



How will Brexit affect
the **UK's trade**
outside the EU?

SCENE SETTING

The referendum decision on 23 June has raised a number of questions around the approach the UK Government(s) will take to areas of policy which were previously decided at EU level. One of these areas is trade.

In a previous edition of Horizon we explored how UK trade with the EU could change post-Brexit. This edition explores issues relating to UK trade with non-EU countries, reviewing the extent to which the UK's current trade arrangements with other parts of the world are dependent on membership of the EU.

While we have presented this as a separate analysis, it is important to acknowledge there are interconnections with the UK/EU relationship. For instance, if the UK were to negotiate a relationship with the EU which involves staying within the Single Market and the EU Customs Union, it would have to adopt current EU tariffs and would not have the flexibility to negotiate its own trade deals with partners outside the EU.

Within the analysis we present in later sections we make the assumption that the UK will join the World Trade Organisation (WTO), will set its own external trade policy and will not be part of the EU Customs Union post-Brexit. While this is not certain, during the referendum campaign senior Vote Leave campaigns argued that securing autonomy in this area and increasing our trade with the rest of the world would be a benefit of leaving the EU.

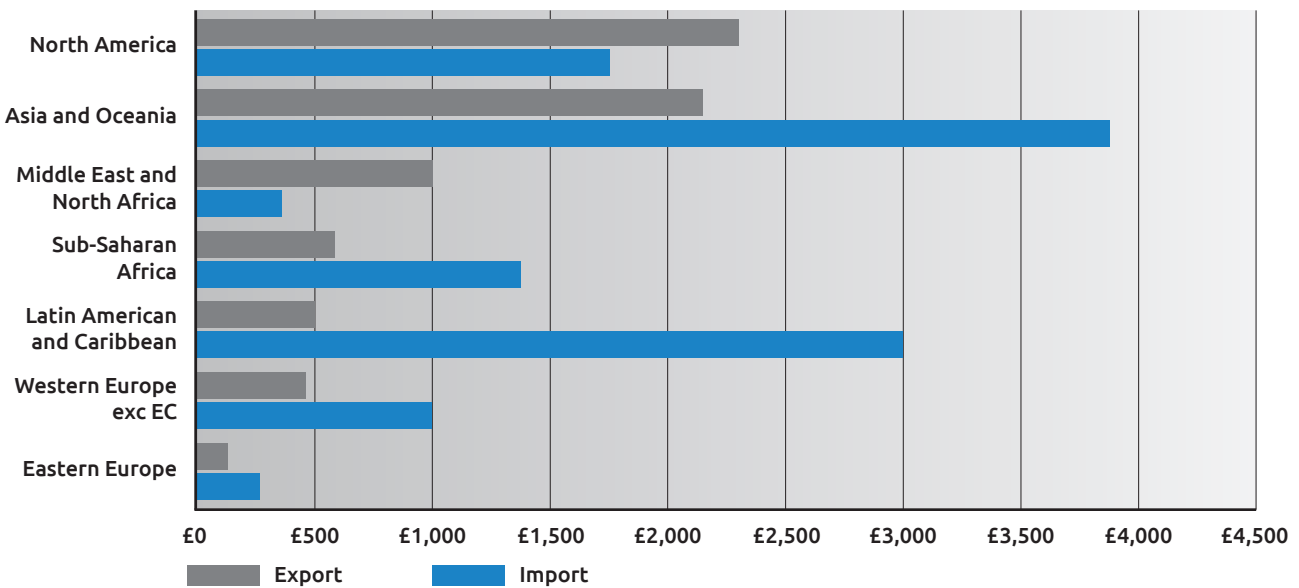
Until the moment the UK leaves the EU it remains a full Member State of the Union and therefore bound by all Treaty obligations, legislation and policy.

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CURRENT UK TRADE OUTSIDE THE EU

Current patterns of food and drink trade outside the EU (£ millions)



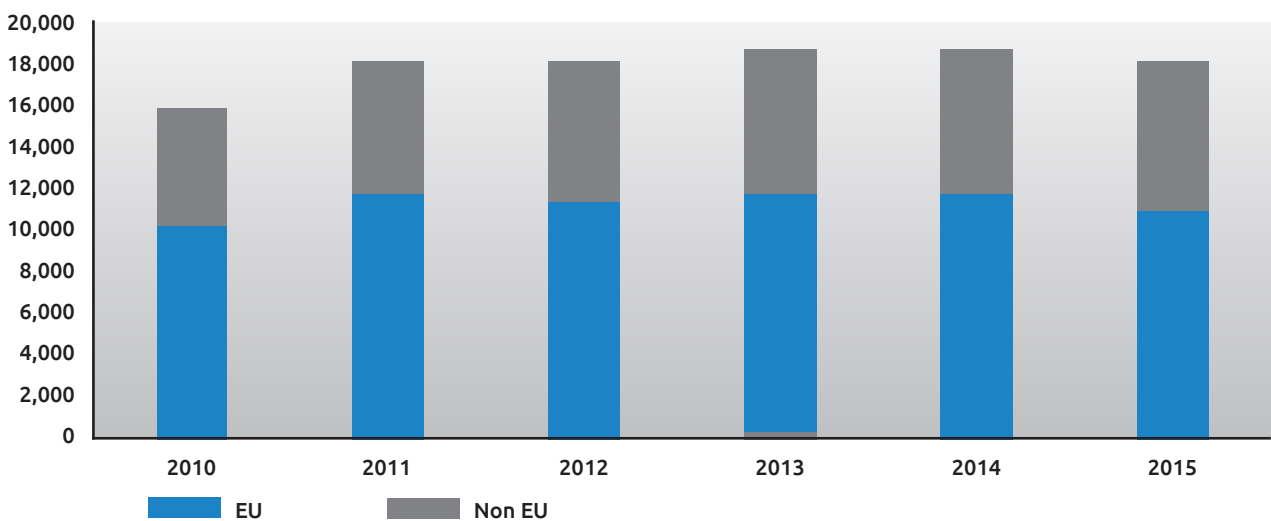
Source: HMRC 2014

The UK's main exports to the US are beverages and spirits, processed cereal and cheese. The UK's main imports are beverages and spirits, fruit, vegetables and oilseeds.

For Asia and Oceania, UK imports are dominated by meat, particularly sheep meat, from Australia and New Zealand. UK exports are mainly spirits and beverages to Hong Kong, China, Australia and Singapore, and livestock products, notably offal, to China and Hong Kong.

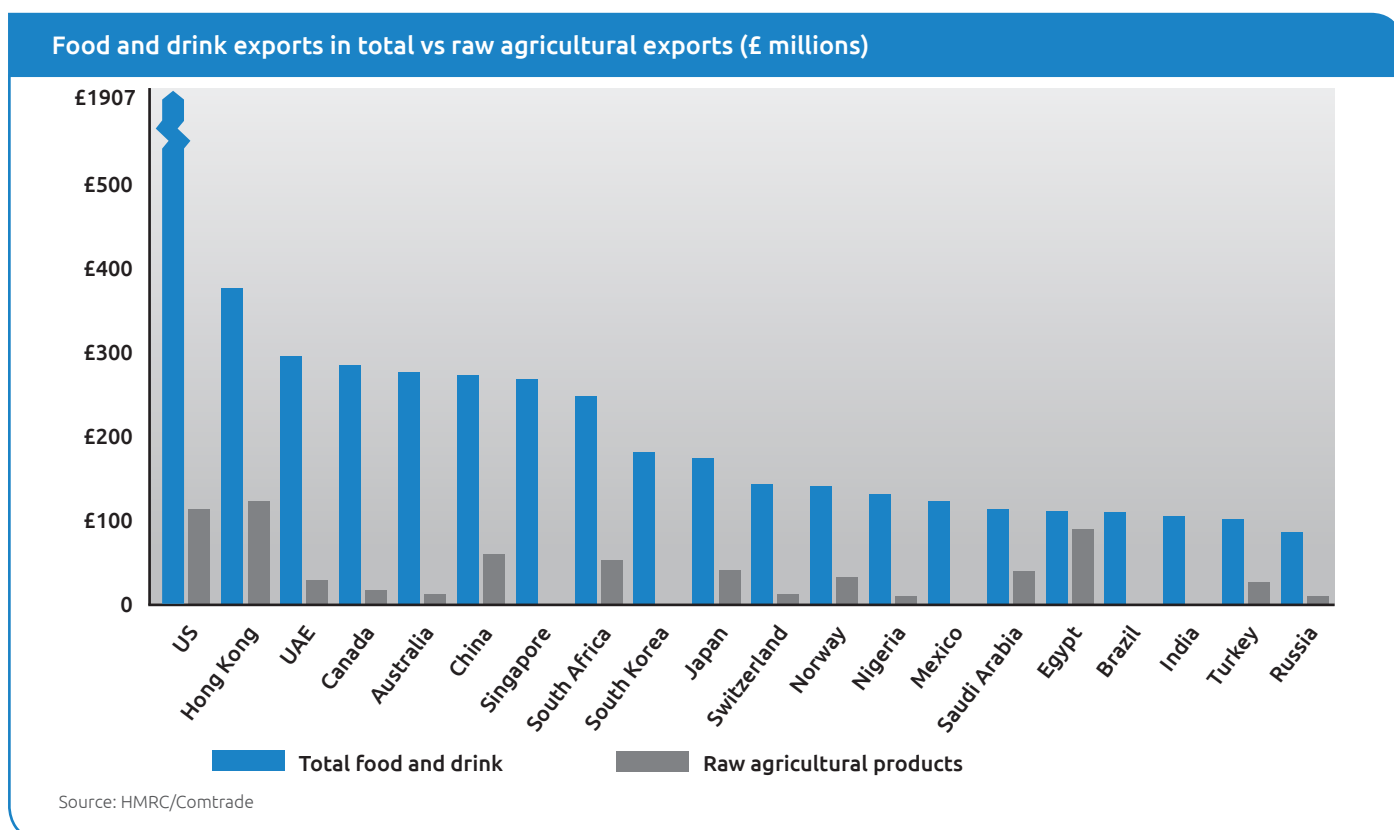
While the EU is the UK's most important trading partner, non-EU trade is becoming increasingly important, having grown from 34% (around £5.5 billion) in 2010 to 40% (around £7.3 billion) in 2015. Agriculture and global market reports identify that these markets offer the greatest predicted increase in demand for agricultural products.

UK food and drink exports (£ millions)



Source: Defra

Main export destinations of UK food and drink outside EU



Looking at UK food and drink trade with specific countries, the US is by far the most important market at present, with Hong Kong, UEA, Canada, Australia, China, Singapore, South Africa and Taiwan also significant.

In value terms, UK food and drink exports are dominated by processed products rather than raw commodities. UK exports are also diverse, encompassing milk powder, truffles, oysters, natural honey, beer, gin, cider, flavourings and specialist ingredients.

Although raw commodities only make up a small proportion of total food and drink exports, for the farming industry exports of specific commodities such as cereals to North Africa (worth £75.5 million in 2014) and seed potatoes to Egypt (worth £25.5 million in 2014) are critical in underpinning market prices.

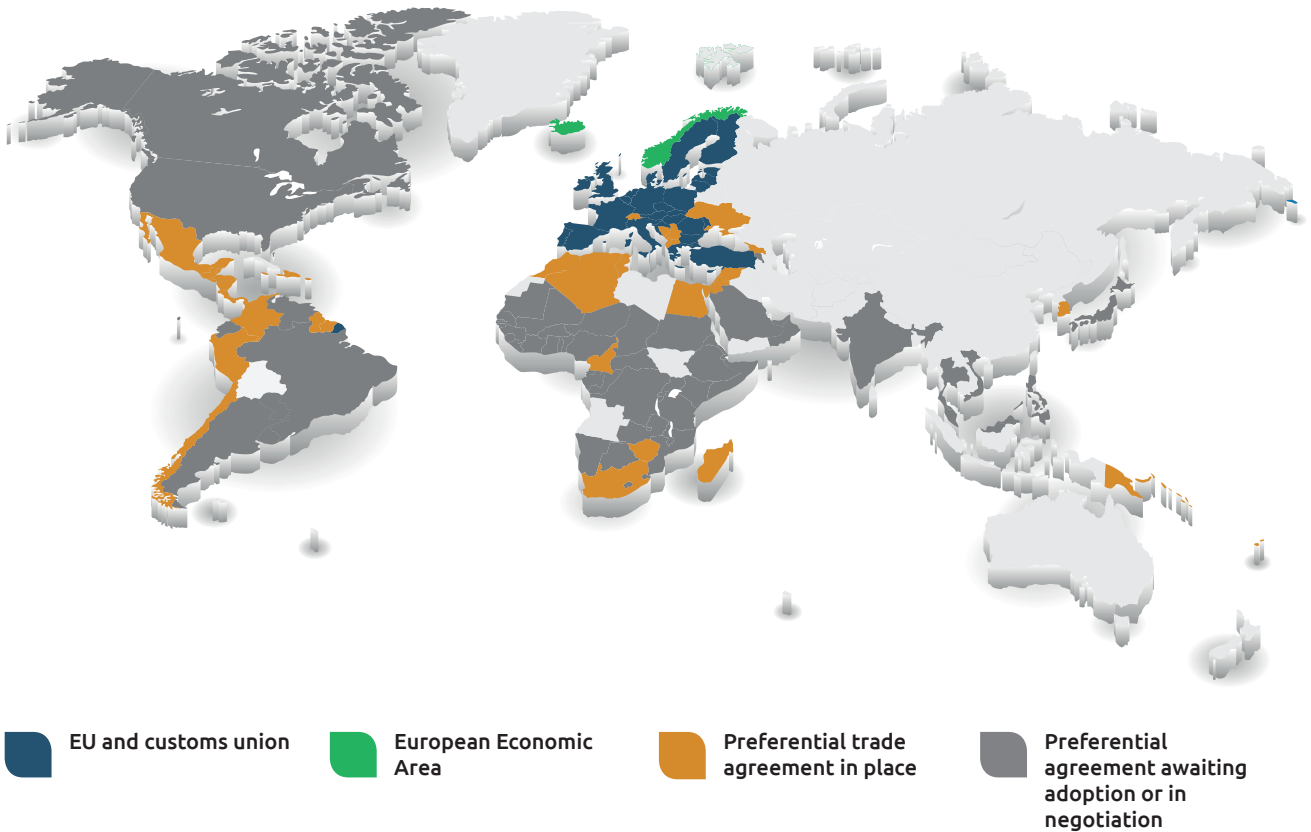
TRADE AGREEMENTS EXPLAINED

The role of the EU in trade

Trade relationships outside the EU are coordinated through the Common Commercial Policy. Within the European Commission, a Trade Commissioner leads negotiations in multilateral and bilateral trade talks. As a result of these, the EU currently has Free Trade Agreements (FTAs) with Mexico, South Africa, Chile and South Korea. Trade talks are also ongoing with other parts of the world as shown on the map page 5:

Current EU trade agreements

The state of EU Trade, June 2016



Source: European Commission

Why are trade agreements important?

Free Trade Agreements (FTAs) are designed to reduce the barriers to trade between two or more countries. These barriers are usually in the form of tariffs (a charge placed on each unit of the good imported) or quotas (a limit on the amount of good that can be imported) and are in place to help protect local markets and industries.

Trade negotiations are lengthy and complex, taking many years to reach agreement. Many suggest that the EU's negotiating weight has enabled it to achieve better results in international negotiations than individual Member States would on their own.

However, it can also be said that being part of the EU has limited the UK's ability to prioritise its own interests, with trade agendas being driven by the interests of other Member States. Brexit may provide an opportunity to pursue bilateral trade on a global basis, expanding markets such as the US, China and Russia, where much of the predicted growth in demand for agricultural produce lies. A list of pros and cons for international trade post-Brexit is outlined on page 6.

International trade: Pros and cons of being outside the EU customs union

Pros

The UK would be free to negotiate new trade deals based on domestic priorities.

The UK would have more flexibility in its negotiations and its decision-making processes, which could make negotiations simpler and less protracted.

The UK Government can choose to prioritise its own industries in line with domestic policy and set trade objectives accordingly.

The current Government has placed a greater emphasis on food exports, setting a target to increase exports by 20%¹.

Cons

As a smaller entity, the UK may not have the same leverage as the EU in negotiating international trade deals and may have less influence in global trade discussions.

The UK may lose access to existing EU free trade agreements, as this issue will form part of UK/EU negotiations.

The UK will face negotiating a number of free trade agreements with its global partners across a large number of export markets. Estimates suggest it could take 10 years to gain access to markets with which the EU currently has preferential agreements. This would leave the UK subject to World Trade Organisation (WTO) terms and tariffs for a period of years after formal Brexit.

In future, agricultural trade may be less of a priority for the UK than it was for the EU as a whole.

WHAT APPROACH WILL THE UK TAKE ON TRADE POLICY POST-BREXIT?

Trade theory

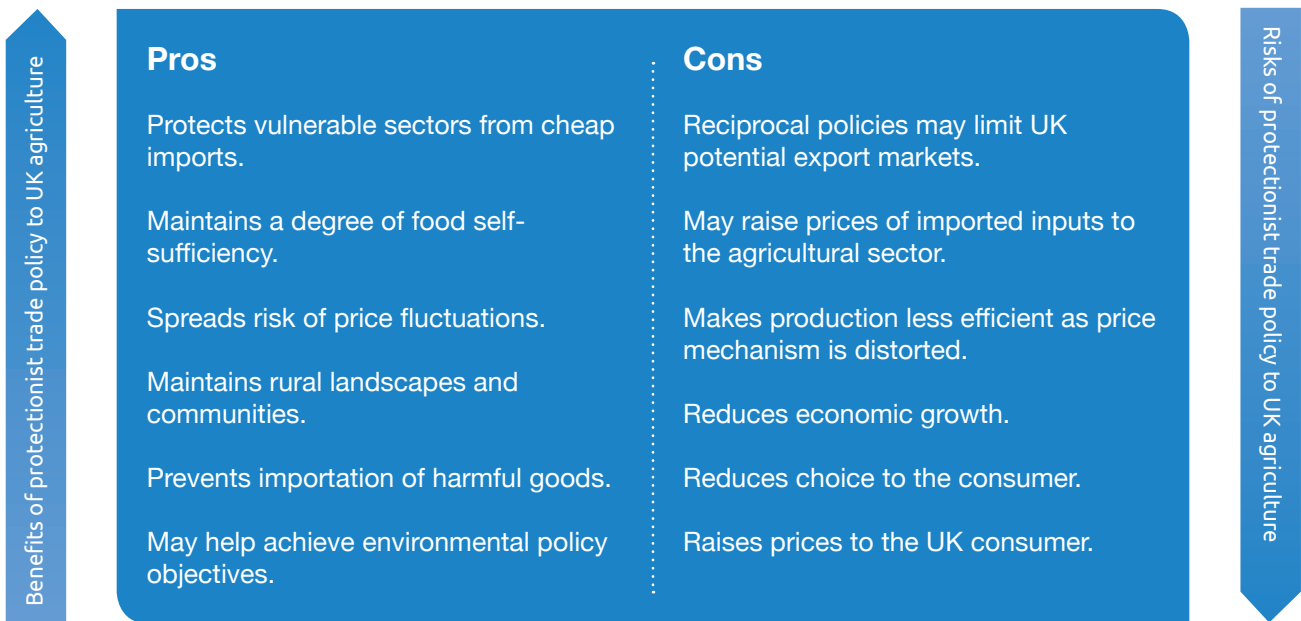
Put simply, free trade allows countries to specialise and exchange goods, creating economic growth and greater choice for the global consumer. However, few countries pursue a policy of completely free trade. The following section will attempt to explain some of the reasons why governments may wish to restrict trade.

The questions facing the UK Government post-Brexit will be:

1. Should they aim for freer or more restricted trade?
2. In which sectors should restrictions be tightened or relaxed?

¹ Defra Export Action Plan 2014 to 2020

Pros and cons of protectionist trade policy:



For the agricultural sector, economic arguments for trade restrictions include:

1. To spread the risk of fluctuating markets – a diverse UK agricultural industry spreads the risk of price fluctuations, a feature of agricultural markets.
2. Preventing the importation of harmful goods – agricultural goods produced outside the UK may not have been produced to the same standards with regard to use of pesticides, herbicides, antibiotics, etc. thus posing a potential health risk to the UK consumer.

In addition, non-economic arguments for trade restrictions include:

1. Maintaining a degree of self-sufficiency for agricultural produce, a policy pursued post-World War II.
2. Restricting trade with countries with which the UK disagrees politically.
3. Maintaining rural landscapes, communities and traditional ways of life.
4. Environmental considerations and policy objectives.

Methods of restricting trade include the use of tariffs on imports, ie a fixed amount or percentage of the price of the product added to make them more expensive to UK buyers, or quotas, ie a limit on the quantity of a good that can be imported. In addition, non-tariff barriers are frequently used, such as sanitary and phytosanitary standards (SPS) and animal welfare standards.

The issue surrounding a protectionist trade policy is primarily that it will distort trade and is highly likely to be reciprocated. As a result, it may limit economic growth, push prices up for UK consumers and potentially limit consumer choice.

The UK Government needs to decide to what extent it wishes to support the UK agricultural industry via trade policy and at what cost to the UK consumer. This also needs to be seen in the wider context of UK trade policy as a whole.

EXISTING EU TRADING STRUCTURES AND THEIR POSSIBLE INFLUENCE ON UK TRADE POST-BREXIT

Post-Brexit trade negotiations will depend very much on the relationship the UK will have with the EU following the negotiations. The UK could remain inside the Single Market, inside of the Customs Union or choose to be outside one or both.

Based on our previous assumption that the UK will be outside the Customs Union, it may find itself having to renegotiate the FTAs currently in place on a bilateral basis. The UK is already in a legal relationship with the partner countries having separately ratified these agreements. Nonetheless, at a very minimum, Brexit would imply textual changes to these agreements to recognise that the agreement is now with the UK directly and not through the EU. This would imply a process of ratification both by the UK and by each of the individual trade agreement partner countries.

This could be a lengthy process, especially given that the skill set for trade negotiations within the UK is limited, with most of the expertise in this area having been based in Brussels and negotiating on our behalf from within the EU.

Also, under the WTO agreements, countries cannot normally discriminate between their trading partners. They cannot grant someone a special favour – such as a lower customs duty rate for one of their products – without doing the same for all other WTO members. This is also known as the most favoured nation principle. This would imply that it may not be easy to maintain the market access granted under the EU’s trade agreements without negotiations to reach parallel agreements with these countries. While signing new agreements outside the EU is certainly feasible, whether details can be agreed before the end of the withdrawal period from the EU remains to be seen.

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 EU sanitary, phytosanitary and veterinary standards are equivalent to UK standards.

Below is a list of some of the countries for whom the UK has an export licence. This is not exhaustive, but intended to indicate areas where trade takes place:

| Country | Beef | Lamb | Pork | Dairy | Cereals | Potatoes |
|-----------------|------|------|------|-------|---------|----------|
| US ¹ | Yes | Yes | Yes | Yes | Yes | No |
| Hong Kong | Yes | Yes | Yes | Yes | Yes | Yes |
| UAE | No | Yes | Yes | Yes | Yes | Yes |
| Canada | Yes | Yes | Yes | Yes | Yes | No |
| Australia | No | No | Yes | Yes | Yes | No |
| China | No | No | Yes | Yes | Yes | Yes |
| Singapore | Yes | Yes | Yes | Yes | Yes | No |
| South Africa | Yes | No | Yes | Yes | Yes | No |
| Taiwan | No | No | Yes | Yes | Yes | No |
| South Korea | No | No | Yes | Yes | Yes | No |
| Japan | No | No | Yes | Yes | Yes | No |
| Saudi Arabia | No | No | No | Yes | Yes | Yes |

Source: Animal and Plant Health Agency, SASA

¹ Although an export licence for beef to US exists, the US has not completed plant inspections, which are required before trade is possible.

Membership of the EU has meant that, up until now, EU laws on sanitary and phytosanitary standards (SPS) of production were acceptable to third parties as part of EU trade agreements or arrangements currently in place on a bilateral basis. Whether other countries will accept UK standards as being equivalent to EU standards post-Brexit is not known. It may be that they are simply transferable. For instance, China tends to conduct its trade on a bilateral basis and inspects each plant in each country that it intends to trade with. Indications suggest that for China, this is unlikely to be an issue. Otherwise, the UK will either have to adopt all existing EU laws on standards of production or renegotiate each trade relationship on a bilateral basis. If SPS are not easily transferable, this could have serious implications for the continuity of trade on a technical basis.

CONCLUSIONS

Leaving the EU will affect UK agricultural trade in a number of ways. Having been a member of the EU in its various forms for over forty years, UK trade is closely intertwined with EU trade policy and agreements. Extracting ourselves from this relationship will be both complex and time consuming. Establishing external trade relationships on a stand-alone basis will be challenging.

The key issues are:

1. In size terms alone, the UK will not have the same bargaining power in negotiating trade deals as it benefited from as part of the EU. However, the UK will benefit from greater flexibility, and the ability to focus on its own priorities, rather than an EU collective set of priorities.
2. What level of priority will UK agriculture be given in negotiations? Agriculture is only one sector of the economy to consider when trade agreements are negotiated. It appears unlikely that the UK Government will place as much priority on agriculture as has been provided at an EU level – although the current Government has placed greater importance on agriculture and food exports than enjoyed in recent years.
3. The complexity and time trade negotiations take. For existing EU Free Trade Agreements (FTAs), the negotiation process will determine what share of these agreements the UK will be entitled to. For agricultural trade outside of FTAs, what sort of continuity on technical issues will be possible? Transferring EU sanitary and phytosanitary standards (SPS) to UK equivalents may be straightforward or complex.

AHDB will be continuing to monitor developments closely. A great deal will depend on how liberal the new UK Government wishes to be on trade and how agricultural trade features in the bigger trade picture of a post-Brexit UK.



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