



nabim Brexit Briefing Note - 8 June 2018

This note provides an update on Brexit related matters. It can be used internally or in briefing other interested parties - customers or suppliers.

Objectives:

nabim is seeking to ensure

- (a) that millers continue to have access to the range of wheat that they need to make the flours that customers require, on terms as close as possible to those that exist today. That means maintaining access to wheat from the EU and third countries without duties, and continuing to encourage the production of suitable wheat in the UK; and
- (b) that UK based millers can continue to supply their customers in the European Union without the payment of duties and with a minimum (ideally nil) of additional paperwork and inspections. In the jargon, as frictionless as possible.

Supplying Customers

Bearing in mind that the EU tariff on flour imports is €172 per tonne, maintaining a secure supply of flour to EU customers will depend on the UK either remaining within a customs union with the EU, with common tariffs; or the establishment of a preferential trade agreement that allows tariff free trade in flour. **nabim** has been working hard on both scenarios and briefed widely on the importance of avoiding tariffs for trade in flour and bakery goods, especially in relation to Ireland.

The EU and UK reached agreement in December 2017 on a transition agreement, with draft legal text largely signed off in March 2018. This transitional phase (or implementation period) is intended to run from exit day (probably 29th March 2019) to 31 December 2020. In this period, for all intents and purposes the UK would remain part of the single market and customs union, so that trade could continue as it does today. Although this is very good news from a trading perspective, the agreement is not yet formally confirmed; one of the key areas of text still to be agreed relates to the status of Northern Ireland and the ambition on both sides to avoid controls along the Irish border. The draft text contains a backstop agreement that would apply at the end of the transition period if nothing else has been put in place.

The UK side did not like the EU proposal that Northern Ireland should be treated virtually as part of the EU, with the same regulatory structures and border controls for goods on entry to the island of Ireland - i.e. within the UK. The UK government has now tabled an alternative backstop agreement, which is that the whole of the UK would remain aligned in terms of tariffs and regulation for goods, until an alternative longer-term agreement can be put in place. The UK has suggested that this would be done by the end of 2021, but this date is not firm in its draft text,

meaning that (if the EU side accepts the proposal) the status quo could be maintained for even longer.

In Parliament, the House of Lords has introduced amendments to the EU Withdrawal Bill that have the aim of keeping the UK in a customs union. The government does not support these amendments, and these and other amendments will be debated in the House of Commons on 12th and 13th June.

In summary, provided that the agreement can be confirmed, it looks as if tariff free trade with the EU can be maintained at least until 2020, and most likely well beyond that date.

In the longer term, both sides say they want to achieve a preferential trade agreement, without tariffs on goods. These agreements are always accompanied by rules which define what constitutes goods from the countries concerned - so called Rules of Origin. These are needed to make sure that, for example, goods from China are not freely imported into the UK and then re-exported to the EU, avoiding EU tariffs. **nabim** has been leading efforts in the UK food sector to establish what the UK's negotiating position should be. Our objective is that when a trade agreement is reached, the Rules of Origin should allow millers to continue to use wheat from third countries in their grists when flour or bakery goods are exported to the EU. We produced an initial report that was well received by UK government and others available at <http://www.nabim.org.uk/events-and-publications/rules-of-origin-report-2018/> and are now working to develop a draft text so that negotiators can be well prepared. Although intended for use in EU negotiations, this work will also be helpful to UK discussions with other potential trade partners.

Our activity in this area is designed to ensure that if there is a trade agreement, it actually delivers tariff free trade for the range of products millers and their customers export to the EU.

The withdrawal agreement also contains text about what might be considered "goods on the market" which can continue to trade freely once the agreement comes to an end. This will also be relevant in the (unlikely) scenario that everything falls apart and the UK leaves the EU in March 2019 without an agreement. Working with the Brexit Arable Group (a mechanism for discussion with government convened by **nabim**) we are working through scenarios which will help members in contingency planning. In brief, goods will be considered to be "on the market", and therefore available for trade within the UK and EU under existing rules, if (a) they have been produced and (b) there is a contract for sale already in place at the relevant cut-off date. Further briefing on this will be developed later in July.

Should discussions break down completely, meaning that tariffs were introduced on trade between the UK and the EU, use of the import processing relief (IPR) system, which exists in the EU and the UK will replicate, could help to substantially mitigate the impact of tariffs. Basically, this would allow the import of EU wheat tariff free, provided that it was processed and then re-exported. The resulting flour exports would be subject to a reduced tariff on entry to the EU, the exact amount depending on the relative value of the wheat and flour traded. This mechanism is

far from ideal, but could be used to reduce tariffs on flour to a level similar to the cost of freight from mainland Europe to the island of Ireland

Securing Access to Wheat

The fall-back tariff on wheat imported to the EU is €95 per tonne. However, there is a system which effectively allows high quality wheat to be imported duty free and a large quota permitting the import of lower quality wheat at a tariff of €14 per tonne or less.

From the beginning, DEFRA officials have said that the UK will transpose existing EU legislation on market regulation into UK law, and this will include the existing tariff architecture. This would ensure continuing access to wheat from third countries on existing terms (i.e. including the system which allows imports of high quality wheat tariff free). They have continued to confirm this position as discussions have progressed. Uncertainties relate to the availability of EU wheat, although this would be resolved by the interim measures described above or agreement of a preferential trade deal. There are also uncertainties in relation to the availability of quotas, which might be used to import quantities of lower quality wheat at a reduced tariff. The EU and UK have agreed a division of quotas based on historic usage but other countries are not necessarily supportive of this division, and it is not clear that historic usage will remain unchanged by Brexit. However, should there be problems in sourcing wheat from the EU, there are likely also to be problems for UK wheat exports to the EU, meaning a change in the national supply/demand balance.

At this stage it is difficult to say how growers might react; the likelihood of an interim agreement will provide opportunity for clarity to emerge. In the meantime, **nabim's** aim is to maintain maximum flexibility from a regulatory perspective so that millers' choices remain wide.

In the UK, DEFRA is in the process of developing a new agriculture and environment policy for England and Wales. This is likely to result in a change in support mechanisms from 2019/20, with an anticipated drop in direct payments to larger farmers. Along with other sectors of the food industry, **nabim** has emphasised that the new government policy should be used to underpin the supply of food (including grain) that customers want to buy.

In brief, basic UK regulation should allow the continuing availability of wheat from third countries on the same basis as today; discussions with the EU suggest that the same will apply to wheat from Europe; and although the support regime in England and Wales will change, the impact is likely to be gradual, beginning in 2019/20.

What Happens Next?

nabim will continue to pursue the objectives set out above. There will be twists and turns at a political level, but at present the most likely scenarios would allow wheat and flour supply to continue on existing terms or something very similar. We intend to issue a further briefing later in the summer to assist with contingency planning in the unlikely event of a no-deal scenario. Members with a close interest are encouraged to participate in our Brexit calls, the next of which takes place at 10.00 am on Friday 22 June.