



Beyond Brexit: A Future Trading Framework for Scottish Agriculture



Setting the Scene

Trade is a fundamental issue for the UK and Scotland in a post-Brexit world. Leaving a 'customs union' has to have a huge impact on trading relations across the UK economy, and Scottish agriculture will neither be exempt nor immune from whatever trading framework emerges following complex negotiations.

Future international trade relationships, both with the European Union (EU) and non-EU countries, will determine Scottish agriculture's ability to access markets, shape those markets in which Scottish farmers and crofters will need to compete, impact upon production costs, and significantly influence regulatory regimes that will have to be adhered to.

It is also very clear that, whatever the UK's future trading arrangements are, they will profoundly influence future agricultural and rural policy in Scotland and the supply and movement of much-needed labour requirements for both the agricultural industry and food processing sectors.

Since the EU referendum result, there has been a great deal of speculation about the trading relationship which the UK will seek with the EU. This is a complex area with a wide range of possibilities, and the outcome is not simply a matter of UK choice but will depend on what can be negotiated with the EU.

The Importance of Trade to

- Some 62 per cent of the UK's agricultural exports are to the EU.
- Included within this total amount is 90 per cent of the UK's beef and lamb exports.
- 70 per cent of the UK's pork exports go to the EU.
- In 2014, the UK exported £141 million worth of combinable crops and £383 million worth of lamb.

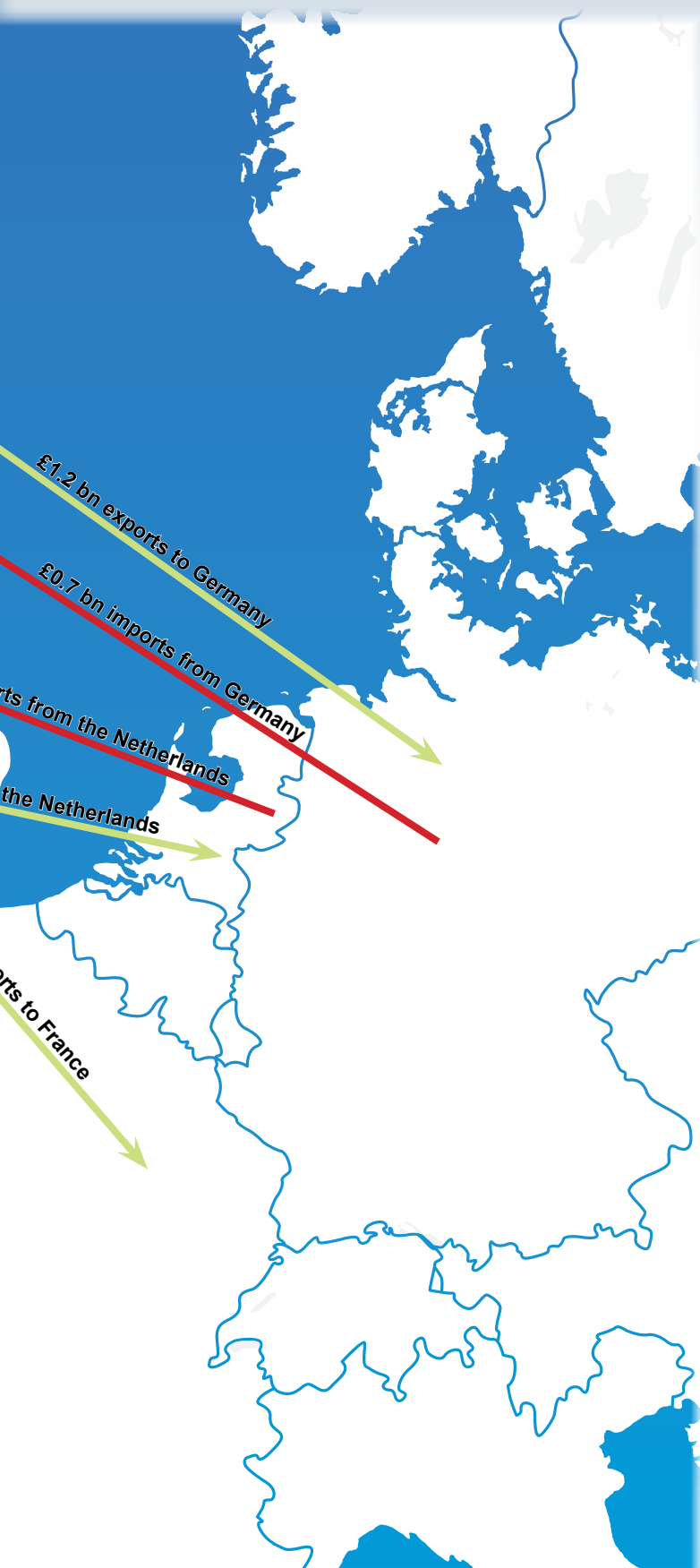
A strong two-way trading relationship with the EU has developed significantly since UK membership of the European Economic Community (EEC) in 1973.

UK food, drink and animal feed exports were valued at £18.9 billion¹ in 2014, and corresponding imports were £39.6 billion. The UK trade deficit in these products was thus £20.7 billion. This agricultural trade gap steadily widened from around £10 billion in the mid-1990s (in real terms) as the real value of imports has grown faster than that of exports.



¹ Trade statistics are sourced from Defra (2015) – Agriculture in the UK 2014

to Farming, Food and Drink



The make-up of UK food and agricultural imports (by value) are around:

- 20 per cent unprocessed commodities (fruit and vegetables, beverages and animal feed), with approx. 10 per cent exported
- 44 per cent lightly processed (meats, cheese and butter) with approx. 34 per cent exported
- 36 per cent highly processed (e.g. wine, meat products) with approx. 56 per cent exported.

From a Scottish perspective²:

- Food and drink exports to the EU were valued at £1.9 billion in 2015.
- This amounts to approximately 39 per cent of the total value of Scotland's overseas (non-UK) food and drink exports.
- When drink exports (dominated by whisky) are stripped out, food exports to the EU were valued at £724 million in 2015.
- This represents some 69 per cent of Scotland's overseas (non-UK) food exports.

Therefore, it is clear that trade currently has a massive impact on UK and Scottish farming sectors and any emerging trading relationship with the rest of the EU must be in the interests of current trade flows.

² Trade statistics are sourced from the Scottish Government's Input Output Tables and HMRC data

The Importance of Trade to

In the best interests of the agricultural, food and drinks industries, the future trade deal with the EU must be bespoke to the Scottish and UK situation. That means seeking a trading arrangement that gives the best possible access to markets inside and outside of the EU whilst protecting the UK's very high standards. Having influence over new EU rules and regulations may also be extremely important.

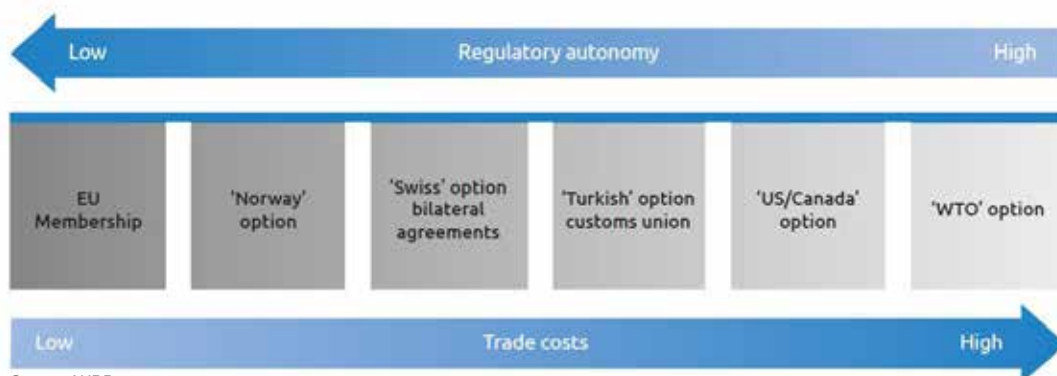
There is a great deal of speculation about the trading relationship which the UK will seek with the EU. This is a complex area and in the negotiations between the UK and the EU each party will pursue their own interests.

All the existing models of trading arrangements between the EU and other nations (as the UK will become), such as Norway, Switzerland, Turkey and Canada, do not fit to this ideal, i.e. they operate on a sliding scale of low trade costs but with a trade-off that there is little regulatory autonomy. But they do provide a starting point to at least consider the pros and cons of different approaches and negotiating positions.

Adding to the complexity is the fact that sectors of the agricultural industry vary considerably in what they need and want – for example, for sheep producers trade with the EU is extremely important, however other commodities such as milk prefer a more domestic approach.

A key aspect of the negotiations will be to find an optimal position in the trade-off between maintaining open access to the EU Single Market, which UK businesses (including agriculture and food processing) will want to preserve, and freeing the UK from what some see as an excessive EU regulatory burden.

Alternatives to full EU membership



Source: AHDB

o Farming, Food and Drink

Success in achieving an agreement similar to a Norwegian or Swiss position with open access to the Single Market could allow trading relationships to continue seamlessly. However, it also implies adopting most Single Market regulation, with some influence but no vote on how it evolves, and also contributing to the EU budget.

Seeking a bilateral Free Trade Agreement (FTA) with the EU may free the UK from some existing regulation, when the UK and Scotland eventually gets around to amending such regulation in its own legislation, and eliminate any contributions to the EU budget. But all trade destined for the EU will still have to respect EU regulatory standards.

Unilateral trade liberalisation, i.e. reverting to the World Trade Organization (WTO) default position, may well be the most damaging scenario for the profitability of British and Scottish agriculture, potentially seeing 20 per cent tariffs on food products.

Equally important for UK farming is the relationship achieved with non-EU markets in the rest of the world. The options here are just as complex. The UK as an independent country may seek to continue to apply the same terms as under the EU's FTAs and Preferential Trade Agreements (PTAs) which are in place or are under negotiation. Or the UK may seek to renegotiate these agreements. A critical issue for UK farming is whether, and to what extent, the UK will seek a more liberal trade stance, lowering the tariff protection including that applied to sensitive agricultural products such as beef, lamb, dairy and fruit and vegetables.

Over many years there has been enormous progress in liberalising trade, and tariff barriers are low but for the notable exceptions of the service and agricultural sectors. Non-tariff barriers have become more important and one of the greatest achievements of the EU has been in creating the Single Market which reduces these barriers and associated costs.

Right now, ahead of Brexit, the UK currently enjoys the best possible access to the Single Market as a full EU member, therefore any alternative arrangement almost inevitably must involve more border and custom controls and thus higher trading costs. The UK might be able to extend the benefits of current EU trade agreements with non-EU countries, but it will take considerable time to negotiate better terms on its own.

What is also of real significance is that Scotland's most important agricultural and food trading partner is the rest of the UK. Some 80 per cent of Scottish produce goes to the rest of the UK, and this cannot be undermined.

What Scottish and UK A

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NFU Scotland is determined to ensure that whatever trading settlement is reached, it is in the best interests of Scottish and UK agriculture – and the food and drinks sectors it underpins. Future trading relationships also need to recognise where the UK has comparative and absolute advantages in agriculture and food processing.

Any new trade deal must actively seek to prevent any form of ‘cheap food policy’, as importing more food would effectively export food production and food manufacturing and all the associated employment. As well as the economic cost, sucking in food imports would also export environmental, animal welfare and food standards responsibilities to others.

It is vital to the future prosperity of Scotland’s farming and food sectors that the UK has the best possible access to markets in the remaining EU. Although the UK will not be a member of the EU, it will still be the UK’s major trading partner for the foreseeable future. The UK also benefits from more than 50 trade agreements with non-EU countries and these kind of arrangements, whether re-negotiated or not, must be in place in the future.

As a consequence, NFU Scotland believes that the UK must adopt the following principles, and stick rigidly to them, in negotiating a new trading arrangement that is in the best interests of Scottish and UK agriculture.

Agriculture Needs from a Trade Deal

- **Food Security** – The UK government must recognise the potential threat of inappropriate trading arrangements on food security issues, and should seek to address declining self-sufficiency.
- **Protecting Farming's Interests** – The UK must ensure that access to UK markets for agricultural and food products is not used as a bargaining chip in negotiating comprehensive trade agreements to replace existing EU trading agreements. Market access to the UK's 65 million consumers will be highly sought after and must not be conceded easily.
- **Open Market Access** - A key principle in negotiating future trade arrangements with the EU must be reciprocal access to markets. This should see unfettered access to EU markets for UK agri-food products.
- **Removing Barriers to Trade** – To ensure improved access to agricultural markets, negotiations should take into account all tariff and Non-Tariff Barriers (NTBs) that have the potential to act as barriers to trade.
- **Equivalent Standards** – It will be vital that legislative standards adhered to by UK producers are fully met by all agricultural and food imports, to address concerns that products from elsewhere produced to lower standards could undermine domestic production. Scottish and UK farmers and food processors must not be put at a competitive disadvantage by the lack of a level playing field.
- **Setting Priorities** – The UK must negotiate new trading arrangements based on a strategic assessment of trade threats and opportunities for key sectors within the profile UK and Scottish farming, food and drinks manufacturing.
- **Promoting the Product** – The UK government and devolved administrations increase their focus on promotion of domestic products, at home and abroad, and encourages and provides necessary tools and resources to agri-food businesses to access EU and non-EU markets.



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