



24 April 2017

Mr Andrew Dawson
Inquiry Secretary
Joint Standing Committee on Foreign Affairs, Defence and Trade
Email: andrew.dawson.reps@aph.gov.au

Dear Mr Dawson

I am the Chair of the Australian Meat Processor Corporation ("AMPC").

Red meat industry research and development and marketing arrangements are established by the *Australian Meat and Live-stock Industry Act 1997*, under which AMPC is the declared research and marketing body for the Australian meat processing industry.

The red meat processing industry is an important industry both regionally and nationally because the industry accounts for \$23 billion of value add, and approximately 135,000 FTE jobs including flow-on effects. Additionally, over 70% of product processed by our members are exported to over 86 countries around the world including the EU.

Specifically, AMPC as the Meat Processor Body, provides leadership in the provision of services relating to Research and Development and Marketing in the meat processing industry for the benefit of its Members (meat processors), and the community in general. In formulating its research agenda AMPC has identified six key material risks, namely:

- International competition
- Changing consumption patterns
- Regulatory environment
- Value chain integration
- Social licence to operate
- Climate change

As a leading exporter, the future of our red meat industry is intrinsically linked to international markets and, in face of rising exports competition and shifting global demand, the industry will need to work hard to protect and/or improve its position. Post-EU Britain, in this context, becomes a very important market and we are happy to devote our resources to ensure that Australia is a winner in the significant opportunity that post-EU Britain provides.

Against this background, AMPC noted the establishment of the Parliamentary Inquiry by the Joint Standing Committee of Foreign Affairs, Defence and Trade, Trade Sub-Committee on *Australia's trade and investment relationship with the United Kingdom*. AMPC warmly welcomed the email from you dated 20 April 2017 in which you stated that the Sub-Committee asked that you bring this inquiry to the attention of the Australian Meat Processor Corporation and invite the AMPC to contribute a submission.



Your email noted that Submissions from a range of agricultural producers and processors both here and in the UK have highlighted the trade opportunities for Australia in the UK and the EU, but the Sub-Committee would welcome a national overview from the AMPC on Australia's trade relationship in meat exports to the UK and what barriers to trade and investment in meat exports need to be highlighted in any proposed post-Brexit trade agreement between both countries.

In this regard, the AMPC decided to commission SG Heilbron Economic & Policy Consulting and ITS Global to prepare an independent Briefing Paper that provides empirical data and other relevant information to inform the Inquiry's deliberations. A copy of the Paper is attached.

The analysis of these issues in the Paper is undertaken from the perspective of meat processors. As you noted, several submissions have been made regarding meat interests in the Inquiry, including from a meat and livestock industry organisation the Red Meat Advisory Council which includes the Australian Meat Industry Council. AMPC believes that the attached submission provides substantive information requested by your email which is missing from RMAC's submission.

The Briefing Paper is divided into the following sections:

1. Current policy regime and trade flows for red meat into the UK and EU
 - a. EU access framework and levels of trade
 - b. Australian access framework and levels of trade
2. Possible consequences of Brexit for Australian red meat exporters, including trade access, potential action by competitors (e.g. US, Brazil) and their implications
3. Potential opportunities and risks for Australian red meat exporters, including recommendations for enhancing Australia's red meat trade relationship with the UK.

I would like to draw to the attention of the Inquiry to some key findings of the Paper, including that:

- There is a clear opportunity to expand Australian red meat exports to the UK.
- It may be wise for Australian authorities to begin informal discussions with the UK authorities once there is clarity in the UK about how to proceed. It would be sensible to initiate such discussions in parallel with consideration of agricultural trade questions during the Brexit negotiations.
- It is likely the UK will not be in position to negotiate FTAs with other economies until the Brexit negotiations are concluded. There is also a distinct possibility the UK will give priority to negotiating FTAs with economies that are more important to the UK, e.g. the US, rather than smaller trading partners like Australia.
- These likely delays, as well as any additional delay caused by the recently-announced UK Election, will give importers, exporters and processors time to adjust in both the UK and Australia. Government authorities in Australia should use this time to closely monitor the Brexit process, and to engage constructively with their UK counterparts.

The Paper has several conclusions, including that:

- Based on the Paper's analysis of trade patterns and policies, opportunities and risks, the Australian red meat industry clearly has significant interests in the outcome of Brexit and in the positions taken by Australia in trade negotiations with the UK and EU.
- There is a need for the Australian Government to recognise the industry's significant interests, to consult closely with the industry in its dealings with the UK and EU in the lead up to and post-Brexit, and to reflect the industry's interests in whatever trade agreements and arrangements it enters into with both the UK and the EU.



The Paper also identifies some guiding principles which should be applied in the process of negotiating the above arrangements. These principles are:

1. The overriding principle in negotiations with the UK and the EU should be to achieve the expansion of Australian red meat trade with the UK and the EU;
2. The expansion should be achieved through the reduction of trade barriers as a step towards freer trade in red meat;
3. Where trade is restricted, this should be done in a manner that is consistent with WTO obligations;
4. In particular, WTO requirements for SPS restrictions to be science-based rather than based on the precautionary principle should be adopted by the UK and the EU; and
5. Consistent with the need for transparency and the use of border protection measures which do not distort trade, quantitative restrictions such as TRQs should be replaced by tariffs as a step towards eliminating protection altogether.

For its part, the Australian red meat industry will continue researching, monitoring, analysing and developing positions on trade policy relating to the UK and EU and making representations to the Australian Government with the aim of maximising the trade gains to the industry occasioned by the UK's exit from the European Union.

AMPC welcomes the opportunity to provide this submission and would appreciate being able to present this contribution to the Inquiry's deliberations at a hearing should this be possible, and to provide any further information that the Inquiry requires.

As the R&D provider to the red meat processing industry we remain ready and able to contribute to the deliberations of the Committee.

Yours sincerely,

Peter Noble
Chair

S G HEILBRON

ECONOMIC AND POLICY CONSULTING

Briefing Paper for Joint Parliamentary Inquiry into Australia's trade and investment relationship with the United Kingdom

SG Heilbron Economic & Policy Consulting and ITS Global

March 2017

S G Heilbron Pty Ltd
ABN 45 050 279 966

Level 1, 181 Bay Street
Brighton VIC 3186

Telephone (03) 9595 3513
Facsimile (03) 9595 3800

Contents

Introduction	3
1. Current policy regime and trade flows for red meat into UK and EU	4
EU access framework and levels of trade.....	4
Australian access framework and levels of trade	6
Subsidies.....	6
Tariffs and tariff rate quotas	6
SPS measures that affect Australian producers of beef	7
The precautionary principle	8
2. Impact of Brexit for Australian red meat exporters	9
3. Opportunities, risks and recommendations for trade policy	11
The strategic context.....	11
Beef	12
Sheepmeat	13
Opportunities and risks	14
Recommendations	16

Introduction

This briefing provides information for AMPC to submit to the *Inquiry into Australia's trade and investment relationship with the United Kingdom*, which is being carried out by the Joint Standing Committee of Foreign Affairs, Defence and Trade. The briefing is divided into the following sections:

1. Current policy regime and trade flows for red meat into the UK and EU
 - a. EU access framework and levels of trade
 - b. Australian access framework and levels of trade
2. Possible consequences of Brexit for Australian red meat exporters, including trade access, potential action by competitors (e.g. US, Brazil) and their implications
3. Potential opportunities and risks for Australian red meat exporters, including recommendations for enhancing Australia's red meat trade relationship with the UK

This briefing has been prepared based on multiple references, and reflects the analysis of SG Heilbron and ITS Global.

1. Current policy regime and trade flows for red meat into UK and EU

The United Kingdom currently forms part of the EU Customs Union and Common Market. This has several important effects regarding agricultural trade:

1. Agricultural products imported into the UK and originating in other EU member states are treated as domestic goods, and are therefore tariff-free and not subject to import quotas;
2. The UK is bound to apply EU trade policy which regulates agricultural imports from the rest of the world. Trade regulations include tariffs and tariff rate quotas (TRQs), sanitary and phytosanitary (SPS) restrictions, and other barriers to agricultural goods; and
3. UK beef and sheep farmers receive substantial subsidies under the EU's Common Agricultural Policy (CAP). These subsidies undermine the ability of non-EU red meat products to compete in the UK (and broader EU) market.

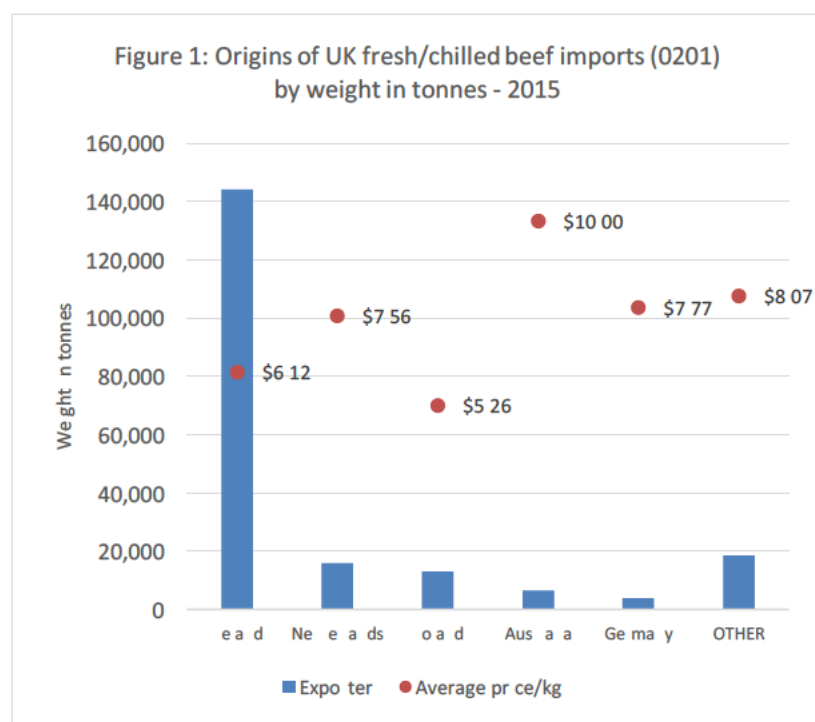
The following sections will compare the agricultural trade access regimes currently faced by red meat exports to the UK from EU member states and from Australia.

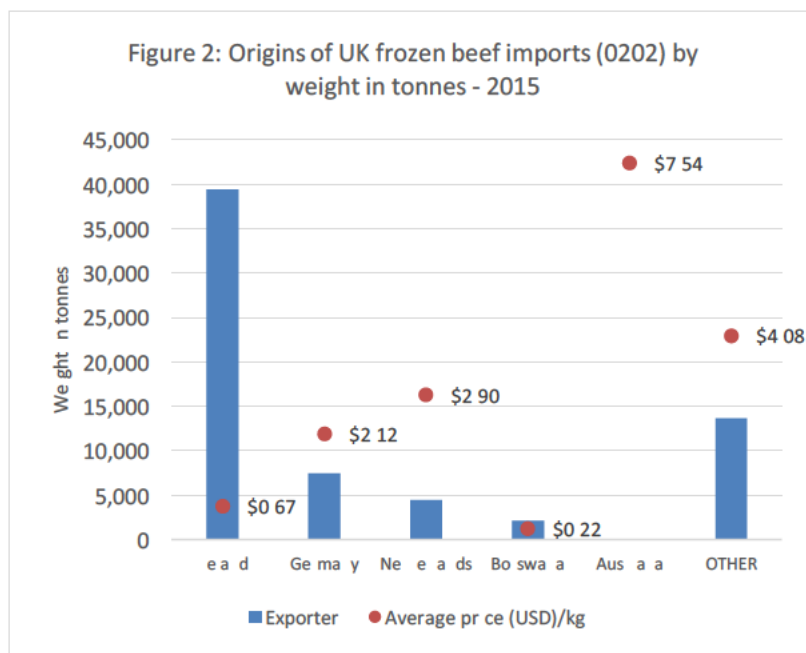
EU access framework and levels of trade

Agricultural goods including beef and sheepmeat from the other 27 member states of the European Union enjoy tariff- and quota-free access to the UK market.

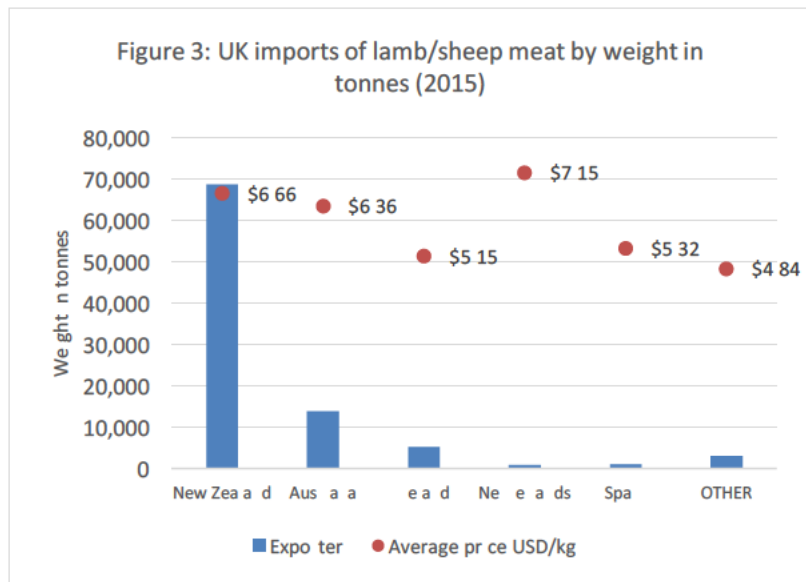
Beef and sheepmeat traded among EU member states needs to comply with common sanitary and phytosanitary (SPS) standards. These SPS measures will be addressed in the following section, which examines barriers faced by beef and sheepmeat originating in Australia.

The UK imports significant volumes of beef (both fresh/chilled and frozen), sheep and lamb meat from EU member states. Of the UK's total fresh/chilled beef imports in 2015, 92% came from EU member states, with Ireland alone accounting for 71%. EU member states also supplied 88% of the UK's frozen beef imports in the same year, with 59% coming from Ireland. See Figures 1 and 2 for details. Imports from Australia have the highest average price for fresh/chilled and frozen beef.





EU members supply less sheep and lamb. In 2015, just 10% of UK imports of sheepmeat came from EU member states, with New Zealand providing 74% and Australia 15%. See Figure 3. Sheepmeat imports from Australia have the highest average price.



Australian access framework and levels of trade

Australian exporters of beef and sheepmeat to the European Union – including the UK – face multiple restrictions. These include subsidies, tariff rate quotas (TRQ), ex-quota tariffs and SPS rules.

Subsidies

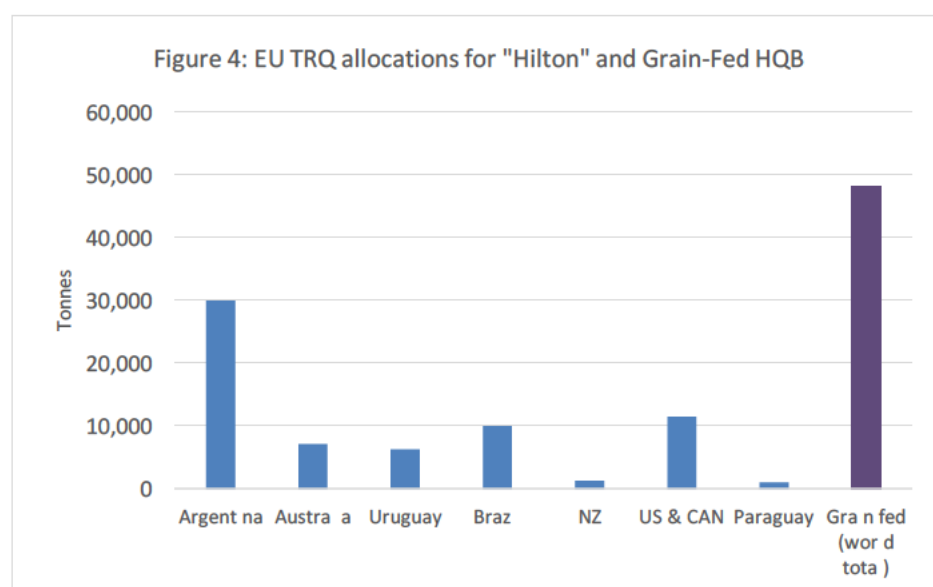
The EU farming sector is heavily subsidised, and the UK is no exception. Farmers in the UK receive an estimated 60 percent of their income from EU subsidies paid under the Common Agricultural Policy (CAP). These subsidies exert downward pressure on red meat prices in the UK market, and act in concert with tariffs, TRQs and SPS restrictions to protect UK and EU farmers from ex-EU competition.

Subsidies received by UK beef and sheepmeat farmers include direct production-based payments (such as payments to Scottish beef farmers for each calf produced) as well as de-coupled support, including payments based on total land area farmed. In 2015, these subsidies totalled EUR4.1 billion.²

Australian red meat products that are imported into the EU market (including the UK), compete against the produce of these highly-subsidised UK producers, and against subsidised producers from elsewhere in the EU.

Tariffs and tariff rate quotas

The EU trade policy regime applies a range of tariff rates to imports of beef and sheepmeat. These depend on the category and origin of the meat products. The rules that are most relevant to Australia's beef exports are the TRQs for grass-fed high quality beef (HQB; known as the "Hilton" beef quota) and for grain-fed high-quality beef. Australia is allocated 7,150 tonnes of the Hilton quota per year (for which a 20% duty is applied), and shares in the total global grain-fed quota of 48,200 tonnes with a zero percent tariff, which is allocated on a first come, first served basis. See Figure 4 below.

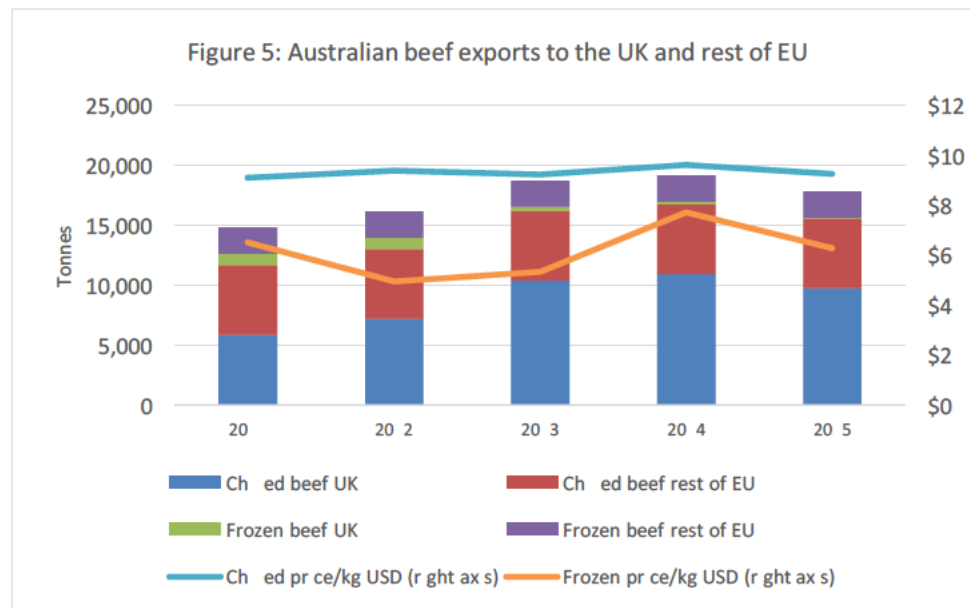


¹ See <http://www.bbc.com/news/business-38510423>

² Source: LEGATUM INSTITUTE SPECIAL TRADE COMMISSION BRIEFING THE OPPORTUNITIES AND CHALLENGES FOR BRITISH AGRICULTURE POST-BREXIT, p10

Australia's actual exports of beef to the EU (including the UK) are in line with these TRQs. For example, in 2015, Australia exported a total of 17,834MT of beef to the EU.³ It is likely that almost all of this amount fell within the 7,150MT Hilton quota and Australia's share of the global grain-fed HQB quota. This suggests that the higher ex-quota tariff on beef (of 12.8% plus EUR265.20 per 100kgs) is an effective barrier to Australian beef exports. Based on the average unit price for Australian beef in 2015, and on current EUR/USD exchange rates, this ex-quota tariff amounts to a total duty in excess of 40%.⁴

See Figure 5 for details of Australia's beef exports to the UK and the rest of the EU in 2015.



SPS measures that affect Australian producers of beef

EU import restrictions – which apply to UK imports at the current time – prohibit the import of beef and sheepmeat products that have been produced using certain processes that are common in many meat-producing markets. These include:

- A prohibition on the production, importation and marketing of meat products produced using hormone growth promotants (HGP)s⁵, as the substances “*may be dangerous for consumers... [and] may also affect the quality of the meat.*”⁶ These substances are not commonly understood to present a material risk, and have been cleared for use in many meat-producing nations, including the US, Canada, Australia and Argentina.⁷

³ Source: UN Comtrade

⁴ EUR265.2/100kg = EUR2.65/kg = USD2.82 = 30.5% of the average unit price of Australian fresh/chilled beef in the UK market (USD9.25). Plus 12.8% = 43.3%

⁵ “substances having a thyrostatic action or substances having an oestrogenic, androgenic or gestagenic action” - see <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:31981L0602&from=EN>

⁶ <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:31981L0602&from=EN>

⁷ The hormone restrictions were successfully challenged by the US and Canada at the WTO, and in 1998 the Dispute Settlement Body adopted a report that found that the measures were inconsistent with the requirements of Articles 3.1, 5.1 and 5.5 of the Sanitary Phytosanitary (SPS) Agreement. As a result, the US and

- A prohibition on the use of anything other than water and a few certified substances to clean beef and sheepmeat.⁸

In addition, beef destined for the EU must have been supplied through a EUCAS-accredited supply chain, including producers, feedlots and saleyards. EUCAS accreditation in Australia is implemented by the Australian Quarantine Inspection Service (AQIS).⁹ EUCAS requires individual animal traceback capability on all animals slaughtered for the EU market.¹⁰

The precautionary principle

Food safety in EU legislation is guided by the precautionary principle, which is described in Article 191 of the Treaty on the functioning of the European Union. The precautionary principle allows EU regulators to prohibit products and processes that may have damaging effects on human, animal or plant health or the environment. *“Recourse to the precautionary principle presupposes that potentially dangerous effects deriving from a phenomenon, product or process have been identified, and that scientific evaluation does not allow the risk to be determined with sufficient certainty”*¹¹

The precautionary principle is at odds with the WTO SPS Agreement, which requires member states to present scientific evidence to support any SPS regulation that has a negative effect on trade.

Under the precautionary principle, products and processes can be prohibited based on a “potentially dangerous” effect, with no onus for proof that the danger exists.

Key EU legislation is influenced by the precautionary principle, including the regulatory framework for chemicals ((EC) N 1907/EC) and the General regulation on food law ((EC) N 178/2002). Without the precautionary principle, it is unlikely that SPS barriers such as the ban on HGP and other agricultural prohibitions such as the ban on genetically modified plant products - would have been implemented.

Canada have been granted the right to impose countervailing tariffs on EU goods totalling US\$125 million. This decision was upheld in 2004 after the EU sought an end to the retaliatory measures. Since 2009, the EU and US have managed the issue under a Memorandum of Understanding, which sets rules governing beef imports to the EU, and increased duties applied by the US to some EU products. See

https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds26_e.htm

⁸ USTR, *National Trade Estimate Report*, 2016

⁹ <http://www.agriculture.gov.au/export/controlled-goods/meat/elmer-3/eucas>

¹⁰ <http://www.agriculture.gov.au/export/controlled-goods/meat/elmer-3/eucas>

¹¹ EC, *COMMUNICATION FROM THE COMMISSION on the precautionary principle*, 2000

2. Impact of Brexit for Australian red meat exporters

Currently Australia's rights to export farm products to the UK are limited to agreements negotiated with the EU and bound as commitments under WTO rules.

The details of how the UK will implement Brexit remain unknown except for a statement of intent by the Government to complete the process within two years. It is expected to initiate the separation process within a few weeks.

It would be reasonable to assume the first step the UK would take would be to retain existing commitments to regulate trade in agricultural products negotiated as party to the EU which have been scheduled as WTO commitments.

It should be assumed UK farm interests will insist on retention of the equivalent levels of protection currently provided in the UK's EU agricultural commitments. The UK farm industry exerts considerable influence over UK farm policy. That policy is regulated by DEFRA (the government agency which is responsible both for agricultural policy and environment policy). While farm interests might seek to reduce some of the environmental restrictions imposed on farming in the UK, and will have some influence since they are strongly connected to the Conservative Party, they will not be able to reduce them all and in fact will support those measures which give them financial benefit.

Where new export opportunities arise for Australian red meat producers will be in those sectors where UK producers cannot meet domestic demand. Beef and Lamb in particular figure. In 2015, UK farms produced 883,000MT of beef and veal. In the same year, total beef and veal consumption in the UK was 1,182,000MT

Freed from the requirement under EU farm trade policy to give preference to higher product agricultural products from other EU economies, a natural opportunity for lower price high quality beef naturally presents itself.

A key issue for the Australian industry to sort out is what happens to the share provided to the UK market of lucratively priced "Hilton" beef to the EU. Australian suppliers of Hilton beef will want assurance their share of the market to the EU minus the UK is maintained. For the UK market, will the UK retain that highly valued quota or let the price run back to what the market sets?

Most of the beef supplied to the UK market is from Ireland. Ireland is also the destination for almost 40% of UK beef exports, although the volume is much smaller than the trade in the opposite direction. What does UK withdrawal from the EU mean for these two markets?

Ireland is the biggest supplier of beef to the UK; however Australian beef sells at a higher unit value in the UK market (see Figures 2 and 3 on page 5). This is likely due to a combination of factors, including: the effects of the in-quota 20% tariff for beef exported under Australia's Hilton quota; and the fact that much of Australian beef that enters the UK represents higher-value grain-fed product and/or premium cuts.

Post-Brexit, it is likely that beef entering the UK market from Ireland and elsewhere in the EU will face the same access constraints as Australian beef. This levelling of the playing field will support the competitiveness of Australian beef against EU suppliers.

A key consideration however is whether or not Australian red meat producers can rapidly increase supply to the UK market even in the event of improved access and/or competitiveness. Given the recent increase in demand for Australian red meat exports as Asian markets open under recent Free Trade Agreements, Australia producers will probably not be in a position to meet a sudden expansion of market opportunities in the UK.

Another potential constraint to Australia's ability to supply the UK market is the hormone growth promotant (HGP) restriction. As addressed in the following section of this briefing, if the UK maintains the HGP restriction after leaving the EU, Australian producers will struggle to materially increase supply to the UK market.

A golden rule in trade liberalization is to avoid sudden changes in markets. The most effective form of market opening is to put arrangements in place such that market restrictions are reduced progressively, not suddenly.

There is a clear opportunity to expand Australian red meat exports to the UK. Australian government authorities have already signalled interest in negotiating a Free Trade Agreement with the UK. Presumably a primary interest is to promote the red meat trade.

It may be wiser for Australian authorities to begin informal discussions with the UK authorities once there is clarity in the UK about how to proceed. It would be sensible to initiate such discussions in parallel with consideration of agricultural trade questions during the Brexit negotiations.

It is likely the UK will not be in position to negotiate FTAs with other economies until the Brexit negotiations are concluded. There is also a distinct possibility the UK will give priority to negotiating FTAs with economies that are more important to the UK, e.g. the US, rather than smaller trading partners like Australia.

These likely delays will give importers, exporters and processors time to adjust in both the UK and Australia. Government authorities in Australia should use this time to closely monitor the Brexit process, and to engage constructively with UK counterparts.

3. Opportunities, risks and recommendations for trade policy

The strategic context

Britain's exit from the EU poses a challenge to Australia's red meat industry of some complexity. There is uncertainty over the timing of the exit and the nature of trade arrangements that will be put in place thereafter. Generally, there is an assumption being made that once exit has been achieved, two years after it formally commences, additional time will be needed before Britain negotiates its own trade agreements. In the interim, WTO arrangements will apply.

At some point, it is expected that the UK will set in motion negotiations with its trading partners both within and outside the EU. This provides the opportunity for Australia to negotiate a new set of trade agreements with Britain, and to undertake a similar exercise with the remainder of the EU. These negotiations could provide opportunities for expanded access which could benefit the export-oriented Australian red meat industry. However, it should be noted that it does not appear that negotiating an FTA with Australia is a very high priority for either the UK Government or the European Union.

Australia currently exports relatively small volumes of red meat to the EU (including the UK) due to constraints on market access. These constraints include the tariff rate quotas (TRQs) that are discussed in the first section of this briefing. In addition, EU sanitary and phytosanitary (SPS) rules require all beef imports to be free of hormone growth promotants ("HGP-free"). These barriers result in a compliance regime which raises costs for Australian livestock producers. Costs relate to both compliance with the licensing and auditing requirements of the EU Cattle Accreditation Scheme (EUCAS), as well as opportunity costs for livestock producers who must forego the superior growth rates and carcass weights enabled by use of HGPs.

Historically, the HGP restrictions have resulted in premiums having to be paid for Australian cattle destined for EU beef markets. However, in recent years, there has been an expanded supply of HGP-free cattle in Australia, due to the promotion of HGP-free beef by retailers in the Australian domestic market. The increased supply of HGP-free cattle has seen the premiums paid for such cattle decline considerably. The costs associated with HGP-free status and the reduced premiums paid for HGP-free beef impose significant constraints on the capacity of Australian livestock producers to supply cattle for the EU market.

Current arrangements with both markets (the EU as a whole, and the UK) severely constrain access for the red meat industry. This applies both with respect to tariff quota and SPS restrictions. Both serve to raise the cost of Australian beef to European consumers. Tariff quota restrictions also constrain sheepmeat exports.

Accordingly, the EU is currently not a major market for Australian red meat in volume terms. However, due to the rents associated with quantitative restrictions on imports by the EU, the high costs of supplying EU cattle, and the fact that Australian exporters have been forced by competitive pressure to sell a variety of higher value meat products to the EU, the EU markets generate high unit prices for Australian beef exports. For example, almost all Australian beef exports to the EU are higher value chilled (rather than lower-cost frozen) products. Most of these products are high value cuts such as topside, striploin, rumps and ribeye.

Reflecting the interplay of the above factors, Australia has been a consistently high user of its HQB Hilton quota, almost fully utilising its access for many years. Australia has similarly exported around 14,000MT of grain fed beef out of the 48,200MT ² global quota available. Australia nevertheless is disadvantaged in terms of EU access relative to its major international beef market competitors. Argentina, Brazil and the US/Canada have larger Hilton quota allocations (although they do not appear to make full use of them). Australia shares access to the global grain fed beef quota with the US, Canada, Uruguay New Zealand and Argentina.

In terms of sheepmeat, Australia is disadvantaged in the EU market access regime compared to key competitor New Zealand. Australia has access to a quota of around 19,000MT compared with New Zealand's 288,000MT. However, Australia utilises a larger proportion of its quota, exporting around 16,900MT (89 percent) whereas New Zealand only utilises around 60 per cent of its own quota. ³

In terms of red meat exports to the UK, as distinct from the EU as a whole ⁴,

- The UK is a major market for Australian exports of beef to the EU. The UK accounts for 55% of Australia's beef exports to the European market - Australia exports 9,830MT of beef to the UK, out of the 17,834MT Australia exports to the EU as a whole.
- Australia is the UK's most important source of beef imports from outside of the EU. In 2015, 38% of UK fresh/chilled beef imports from non-EU sources in MT terms came from Australia.
- However, by far the biggest source of UK beef imports is from within the EU, as one would expect given the high trade barriers constraining imports from outside the common market. Australia only supplies 2.4 per cent of the UK's total beef imports by volume. Ireland is the largest supplier, accounting for 68 per cent.

Beef

In relation to beef,

- To date, the US - which is a major competitor to Australia in world beef markets - has not had a significant presence in the UK and EU market. The restriction on HGP use in livestock has been a major factor. The US beef industry is also a large scale, commodity-focused industry which makes it more challenging for the US to supply relative small volumes of product with special SPS requirements. Australia has been more able than the US to supply small volumes of higher value cuts that comply with SPS requirements into the EU market.
- However, the US has engaged in a long-running dispute with the EU over the HGP restriction relating to beef and chlorine washing bans on chicken meat. This conflict remains a high-profile irritant in the EU/US trade relationship. The US has recently signalled the re-opening of its campaign in the WTO against the EU's HGP stance, which has been found by the WTO to conflict with the science-based SPS agreement, and which has resulted in the US implementing retaliatory tariffs on selected imports from the EU.

¹² Industry source

¹³ Source: UN Comtrade

¹⁴ Source for all figures: UN Comtrade

- Brazil, which is the largest supplier of beef overall into the EU, mainly supplies lower value frozen beef and thus competes in a different segment of the market to Australia.
- The UK is not only an importer of beef but also an exporter. Out of 883,000MT of beef produced in Britain in 2015, 150,396MT¹⁵ was exported, mainly to other EU countries (especially Ireland). This means that export access to the EU is important for the UK beef industry. Given that Ireland is also the major supplier of beef to the UK, both parties clearly have an interest in maintaining relatively open borders for agricultural trade.
- Australia receives high prices in its beef trade with the UK in comparison with the average price Australia receives for beef exports, and compared to other suppliers into the UK market. For example, in 2015, Australian chilled beef imported into the UK had an average price of USD9.25/kg, compared to Australia's average beef export price of USD7.34/kg. In the same year, fresh/chilled beef imported into the UK from other suppliers achieved an average price of just USD6.52/kg.¹⁷
- There is constrained capacity for Australia to supply the EU beef market. Even if the TRQ constraint were to be eased or eliminated, Australian exporters would be constrained from significantly expanding beef exports to the EU by the HGP-free requirement.

Sheepmeat¹⁸

In relation to sheepmeat,

- The UK is the main market for Australian sheepmeat in the EU. The UK accounts for 77 per cent of Australia's sheepmeat exports to the European market.
- In 2015, Australia accounted for 16.6 per cent of UK imports from all non-EU sources in MT terms. Australia has consistently maintained 2nd position as a supplier of sheepmeat to the UK since market access restrictions coming into place in 1973.
- However New Zealand has the bulk of the UK's sheepmeat import market, accounting for 74% of total UK sheepmeat imports, and 82% of imports from non-EU origins.

In relation to the sheepmeat trade with the UK and EU, it is worth noting that:

- Despite its market-leading position, New Zealand has struggled to fill its quota for sheepmeat exported to the EU. The New Zealand industry suffers from ongoing capacity challenges in many sub-optimal scale processing facilities.
- As is the case with beef mentioned above, Australia has focused its sheepmeat trade with the EU at the higher-value chilled product segment of the market.

¹⁵ Source: UK Yearbook 2016 Cattle

¹⁶ Source: UN COMtrade

¹⁷ Source: UN Comtrade

¹⁸ Source for all figures: UN Comtrade

Opportunities and risks

Fundamentally, the exit of the UK from the EU will create the opportunity for Australia to increase its access to the UK market for red meat. The opportunities and risks which are explored in more detail below - include the following:

Opportunities

- The UK could reduce and/or eliminate the tariffs and tariff rate quotas (TRQs) that currently constrain the entry of Australian red meat exports.
- The UK could eliminate the restriction on beef produced using hormone growth promotants (HGP), and other SPS measures.
- EU member states that currently enjoy tariff- and quota-free access to the EU market could lose this advantage, allowing Australia to compete on even terms with these producers.
- The UK could effectively reduce the subsidy support currently received by UK beef and sheepmeat farmers.

Risks

- The UK could act to protect domestic agricultural producers by increasing tariffs and/or tightening tariff rate quotas.
- The UK could move to increase SPS restrictions on red meat imports.
- Any Australian gains in the UK market could be offset by losses in the rest of the EU, which could move to increase barriers to entry post-Brexit.
- If the UK reduces SPS barriers, Australian exports may be exposed to increased competition from other beef-producing markets such as the US and Brazil.
- The UK government could increase subsidies for red meat producers.

Identifying the potential outcomes entails addressing a series of questions:

1. When the UK exits the EU, will it maintain a tariff rate quota as a protective measure for its red meat industries? The UK could continue to use the TRQ to protect its domestic beef industry, but this would continue to cost consumers and distort trade. It could convert the TRQ into a tariff only which would be a less trade-distorting measure but the tariff would have to be higher than it is currently if it were to have the same protective effect as the TRQ. It could replace a TRQ with a subsidy to its industry, which would be more transparent to consumers but would be a cost to taxpayers.
2. If the UK maintains a TRQ, what level of TRQ will it have? The tariff rate and/or the quota level could be changed. The level of the quota is likely to depend on the split of the current TRQ between the UK and the EU. This will be negotiated between the parties as the UK exits the Union. For example, if Australia's current EU beef quota of 7,150MT is split between the UK and the rest of the EU based on the UK and EU's current shares of imports

of beef from Australia, then the UK would get 90 percent of the quota.¹⁹ However, if both the EU and the UK seek to maximise protection for their domestic industries, the incentive will be for each to shift as much of the quota obligation as possible onto the other party.

The methodology that is used for determining the allocation will also be relevant i.e. will the split be based on the volumes supplied or the quota entitlement, or some combination of the two? This is especially pertinent when it comes to dividing the EU's global grain-fed beef quota, where no specific quota allocations have been made to individual exporting countries.

3. Similarly, will the EU continue to restrict imports from Australia using a TRQ measure, and if so at what level? It is likely that EU restrictions on imports from Australia will continue to apply, but the level of the TRQs will likely be determined by the split between UK and EU quotas discussed above. It should be noted that the EU and Australia have initiated the process of negotiating a new trade agreement. TRQ levels could be subject to negotiation in that context as well as in the context of the UK's negotiations with the EU.
4. When the UK exits the EU, will it continue to have SPS restrictions on imports? The UK could potentially adopt a science-based system for determining SPS restrictions, which could eliminate the restriction on HGP-use in beef production. The current EU restrictions are based on the application of the precautionary principle, as discussed in the first section of this briefing.

Adopting a science-based system would be consistent with WTO decisions on HGP, and would potentially reduce costs for UK consumers, of both imported and domestically-produced meat. However, the opinions of UK consumers on any change in SPS controls will be relevant here; public support for HGP-free rules may stay the government's hand. In addition, if HGP restrictions are removed, it will allow not only Australian beef but also beef from other countries to access the UK market; this is particularly ominous concerning the US, which is the number-one beef producer in the world, but which has been largely kept out of the EU market until now due to the HGP-free rule.

5. When the UK exits, will the EU continue to have SPS restrictions on HGP use? It seems likely that the EU will continue to apply HGP-free requirements on beef imports. The outcome of the latest US WTO action against the EU on HGP restrictions could however be a factor in the future use of the restriction by the EU.
6. When the UK exits the European Union, how will the issue of agricultural subsidies be managed? UK farmers are likely to push for subsidy support that is at least commensurate to payments they currently receive under the CAP, but the form of payments may be open to debate. If the UK is able to continue the process of decoupling subsidy payments from production (e.g. removing the Scottish suckler subsidy in favour of payments made on the basis of hectares of arable land), then the market-distorting effects of the subsidies should be reduced. All else being equal, removing these incentives for UK farmers to over-produce

¹⁹ According to the *LEGATUM INSTITUTE SPECIAL TRADE COMMISSION BRIEFING THE OPPORTUNITIES AND CHALLENGES FOR BRITISH AGRICULTURE POST-BREXIT*, p10

will create additional opportunities for exporters including Australia to supply the UK red meat market.

Following on from the above, the major opportunities for red meat arising from Brexit are assessed to be:

- Reduction in tariffs and/or expansion of quota levels applied to Australia by the UK and EU compared with the current levels applied by the EU. It should be noted that an expansion or elimination of the quota allocated to Australia by the UK accompanied by an offsetting increase by the EU (or vice versa), all else being equal, will leave Australia no better off than it is currently.
- Reduction or elimination of the application of the HGP requirement for beef. Without this, even with the reduction in TRQ protection above, Australia will have limited capacity to expand supply and take advantage of the increased market access available.

The major risks are assessed to be:

- An increase in tariffs or reduction in quota levels applied to Australia for the UK and EU markets individually compared with the current levels applied by the EU. A risk here relates to the global grain-fed beef quota which was originally negotiated by the USA in the context of the WTO upholding the US case against the EU on HGP restrictions. If the US continues its campaign against the EU as it has indicated it will do, it is conceivable that the EU might take advantage of new trade arrangements with the UK to reduce the global grain-fed quota. Australia could lose the protection of the US in this grain-fed access and suffer disadvantage in the new arrangements. Australia would almost certainly complain to the WTO in the event of such an outcome but it could take time for the matter to be resolved. The likelihood of this scenario is assessed as moderate.
- The TRQ remaining unchanged for Australia by the UK and EU but other competitors being given preferential access either in terms of lower TRQ restrictions or other non-tariff measures. This is possible, e.g. through some form of developing country preference but the likelihood of this scenario is assessed as low.
- The removal of HGP restrictions opening the market to major competitors such as the US and Brazil, which have lower production costs for beef. However, this risk is mitigated by the fact that Australia supplies a range of products into the higher value segment of the market, which face limited competition from these high-volume producers.

Recommendations

Based on the above analysis of trade patterns and policies, opportunities and risks, the Australian red meat industry clearly has significant interests in the outcome of Brexit and in the positions taken by Australia in trade negotiations with the UK and EU.

There is a need for the Australian Government to recognise the significant interests the industry has, to consult closely with the industry in its dealings with the UK and EU in the lead up to and post-Brexit, and to reflect the industry's interests in whatever trade agreements and arrangements it enters into with both the UK and the EU.

There are also some guiding principles which should be applied in the process of negotiating the above arrangements. These principles are:

1. The overriding principle in negotiations with the UK and the EU should be to achieve the expansion of Australian red meat trade with the UK and the EU;
2. The expansion should be achieved through the reduction of trade barriers as a step towards freer trade in red meat;
3. Where trade is restricted, this should be done in a manner that is consistent with WTO obligations;
4. In particular, WTO requirements for SPS restrictions to be science-based rather than based on the precautionary principle should be adopted by the UK and the EU; and
5. Consistent with the need for transparency and the use of border protection measures which do not distort trade, quantitative restrictions such as TRQs should be replaced by tariffs as a step towards eliminating protection altogether.

For its part, the Australian red meat will continue researching, monitoring, analysing and developing positions on trade policy relating to the UK and EU and making representations to the Australian Government with the aim of maximising the trade gains to the industry occasioned by the UK's exit from the European Union.