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UK/New Zealand Free Trade Agreement - FAQ

What is the NFU's reaction to the agreement of a UK-New Zealand trade deal?

This deal represents a significant liberalisation of the UK marketplace. British farmers are being asked to go "toe to toe" with some of the most competitive and export orientated producers in the world, without any detail about how our government will work with our farmers in this new trading environment through promoting exports, driving efficiency and increasing productivity, in the way that governments such as those in Australia and New Zealand have done in recent decades.

There remains an urgent need for government to have a coherent approach across all of its departments to focus on UK farming's productivity, as well as recognise and remedy the contradictions within current domestic policy, which is still woefully sparse on the detail of how farmers will be supported to become competitive food producers at a time when food security is an increasingly important concern.

The NFU is calling on the government to explain how this deal will tangibly benefit UK farming, the future of food production and the high standards that go along with it.

What has the government agreed in its FTA with New Zealand?

From an agricultural perspective the UK government has agreed to eliminate tariffs on New Zealand imports, although they will be phased out over a period of years on some products. In agriculture, tariffs on beef will be eliminated after 10 years, with a further 5 years when a specific product specific safeguard for beef foresees the possibility of introducing a 20% tariff on volumes above a defined volume trigger. For lamb, tariffs are eliminated after 15 years. Tariffs on cheese and butter will be eliminated over a period of five years and tariffs on fresh apples will be eliminated over three years.

As with the Australia FTA, there is a bilateral safeguard which the government can use to protect domestic producers against a surge of imports (effectively it allows for tariffs to be re-imposed). The bilateral safeguard clause can be applied to any product at any time if it can be demonstrated that there is serious injury or threat of serious injury occurring. The possibility to apply the bilateral safeguard remains in place for the first five years after tariffs are phased out on a good. For example, if tariffs are removed at entry into force, the bilateral safeguard can be applied during the subsequent five years for that product; for sheep, where tariffs remain for 15 years, the bilateral safeguard clause means it is available for up to 20 years after entry into force. Once the five year period is up for each good, there is no mechanism within the FTA to protect domestic industry against a surge of New Zealand imports. Measures available at the WTO would have to be applied to all importing nations.

The NFU is disappointed that the bilateral safeguards for agricultural products are time limited. No safeguards will be available for any products once the time limit of five years expires. Moreover, the bilateral safeguard cause will be very difficult to use, as it must be demonstrated that the “harm” to domestic industry is specifically because of an increase in imports from NZ alone. It is much more likely that market fluctuations will happen because of the cumulative impact of increasing imports from around the world at the same time. The safeguard clauses in the UK-NZ FTA offer no protection against this. We call on government to step up its market monitoring to ensure any warning signs are picked up and action is taken early.

How is the NFU working with government to seize the export opportunities for UK farmers?

The NFU supports the government’s ambition to secure broad liberalisation of tariffs on a mutually beneficial basis, taking into account UK product sensitivities, such as those in the agriculture sector. We are asking government to work with us and to set out a long-term strategy to build agricultural exports as part of the broader trade strategy.

The NFU wants the government to deliver a package of measures to ensure that UK farmers are in the best position possible to export our high-quality food around the world, but also ensure that our domestic agricultural sector can increase its competitiveness and productivity. Without both elements, it will be challenging for UK farm businesses to compete with competitors like New Zealand. For example, despite the UK being amongst the top milk producing nations in the world, the cost of producing milk in New Zealand is 25% lower than in the UK. Moreover, the cost of New Zealand lamb production is 63% lower than the UK’s. Why? Because New Zealand farmers face different regulatory and climatic conditions that allow them to massively reduce their fixed costs, for example less need for buildings, winter forage crops and storage of manures.

What benefits will an FTA with New Zealand bring UK farmers?

It’s hard to see how this deal will provide any direct benefits for UK farmers. New Zealand represents a market of less than five million people (compared to the UK population of over 66 million people) and the opportunities for exports of agri-food products to New Zealand are minimal and where they do exist, it will be for finished consumer goods that are not necessarily derived from UK agricultural products. This is not just because of population size, but also because New Zealand produces very similar things to us and is largely self-sufficient, with the vast majority of its farmers producing for the export market. For example, New Zealand is 880% self-sufficient in liquid milk and exports over 90% of the beef it produces. New Zealand already levies very few tariffs on agricultural imports which means that this deal has a negligible effect in terms of improving access for exports from the UK to New Zealand.

It should be noted that in the government’s own impact assessment it is estimated that the agriculture, forestry and fishing and semi-processed foods sectors are expected to experience a **reduction in gross value added (GVA) of around 0.35% (£48 million) and 1.16% (£97 million) respectively.** These results are primarily driven by increased import competition in beef. The additional analysis included in the impact assessment for beef, also sets out a predicted reduction in gross output (compared to where we would be without the FTA), of 1% of output. In value terms this is equivalent to £29million off the bottom line of UK beef production.

The UK government should set out clearly the export opportunities it expects UK farmers to benefit from as a result of this trade deal and how it will help our farmers realise those opportunities.

New Zealand is a much smaller country than Australia - so are UK farmers still concerned about an FTA?

Yes – although New Zealand is a smaller country, it is a net exporter of agri-food goods. With the majority of its farmers producing for the export market, it punches well above its size on the international market. For example, Fonterra the New Zealand Dairy co-op controls 30% of global dairy trade. New Zealand is also one of the largest exporters of lamb to the world, second only to Australia. The Department for International Trade's own modelling suggests that in the long run, New Zealand producers may be able to supply the UK market at a lower cost relative to domestic producers. Price competition from imports, for example arising with New Zealand beef produced from its extensive dairy herd, is concerning to UK farmers, particularly without a strategy on how to build agri-food export markets for UK farmers or a joined-up approach to domestic policy that reduces regulatory burdens and improves UK agricultural competitiveness.

What are the implications of this deal for future trade deals?

UK farmers are concerned that the deals with Australia and New Zealand will set a precedent for trade deals with Canada, the USA, Mexico, India and others such as the major agricultural producers in South America. Fully liberalising the UK's sensitive agricultural sectors, even with "phase out" periods for tariffs, undermines the investments that UK farmers have been making, both on farm to improve productivity and deliver environmental or animal welfare gains but also in increasing their market share at home and abroad. At a time when domestic support for agriculture is also being completely overhauled it adds to the uncertainty and ultimately creates an un-level playing field for our farmers to compete on.

What are the sensitive farming sectors in the New Zealand trade deal and why?

- **Dairy**
    - New Zealand is a global powerhouse in dairy production. It has a self-sufficiency of c. 880% in dairy and exports 95% of what they produce.
    - The main export from New Zealand is whole milk powder, but they also export a substantial amount of butter and cheese.
    - The dairy industry forms a significant part of the New Zealand economy, accounting for around 3% of GDP.
    - Dairy is New Zealand's biggest export earner, with exports of approximately $ (NZD) 17 billion a year - which amounts to 20% of the country's total exports.
    - The cost of producing milk in New Zealand is 25% lower than in the UK.
    - The dairy co-op Fonterra controls the majority of the New Zealand milk market. Fonterra is the world's largest dairy exporter and accounts for approximately 30% of global dairy trade. It processes 17 billion litres (82%) of New Zealand's milk production and 95% of their local production is exported to over 100 countries. They have

business interests around the world and operate several joint venture projects in other markets.
- Between 2014 and 2017 there was over $ (NZD) 2bn capital investment in the dairy processing sector in New Zealand. As a result, the sector is set up to be flexible and can quickly respond to market demand by producing a range of products for different markets.
- The UK is already self-sufficient in liquid milk, producing 6.7m tonnes a year. We are historically a net importer of dairy products but in 2020, the UK recorded a trade surplus in volume terms for total dairy for a second consecutive year (to note this includes shipments of unprocessed milk/raw milk crossing the border for processing). However, in value terms, there was a further increase in the trade deficit, amounting to £1.16bn for all dairy products.

- **Beef**
  - New Zealand beef production is heavily focussed on the export market, and they export over 90% of the beef they produce.
  - The expansion of New Zealand's dairy herd has also driven an expansion in beef production. Approximately 70% of the adult cattle slaughtered each year in New Zealand (and essentially 100 percent of the calves slaughtered) now have their origin in the dairy industry.
  - New Zealand is heavily reliant on the Chinese and US export markets for beef - those two countries account for 72% of total New Zealand exports. This market growth is subject to change and in 2020 demand from China dropped resulting in an increase of exports into other markets such as Canada and Taiwan. This desire to diversify marketing outlets is a key driver for New Zealand in agreeing a deal with the UK.
  - In recent years over 80% of UK beef imports from New Zealand were frozen product. This product is most likely destined for food service and manufacturing sectors, where the preference is for frozen product. Margins are tight in this sector and cheaper NZ beef would be very attractive to sourcing comparable but more expensive British product, especially as in the out of home sector provenance is not readily labelled. Increased competition from New Zealand beef therefore risks prices for UK farmers being driven down or leaves them unable to compete.
  - The cost of producing beef in New Zealand on average is lower than in the UK[1] and is substantially lower than the UK pasture-based systems (i.e. systems where cattle spend the majority of their time grazing grass). This is due to lower breeding costs, cheaper factors of production and thanks to the benign climate, the grass grows for longer and most of the rainfall comes in the summer removing the need to house livestock which reduces costs.

- **Apples**
  - New Zealand is a major producer and exporter of apples. New Zealand exports around 65% of the apples it produces and 70% of exports are fresh.
  - The UK is 39% self-sufficient in eating apples and in 2019 produced 206,500 tonnes.
  - New Zealand produces similar varieties to those grown in the UK, for example Braeburn, Cox and Royal Gala varieties. This means it is possible for New Zealand apples to undercut UK growers with the same variety. New Zealand is also able to meet UK retailer specification which means substitution of more expensive domestic product is likely.

[1] https://www.mla.com.au/globalassets/mla-corporate/prices--markets/documents/trends--analysis/agri-benchmark/mla_agribenchmark-beef-results-report_jan-20182.pdf

  - The UK's Global Tariff puts a seasonal tariff in place for apples, which means higher tariffs apply to imports from third countries when the UK crop is in season. Out of season tariffs are lower to recognise the UK's import requirement. However, improvements in storability means that New Zealand apples can encroach on the UK apple season. Any reduction in the in-season tariff could result in an increase in New Zealand apples on the UK market during our domestic season.
  - According to FAO data, the farmgate price for New Zealand apples are typically $(USD)400-$500/t less than UK apples. This means it would be cost effective for an importer to import apples from New Zealand into the UK and store them for use during the UK season.
  - Data from the FAO shows New Zealand apple producers are significantly more productive than in the UK i.e. they produce more apples per hectare farmed. This is most likely due to better access to labour via the Recognised Seasonal Employment (RSE) Workers Scheme (14,400 employed in October 2019) and access to more plant protection products which allows them to better tackle pests, weeds and diseases.
  - The growing conditions in New Zealand are different to the UK so making like for like comparison on PPP availability can be disingenuous, but their more independent approach to regulation of products, based on risk without hazard cut-off criteria, means products which have been banned in the UK are still allowed to be used in New Zealand. Growers in the UK practise integrated pest management – a holistic approach using both cultural and chemical controls – but ultimately farmers in New Zealand have more tools at their disposal when trying to combat pests, weeds and diseases.

- **Lamb**
  - The New Zealand sheep sector is focused almost entirely on the export market and around 98% of New Zealand lamb produced is exported. New Zealand is the second largest exporter of sheep meat in the word, (second to Australia) and in 2018 controlled 41% of the global trade.
  - The cost of production of lamb in New Zealand is on average 63% lower than in the UK.
  - In 2019 the UK was 109% self-sufficient in lamb. However, domestic consumption continues to drop and the gap between production and consumption widens further, the exportable surplus of UK lamb continues to grow.
  - China is the main export market for New Zealand lamb. As with Australia, this market could change in the future, as Chinese demand for lamb softens as their domestic pig production recovers from the African Swine Fever epidemic and consumers switch back to pork. Again, the desire to diversify marketing outlets is a key driver for New Zealand in agreeing a deal with the UK.

New Zealand have similar farming standards as us, so should we be concerned about imports?

The UK and New Zealand lead the world in terms of climate friendly farming and our farmers certainly feel a kinship with their New Zealand counterparts. However, although New Zealand has similar ambitions with respect to animal welfare and environmental standards, their cost of production is still significantly lower for a number of products, which gives them a huge advantage over UK farming. For example, the cost of production of lamb in New Zealand is on average 63% lower than in the UK and cost of producing milk in New Zealand is 25% lower than in the UK.

There are a number of reasons why the cost of producing in New Zealand is so much lower. Due to a much smaller population – 5m compared to the UK's 67m – there is much less competition for land and farms tend to be larger. For example, the average UK dairy herd is around 150 cows, compared to 440 cows in New Zealand. Farmers in New Zealand also have access to cheaper labour and more crop protection tools compared to farmers in the UK. Differences in climate also means that animals in New Zealand can be kept outside for longer which reduced cost.

New Zealand aren't filling their quota for exporting lamb to the UK already so why should we worry that they will increase exports to us?

The EU-NZ sheep meat quota has not been filled since 2008 as New Zealand exports have pivoted towards China. However, New Zealand remain a significant supplier of lamb to the UK and in 2019 supplied 38,675 tonnes which is 63% of the UK's total imports of sheep meat. New Zealand has invested heavily in its processing sector and generally exports cuts rather than carcases, like the UK. This means they are well placed to take advantage of changes in global markets and can direct different products to the most profitable outlets. The fact that New Zealand does not currently fill its quota does not mean that it will not seek to exceed export volumes to the UK in excess of the current quota limit in future.

New Zealand and the UK are very similar countries so why isn't it easy to compete in terms of exports?

There are both similarities and differences with respect to UK and New Zealand agriculture. UK farmers operate in a far more densely populated island, for example. England is one of the top 20 most densely countries in the world, whereas New Zealand is 166th on that list, with 19 people per KM² compared to 432 in England. This means land is a much scarcer and more expensive factor of production. It also underpins rigorous, expensive and time-consuming planning controls that UK farmers and growers often have to navigate when investing in their businesses.

New Zealand is also much more geared up to be an exporting country. They have 18 Agricultural Attachés located in 13 countries around the world promoting and facilitating New Zealand exports. Some of these 18 attaches are paid for by the New Zealand government and others are part funded by industry. In comparison, the UK has two, one located in the Gulf and one in China, with the China posting funded primarily (80%) by industry.

Last year the government responded to the NFU's calls and did announce that eight new agri-food and drink attachés would be placed in strategic markets. They are expected to be in place before the end of 2022. This is a welcome commitment. However, with our first new FTAs now signed, they must be put in position as a matter of priority, and with sufficient resource and energy, to ensure British farmers can embrace the opportunities ahead. The NFU has been lobbying the UK Government to commit to a properly funded cross-departmental strategy on exports too to improve UK farmers' productivity and exporting ability .

It is important to acknowledge that realising export opportunities takes time. For example, in recent years New Zealand has improved their competitiveness in fresh lamb exports through investing significantly in processing and transport. "Super chilled" container ships extend the lamb's shelf life from 28 days to 60 days. By comparison, Meat Promotion Wales has started investing in using these innovative methods in the processing and production of Welsh lamb and has achieved a 16% (5 day) improvement resulting in a shelf life of 33 days. To compete, we need investment, and we need time to get these exporting operations set up.

Another example is the New Zealand dairy industry, which is highly concentrated. Since 2014 there has been over $2bn capital investment in the dairy processing sector and Fonterra, the major NZ dairy co-op, buys around 90% of the milk produced in NZ controlling 30% of global dairy trade. The sector is set up to be flexible depending on market demand and can produce a number of products for different markets.

How will the fact that the UK dairy sector is so highly valued by the public here impact on New Zealand dairy imports?

The dairy co-op Fonterra controls the majority of the New Zealand milk market. Fonterra is the world's largest dairy exporter and accounts for approximately 30% of global dairy trade. It processes 17 billion litres (82%) of New Zealand's milk production and 95% of their local production is exported to over 100 countries. They have business interests around the world and operate several joint venture projects in other markets.

In comparison, the UK, the dairy sector is subject to highly volatile markets and producers are often tied into restrictive supply contracts with processors, giving them limited space to manage price volatility.

We welcome the recent announcement from the UK government that it will be introducing a dairy supply chain mandatory Code of Conduct, but this will take time to design and implement. In the meantime, if the UK dairy market is significantly liberalised granting greater market access for imports, there is a risk that markets would become more volatile and without the right tools or flexibility to manage this, farmgate margins would be put under severe pressure.

Why does it matter if the New Zealanders only export premium meat cuts to the UK?

New Zealand currently sends cheaper cuts of beef to the US, but the majority of its more expensive cuts come to European markets. Even small volumes of high value cuts of beef (such as steaks) could impact UK beef farmers. UK beef production is only viable if the high value cuts are sold at a competitive price. If UK farmers are unable to sell these because they cannot compete with New Zealand (given the differences in costs of production), their businesses will struggle to remain viable only through selling the much cheaper meat cuts like mince and stewing steak.

Will UK Geographical Indicators (GIs) receive protection in a New Zealand trade deal?

The NFU supports maintaining a system that protects current GIs and develops new ones to safeguard and promote high value products. The UK has over 70 GIs on agricultural products, such as West Country Cheddar or Welsh lamb and believes they should receive protection in any future trade deal.

It is disappointing to see that there are only provisions to protect Scottish whisky in the agreement and nothing about the rest of the UK GIs despite this being of real importance to UK exporters. The UK and NZ will review the situation if NZ signs an international agreement that requires NZ to protect GIs or if NZ adopts any substantive change to its GIs regime (e.g.

introduction of a scheme for the registration and protection of agri-food GIs). If New Zealand does not introduce a scheme within two years after entry of force of the agreement, both sides will review the provisions related to GIs. There is no legal requirement to agree anything, just to revisit discussions.