Examining the environmental implications of ‘Global Britain’

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Executive Summary

Although it barely featured in the pre-referendum debate, the UK’s ability to run an independent trade policy has become one of the key objectives for many supporters of Brexit. This is despite there being little evidence to suggest new free trade agreements would compensate for the economic losses of Brexit, no matter the depth of the future UK-EU relationship.

Broadly speaking, it is in the UK’s environmental interest to remain closely aligned with the EU post-Brexit. Thus, certain environmental objectives might quickly come into conflict with those of a so-called ‘Global Britain’; the deeper and more comprehensive the UK-EU future relationship is, the more constraints there will be on an independent UK trade policy. This paper examines different environmental issues that could emerge if the Global Britain narrative were to win out, and the UK were to fully extricate itself from the EU (either via no deal or a standard free trade agreement (FTA)) and pursue a low-alignment future economic partnership.

It argues that while most of the proposed new free trade agreements – such as those with Australia and New Zealand – would, in practice, have little direct impact on British environmental policy, an FTA with the US could lead to deregulatory pressure. The US demands – particularly in the area of food hygiene – would require regulatory change, and a pivot away from the EU’s approach to precaution. Increased competition from hyper-competitive US imports could prove challenging to some British producers, potentially leading to an intensification of farming practices, and calls for deregulation.

In the event of no deal, or a low alignment future economic partnership with the EU, the appeal and likelihood of such deregulation would increase for two reasons. First, there are large sunk costs - in the form of new barriers to trade with the EU - associated with exiting the single market and customs union. The trade costs associated with further divergence from the EU’s regulatory model will, by comparison, be relatively small and potentially an easier political sell. Second, the UK will find offsetting the economic losses of a hard Brexit difficult; removing all tariffs on imported food, for example, is unlikely to lead to lower food prices for households, although it could still lead to increased competitive pressure on some domestic industry and/or political economy arguments for domestic deregulation.

It concludes that while most new trade deals do not directly threaten the UK’s environment, their pursuit runs the risk of locking in a looser UK-EU relationship, creating a political environment more receptive to those voices pushing for competitive deregulation. The implications for the UK’s global environmental footprint are also considered.

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1. Following the 2016 referendum, the UK's ability to run an independent trade policy has become one of the key Brexit battle grounds. A close economic relationship between the UK and EU will place more constraints on the UK vis-a-vis its trade policy with the rest of the world than a looser arrangement. Conversely, a close economic relationship between the UK and EU is, broadly speaking, in the UK's environmental interest.[1] Thus, the pursuit of a fully autonomous UK trade policy raises a variety of questions.

World Trade Organization (WTO)

2. Irrespective of its future post-Brexit relationship with the EU, the UK will need to re-establish itself as a distinct entity at the WTO. This involves certifying its own baseline offer to the rest of the WTO membership on tariffs, quotas, subsides and services. There is little reason to think this poses a problem for the UK's environment. However, the UK will also now be required to defend itself against legal challenges, independent of the EU. It is likely that countries that are unhappy with the EU's approach on different issues will proceed to bring cases against a lesser-prepared UK (which because of the EU Withdrawal Bill (formerly the Great Repeal Bill) will have all of the same rules as the EU, at least in the short-to-medium term). One issue particularly susceptible to challenge is the EU's ban on the use of hormones in beef production, having already been ruled illegal once before by a WTO arbitration panel.

Free Trade Agreements

3. When it comes to the negotiation of future FTAs, no country can force the UK do something it does not want to do. However, if the UK is to conclude comprehensive FTAs, it will be required to take decisions on sensitive issues, and potentially compromise on previously held positions. This is especially true, relative speaking, because the smaller British market will be less of a prize in and of itself post-Brexit, relative to its former position as a component part of the bigger EU market. In practice, the UK will be able to make fewer demands of potential partners than when an EU member, and will in some instances be required to make greater concessions.

4. The UK has identified FTAs with Australia, New Zealand, the US and accession to the Comprehensive and Progressive Trans-pacific Partnership (CPTPP; a plurilateral free trade agreement between 11 countries, including Japan, Canada, Mexico and Malaysia) as immediate post-Brexit priorities. This is alongside efforts replace the EU's 40+ existing free trade agreements.

5. Size also matters with respect to potential future FTA partners. Smaller, open economies such as **Australia** and **New Zealand** do not have much to offer the UK in terms of market access (although they certainly have political appeal due to generally favorable public sentiment). While Australia in particular does take issue with the way in which some EU regulations work in practice it would probably be satisfied with the UK simply agreeing to reduce or remove tariffs on agri-food products, particularly sugar cane, beef and lamb (alongside other asks on visas).[2] While making it cheaper to import Australian agri-produce might negatively impact some British farmers (particularly beet sugar and beef producers[3]) and lead to

[1] https://ieep.eu/uploads/articles/attachments/0cfa6921-dcb3-4098-a3e8-c8d61bd67b5c/Final%20equivalence%20report%20clean.pdf?v=63693075706
[2] https://www.thetimes.co.uk/article/australia-to-demand-britain-accepts-hormonetreated-beef-htwf9xxsb
[3] https://www.adelaide.edu.au/press/titles/eu-trade/eu-trade-ebook.pdf pg: 182

calls for domestic environmental deregulation in order to bring down costs, there is little reason to think a UK-Australia agreement would have direct negative environmental implications for the UK. Furthermore, China and Asia as a whole is a much more important market for both Australia and New Zealand, and the value in a UK deal is in the flexibility it provides; were existing Asian markets to close up Australian and New Zealand exporters would have other options to consider. As it stands New Zealand does not fill its existing tariff-free quota of lamb exports to the EU suggesting that there would not be a major immediate shift in the quantities of lamb being imported from New Zealand under a UK-NZ FTA.

6. The **US** is a different beast. Its aggressive demands on the regulatory side are well documented (See: table one). With regard to the EU (and UK), its concerns include the general application of the precautionary principle, its approach to chemicals regulation (REACH), bans on the use of hormones in beef production, bans on the use of antimicrobial washes on poultry carcasses, and the EU's approach to the authorisation of GM products. In order for the UK to enter into a comprehensive free trade agreement with the US, it will be asked to make concessions in many of these areas. Also, opening the UK market to US agriculture competition would probably instigate a domestic shift to more intensive means of production in some sectors, so as to remain competitive. The environmental impacts of a such a shift would be complex, mixed, sector-specific and would depend, to a large extent on the post-Brexit domestic framework of regulation and support payments.[4]

7. In practice, a close economic EU-UK partnership probably rules out a comprehensive FTA with the US (Norway, Iceland and Switzerland do not have free trade agreements with the US, for example). From an economic perspective there is no reason to think an FTA with the US is preferable to a close relationship with the EU.[5] A comprehensive UK-US FTA is also, most probably, incompatible with efforts to maintain an open border between Ireland and Northern Ireland; assuming an open border is prioritised, at the very least Northern Ireland would need to be excluded from all aspects of the agreement related to trade in goods and agri-food.

Table one: non-exhaustive list of existing EU regulatory barriers to US trade, as identified by the United States Trade Representative (USTR)

EU Measure	US complaint
Chemicals (REACH)	The US contends that REACH requirements are more onerous for foreign producers than EU, and at times unnecessary. It contends that some of the data required by the registration process is irrelevant to health and environmental concerns.
Cosmetics	The US contends that the EU's risk assessment process is not transparent and has insufficient stakeholder engagement. [Note: While the US has banned or restricted 11 ingredients from use in cosmetics, the EU has banned more than 1300.]
Renewable Fuels (Renewable Energy Directive)	The US contends that the EU's approach to determining whether biofuels and biofuel feedstock qualify for tax incentives and national use targets is disruptive to the trade of US products. For example, the Commission is refusing to recognize the US Soybean Sustainability Protocol as a legitimate voluntary certification scheme due to concerns regarding traceability and greenhouse gas calculations.

[4] https://community.rspb.org.uk/ourwork/b/martinharper/posts/what-does-brexit-mean-for-farmers-and-for-the-environment
[5] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760484/28_November_EU_Exit_-_Long-term_economic_analysis__1_.pdf

Transport Fuel (Fuel Quality Directive)	The EU's fuel quality directive requires fossil fuel suppliers reduce the lifecycle intensity of transport fuel by 6 per cent by 2020. The US objects to the lack of opportunity to comment on the development of the Commissions methodology for calculating the greenhouse gas life-cycle emissions for transport fuels. They also object to US exports of biofuels being discriminated against due to a differing definition of biodiesel.
Certification of Animal Welfare	The EU requires animal welfare statements on official sanitary certificates. The US believes these statements do not advance any food safety or animal health objectives and therefore should not be required.
Sanitary and Phytosanitary Barriers (Hormones and Beta Agonists)	The EU bans or restricts the use of hormones, beta agonists and other growth promotants in the production of meat. The US argues these restrictions are unscientific. US producers are unable to export meat to the EU unless they go through a costly verification program ensuring no hormones, beta agonists or other growth promotants have been used in production. The US argues the ban on hormones usage in beef breaches the EU's WTO obligations, and has previously brought and won a WTO case against the EU on this issue. A compromise has been reached (a larger EU tariff free quota for non-hormone treated beef), but the US remains unhappy.
Sanitary and Phytosanitary Barriers (Agricultural Biotechnology)	The US takes issue with the amount of time it takes for the EU to approve genetically engineered crops for the EU market. Recent approvals took an average of over seven years (legally, the EU is supposed to conclude the process in 12 months).
Sanitary and Phytosanitary Barriers (Pathogen Reduction Treatments)	The EU prohibits the use of several pathogen reduction treatments used to remove contamination from animal products that are allowed in the US. It blocks imports of US products treated with pathogen reduction treatments.
Sanitary and Phytosanitary Barriers (Somatic cell count)	The EU places more restrictive limits on the number of white blood cells in milk than are in place in the US. In order to sell export milk to the EU US producers must go through a costly certification process.
Sanitary and Phytosanitary Barriers (Pesticide Maximum Residue Limits)	The EU bans the use of the Diphenylamine, significantly limiting US exports of apples and pears.

Source: Adapted from USTR's 2018 National Trade Estimate Report on Foreign Trade Barriers[6]

8. The UK's proposed accession to **CPTPP** will prove tricky if the UK remains closely aligned with the EU, particularly if it remains in a customs union with no ability to unilateral adjust its tariffs. From a regulatory perspective, what with the US's withdrawal from the agreement, there are fewer vocal demandeurs, although many of the CPTPP members share the US's concerns regarding the EU's regulatory model. One potential issue relates to the CPTPP's chapter on Sanitary and Phytosanitary (SPS) measures, and particularly its approach to precaution. With regard to precaution Markus Wagner, an academic at Warwick university specialising in international law, typifies the CPTPP's SPS chapter as SPS minus relative to the WTO (SPS) and EU (SPS+).[7] However, the UK might be able to negotiate carve outs and clarifications as part of its CPTPP accession, avoiding potential conflicts with existing EU-inherited measures.

9. The EU has long struggled to progress FTA negotiations with Malaysia, a CPTPP member, partially due to a long-running dispute over palm oil. Malaysia claims that the EU's upgraded renewable energy will discriminate against biofuels produced using Malaysian palm oil.[8] The environmental issues associated with palm oil production are well documented. UK accession to CPTPP would likely be challenged by Malaysia were it to retain EU approaches to palm oil.

[6] https://ustr.gov/sites/default/files/files/Press/Reports/2018%20National%20Trade%20Estimate%20Report.pdf
[7] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2946582
[8] https://news.bloombergenvironment.com/environment-and-energy/palm-oils-loss-may-be-us-soybean-gain-in-eu-biofuel-rule-1

10. Although the UK is not prioritising them at the moment, further free trade agreements with China, India and the Mercusor trading bloc have been mooted. The potential environmental impact of any such deals would need to be carefully assessed against the provisions and would be heavily dependent on the scope and depth. An agreement with Mercusor has proved particularly controversial with environment groups in the past due to concerns about deforestation in Brazil. In its joint trade review with the UK, India identified numerous existing UK provisions relating to fungicide, endocrine disrupting chemicals and antibiotic usage it perceives to unfairly discriminate against Indian products.[9] It is not clear whether UK action on these would be a requirement of a free trade agreement with India, but addressing the issues in question would certainly require the UK move away from existing EU rules and approach.

SPS

11. While SPS rules do not directly relate to the environment, they affect the conditions in which food is produced and can have notable indirect impacts. For example, the ability to decontaminate meat carcasses with antimicrobial washes allows for more intensive, polluting, production than would otherwise be the case. On the subject of **SPS**, it is in the UK's economic interest to remain fully aligned with the EU both domestically and with regard to imports from third countries. If it does not, all UK exports to the EU of products of animal origin will need to enter the EU territory via a veterinary border inspection post, where they will be subject to document checks, identity checks and physical inspections (the physical inspection rate can be as high as 50 per cent). The existing main routes to market for UK products of animal origin, Calais and the Eurotunnel, are not veterinary border inspection posts, although preparatory work is being done to upgrade them. The only countries that currently export products of animal origin to the EU free from SPS checks and border inspections are the EEA countries and Switzerland, all of which are bound to apply the EU's SPS regime at home and to imports from third-countries.

12. Outside of the EU's SPS regime, if the UK is to avoid the most arduous of checks, it will be reliant on an equivalence agreement with the EU. The EU has reached these agreements with a variety of countries, including Canada, Chile and New Zealand.[10] While they do not obviate the need for products of animal origin to enter the EU via a veterinary border inspection post, they can result in simplified paperwork and a reduction in the rate of physical inspections to close to zero.

13. However, if the UK chooses a looser economic relationship with the EU, and is unable to avoid new SPS checks, the marginal economic cost of additional divergence will be fairly minor (due to the upfront sunk costs being so large). This will make future divergence from the EU - either as a result of domestic pressure or in order to agree FTAs with new trading partners, for example the US - relatively more appealing.

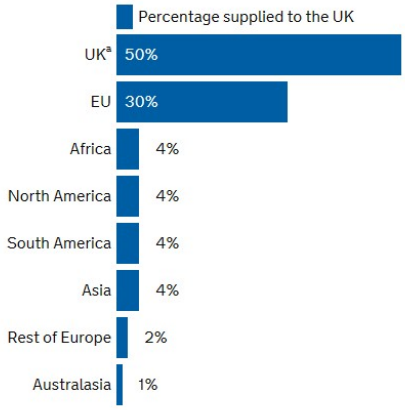
Removing tariffs on food imports

14. One option open to the UK post-Brexit is to unilaterally remove tariffs (some of which are quite high) on all imported food, irrespective of the country of origin. Such an action would be more likely in a no deal scenario in order to take the edge off the inevitable food price inflation that would follow given that around 50 per cent of food consumed in the UK is imported - the vast majority of which is sourced from the EU.[11]

[9] https://unearthed.greenpeace.org/2018/07/12/brexit-uk-india-trade-review-out-of-reach/
[10] https://ec.europa.eu/food/safety/international_affairs/trade/agreements_en
[11] https://www.gov.uk/government/publications/food-statistics-pocketbook-2017/food-statistics-in-your-pocket-2017-global-and-uk-supply

Tariffs could also be removed via a series of future free trade agreements. Advocates of such a policy say it will mean cheaper food and drink.[12]

Chart One: Origins of food consumed in the UK 2017



Source: Food Statistics in your pocket: Global and UK supply, DEFRA[13]

15. In practice, it is not clear that aggregate consumer prices would fall in the event that food tariffs were removed. Not all food imports from the EU will be easily substitutable, meaning that the UK will continue to source much of its food from the EU, but EU-sourced produce will be more expensive than now due to an inevitable increase in bureaucracy born of becoming a third-country. Additionally, the depreciation of sterling since the referendum has increased the cost of imported food,[14] and will also make domestic inputs, such as migrant labour and imported fertilizer, more expensive. There is also little evidence to suggest that tariff reductions lower average consumer prices.[15] Furthermore, if the UK is to maintain the EU's SPS regime post-Brexit (which it will need to do at least in respect of Northern Ireland if it is to maintain an border) many of the potential cheaper food imports would continue to be barred from the British market. The discussion might start with tariffs, but it would inevitably progress to non-tariff domestic regulatory issues.[16]

16. Irrespective of aggregate impact on consumer prices, the removal of food tariffs would probably see greater quantities of certain foods being imported from further afield. For example, due to beef exported from South America, particularly Brazil, being so much cheaper at world prices[17] than that imported from the EU, it is possible that the UK would import more South American beef than now. As per Chart Two, The Green Alliance estimate the relative environmental cost of beef produced in Brazil to be significantly higher than that produced in the UK and Ireland. Pressure on government to relax domestic environmental regulations would probably grow from those farming sectors that do find themselves put under pressure by foreign competition.

[12] https://www.thesun.co.uk/money/4843357/brexit-food-and-drink-cheaper-tim-martin/
[13] https://www.gov.uk/government/publications/food-statistics-pocketbook/food-statistics-in-your-pocket-global-and-uk-supply
[14] https://www.ifs.org.uk/uploads/publications/bns/BN225.pdf
[15] https://voxeu.org/article/consumer-benefits-trade-agreements
[16] https://brexitcentral.com/ifs-tariffs-study-misses-biggest-benefits-leaving-customs-union/
[17] https://ec.europa.eu/agriculture/sites/agriculture/files/market-observatory/meat/beef/doc/world-beef-weekly-prices_en.pdf

Chart Two: Relative environmental costs of beef production (£/kg)

Source: Green Alliance[18]

Conclusion

17. A comprehensive free trade agreement with the US would require the UK to pivot away from some existing EU regulatory approaches, particularly in the area of food hygiene. It is in the US's economic and geopolitical interest to put strong regulatory demands on the negotiating table. While a pivot is not in the UK's economic interest, if it is unable to negotiate a relationship with the EU that grants its goods exports access to the European market on similar terms to now (which will be difficult given the existing UK red-lines), the sunk costs of the new regulatory barriers to trade and bureaucracy will be high, reducing the marginal cost of further divergence, increasing the appeal of an FTA with the US or domestic deregulation.

18. New free trade agreements are unlikely to have a direct impact on the UK's environmental policy (beyond SPS), although increased UK demand could have ramifications for the environment in the countries with which the UK strikes an agreement. Rather, the policy decisions required to achieve them – specifically, a harder Brexit and a looser relationship with the EU - create political economy conditions more receptive to those voices pushing for competitive de-regulation, and a shift away from the EU's precautionary approach to environmental governance. Indeed, talk of new free trade agreements could be viewed as a stalking horse for a broader domestic deregulatory agenda that would otherwise not prove so popular with the public; both require that the UK fully extricates itself from the EU's regulatory rule book and architecture, but one has more public salience than the other.

19. In the event of no deal, it is unlikely that tariff removal alone will translate into lower prices for consumers, although it could lead to the UK sourcing greater quantities of certain foods from further afield, with potential environmental implications for the UK's overall food footprint. The need to see off no-deal induced food price inflation, combined with potential increased competition from foreign producers, will probably exacerbate calls from certain sectors for a weakening of domestic British environmental protections.

[18] https://www.green-alliance.org.uk/resources/protecting_standards_in_UK_food_and_farming_through_Brexit.pdf