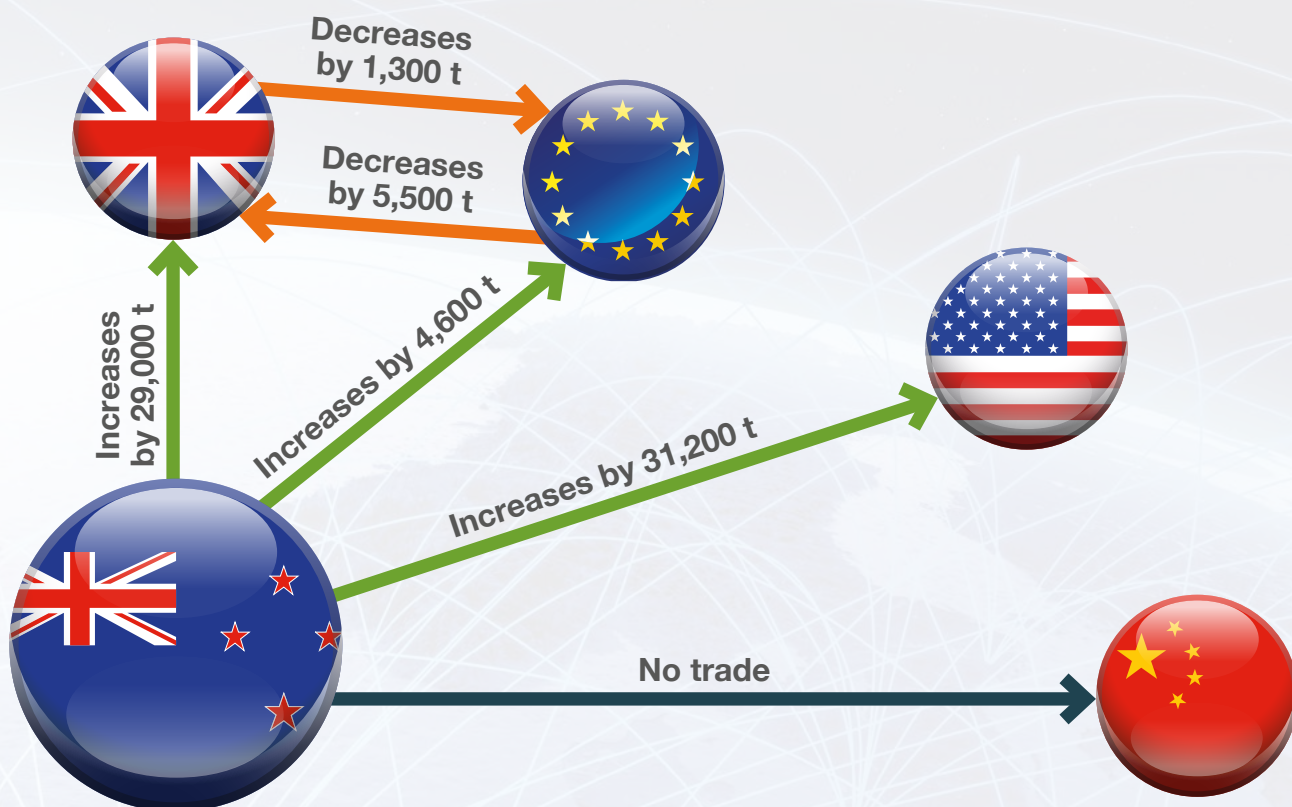


Figure 5. Main changes in trade flows within the network if China banned all NZ lamb imports

Dairy

For the dairy sector, we examined the impact of the UK-New Zealand trade deal on both cheese and butter trade. Compared with the beef and lamb results, the potential impact is much more subdued.

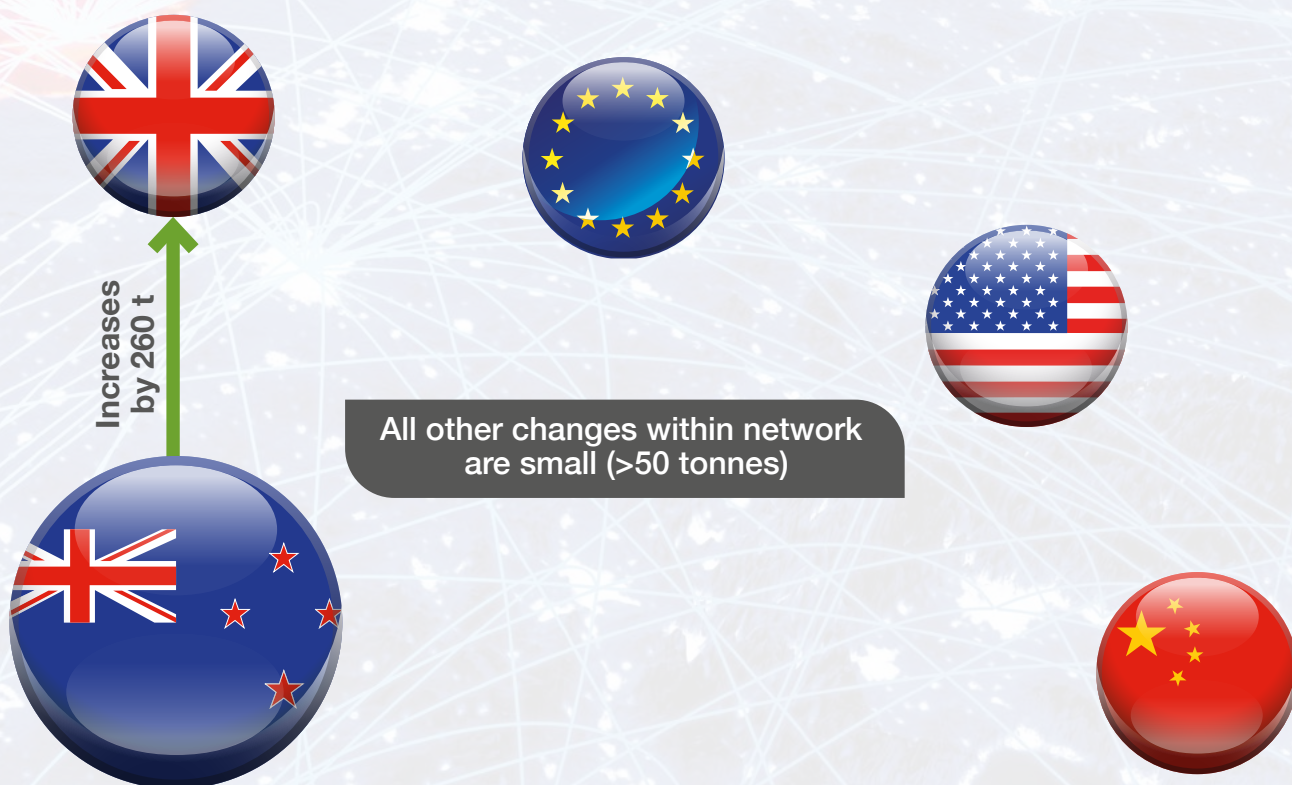


Figure 6. Main changes within the network in cheese trade flows

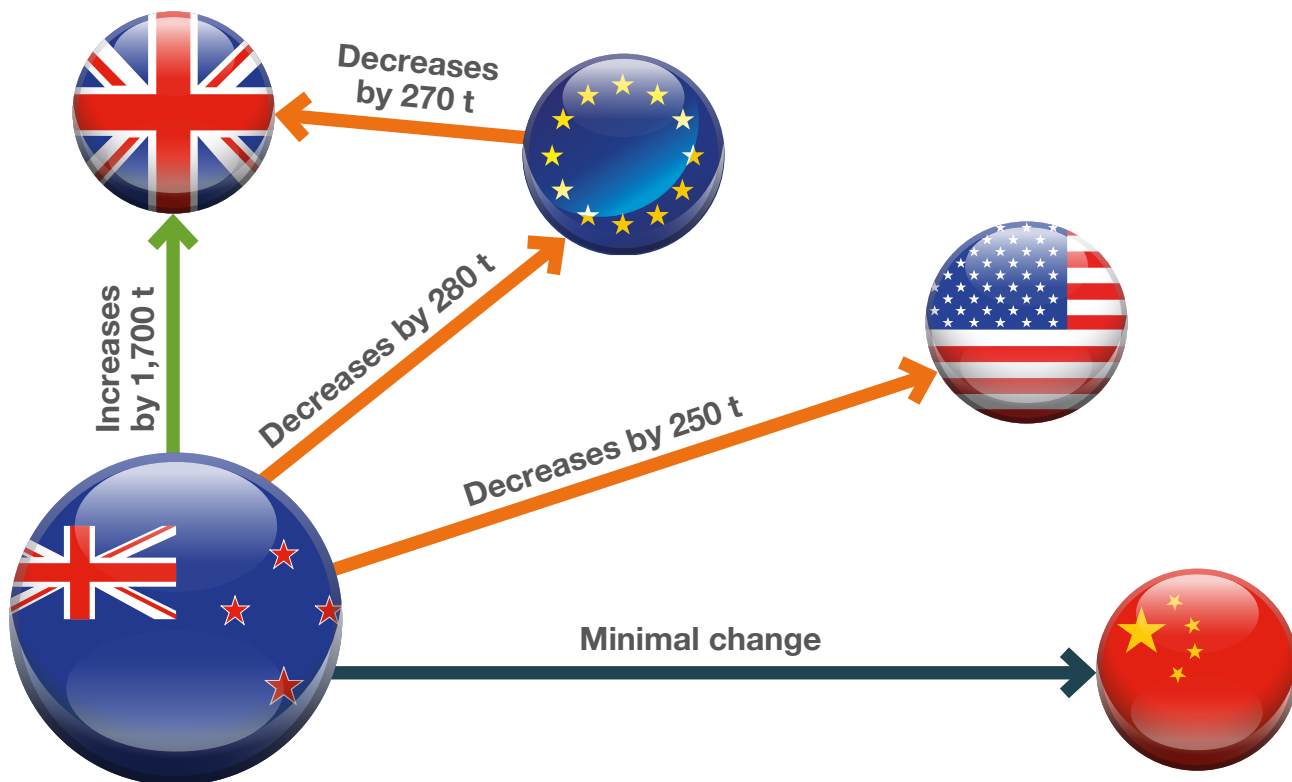


Figure 7. Main changes within the network in butter trade flows

Pork

Pork is different to the other agricultural commodities we have assessed, as New Zealand is a net importer rather than exporter. The UK is also a net importer, although it does export some pork products to New Zealand, the EU and China. In contrast the EU and USA are significant global exporters. The model suggests that any changes to trade flows for pork as a result of the trade deal will be minimal.

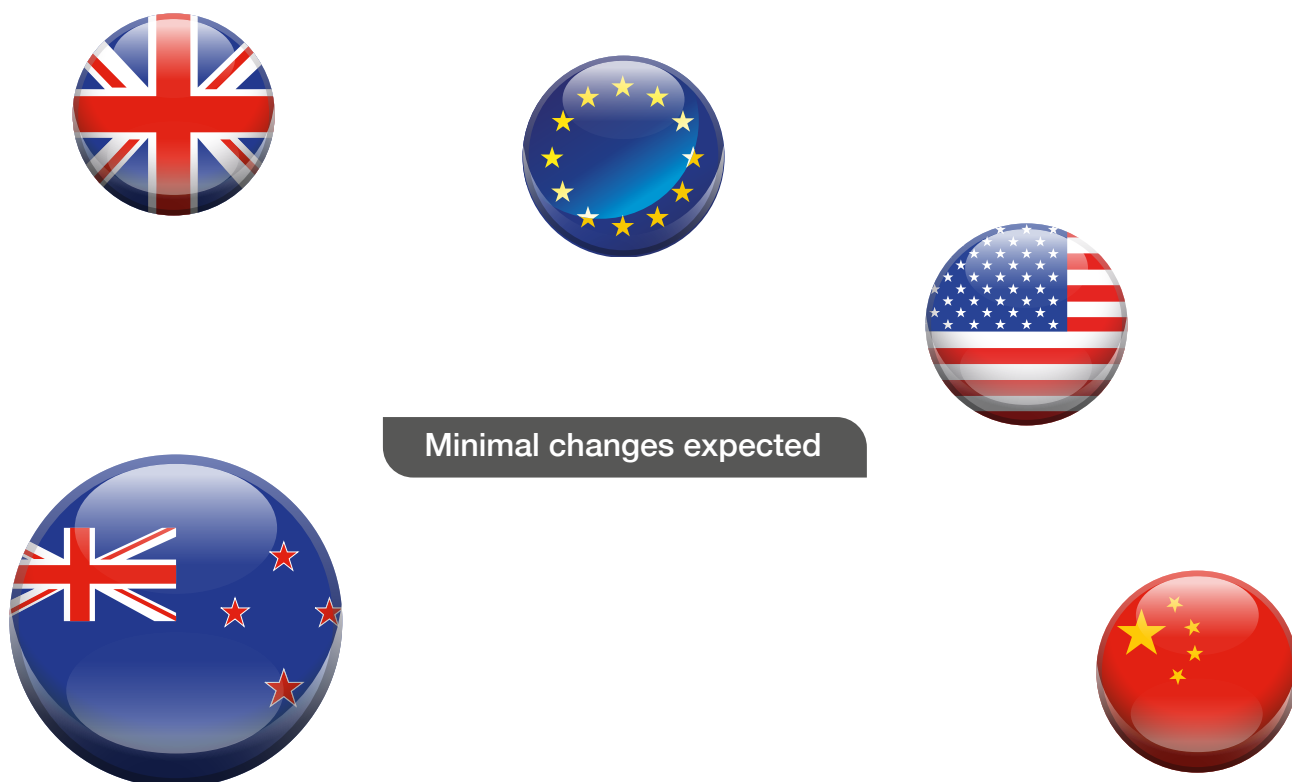


Figure 8. Minimal change expected within the network for trade flows in pork

KEY MESSAGES AND CONSUMER PERCEPTIONS

Lower costs of production do not open the floodgates to markets

The view that lower costs of production in one nation will automatically result in a flood of exportable surplus arriving on UK soil is vastly oversimplified.

International trade takes place based on supply and demand factors and major exporting nations, such as New Zealand, are well practised at supplying and marketing the various products to the markets of greatest value.

While FTAs help trade by lowering barriers to trade, they don't suddenly create new demand or supply. The relationship building throughout supply chains also takes time to establish, and many countries will invest heavily in establishing these relationships before a trade deal is even mooted.

The actual signing of the FTA is only one step in this process, albeit an important one.

Most UK consumers are unaware of the differences in standards between UK and New Zealand

AHDB commissioned consumer research with YouGov to identify UK consumers' willingness to buy imported foods from New Zealand. The majority of consumers surveyed aren't able to differentiate domestic red meat and dairy production standards with overseas production standards – around half of consumers answered each question with 'don't know'.

It's understandable that UK consumers place trust in New Zealand products, with notable pockets of consumers feeling production standards are around the same as the UK, as consumers are used to seeing New Zealand beef and lamb on the supermarket shelves.

Figure 9 shows how consumers perceive aspects of meat and dairy food production for New Zealand compared to the UK.



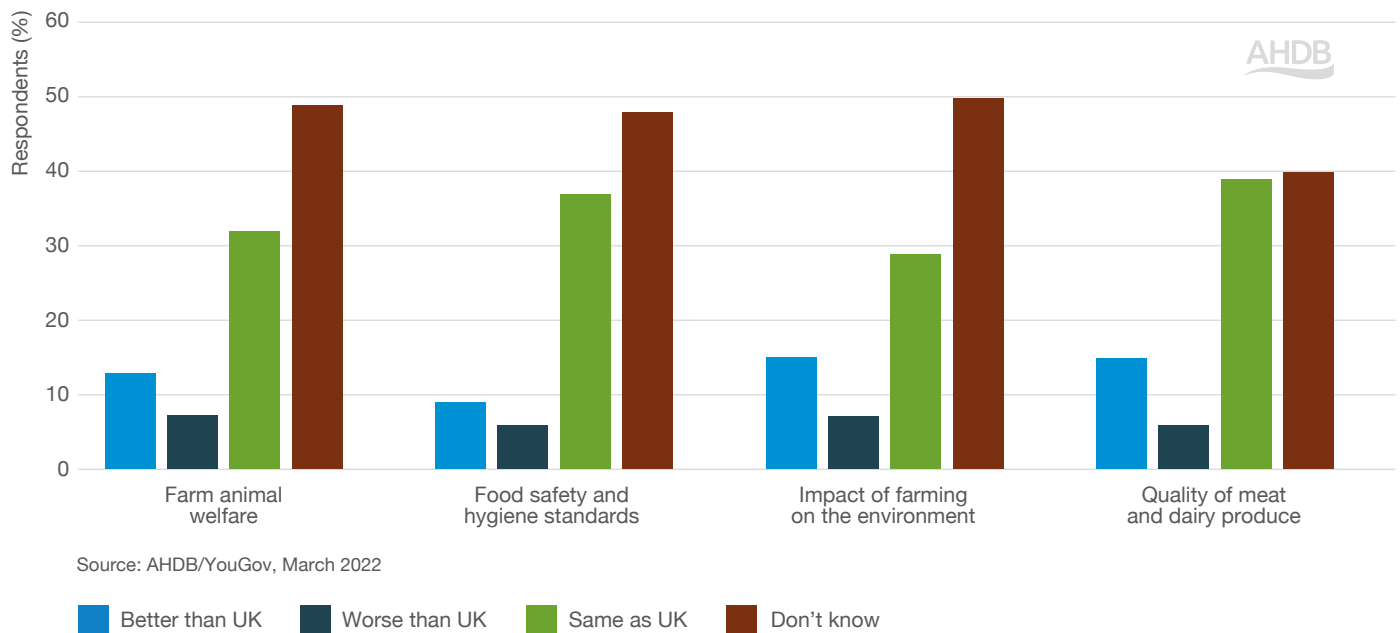


Figure 9. Please rate your impressions of these aspects of meat and dairy food production for New Zealand compared to the UK

Our research found that if meat produced in New Zealand was sold in the supermarket or in a restaurant, and was labelled as produced overseas but cost the same as British-produced meat, 42% of consumers would likely purchase it, with a similar proportion (40%) saying it was not likely.

With purse strings tightening, consumers are likely to look for cheaper alternatives, and this could include moving from British red meat to cheaper imported products such as New Zealand beef and lamb. However, currently, New Zealand and other exporters of beef and lamb are exporting to Asian countries where there is greater opportunity, therefore it is unlikely New Zealand red meat would flood UK supermarket shelves.

“As things stand, UK supermarket shelves are unlikely to be flooded with New Zealand red meat”



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Find out more

For more details on the trade modelling result and other analysis of the UK-New Zealand trade deal, visit the **AHDB UK–New Zealand trade deal analysis hub** at bit.ly/UK-NZ-FreeTradeDeal or scan the QR code for a direct link to the hub web page.



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