

BREXIT

What A Trade Agreement With The U.K. Could Mean For U.S. Agriculture

Adam Hollowell, Trade Policy Specialist



Although the United Kingdom (U.K.) remains tied to the European Union's (E.U.) tariffs and regulations until the end of the year, in January 2020, it ended its membership in the Union. The U.K. may now implement an independent trade policy. To deepen trans-Atlantic trade post-Brexit, the U.K. recently launched free trade agreement negotiations with the United States. These negotiations present an opportunity to address tariff and regulatory constraints hampering the export of U.S. agricultural products to the U.K. While there is optimism on both sides of the Atlantic, agriculture will be one of the most contentious subjects up for discussion. How agricultural talks evolve will indicate how deeply the U.K. intends to align itself with the U.S. and how the U.K. envisions its post-Brexit relationship with the E.U. This paper, the first that will follow these negotiations, assesses the prospects for U.S. agriculture in U.S.-U.K. trade talks, and the likelihood of securing meaningful concessions from the U.K. on agricultural issues.

Tariffs

What is the U.K.'s plan for agricultural tariffs post-Brexit?

In April 2020, the U.K. government announced its post-Brexit U.K. tariff regime, called the 'U.K. Global Tariff' (U.K.G.T.). The new U.K. tariff schedule aims to simplify U.K. tariffs and lowers duties on a wide range of imports. Approximately 60% of the U.K.'s imports should enter tariff-free upon implementation.

While the U.K.G.T. cuts tariffs on many imported goods, U.K. tariffs for import sensitive products, including agriculture, are set at levels equivalent to those in the E.U. (see chart below). In part, this reflects concerns within the U.K. that low agricultural tariffs would threaten the viability of U.K. farming. However, it also reflects the importance of agricultural trade and tariffs as a source of leverage in the U.K.'s trade negotiations, including those now underway with the United States.

Agriculture is a high priority for U.S. policy makers and both the White House and many on Capitol Hill view U.K. trade negotiations as an important opportunity to lower agricultural tariffs in the U.K. and increase pressure on the E.U. to engage in similar discussions on agricultural market access. The Trump administration has criticized high agricultural tariffs in Europe, and senior members of Congress have stated that only a comprehensive trade deal with the U.K. covering tariffs and agricultural market access would gain the necessary Congressional approval.

So how likely is a tariff reduction for U.S. agricultural products?

With both sides seeking to reach an agreement expeditiously, agricultural concessions could be delayed until a Phase II. Alternatively, an agreement might include U.K. tariff concessions for some U.S. agricultural products, particularly for those U.S. products not produced in the U.K., such as cherries, grapes, and cranberries. Other more sensitive agricultural imports may be subject to some degree of tariff protection in the U.K. through the use of tariff rate quotas or a version of the E.U.'s current entry price system aimed at protecting U.K. farmers against less expensive U.S. imports. Such an approach would allow the U.K. government to navigate domestic concerns while meeting the demands of U.S. negotiators.

Technical Regulations

Alongside agricultural tariffs, one of the more contentious topics for the U.K. government to navigate post-Brexit is its approach to sanitary and phytosanitary regulations. Much of the coverage has focused on sanitary issues concerning beef and poultry. However, equally as consequential are negotiations covering pesticides or 'plant protection products' (PPPs). This policy area puts the Brexit conundrum front and center with the U.K. government facing a choice between the E.U.'s hazard-based approach to pesticide authorization and the risk-based approach employed internationally and required by the World Trade Organization (W.T.O.).

How have PPPs been regulated in the U.K.?

As a member of the E.U., the availability and use of PPPs in the U.K. has been subject to controversial E.U. regulation. More and more commonly used PPPs have been withdrawn from the E.U. market in recent years following a hazard-based assessment by the European Food Standards Authority (E.F.S.A.).

In July 2019, the United States and fifteen other nations issued a statement to the W.T.O. criticizing the European Union's hazard-based approach. The 16 nations called on the E.U. to use internationally agreed upon methods of setting tolerance levels for PPPs and to stop "unnecessarily and inappropriately" restricting trade. In line with this position, U.S. negotiators have identified trade talks with the U.K. as an important opportunity to shift the U.K.'s trajectory on PPP regulation and align it more closely with the risk-based international standard.

The counterweight to these concerns is the voice of environmental groups in the U.K. and in Europe, which continue to lobby the U.K. government against any perceived relaxation in its approach to environmental regulation post-Brexit, particularly with respect to PPPs. Many of these groups are urging the U.K. Government to strengthen its position on PPP regulation, with funding and research to promote a reduction in the use of PPPs in the U.K. post-Brexit.

So where does the U.K. land?

While strong domestic pressure from agricultural and environmental groups will undoubtedly be a consideration, a primary driver of the U.K.'s trajectory on PPP regulation will be its future trading relationship with the European Union. The E.U. is the U.K.'s single largest trading partner and an important market for U.K. agricultural trade, accounting for 11% of the U.K.'s agricultural exports and 24% of its imports. In contrast, the U.S. accounts for 7.5% of U.K. agricultural exports and just 5% of U.K. agricultural imports. Despite these dynamics, U.K. negotiators have pushed back against European demands to adopt E.U. regulations indefinitely. Such an outcome would be a major blow to U.S. trade negotiators and constrain the U.K.'s ability to align its domestic regulations more closely to the United States. While the U.K.'s landing point has yet to be determined, it is clear that some degree of regulatory autonomy from the E.U. is an important priority for U.K. negotiators.

Looking Forward

Given its importance, the outcome of negotiations on agricultural tariffs and technical regulations will be a key determinant in the success or failure of U.K. trade talks with the U.S. and the E.U. It will also provide a useful barometer for the U.K.'s future trade policy and whether the U.K. wishes to align itself more closely with the U.S. or maintain its existing ties to the E.U. While the U.K.'s final destination remains unclear, what is certain is that the decisions made over the summer will have considerable ramifications for U.K. trade policy. We can expect these ramifications to become clearer in the Fall when the landscape will be assessed once again.

Current and Future U.K. Tariffs on Select U.S. Agricultural Products under the E.U. CET and U.K.G.T.

HS Code	Description	Current E.U. Tariff (E.U. Common External Tariff)	New U.K.G.T. Tariff (Applicable Jan 1, 2021)
0709.99.60	Fresh Sweetcorn	9.40 EUR/100 kg	7.80 GBP/100kg
0802.12.90	Shelled Almonds	3.5%	2.0%
0806.10.00	Fresh Table Grapes	Entry Price*	8.0%
0808.10.80	Fresh Apples (excl. cider apples)	Entry Price*	4.0% (JAN 1 – MAR 31) Free (APR 1 - JUL 31) 8.0% (APR 1 - JUL 31)
0809.29.00	Fresh Cherries	Entry Price*	12.0% (JUL 16 – JUN 15) 6.0% (JUN 16 – JUL 15)
0810.40.50	Fresh Blueberries, Fresh Cranberries	3.2%	2.0%
0810.10.00	Fresh Strawberries	11.2% (JAN 1 – APR 31) (AUG 1 – DEC 31) 12.80% MIN 2.4€/100kg/net (MAY 1 – JUL 31)	10%
1210.20.10	Hops (in the form of cones and pellets)	5.8%	4.0%
2004.10.10	Frozen Fries	14.4%	14.0%
2008.93.91	Sweetened dried cranberries (for further processing)	Duty Suspension (otherwise 17.6%)	Duty Suspension (otherwise 16%)
2204.21.96	Red Wine (not produced in the E.U.)	13.10 EUR /hl	10.00 GBP/hl
2309.10.90	Pet Food	9.6%	9.0%

Source: GOV.UK – The U.K. Global Tariff Database

*Variable E.U. import tariff determined by product entry price.

Adam Hollowell

Adam Hollowell is a Trade Policy Specialist for BCI's Global Access team. Originally from the United Kingdom, Adam works to open foreign markets for BCI clients by addressing international agriculture regulatory issues including tariffs, sanitary and phytosanitary measures, and technical barriers to trade. He is tracking the U.S.-U.K Free Trade Agreement negotiations closely.

