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This is a joint evidence submission from:

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Our views here are informed in part by recent work done under the project 'Realigning UK Food Production and Trade for Transition to Healthy and Sustainable Diets', funded by the UKRI Transforming UK Food Systems Programme (TUKFS)[1]. The views below are our own personal, provisional ones and do not necessarily represent the project as a whole, which is still ongoing.

How trade can help in the pursuit of net zero

- The agriculture sector needs to play its part in the UK reaching its legally binding net zero target by 2050.
- A case can be made for a levy on emissions from the agricultural sector, given the very large contribution to methane emissions made by the sector (especially from ruminant livestock). New Zealand has such a levy[2]
- But, to address the issues relating to the competitiveness of UK agricultural production where other countries do not have similar levies, there may need to be a CBAM (carbon border adjustment mechanism) for agricultural imports[3].
- A CBAM is an important trade policy tool which applies a border tax or levy on goods imported from countries whose producers do not face similar carbon pricing.
- Its aim is both to create a level playing field but also to prevent 'carbon leakage', where food production in the UK would be lost to production abroad and where farmers abroad may be producing food with higher greenhouse gas (GHG) emissions, leading to a net increase in global emissions. This is a matter of the relative 'emissions intensity' of production.
- In that respect, a CBAM is an example of how trade can help in the pursuit of net zero: via policy tools like a CBAM, trade policy can help to prevent farmers from being undercut in the UK market as a result of their action to reduce GHG emissions in line with UK net zero targets.
- However, with the UK importing nearly 40-50% of its food (the share of imports is much higher for many products in the fruit and vegetables sector), from a large number of countries, this would require CBAMs for a very large matrix of countries across a wide range of products.
- The precise (and credible) calibration of CBAMs for agricultural imports would require assessment of the emission intensity of production in different countries – which would vary by the technology (e.g., extensive versus intensive livestock farming), the prevalence of large scale versus small scale production, and agro-ecological conditions.

[1] https://ukfoodsystems.ukri.org/
[2] https://www.beehive.govt.nz/release/new-emissions-reduction-plan-will-future-proof-nz%E2%80%99s-largest-export-sector
[3] Carbon Border Adjustment Mechanism - European Commission (europa.eu)

- Calculating a CBAM is therefore likely to be more complex than CBAMs or equivalent non-tariff trade measures in other industrial sectors, where production takes place in a relatively limited number of facilities.
- Such complexity is not a reason to avoid CBAMs in agriculture, but it is something that would need to be investigated further.
- Consideration would also need to be given to how CBAMs on agricultural imports would fit in within existing or proposed UK free trade agreements (FTAs).An important consideration is whether the terms of current/proposed FTAs allow for CBAMs on agricultural imports.
- The current UK-NZ trade FTA has only a short Article (22.10)[4] on 'Sustainable Agriculture', which contains nothing to either include or rule out a sectoral CBAM.
- Under the general Climate Change Article 22.6 of the FTA, the Parties have agreed to 'promote carbon pricing as an effective policy tool' for reducing GHG emissions and to cooperate on 'trade-related aspects of climate change policies and measures and on ways to mitigate and adapt to climate change, that may include … international trade-related aspects of the fight against climate change, such as carbon leakage and systems of carbon pricing, and linking emissions trading schemes.' This envisages cooperation on CBAMs.
- Future FTAs may need to consider explicitly mentioning them too in sections on Agricultural Sustainability, for the avoidance of doubt.
- Mention of the New Zealand levy above makes clear the advantage of entering into trade deals with countries who show similar ambition on tackling agricultural GHG emissions. If the UK and New Zealand levies ended up quite similar, then the CBAM would not be an issue, because New Zealand farmers would be paying an equivalent carbon price, and vice versa (if New Zealand were also to decide that it needs a CBAM for agriculture).

April 2024

[4] https://assets.publishing.service.gov.uk/media/621cb2838fa8f54916f45f73/uk-new-zealand-free-trade-agreement-chapter-22-environment.pdf.