The Red Cell

# Oranges and Lemons: Lessons for Brexit from Six Fruits

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## Executive Summary

- This paper takes six different fruits as case studies, and uses them to explore what Brexit can mean for tariffs and ultimately for consumer costs. Non-Tariff Barriers (NTBs) are covered in other Red Cell papers.
- The case studies all fall under WTO category 08 - EDIBLE FRUIT AND NUTS; PEEL OF CITRUS FRUIT OR MELONS. Different lessons can be learned in each case. They also reflect a range of similar tariff lessons across wider industry and commerce.
- We pragmatically recognise that there is a lack of political will to unilaterally end all import tariffs, despite the benefits of such a policy. But it could be deployed as a transitional mechanism in many sectors, to cover the period of changes in sourcing.
- Additionally, bilaterally pushing for comprehensive zero-rating of duties in new post-Brexit free trade agreements (FTAs) with non-EU suppliers will have a positive economic effect; allows for price continuity as well as reductions; will help unblock wider deals where farming has been the key obstacle; and will encourage powerful lobbies (particularly in the EU) to push for their own more comprehensive FTA.
- Competing UK producers should, in fairness, be allowed time to adjust. This needs to be associated with a public debate about what support should be given, for how long, and to whom.
- No gains can be achieved without leaving the EU Customs Union.

## Introduction

The UK is a net importer of agricultural products by a long chalk. 2014 figures show the UK exporting €26bn in value, and importing €57bn. The EU 27 received €16bn and provided €40bn of that. As a market share, around 60% of UK agricultural exports went to the EU, while about 70% of these imports came from the EU.[1]

This provides a set of realities and opportunities. The ebb and flow is complex, but in simple economic terms the UK is the dominant consumer within this framework. This means the UK is in a position to exploit its ‘purchase power’ – particularly when negotiating elements where the protectionist and subsidising EU is in direct competition with other global suppliers, and where the British consumer and taxpayer can get a better deal. At the very least, the economics means that farm exports from the EU provide a motivation for more protectionist governments to concede negotiating ground elsewhere in order to pacify loud domestic lobbies.

[1] Eurostat figures.

The UK's primary farming concerns will be those exports that are currently heavily dependent on sales to Ireland, France, the Netherlands and Germany. These are unprocessed meat, dairy and beverages. The major agricultural imports, as it happens, fall into the same categories. This raises unanswered questions as to the extent to which trade diversion will readily occur after Brexit if tariffs are levied by the EU (in other words, the extent to which some previous exports will be redirected at domestic consumption as they are now become more competitive). That involves a series of complex issues where the official statistics are conjectural, and is not for this paper.

Another area where the EU exports proportionately significantly into the UK is in fruit, which is the focus on this paper. In 2014 figures, the UK exported (under the category 'fruit and nuts') €199m worth of produce, and imported €1,959m: a factor of ten differential. But UK imports from the EU only accounted for 42% of its total imports. [2] This raises obvious questions. Might alternative suppliers be found at cheaper cost from outside the EU, if a level playing field was introduced? Is there more scope for UK suppliers to compete on an even keel in key sectors? In 2015, UK fruit production had risen to 777,000 tonnes and a value of £695m, and was being grown over 30,000 hectares (a growth in land use of 1.4%).[3] UK fruit exports were up by 24% to £101m, while overall fruit imports were running at £3.1 bn and had risen by 6.7%.

The figures suggest opportunity, but the facts are hedged by a range of caveats and food for thought. Not all crops are suitable options as we shall see for the home environment, short of raising glasshouses.

This paper explores trade negotiation issues by looking at a small number of case studies. Ostensibly, one might at first sight consider the issue of how the UK determines its policy towards fruit imports to be a relatively straightforward choice – yes to tariffs or no to tariffs. In fact, there are a number of elements associated with individual imports that are revealing across the entirety of UK trade policy.

Agriculture remains one of the most protectionist elements of international trade. With UK withdrawal from the EU, the UK Government now has the opportunity to completely rethink its attitudes towards such protectionism, including both the amount and type of support it offers to the farming community.

Those options will vary tremendously by sector. Some of the produce covered in this paper finds domestic suppliers, and the question here arises over transitional or permanent support mechanisms, and if so for whom – should it be universal, or limited to the more socially, climatically or geographically exposed farmers. Other produce (particularly specialist or quality output) is sourced primarily from EU growers, so the introduction of tariffs would be felt by the UK consumer. A lot though is currently dominated by EU suppliers but there are also international competitors. This last element provides the great opportunity, since the UK could break free of protectionism designed to support continental growers while also generating negotiating leverage to mobilise strong continental lobbies in support of better access. In other words, if a post-Brexit FTA means cheaper wine from Chile or California, French growers will be at a competitive disadvantage in the

[2] NFU stats (online briefing notes).
[3] DEFRA sectoral stats.

UK market until the EU cuts a deal with the UK too. The terms of the transition period would then be significant in the natural market realignment that would follow.

In some instances where the UK is not a producer, there are still political considerations that may encourage a measure of favouritism and protectionism because of interventionist 'developmental' issues, where protectionism is applied as a tool of international aid to suppress free trade. The clearest example here is over preferential treatment for certain island suppliers of bananas that are former UK (and other European) OCTs.

Again, there are products where the issue may be one over the protection of the processing aspects. We cover wine production, but it might equally be the relative gains of opening up processed coffee imports, as set against the contrasting political interests arising from importing processed cocoa to a country that is the home of the Bournville chocolate factory. Attitudes towards opening up imports of chocolate will obviously carry more political aspects for the UK than, say, that of processed coffee which is more of a political concern for the factory workers of Germany. We raise this as a fact that deserves informed debate based on economics rather than a protectionist patella reflex. As a countervailing reminder of the risks of failing to tackle vested interests, it's also worth recalling the EU's continued support for sugar beet happens to be a peculiar survival of Napoleonic-era requirements during the Continental Blockade.

Finally, there is the option of specific imports being used to apply targeted diplomatic leverage against protectionist politicians. If the UK has no domestic supplier, the opportunity for tariff-free access may – if very carefully mapped out – be deployable to prompt political representatives in supplier markets to overcome customary reticence in supporting the ratification of a free trade agreement. This would mean deploying a kind of pork barrel politics into trade talks, but where there is no public funds, just the prospect of trading the contents of the barrel. This tactic would need to be deployed in a limited and highly targeted way led by specific constituency research, to avoid it becoming a common excuse for holding onto current tariff levels.

These are all considerations, but the basic default remains constant. Economic principles dictate that the less protectionist the Brexit economy becomes, the better life will be for the consumer; and ultimately the more competitive the producer will become on the world market. This paper, despite recognising the political limits on trade unilateralism, is consequently not an endorsement of protectionism. It is a call for the removal of tariffs as a default; the introduction of transition periods where UK suppliers and producers need to adapt; and the canny application of diplomacy where vested interests in other parts of a post-Brexit FTA might be encouraged into supporting a deal by clear profiling and targeting of their constituencies. It is also a call for immense ambition and drive in our future FTAs.

## Six Fruit

In each of the following cases we begin by setting out some background data. Figures are taken from the WTO website.[4]

*Bound tariffs* are those maximum tariff rates that the EU has set for the WTO category of produce into which the fruit falls. *Unbound rates* are those which the EU has voluntarily set that exceed the minimum requirement to which it has bound itself. *WTO default* rates are those minimums which are the permitted maximums for WTO members in the absence of any other agreed thresholds. *ad valorem* (AV) rates are tariffs based on the value of the product, while non-AV duties are largely simply levied by weight.

A key point to note is the variation, with differences both across relative rates as well as how those imports are taxed. The levy may be set against the value of the product, or a variable measurable content, or its simple weight (or a combination of any of the above); and importantly, the amount will often be applied at different rates by the EU from country to country depending on the trade agreement that has been reached.

It is a peculiar fallacy expressed in some quarters that the UK post-Brexit has only two options in terms of what rates it may choose to set. The reality will be that many WTO members will be expecting the UK to honour the bound rates, and will be hoping that the UK continues to apply any unbound (voluntarily lower) ones. It is also perfectly possible that the UK may choose to simply apply unbound rates of zero in any area where the current level is higher – in other words, to unilaterally remove existing tariffs to a product or range of products, but allow itself the leeway to amend this again later on.

The prospect of unilateral and comprehensive zero rating is widely endorsed by the group Economists for Britain, but is clearly generating a hostile response from most of Whitehall.

However, opposition to universal tariff removal does not mean it can't happen in areas where there are no vested interests within the UK other than to reduce food prices for the consumer. In many other areas, where there is a UK set of suppliers, it may be a tiny field, and rather than punish consumers the key is a transitional approach to allow UK farmers the opportunity to plan ahead and adapt to predictably changing markets. The prospect of adopting widespread unilateral zero rating should certainly in any event be made the subject of serious Whitehall study as a transitional arrangement, say for a five year period after Brexit to be followed by chapter-by-chapter review, since it has the potential in some sectors of allowing the market to naturally adjust to changes in competitive supply as the UK leaves the Single Market/Single Legislative Union.

[4] http://tariffdata.wto.org/ReportersAndProducts.aspx

## Oranges and Lemons

| Oranges: |
|---|
| WTO rate: 16% |
| Average AV (ad valorem) duties by EU: 12.6% |
| EU rate for Israel and Lebanon: 6.4% |
| EU rate for Tunisia: 3.2% |
| EU rate for Korea: 2.6% |

Permitted world tariffs for oranges are high. The EU's own default is still high, and the UK should not adopt it.

Significantly, there are EU agreements with Mediterranean states that reduce this considerably, part of a package intended to very gradually open up agricultural trade. This detail is helpful in reminding us of the number of countries that currently have "free trade deals" with the EU and which are likely to be positive to approaches by Liam Fox's team to carry these across and develop them even more. (Incidentally, the concept that these agreements all constitute true Free Trade Agreements is a myth, since many are associated with development aid or other tangential and asymmetric agreements.)

The terms of the South Korea FTA (which people assume to be largely about manufactured goods) here on review are surprising, since tariff rates for oranges are set very low. It turns out that the country exports several hundred thousand tonnes of the fruit a year and historically has been very protectionist towards it: currently-ongoing Korean-US free trade talks have stalled because of current quotas and a 50% tariff on Florida citrus. The dynamic is obviously different with the UK, since the UK does not grow oranges.[5] It does demonstrate how agricultural issues can still play a major consideration in FTAs that might otherwise be focused on manufacturing and services, and the orange issue will no doubt be a useful detail to remember in our talks with Seoul over rolling across the EU FTA or replicating it.

A complicating factor with this fruit as with a number of others is that EU tariff rates are set seasonally, designed to the advantage of Spain (world no. 6 supplier) and Italy (world no. 8) and to a much lesser extent the growers of Greece, Portugal and Cyprus. The Customs Union with Turkey (another top ten global supplier) allows zero rating for a certain quantity, and South Africa in particular now also benefits from privileged access. This latter deal suits both sides, since it combines quasi-development trade terms with a mechanism for supplying the EU market from a competitor that is not globally dominant. South Africa is in a different hemisphere and is therefore largely producing in seasons that do not undercut the EU's own farmers. But otherwise the EU's tariff rates are set to operate as a common external barrier to the main competing global suppliers. Indeed even the South African deal has generated something of a protectionist backlash.

[5] Here (and elsewhere in this paper) we exclude minor and exceptional cultivation. Policy is not driven by the existence of a handful of orangeries in country houses.

With Brexit, the UK might potentially drop tariffs unilaterally, meaning all orange import tariffs were ended. This would have the effect of reducing costs at the till. But there is a different option.

We assume as a starting point that the intent would be to retain preferential rates with non-EU suppliers covered by similar existing arrangements, with the UK assuming liability for EU access quota based as a historic share over a given time frame (say, three years) and seeking then to simply abolish it. Whatever the actual mechanism used, existing arrangements already allow increased preferential access from South African suppliers. These would, subject to capacity, be able to exploit opportunities for increased access to a separate UK market to the detriment of Spanish competitors and to the advantage of UK consumers.

Correspondingly, a separate approach is to build outwards from these and to introduce zero rating into FTAs as they are reached.[6] Post-Brexit, the UK could drop tariffs with non-EU parties as part of new FTAs; and allow greater market access by, for example, Brazil which dominates world production, as well as generating an easy negotiating point for a UK-US deal (the second largest grower).[7]

On track record, it seems reasonable to predict that Spain will seek to complicate trade talks by bringing up last minute demands over Gibraltar or several potential other areas. Flagging up in advance that Spanish orange growers risk seeing their exports hit, as their competitors become more competitive within a newly opened-up UK market, would be an incentive for reaching a Brexit deal.

Many of the same principles apply for another citrus fruit, lemons.

Lemons:

WTO rate: 12.8%
Average AV duties by EU: 12.8%
Latest non-AV duties: 6.4+25.6 €/100kg/net
EU rate under GSP: 8.9%
EU rate for Lebanon: 7.6%
EU rate for Korea (average): 2.1%

The EU market is once again driven by protectionism. The UK by contrast has no suppliers who need to be protected.

[6] Indeed, the rates would need to be included as part of the FTAs being discussed with non-EU states during the Brexit transition, to avoid temporary price spikes.
[7] Brazil produces roughly three tenths of global supply; the USA is next at around one tenth. China and India are top five major producers, but consumption predominantly occurs within their home markets. Potential Brazilian fruit export dynamics are additionally complicated by the high share that goes into orange juice, though recent trade issues relating to for example US concerns over pesticide use have impacted on production, meaning there is a measure of potential slack on the supply side.

Third party flow is again quite similar. South Africa and Turkey are significant suppliers with special access. Mediterranean countries also have a deal. The South Korea FTA gives low rates to Seoul. Again, the key EU producers are Spain and to a lesser extent Italy.

This time though, rather than Brazil losing out to EU tariffs, the lead producer is Mexico, which is another market the UK wants to increase its access to through an FTA. Mexico notably has already declared its interest in joining the Trans Pacific Partnership (TPP), and is clearly looking at expanding its trade deals.

Correspondingly, the lemon example provides a useful reminder of how identical policy on very similar EU areas (citrus growers) can have primary order effect for future UK planning in drafting potential FTAs with completely different countries.

## Going Bananas

WTO rate: 16%
Average AV duties by EU: 16%
Latest non-AV duties: €122 per 1000kg
EU rate under GSP: 12.5%
EU rate for OCTs: 0%

The example of bananas provides a case study in EU protectionism operating, unusually, for third party interests. The politics on this will be harder to resolve and will, realistically, likely constitute a continued hit for the UK consumer after Brexit.

The EU provides privileged access for bananas grown on Caribbean islands, particularly those that are current OCTs or are former colonial territories. By contrast, there are trade obstacles to imports from mainland Central America. These latter in many cases involve US companies - the term ‘banana republic itself arose from the United Fruit incident in 1954, where US corporate interests backed by the state (the CIA) overthrew the government of Guatemala.

This correspondingly adds a level of diplomatic complexity. From a consumer viewpoint, island bananas are smaller; more curved; and most costly since mainland ones can be grown on large estates. However, these island economies are heavily dependent on bananas and there are limited obvious options for alternative crops. The thinking in Brussels has been that allowing free competition would wreck the microstates.

This may prove simplistic. A targeted marketing campaign that associated ‘Windward fruit’ with quality, taste, tradition and in particular with ‘ethical markets’ might carry some traction.

Some movement over this protectionism has happened in recent years. In 2009, the EU and ten Latin-American countries concluded the Geneva Agreement on Trade in Bananas (GATB), part of which involved the reduction over eight years of the tariff from €176 per tonne to €114, starting in 2012. As a starting point, the UK should honour that transition.

The EU considers the issue to be "definitively" settled. The UK should not, and should instead conduct a 'global accessibility' review looking at the interests of its OCTs and the prospects for their economies from emerging technologies. The target end objective must be the end of what amounts to a major abrogation of free market principles, even if the objective is meant to be development support. After all, it is not simply US businesses that have been affected, but Central American economies, and developing countries in Africa that are also in competition.

It is as a starting point worth planning for tariff-free quota for banana imports from non-OCT sources where the island economies cannot fully supply the UK market. But in all instances, OCT governments, local growers, and suppliers should be kept fully in the loop, and provided significant transition time to adapt to changes.[8]

## How Do You Like Them Apples?

| |
|---|
| WTO rate: 0%<br>Average AV duties by EU: 0%<br>Latest non-AV duties: [11.2+23.8€/100kg/net] to [4.8+23.8€/100kg/net]<br>Duty free: a number of countries including OCTs avoid duties |

The UK apple industry has declined over the last half century. Two thirds of the country's orchards have been destroyed as farmers have turned to crops that are more profitable and, often, more subsidised. Perhaps half of this shift has been over the last fifteen years – an indictment of purported CAP reform.

The domestic apple market is valued in excess of £100m. The UK grows about 150,000 tonnes, exporting around 20,000 of this, and imports around 500,000.[9] On the positive side, there is an immense range of types (there are 2,300 varieties held at the UK National Fruit Collection at Brogdale – the largest anywhere). Many are brandable as both exotic and traditional and this may generate opportunities for quality niche markets, especially if also associated with organic farming. This might also be an innovative way to get round long term protectionism by the EU farming lobby over inevitable standards divergence over time in such areas as registered pesticides.

In 2015, orchards occupied a little more than 3.2 million hectares of EU farmland.[10] Orchards occupied 1.7 % of the entire utilised agricultural area in the EU-28 and were present in 14.6 % of all farms. One third of all EU apple orchards were situated in Poland, where apples covered more than half of the total fruit area. Next was Romania (10.2 %), Italy (9.7 %) and France (9.3 %). In terms of

[8] An additional complication here are the key roles of an Anglo-Dutch company and an Irish one supplying the UK market from the Windwards. We leave to the negotiators the prospect of a joint – parallel – UK-EU policy, and whether the UK should include banana exports from EU states' OCTs in their own preferential policy and vice versa. But if so, such protectionism should be treated very much as the exception and as a transitional solution.
[9] DEFRA Horticulture Statistics, 2015
[10] Source: Eurostat

actual production, Poland was the leading grower generating a quarter of all EU apples, followed by Italy (19.2 %), France (15.5 %) and Germany (7.7 %). While we may think of apples as being a largely French concern, the story is more one of big French and Italian suppliers but above all a very large number of relatively small Polish farms.

The example of apple exports is useful in reviewing what happens with a product where there is direct competition between UK production and potential suppliers from other EU states. With the UK leaving the customs union, if any trade deal emerged that did not cover apples, then the UK would have three key choices;

- It could counter the rates and restrictions levied against UK exports by the EU, seeking to subsequently encourage the EU to drop its obstacles by offering to match reductions with its own (not necessarily apple for apple, but like-valued product for like). Creating a barrier with the intent to barter it away would increase imported EU apple costs and consumer selection, but could be mitigated by pursuing an accelerated trade deal with other suppliers.

- It could unilaterally apply a limited or full policy of zero UK tariffs and quotas, which would benefit UK consumers but at the cost of putting UK suppliers at a competitive disadvantage in their own export markets if the EU did not unilaterally reciprocate.

- It could unilaterally apply a policy of zero tariffs, but provide support for farmers in a model closer to the old system which subsidised the farmer for the difference between his gate price and the cost of the imported produce on entry into the UK, without directly raising market price. However, the mechanism would need to be WTO-compliant, it would cost the taxpayer in subsidy, and there would be second order market impact.

We predict that the option pursued will vary depending on the individual product and the political reality around that sector. The optimal solution will always be to end up with no trade barriers, though we recognise that in some sectors the prospect of Brexit bringing them in will have significant political consequences for concerned lobbies in another country.

At this point it is worth recalling that Armagh Bramley Apples feature amongst those products listed on the Register of Protected Food Names. There was some brief speculation during the referendum that UK participation in this EU scheme will necessarily end with Brexit. The actual value of the programme itself is highly doubtful, beyond a small number of products that have faced direct branding competition (such as champagne that is not from Champagne, or Parma ham that is not from Parma). The geographic definition entered on Melton Mowbray Pork Pie, for example, was defined by factory location as bounded by the British A road network. For what it's worth, designated fruit (and only Armagh apples are geographically registered by the UK) are likely to remain so listed. Moreover, to make the model more acceptable to competitors, the process has been opened up to any non-EU country that cares to lodge a food name and provide a gastronomic history. There are several examples from China on the books.

The important element with these tariffs is, again, global. A number of developing countries export duty-free into the EU. The UK in this instance could decide to seek to roll-over and even expand this access while threatening to introduce non-ad valorem duties to continental exporters to the UK. More broadly effective, however, is the prospect that apples could be included in any FTA with the US, which is the world's second biggest supplier. In the absence of any FTA coverage of their own, EU exporters would simply lose out.

Whichever route is pursued with the apple, unlike with some other crops a key reality is that it comes from trees which take several years to grow. UK production could expand, but it will only do so if alternative land use (whether housing or alternative crops) is not so attractive as to make an investment in orchard planting a poor medium-long term financial option. Such a delay incidentally could be advantageous to potential investors. Apple harvesting is labour intensive. Any fluctuations in the agricultural labour force that will accompany Brexit, and more importantly the policy decisions that the Government chooses to deploy to encourage a stable supply of such labour (both local and those coming in on seasonal visas), will have had time to be addressed in the interim.

## Avoir le melon

WTO rate: 8.8%
Average AV duties by EU: 8.8%
EU rate under GSP (includes India): 5.3%

The reason why imported watermelons hit a tariff wall in the EU is largely down to Spain, Greece, and a lesser extent Romania. Key consumer countries which do not grow their own, particularly Germany, pay the price.

This carries an additional impact for farmers in developing countries. The policy is notably contrasted with attitudes to mangos and papaya, which are also grown in India but which have been zero rated at WTO level. (Spanish mango production which might otherwise encourage protectionism is, not surprisingly, marginal as it is limited to its far south.)

The example of the watermelon is useful for prompting us to consider two areas – phytosanitary issues, and unilateral access where there is no UK competitor.

Watermelons are, more than many other fruits, clearly associated with different climes. As such, they face the prospect of public mood shifts based on perceptions of food safety (sometimes, quite illogically). This prompts us firstly to recognise that expansion of free trade after Brexit could be accompanied by a predictable drop in consumer confidence: it might even be the subject of some negative marketing by some European competitors. In turn, this may encourage consumer rights organisations to prepare in advance an awareness campaign that explains the mechanisms underpinning global free trade, by highlighting how international trading standards do exist to cover food safety.

The subject also reminds us of the need to consider how to liaise with the European Commission as it monitors food safety amongst suppliers. It is recommended (particularly over a transition period of a few years) that DEFRA, while it builds up its own monitoring service, pays particular attention to 'tripwire' analysis conducted by other standards monitoring agencies – focusing perhaps on alerts and notices put out by the European Commission, but also by its own counterparts in standards monitoring agencies in Canada, the United States, Australia and New Zealand. However, particularly with respect to the Commission, it should not take bans at face value since the Precautionary Principle may be excessively and widely misapplied.

Another aspect takes us back again to unilateralism over tariffs. Since the UK does not grow watermelons, the argument can easily be made that the UK could simply drop all duties on them. Under WTO principles, zero rating would unilaterally apply to all watermelons entering the country regardless of origin, and the consumer would gain from cheaper food. But it would in the process remove a tool that could be deployed against EU countries during trade talks. It would also do the same for all other countries that supplied them. Another alternative is then to push radical tariff cuts but keep them within FTAs. Free Trade Agreements can, with some countries, require a considerable amount of political heft to get signed off.

The prospect of a signatory getting advantageous access for a pivotal sector of its population might be a useful tool to win agreement for – and ratification of – a deal that also covers a completely separate area where there is a level of historic protectionism faced by British exporters – let's say, shoes from Northampton which face a 10% basic duty. In this case, with Indian watermelons, it is a major crop of the state of Andhra Pradesh, one of whose members in the Upper House of the Indian Parliament happens to be the federal Minister of Commerce. Even if the minister is already open to a trade deal, the prospect of more exports for their constituents may help push some of his colleagues to support the trade deal. Every British embassy (or High Commission) should already be in a position to generate a 'key issues/key people/key wins list' within a week of being tasked with supplying one.

A similar approach could be applied more generally to the whole issue of future UK-EU tariffs. The UK's starting position ought to be (and very possibly, has been) to avoid the introduction of tariffs and quotas as part of the post-Brexit deal and start with a negotiating baseline offer of zero mutual tariffs.[11] The suspicion of the Brexit Kremlinologist must be that the Commission seeks to make Brexit 'less good' in trade terms than full membership, since we must take its blandishments on the Single Market at face value. Setting aside the subjectivity of what constitutes a 'positive' in a deal given so much of the small print around EU membership does not involve anything to do with actual trade, and if we assume that this implies the introduction of tariffs in the post-Brexit deal even to South Korean levels, then pursuing a policy of tariff unilateralism beyond that will do nothing to secure UK export access in priority areas including in Services. To achieve that in the current climate, which is part-based on dissuading other countries from pursuing their own Brexits, trade obstacles that are introduced by the Commission need not only to be reciprocated, but accompanied by a matched element that ensures a parity of self-interest amongst the concerned parties (which will be the continental politicians and not the Commission officials) in removing both parts of the equation. But notably this constitutes an established principle under WTO provisions: a WTO member who is found to have breached a WTO agreement is subject to a withdrawal of treaty rights of equivalent

[11] Leaving aside reciprocity in avoiding TBTs, covered elsewhere.

impact; and notably, either party can come up with the proposal as to how to carry this out. Tit-for-tat is established, and has its rules.

None of this means we should aim to default across the board to existing WTO rates. Nor does it mean defaulting to EU protectionist rates, and certainly not where there are no competing UK producers. It is merely to encourage British trade negotiators to research and reflect on a *small number* of *very specific* political lobbies involving *narrowly defined* trade categories, in those countries that are potential big FTA wins, but where some prudently prepped political leverage accompanied by strategic media messaging may be judiciously applied to gain the prize.

## Grapes of Wrath

WTO rate: 14.4%
Average AV duties by EU: 12.4%
Latest non-AV duties: [14.4 + 9.6 €/100 kg/net] to [17.6 + 9.6 €/100 kg/net]
EU rate under GSP: 9.45% (average)
EU rate for Algeria and Tunisia: 7.2% (average)
EU rate for Korea: 1.9% (average)

For our final example we turn to viticulture. This provides a useful study for combining two key elements: a relatively small domestic level of supply, and the issue of processing.

In the course of this paper we have focused on the production of the fruit itself. But there is also the matter of what happens with adding value. Factories that turn a basic product into something else are protected from competition by higher tariffs being set against those processed goods while the raw material itself is given advantageous rates. In the case of fruit, this could relate to fruit juice, or it could (as we shall review shortly) be fermented.

The policy raises practical as well as ethical questions. If suppliers of basic produce come from poor countries, and considerable value is added during manufacturing, encouraging the import of raw goods and adding high tariffs to the manufactured obviously has an impact on the profit that the supplier would otherwise make; and if that is a poor country, then it is obstructing its growth out of poverty. If the goods could be made more cheaply at source than behind the customs wall, then additionally the consumer also ends up worse off because he has to pay more for the end goods.

We can however get a sense of the politics that arises if we glance at two separate items – coffee and chocolate. Germany is the key European location in terms of processing the coffee bean (roasting it, granulating it, and making it soluble, then packaging it). By contrast, the UK has a greater level of political interest in chocolate. Removing tariffs on imported coffee at the same time as maintaining current zero-rating on coffee beans after Brexit will be politically easier to sell than removing tariffs on chocolate, given the constituents of the factory at Bournville may start to lobby through fear that their jobs are at risk. Explaining how the free market works on the shop floor is rather late in the day: so if that debate is to happen, and democratic buy-in is to be won to increased competition, now is the time.

Back to the grapes. In the UK's case, the existence of vineyards in the UK means that there is a group of domestic suppliers who would be directly affected by tariff cuts for global competitors; though they would also conversely become more relatively competitive against EU counterparts if tariffs reappeared on imports from the EU. If tariffs are universally applied against all comers, the wine maker's competitive advantage then comes at increased cost to the person buying the wine, exacerbated by the fact that English suppliers cannot hope to satisfy domestic demand and so imports inevitably carrying those duties would be inevitable. Tariffs on both grapes and wine are clearly not what the British consumer wants or needs.

What about the supplier? It is difficult to judge the extent to which the UK sector has expanded because of EU subsidy, the tariff wall, or a sort of quirky patriotic interest. Grapes were grown as far north as York during the Roman period, and the official listings for EU-recognised vineyards have included Yorkshire as a supplying region for at least a decade now, but it is only very recently that the brand is now seen as generating wine of significant quality.[12]

In 2015, England had 502 vineyards.[13] They are not large, averaging 4 hectares. There were also 133 wineries. Overall, this resulted in a production of over 5 million bottles. However, compare those 2000 hectares in England with the 3.3 million hectares across the EU.[14] The difference in scale is such that in one year, the EU lost the equivalent of the English vineyards over the course of seven months simply through grubbing up. Spain's total vineyards are 480 times bigger; France's 390; and skipping Romania, Portugal and Italy, both Germany's and Greece's are 50 the total size. Even Switzerland's production area is nearly eight times as big. This reminds us of the need to review the true scale and market importance in play when tempted to consider protectionism on behalf of domestic producers.

The real issue here, however, lies in consumption. The UK is a significant quaffer – it is the sixth largest market for wine, accounting for around five per cent of global consumption. With very restricted domestic supply, that provides an opportunity for the UK to pursue a free trade policy towards global producers that reduces shelf prices in the UK. Once again, counterpart EU producers would be spurred to lobby their own government to get similar preferential rates, which of course the UK Government could associate with a *quid pro quo* in another area. These may not even be customs duties but could be Non Tariff Barriers (NTBs).

The Red Cell covers NTBs in other papers but in the context of the wine trade, one development from January 2018 reminds us of the opportunities and complexities that Brexit brings. The Royal Society for Public Health (RSPH) proposed a new labelling scheme for alcoholic labelling.[15] Labels would include a drink-drive warning, a calorie content chart, and also set out the Government's guidelines relating to recommended unit consumption per week. These proposals remind us of the

[12] The wine list at the European Parliament includes a UK option. It is highly likely though it was introduced on political grounds, or to cater for the demands of a very select group of consumers, UKIP MEPs.
[13] http://www.englishwineproducers.co.uk/background/stats/
[14] http://www.oiv.int/public/medias/5287/oiv-noteconjmars2017-en.pdf
[15] https://www.rsph.org.uk/about-us/news/rsph-proposes-new-labelling-scheme-to-tackle-alcohol-health-awareness-vacuum.html

obligation for EU member states to agree such changes collectively, whereas non-EU states have considerably more latitude. As the RSPH puts it,

> *Meanwhile, a deadline set by the EU Commission for manufacturers to bring forward proposals for the self-regulated provision, at European level, of calorie labelling is set to expire in March 2018. Depending on the eventual shape of the UK's proposed exit from the EU, Britain may find itself left behind continental labelling advances* [sic] – *unless it manages to use Brexit as an opportunity to implement a best practice scheme faster and more efficiently.*

It might be noted this dynamic linking these proposals to the EU got very little coverage, and none from the BBC.

Conversely in any event, unilaterally creating any new labelling obligations also means generating new NTBs, reminding us of the potential for generating new costs for importers, and potentially reducing the prospect of increased mutual access in global markets by adding our own new obstacles. A moratorium may be in order (and in any event, see our paper on Red Tape).[16]

In any case, wine reminds us of the existence of competing suppliers with added value output from beyond the EU, generating opportunity both for the consumer and potentially for the Brexit negotiator. Wine becomes a potential weapon as consumer interest may be naturally diverted towards alternative suppliers such as Chile, Australia, or South Africa. This is more likely with the reduction in the quality gap over the past years, though arguably the quality issue already became conceptual once grafting and hybridisation became commonplace in the mid nineteenth century in response to the introduction of Phylloxera to European vineyards. In any event, *appellation d'origine contrôlée* and the concept of the *grandes crues* will, with acquired tastes, still secure a measure of consumer loyalty amongst some who prefer their Bordeaux and their Champagnes, though it might be noted that *FAT Bastard* is a French production so perhaps branding and consumer taste is more fluid than supermarket planners might expect.

It will largely come down to tariffs. EU rates run at WTO limits: €32 per hl for sparkling wines – enough to make a noticeable difference between individual bottles for bottom range production. For non-sparkling under 2l (in other words, bottled imports) the WTO threshold is €20.9 per hl. The EU scales up to this with a complex set of rates based on alcoholic volume, but quickly escalating to the top end of the permitted tariff range.[17]

We predict that French negotiating chits will here again be expended on seeking to maintain recognition of culinary naming conventions, where branded foods and drinks that have a historic or geographic back story can only be so named if they fulfil strict production criteria. Wide adhesion most obviously favours the greatest contributors, and France has bought heavily into this programme.[18] The criteria have been very contentious in the past, more notably over whether non-

[16] http://www.theredcell.co.uk/uploads/9/6/4/0/96409902/brexits_red_tape_challenge.pdf
[17] Falling into several categories: [1.75 €/% vol/hl] [13.1 €/hl] [14.8 €/hl] [15.4 €/hl] [15.8 €/hl] [18.6 €/hl] [20.9 €/hl] [32 €/hl]
[18] For example, Picpoul de Pinet wine. http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32017D0804(01)&from=EN The justifications for entry are extensively

Greeks can legitimately claim to produce Feta. In reality though, the UK has an extremely limited vested interest here, with the possible exception of whisky which in any event is already geographically associated with country of origin and with named distilleries. Despite having a native industry, the scale of European exports operating in the globally competitive market of wine production - where brand loyalty is generally weaker, and where the UK could easily choose to step away from protective naming conventions - mean that the fruit of the vine is an example where UK negotiators have a diplomatic strength. This depends, of course, on negotiators having the prudence to sensibly and robustly deploy it.

## Conclusion

The benefits of removing tariffs are only of course shared if the savings are passed on to the consumer. Otherwise it is the trader who gains by making an increased profit. This is no different from any tax cut that emerges from a Chancellor's Budget, though it ought to prompt consumer watchdogs to be particularly vigilant, especially with regard to supermarkets.

Additionally there may be other dynamics in play. There is the matter of consumer preference between produce that is fresh, refrigerated, and frozen. There is the issue of global supply, exacerbated by shifts in market availability due to poor or good harvests that carry an impact upon global farm gate prices; but also the hemispheric differences in seasons that allow for all-year supply for global trade where continental supply (for example, from just EU growers) creates shortfalls. There is the possibility of consumer demand being driven by environmental concerns, such as the green travel costs of produce being shipped in (or in worst cases, flown) rather than grown locally. There are prospects arising from domestic producers adapting to market gaps, exploiting new possibilities with 'Made in Britain' logos, or developing quality standards branding. The force of the market will resolve many such variables without (and despite) central planners worrying about them. We might predict, for example, shifts in UK farm production as new market gaps appear and specific existing UK export opportunities into the EU are deliberately hindered.[19] This is not to say that these shifts will not always be difficult or even painful to producers; but they are a natural feature of a competitive free market, they do constitute a transitional phase, and they do ultimately benefit suppliers who become more globally competitive.

The more immediate winner – if these opportunities are solidly grasped – is the consumer. Brexit generates considerable prospects, with prices being reduced through levies against imports being reduced or ended. As food is a staple and constitutes a core part of the family budget, its impact will be felt disproportionately amongst the less well-off.

The default UK policy across all tariffs should be to head towards their abolition. In many instances, as these examples show us, vested continental interests have been acting against wider UK interests. There is no longer any need to protect foreign food suppliers from competition any more than there will be of vetoing a trade deal because of Italian handbags, German white goods or French cars.

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developed, historically and culturally fascinating, occasionally pretentious, and often stretched. They would if collated (and pruned down) make an extraordinary volume.

[19] Examples being the prospect of tariffs on UK lambs (and countervailing tariffs opening up new domestic opportunities); or expansion into the UK market of Scottish shrimp and prawns.

Those lobbies will no longer be relevant, and the obvious incentive for the UK to retain a number of post-EU protectionist tariff levels and quotas will immediately disappear.

On pure economic grounds we might well find it appealing to simply zero rate all imports unilaterally. The politics of Brexit means however that we are thrust into a complex set of negotiations where it is in our interest to play hard ball with angry lobbies standing behind our counterparts. The UK has a strong hand as an importer/consumer, suggesting that there is more to be gained by adopting a *targeted* approach, quickly reaching FTA deals whereby tariffs are cut for the EU's competitors. One might hope the EU pushes to retain zero tariffs in many areas. They may well not, in which case a targeted 'judo approach' that hits key sectors could, potentially, flip the very weight of a given protectionist lobby into campaigning in favour of mutually improved trade access. Starting from a negotiating beginning of zero tariff rating, the UK should retaliate on a like-for-like basis with the EU over any tariffs that are introduced, selecting where possible products that are disproportionately relevant to the problematic country.

The UK should maintain and expand existing preferential agricultural access for farmers from developing countries, especially where they will now compete with more expensive EU suppliers.

Where there will be direct competition, UK agriculture in some sectors will need transition support and time. But this should not become a permanent prop.

Equally, transition is important for the consumer. To avoid prices going up over any period between leaving the Customs Union and expanding FTAs with suppliers, the UK should apply a unilateral unbound rate over a transitional period in any sector where supplies currently are largely sourced from the EU. A review of which sectors that should apply to, even if amended by the ongoing trade talks, needs to be started now.

Finally, a core truth is that tariff changes are as much an issue of opportunity as the rest of Brexit. Opportunity can either be seized, or squandered. <u>Nothing</u> can be achieved in this area without the UK leaving the EU's Customs Union. The real fruit case scenario would be if the UK absurdly were to remain part of the Brussels tariff bloc.

## About the Author

Dr Lee Rotherham has been an adviser to John Major's whipless rebels, Eurosceptic MEPs, three Shadow Foreign Secretaries, the Conservative delegate to the Convention on the Future of Europe, a delegate to the Council of Europe, and government ministers. He was Head of Opposition Research for the No Campaign in the AV Referendum, and Director of Special Projects at Vote Leave, the designated pro-withdrawal campaign during the 2016 referendum.

He has twice been a Conservative candidate in General Elections, in 2001 in St Helens South (the "butler campaign"), and in 2005 in Rotherham standing against the then-Europe Minister. Outside of Westminster he has worked in publishing, teaching, heritage, and in Defence.

He has been very extensively published in academia and across think tanks. His publications as author or co-author include *The EU in a Nutshell*; *Ten Years On - Britain Without the European Union*; *Change or Go*; *Plan B for Europe*; *Controversies from Brussels and Closer to Home*; *Manning the Pumps*; *Hard Bargains or Weak Compromises*; *The Hard Sell*; *Bloc Tory*; *Common Ground*; *A Spotter's Guide to Sound Government Policies*; and the award-winning *Bumper Book of Government Waste* and *Brown's Wasted Billions*. His historical works include *A Fate Worse Than Debt – A History of Britain's National Debt from Boadicea to Cameron*; *The Sassenach's Escape Manual*; and tour guides to Roman Britain, colonial North America, the Hundred Years War, and the Apocalypse.

Lee is a reservist in the British army, and has served on three overseas deployments www.theredcell.co.uk