TaxPayers' Alliance

Briefing: Free Trade and the Agriculture Bill 2019-21

Introduction

In recent decades, global food trade has liberalised substantially. According to the Department for Environment Food & Rural Affairs, Britain imports 47 per cent of its food, 19 per cent coming from outside the European Union. This means that, no matter the time of year, most products can be sourced from somewhere in the world.

Food liberalisation has benefited both rich and poor across the globe. Between 2005 and 2017, for example, the number of undernourished people in the world declined by 136 million people, twice the current UK population. It has also benefited British shoppers, as the variety of goods available at a typical supermarket has increased and prices have fallen.

All of this has been possible due to free trade, and it has been massively beneficial for British taxpayers. In terms of food and drink products alone, the amount of product lines at a typical large supermarket has increased tenfold since the late 1950s, from around 2,500 to 25,000, according to the TaxPayers' Alliance. Food in Britain is amongst some of the cheapest in the world, and the amount that people spend on food has more than halved over the past 60 years.

The global food trade has evolved over time. Few would have believed that the south of England would be one of the world's wine capitals forty years ago. Introducing rigid, binding rules that cannot be reshaped as trade goals change is unwise. Britain needs to keep its trade options as open as possible, including by resisting efforts at creating long term trade barriers in the Agriculture Bill, and work to further liberalise global food trade.

Impact on food prices for British consumers

As the TaxPayers' Alliance explained in the Bumper Book of Burdens on Business, tariffs raise costs for businesses and consumers. If the cost of importing a certain good - including agricultural products - is increased, then there will be a knock-on increase in price each time that good is sold along the supply chain, including eventually to consumers.

- Certain tariffs increase the price of "intermediate goods." Intermediate goods are materials and products that are imported into the country, before they are turned into products that the public actually purchase. One example is food which is then packaged and sold at supermarkets. When the intermediate goods increase in price, sellers increase the price of the final product.
- Not all protectionist measures are tariffs. Non-tariff barriers also include standards protection regulations or quotas. However, these measures still reduce the variety of goods imported, and therefore consumer choice. This means they still push up the cost of living and reduce economic opportunities.
- Any tariff or non-tariff requirement increases costs for consumers, whether they are applied to finalised goods, like produced and packaged food, or raw materials, such as grain. In a

recent example in the United States, tariff increases in 2018 led to the price of a variety of consumer goods increasing substantially within a few months.

- Price increases are especially significant in an industry such as food, which is an essential item for the entire population. People's ability to vary the amount of food they purchase is limited, so price rises hit their finances especially hard.

This has been made especially clear during the current coronavirus crisis. The crisis has highlighted the importance of a fast and varied food supply, particularly via the supermarkets, and not being reliant on limited domestic sources. The ability of major retailers to meet peak demand for food and other essentials has been largely down to the speed and breadth of international trade into the UK.

Impact on British workers

If businesses' profits are reduced due to prices being higher, then there is a negative knock-on impact on both wages and employment prospects.

- The American beer industry estimated in 2018 that the introduction of tariffs on metal imports had reduced employment in the industry by 40,000, owing to knock-on impact on the cost of aluminium cans.
- If exporting becomes more expensive due to other countries putting up reciprocal tariff or standards barriers, then British producers will have less opportunity to expand their business and so wages employment levels will not rise.

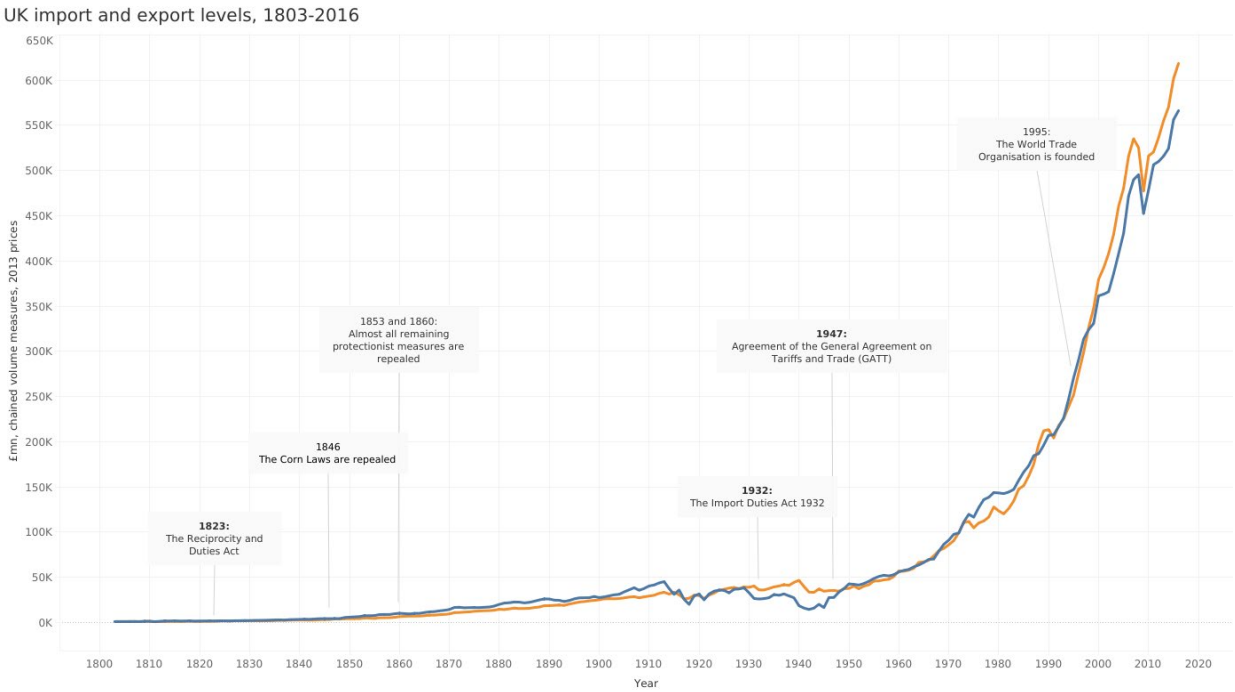
Businesses are under particular strain during the current crisis. Trade barriers will undermine the economy at a time when it desperately needs investment and growth, leading to a deeper recession and more people losing their jobs.

Exports and reciprocal tariffs on British farmers

Tariffs and non-tariff barriers rarely succeed in protecting the businesses they are intended to. This is because they dampen economic growth and therefore consumer purchasing power, but also because other countries often put reciprocal tariffs in place. Increased costs then undermine producers' ability to export their goods.

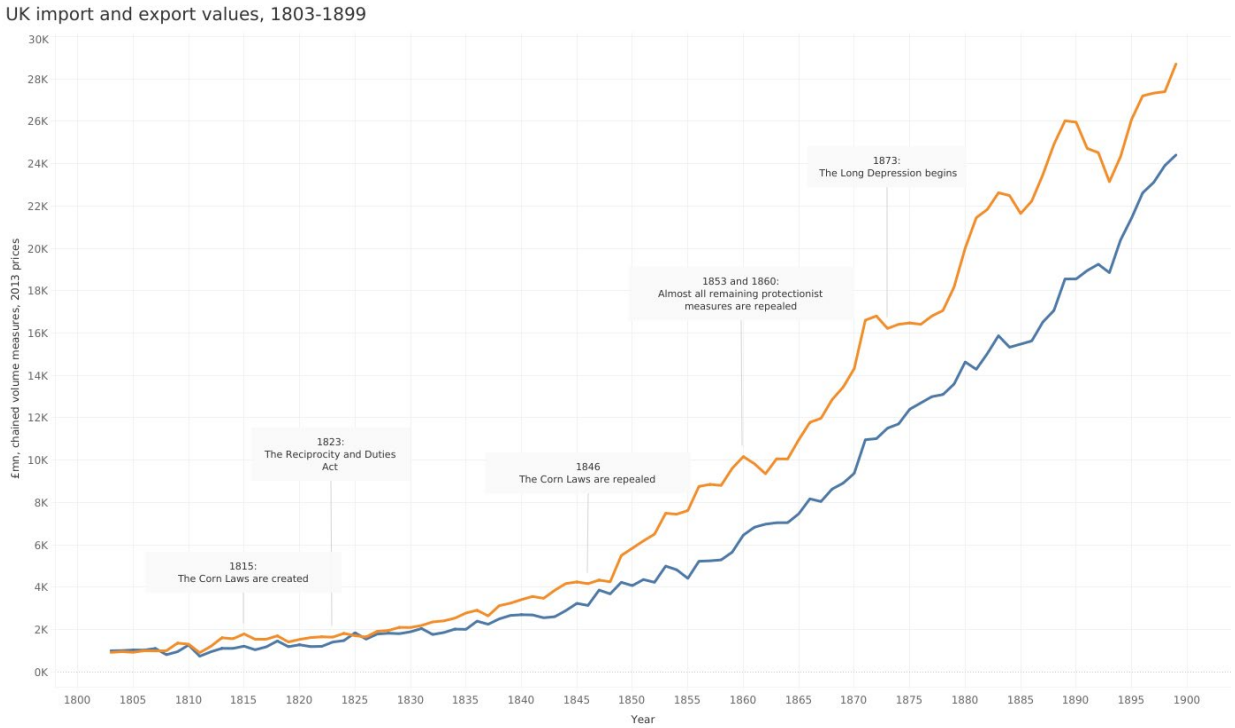
- Freer trade makes it easier for domestic producers to export and so grow their business. For example, in New Zealand, tariffs on foreign wines were removed in the 1980s. Despite beginning to import more wine from overseas, especially Australia, the value of New Zealand's wine exports grew from $18 million in 1990 to over $1.5 billion in 2015.
- The Government's own analysis of a trade deal with the United States showed the UK's agriculture sector would be a net beneficiary from a deal. This is despite the US being the world's largest agricultural exporter.
- For the British economy and agricultural sector to grow, farmers should not only produce enough food for domestic demand, but expand their output for export. For example, British farmers can sell Welsh lamb to the Americans, pork to the Australians and cheese to New Zealanders.

Political history of free trade

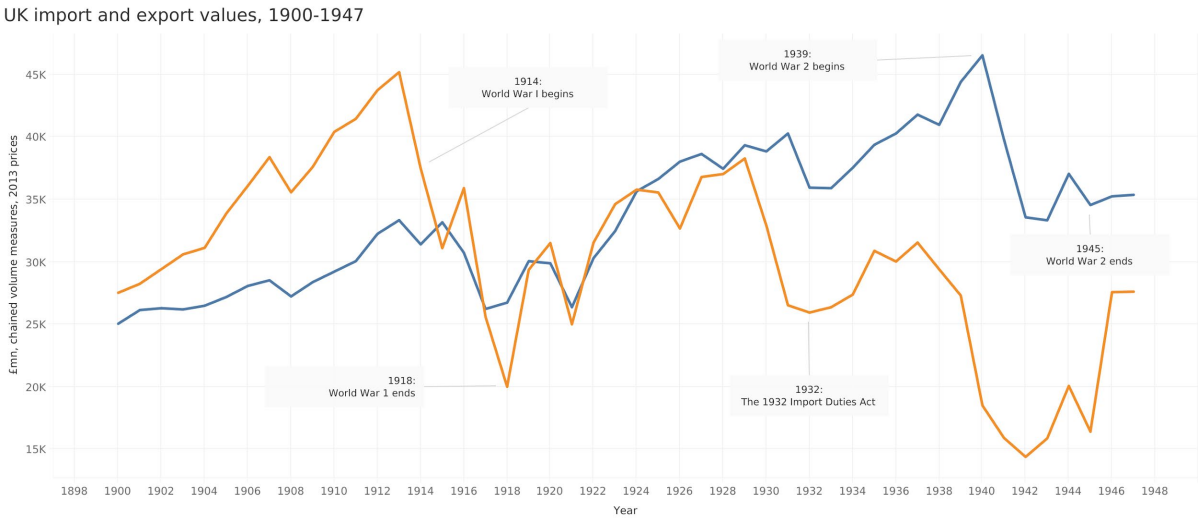


Britain's own history highlights the value of free trade. The graph above shows the value of British imports and exports over the past 200 years, and shows how both have varied as a result of changes to trade policy. It demonstrates that, contrary to the stated goal of most protectionists, higher tariffs do not result in domestic producers being able to increase their exports.

At the same time, lower tariffs and free trade lead to increased imports, but do not reduce exports. Crucially, the value of both imports and exports is largely dependent on the strength of the British economy. In periods of consistent growth, the value of exports and imports has risen. These also tend to coincide with periods of free trade.

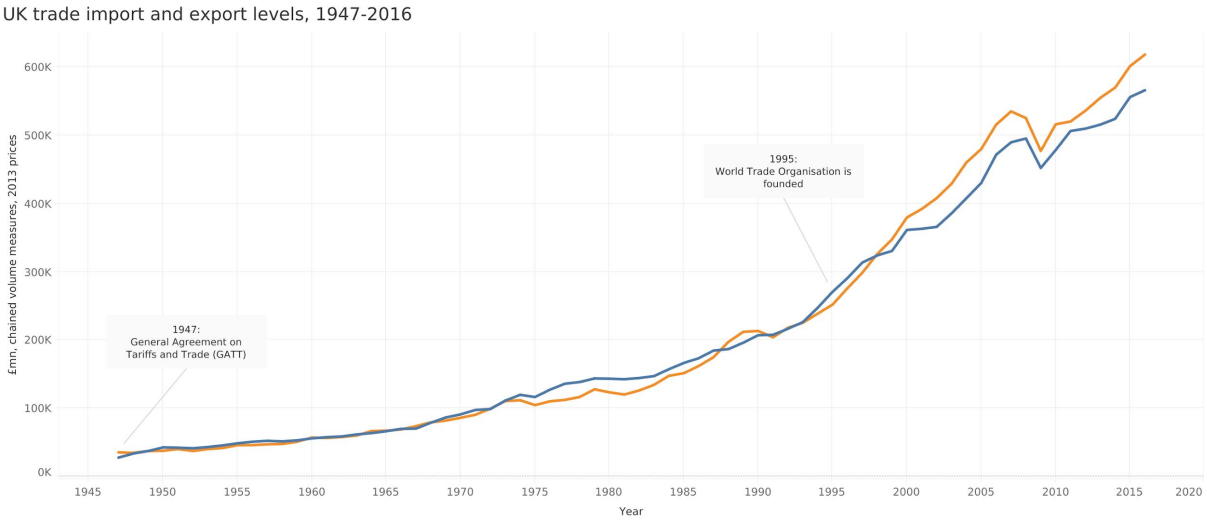


The first half of the nineteenth century was a period of protectionism, with many tariff measures designed to protect the agricultural interests of domestic and colonial producers. The shape of the graph shows that during this period of comparative protection, imports and exports both grew comparatively slowly. From the repeal of the corn laws in 1846 to the end of the century, the value of both exports and imports grew at an accelerated rate. Over the course of this 55 year period, both imports and exports grew roughly sevenfold in value - imports from £3,236m to £24,408m and exports from £4,246m to £28,705m.



Leaving the war years aside, the twentieth century also demonstrates the value of free trade. The fourteen years before the first world war were a period of sustained trade growth, after the suggestion of tariffs was rejected at the 1906 election. Notably, export growth hugely outpaced that of imports during this period.

The 1920s were similarly a period of free trade and both imports and exports recovered well from the war. Tariffs were introduced during the great depression in 1932, but the graph shows that they failed to boost domestic industry, with imports growing at a similar rate to exports for the rest of the decade up to the start of the second world war.



The largely consistent economic growth in Britain since the second world war is reflected in both exports and imports booming since the late 1940s and the introduction of the 1947 General Agreement on Tariffs and Trade (GATT). The GATT was an agreement which aimed to lower global

trade barriers by discouraging discrimination between states, but it did not initially fully cover agriculture.

Eventually, after gradual rule changes over several decades, resulting in the establishment of the World Trade Organization (WTO) in 1994, agriculture was fully covered by global trading rules. This allowed for significant liberalisation of the global food market, and trade in agriculture has grown substantially. It more than tripled in cash terms between 1995 and 2014.

Future of free trade

Food liberalisation has been one of the great successes of the last 70 years and has improved people's living standards globally. Since 2008, however, the Doha round of WTO negotiations has stalled. Although there were many reasons for the negotiations failing, the greatest stumbling block was in agricultural subsidies and tariffs. This has limited further liberalisation and held up further advances in multilateral international trade.

Having left the EU, the UK should take advantage of its new seat at the WTO to champion the values of free trade and push for a new round of multilateral trade negotiations. At the same time, the UK should prove how beneficial free trade can be, by negotiating bilateral free trade agreements which bring down tariff and non-tariff trade barriers. The government should resist efforts to increase these barriers, including via the Agriculture Bill, and remain committed to free trade.