National Sheep Association

NSA Policy Position on export trade in the event of a no-deal WTO Brexit

The National Sheep Association (NSA) supports the Governments position that leaving the EU with a deal would be the best outcome to Brexit negotiations. However, with a no-deal Brexit increasingly likely, there are a number of precautions and preparations Government and industry must take. Preparing for future trade opportunities that will come about once Brexit is behind us is essential, and the sheep industry must be prepared for trading into new countries with differing market demands and on WTO terms with restrictions and tariffs.

Immediate no-deal risk

- A no-deal Brexit without gaining immediate third country status with the EU would result in a closure of EU sheepmeat exports.
- We expect third country status to be quickly established leaving Britain trading on WTO rules. This would result in a tariff of roughly 46% on UK sheepmeat cuts destined for the EU which would make viable trade extremely difficult.
- UK sheepmeat prices would likely see a significant drop with evidence suggesting prices dropping by a third. NSA would expect New Zealand to stop sending lamb through its TRQ to the UK in favour of replacing the gap in the EU market left by UK absence.
- A further devaluation of the pound would make export conditions easier, but this wouldn't offset the tariff costs.

Future trade restrictions

The ongoing work to develop new trade relations, trade deals, and then go through health certification processes has rightly increased since the EU referendum. NSA supports this work and agrees there are many future trade opportunities even though supplying them may require further change within the industry. However;

- Replacing a market the size of our current EU export volumes, which account for 96% of everything we export, will take significant time and may not be like for like.
- EU tariffs of 40-50% within WTO rules would make viability virtually impossible when other sheep nations are trading within established TRQs.
- Trading beyond the customs union will require checks and certifications for sheepmeat exporters that currently the UK does not have to consider when exporting to the EU.

Government support

While NSA is grateful for the support pledged to the sheep industry, it believes it is better to prepare by underpinning the market and maintaining trade and values, rather than directing financial support once the damage has been done.

- NSA does not believe that a ewe headage payment is the best solution. We are aware that a ewe headage payment is the preferred option by Goverment administrations and is the approach under development, however we believe this is mainly for ease of administration. Allowing the market to collapse, even with some form of ewe-based welfare payment would have a negative effect on sheep farming capacity at farm and processing level and it may be difficult to recover.

- NSA is aware of an alleged suggestion by the Prime Minister that the Government may buy lambs destined for export at the point of slaughter in an intervention type approach. We believe this is a step forward but do not believe the Government should intervene in the ownership of sheepmeat. In addition, the UK does not have the storage capacity and it would be difficult to justify this investment unless it was to be used into the future. NSA is also aware of this suggestion having been disregarded by the Farming Minister in preference of other scheme suggestions.

The options we would like to see

- Temporary no-deal realignment rcheme: Although this gives some WTO compliance challenges, we would like to see some creative thinking done about how this could be overcome. We are aware that a tariff relief scheme would pay money to processors and exporters and there is nervousness about what might happen if prices still fell. This is reliant on the markets still operating effectively and EU processors still buying our lamb. A tariff relief scheme would also reduce the possibility of an increase in trade of live lambs due to lower tariff rates and would maintain our added value approach to trading cuts rather than carcasses.
- A price guarantee scheme: A bit like the old VPS, should allow the market to still function while setting a reasonable base price. This approach would underpin the market and give confidence to the entire industry in the short term– if it was set up and communicated well in advance of the main summer and autumn sales. It would be more difficult to administer but would put money directly back into the industry. If the farm gate prices fell and processors paid less for lambs, it could allow them to cover tariff costs and still be competitive.
- NSA has been calling on the Government to change legislation to require public procurement markets to support British food and drink suppliers. These markets, such as schools, hospitals and armed forces would be powerful drivers to keep our farming markets functioning in uncertain times.
- NSA believes freezing and cold storage may be helpful or necessary, however we recognise all existing stores are full and any further investment in this infrastructure would need a longer-term use. Serious investment in this type of facility would work best with a move to be self-sufficient in lamb production and consumption as a country, but this is unlikely given that the UK is a global trader and are already investing in opening new export markets that will bear fruit in time. It also has to be recognised that freezing adds costs and decreases values.

Assumed net costs of the Governments recent proposal of buying lambs

We would expect a Variable Payment Scheme approach to cost less than an intervention system and would see the cost of an intervention system as a worst-case financial support scenario.

Our assumptions are as follows:

- 15 million lambs are marketed a year (in addition to around three million cull ewes, which aren't relevant for this calculation).
- With 35% of UK lamb production being exported the equates to around 5 million lambs a year, or equivalent to 416,000 per month.

- With seasonal trends this could be 500,000 per month during November and December – when a no-deal Brexit will have just begun.
- If Government buys those two months of export lambs, it would be around 1 million lambs. At £100 per carcase this would cost the Government around £100 million.
- We assume the Government would not destroy the carcases so they would still carry a value of approximately £60, meaning Government might recoup some £60 million with the net cost of buying the lambs being £40 million.
- If Government bought an entire year's export volume, then it would cost in the region of £500 million – so at first sight it would use the entire budget but with a value of £60 the net cost would be £300 million.

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