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# Brexit Seminars 2016

## Implications for UK Farming

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# BREXIT - IMPLICATIONS FOR UK FARMING

## CURRENT SITUATION AND TIMELINES

### CURRENT SITUATION

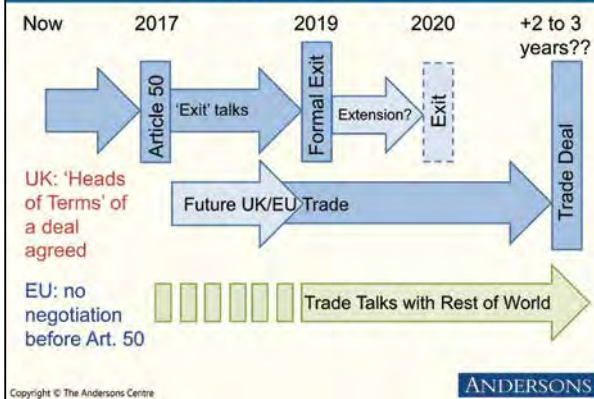
- **UK voted 52:48 to leave the EU**
  - turnout of 72%
  - wide regional disparities – London + SE, Scotland, N.I. 'in'
- **An 'advisory' vote; but 'Brexit means Brexit'**
- **Formal process begins by invoking 'Article 50'**
  - other legal avenues possible, but highly unlikely
  - can be extended if unanimously agreed (*unlikely without concessions*)
- **Article 50 triggered by PM under royal prerogative**
  - doesn't need Parliament's consent (or that of the Scottish Parliament)
  - but a vote may be held to establish legitimacy
- **Article 50 has no precedent**

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The new(ish) Government of Theresa May has repeatedly stated that 'Brexit means Brexit'. Although the referendum was not legally binding, there seems no political appetite to try and reverse the expressed wish of the British people. It has been stated that there will be no attempts to remain inside the EU, no attempts to re-join it through the back door, no second referendum, and no General Election until 2020. The now-famous Article 50 of the Lisbon Treaty governs withdrawal. This mandates a two-year period for negotiations. There will be no decision to invoke Article 50 until Britain's negotiating strategy is clear. It is almost certain to be 2017 before Article 50 is triggered (some believe it will be delayed into 2018 or even later). There is no real precedent for a country leaving the EU under Article 50. Greenland, an autonomous country within the state of Denmark, withdrew in 1985, but this was before the Lisbon Treaty was in effect. For Greenland, the issues were very limited, as the territory only sought Overseas Country and Territory status, rather than a full exit. Even so, withdrawal took three years.

### FUTURE TIMELINE



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This timeline sets-out how the negotiations are likely to proceed it shows that there will be two sets of talks with the EU once Article 50 is triggered, with the first being on the formal 'Exit' process from the EU and the second focusing on the future trading relationship with the EU. An extension to the Exit negotiations is possible, as such talks are likely to be complex and it is not unheard of within the EU for negotiations to take longer than expected. An extension might not just favour the UK, it could be in the EU's interest as well. That said, the formal legal position is that if the Exit negotiations are not concluded within 2 years, and all EU-27 Member States fail to agree to an extension, then the UK would be out in the cold. It is not necessarily the case that Trade talks will be concluded on the same timescale as the Exit talks. Whilst the talks with the EU take place, discussions will also take place with non-EU countries. Liam Fox (UK's International Trade Minister) has already initiated this process but no trade deals could come into force until the UK has formally exited the EU.

### 'EXIT' TALKS

- **Covers areas such as;**
  - extricating the UK from its EU rights and obligations
  - status of EU citizens in UK and British citizens in EU countries
- **Probably simpler than trade**
  - would there be a need / desire for an extension?
  - could exit as early as 2019
- **Deal required to be agreed by;**
  - qualified majority of Member States
  - European Parliament – simple majority
- **Two-year timetable (deliberately) stacks the cards in EU's favour**
  - if no agreement and no extension then the UK is just 'out'

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The talks on Exit are focused on the technical matters required to 'unbundle' 40+ years of integration between the EU and the UK. Examples of the areas covered are set out in the following slide. Although there is a lot of ground to cover, the talks may be reasonably straightforward to conclude as the issues are less 'political' than the negotiations on future arrangements. Although the two strands are separate, there is almost certain to be some cross-over between them. It is not clear who David Davis will be negotiating with. The EU Commission (Civil Service) has appointed Frenchman Michael Barnier. The EU Council (Member States) has put the Belgian, Didier Seeuws, in charge of its taskforce. In any event, the final deal will need to be approved by a 'qualified majority' of 72% of the remaining 27 Member States, representing 65% of the population. The European Parliament will also need to be persuaded to approve the Exit deal. Given various elections around Europe there appears a logic to triggering Article 50 in early 2017, with a view to leaving the EU in early 2019.

## 'EXIT' ISSUES TO NEGOTIATE

### Some of The Known Unknowns...

Common Agricultural Policy	Current 2 million UK Expats:	Rights of UK citizens resident in other member states
Data Sharing Agreements	• Access to Pensions,	
European Arrest Warrant	• Healthcare	
	• Public Services	
Fishing Rights	University Collaborations	Common Travel Area (UK/Ireland)
The European Criminal Records Information System	Governance of the Sea	
Repeal of the European Communities Act (ECA) of 1972	European Health Insurance Card	
Unspent EU funds due to or from UK	European Banking Authority (EBA) (London Based)	
Protected Food Names	Europol	Foreign policy, including sanctions
European Medicines Agency (EMA) (London Based)	Climate Change Laws	International law
Rights of EU citizens resident in UK	Devolved powers tied up in EU law	
Prüm Decisions (Fingerprint database)	Terrorist activity Records	Security Information Sharing
UK's environmental commitments	Common Travel Area	
	Negotiation Sequencing	

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This is a (non-exhaustive) list of the topics the Exit negotiations will have to cover. Depending on your perspective, this slide will either make you wonder how we could ever leave the EU (especially in two years) or will explain exactly why we need to leave! It highlights some of the linkages that have been established through EU membership beyond the issue of trade.

## 'TRADE' TALKS

- **Runs parallel, but separate to, Exit talks**
  - UK may have to exit before it can conclude a deal
  - more complex (and lengthy) than exit talks – highly technical
- **Trade-offs between market access and free movement**
- **Deal required to be agreed;**
  - unanimously by Member States – national Parliaments?
  - plus European Parliament
- **EU unlikely to want to offer a favourable deal**
  - otherwise others encouraged to leave
- **What is the UK's capacity for negotiation?**
  - 30 UK Civil Servants with trade experience (600 in EU)
- **A period when we are out of the EU, but with no deal?**

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Article 50 invokes negotiations solely around exit, not trade. It has been suggested that talks on future trade relationships cannot even begin until the UK formally exits - otherwise it is, to some extent, negotiating with itself. This seems unlikely in practical terms and the two strands will proceed in parallel. However, the Trade negotiations will probably take substantially longer than the Exit talks. Not least this is because there is a greater amount of politics involved – essentially trading off access to the EU market against a loss of sovereignty. It seems the UK would have to negotiate well or pay a lot to retain free trade status from the start. The bar for the remainder EU agreeing a deal is higher than for the Exit talks too. All Member States must agree the new trade arrangements. There may even be a need for national Parliaments to ratify a deal (as with the current Canadian free-trade deal).

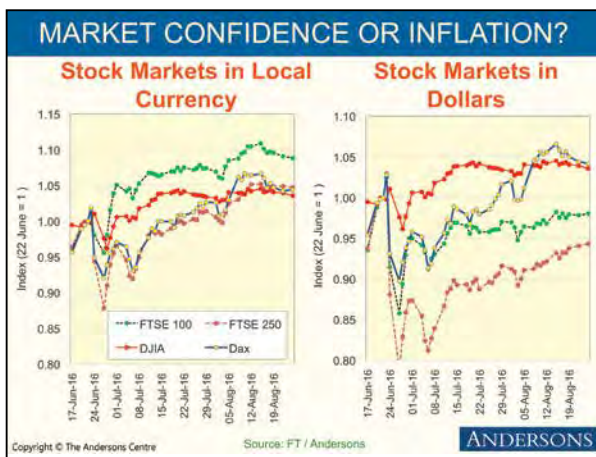
## SHORT TERM BREXIT UPSIDE

### Pound and Euro – 2005 to 2017



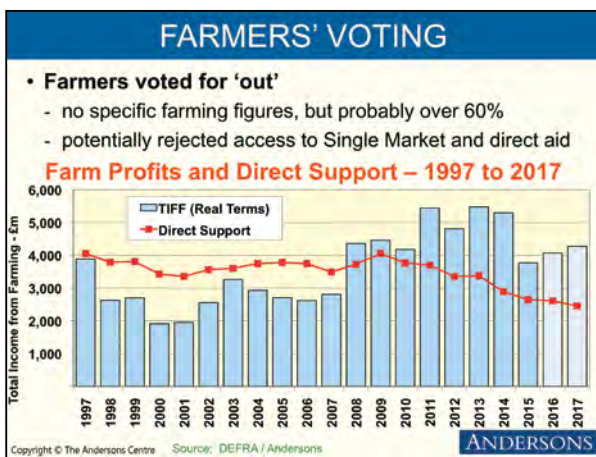
Sterling is the worst performing currency of 2016 so far having undertaken the Argentinean Peso. The relationship between the Pound and the Euro is fundamental for the fortunes of UK farming for two main reasons: Firstly, farmers' subsidies are calculated in Euros then converted into Sterling in September each year. The exchange rate at that point therefore affects the Sterling value of UK BPS payments. In addition, the majority of UK exports are made to the Eurozone. If the Pound is strong, UK exports cost more in foreign currencies and imports into the UK become cheaper in Sterling terms. If Sterling weakens, the opposite happens, supporting UK domestic prices. The direction of Sterling against the Euro over the next few months is even more difficult to call than usual.



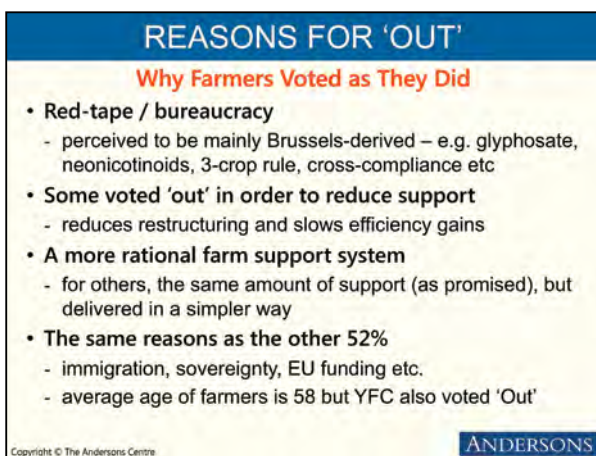


The stock markets are reflecting the imminent likely rise in inflation. Consumer Price Inflation rose 0.5% in June, not a big leap but reflects entirely pre-Brexit data. A fall of a currency makes imports dearer, and exportable home produced goods equally more expensive. Commodities therefore lead the charge, other goods soon follow, leading to High Street inflation. Wage inflation takes a little longer to change. The Bank of England normally manages this with higher base rates, yet the Bank has reduced rates to all-time lows to try and bolster the economy. This is also inflationary, as is quantitative easing.

## VOTING PATTERNS: FARMING



There is no specific breakdown of the voting patterns of farmers in the referendum. However, it seems safe to say that a majority (perhaps a large majority) voted to leave the EU. This might seem perverse when the EU provides the largest market for farm produce and the Common Agricultural Policy (CAP) provides substantial support to the sector. Indeed, as the chart demonstrates, in some years over the past two decades direct payments (inc. agri-environmental payments) were more than the profit in the industry. Under Brexit, neither direct support or Single Market access is guaranteed. Both are currently critical to support UK farming in its present structure.



So why the Out vote? A minority of farmers highlight the drag that such subsidies have on developing agriculture – slowing restructuring, keeping inefficient operators in business and holding back the efficient. Most identify the bureaucracy. Specific issues cited include the unscientific refusal to re-authorise glyphosate, the counter-productive restrictions on neonicotinoids or that the three-crop rule is useless in the UK. Others claim to not want cross-compliance and many profess a more general desire to be left alone to 'get on and farm'. It seems incredible that farmers expect these rules to simply disappear on Brexit; being legislative, they are likely to remain in some format. However, in simple terms, the message from the farming community is that less is more.

## BREXIT AS PART OF A WIDER TREND

- **Discontent with ever-increasing globalisation**
  - economic benefits perceived to have gone to the few rather than the many
  - a change in the culture of communities
- **International xenophobia (terrorism, refugees etc.)**
- **Decline of trust in political 'elite'**
  - also a decline in trust of 'experts'!
- **Politics no longer Left vs Right, but Open vs Closed**
  - Republican Trump, "Americanism not Globalism" (also Democrat Sanders)
  - rise of populists in Europe - nationalist Governments elected in Poland & Hungary, FN in France

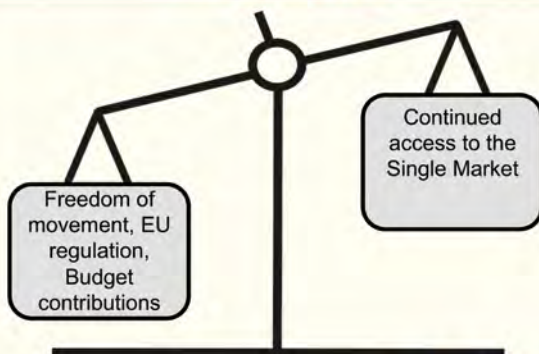
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To step outside of agriculture, and also the UK, Brexit can be viewed as part of a wider trend. There is a backlash against globalisation. This can be perhaps traced back to the financial crisis where 'greedy bankers' were bailed out and everyone else got austerity. This feeds into a more general sense that any gains from globalisation have not been evenly distributed – or to put it into Trump-esque words, the system is rigged against the little guy. Away from economics, migration has meant that people no longer recognise their communities as the ones they grew up in. Overall, a movement of increased protectionism is spreading through the world. Donald Trump's threat to pull out of the WTO, cancel trade agreements and cancel all other negotiations demonstrates this. The popularity of Marine Le Pen in the French polls seconds it.

## FUTURE TRADING RELATIONSHIPS

### THE BALANCE

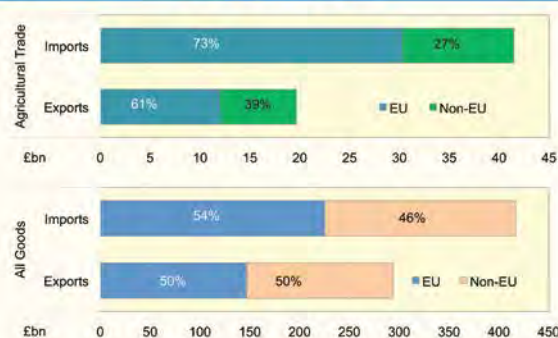


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Within the negotiations with the EU over future trading arrangements there is one key trade-off. The UK would like as much access to EU markets as possible – ideally complete access to the Single Market as at present. However, there is also a desire to regain 'sovereignty'. The two objectives are almost mutually exclusive. The EU is clear that the UK cannot have Europe 'a la carte'. This means that if the UK wants tariff-free access to the Single Market then it is likely to also need to agree to most of the following; implementing EU regulations where they affect the Single Market, accepting free movement of people (i.e. EU immigration), and paying in to the EU Budget. This, of course, is not what most people thought they were voting for if they opted for Brexit. If the political 'establishment' comes back with a deal that appears to break the promises made during the campaign, the disillusionment with politics will just become greater.

### UK-EU TRADE



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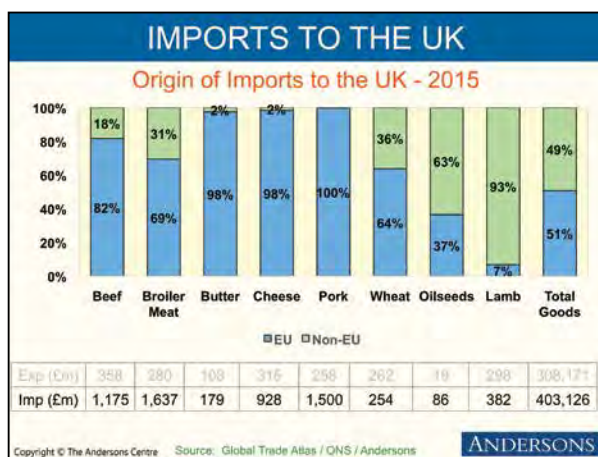
Source: Global Trade Atlas / GNS / Andersons

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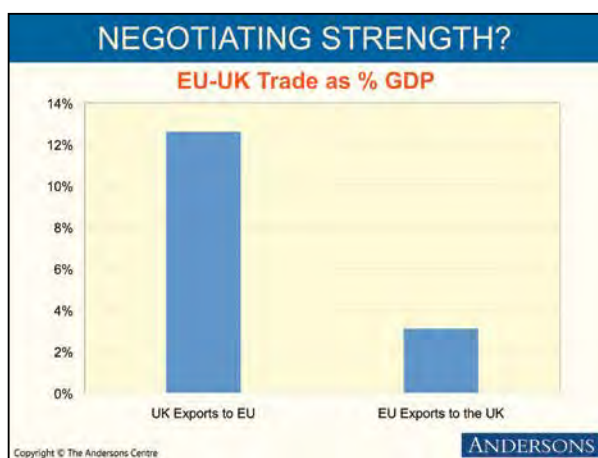
The future trading relationship between the UK and the EU is very important because the block is our largest single trading partner. This is true for all goods (shown on the bottom chart on this slide) and even more so for agricultural products. Services are not shown on the chart, but they are another important segment of trade. It can be seen that the UK imports more **from** the EU than it exports **to** it. This might suggest that the EU will be keen to do a deal.



This chart shows the percentage breakdown of UK exports to EU and non-EU destinations. Total exports of goods, estimated at over £308 billion, is split evenly between EU and non-EU countries. For crops, the UK exports proportionally more to the EU, particularly for oilseeds. Furthermore, within some livestock sectors, notably beef & pork, exports to the EU account for 80% or more, with Ireland accounting for a significant proportion of this amount. For agriculture generally, Ireland is the leading export destination representing 18% of total exports. France (10%), US (9%), Netherlands (8%) and Germany (7%) are also important destinations. Some commodities are not traded in great quantities, so the table below the chart shows the value of exports of each of the categories.

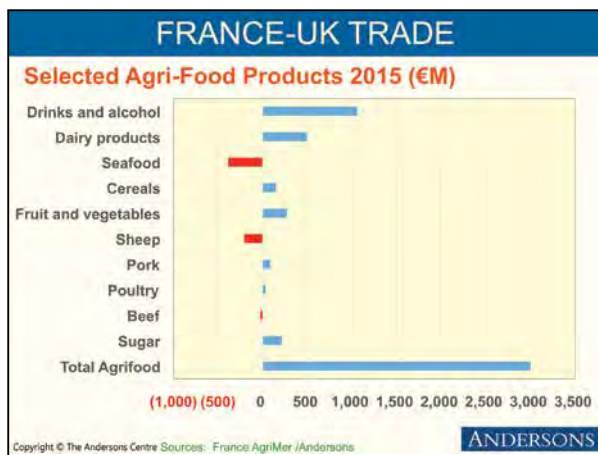


The previous chart focused on exports, whilst this one looks at imports. In 2015, the UK imported £403 billion of goods in total, of this approximately 51% came from the EU. In agriculture, 73% of imports came from the EU. In both agriculture, and goods generally, the UK runs a sizeable trade deficit with the EU (although services show the opposite pattern). The EU accounts for virtually all pork and cheese imports and also accounts for the majority of all other agricultural commodities except for oilseeds and lamb. Ireland accounts for 62% of beef and 35% of cheese imports. Denmark is the largest seller of pork to the UK, representing 26% of the total consumed. Taking all agricultural products together, Netherlands is the largest individual exporter, representing almost 15% of total UK agricultural imports. However, much of this is from redistributed bulk imports into Rotterdam, sold onwards in smaller consignments.

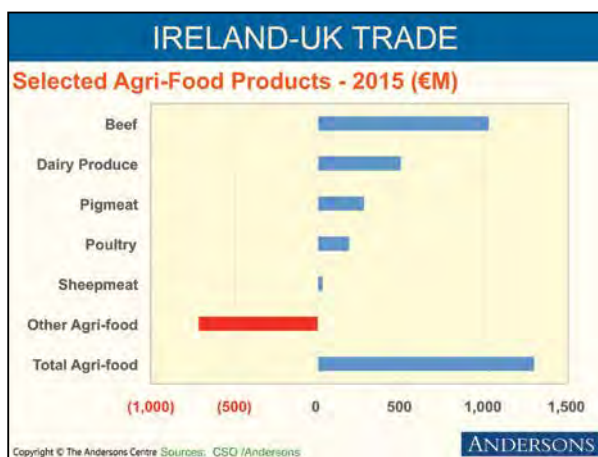


'They need us more than we need them' was an oft-repeated claim during the referendum campaign, indicating that a satisfactory trade deal with Europe would be easy to achieve. The UK does, indeed, import more from the rest of the EU than it sells to it. However, this trade tends to be with a limited number of countries. Also, as this slide shows, taken as a percentage of their respective GDPs, the UK is far more exposed to trade disruption than the rest of the EU. This weighs the cards in favour of European negotiators.





This slide gives a flavour of some of the agricultural trade flows between the France and UK, and therefore who might be keen to do a deal with the UK. As can be seen, in agricultural terms, the UK is an important destination for French food. The large value of sheepmeat going the other way can be seen as well.



This shows the situation for Ireland. The Republic is a major exporter of farm produce to the UK. The 'Other Agrifood' going into Ireland from the UK is largely grains. Away from agriculture, it has been estimated that, aside from the UK, Ireland will be the country most negatively affected by Brexit. In fact, under some scenarios, the economic losses in Ireland will actually be worse than those in the UK. Thus Brexit is a big deal for the Republic.



At present the EU market for agricultural goods is protected by tariff barriers – effectively a 'wall' preventing cheaper, more competitive, world-price imports from entering the market. The height of the wall varies between commodities. Some sectors that appear relatively 'unsupported' by the CAP actually benefit significantly from trade protection (e.g. pigs and poultry). Various deals allow certain quantities of goods in for low or no tariffs. These Tariff Rate Quotas (TRQs) punch a (small) hole in the protected market. At present the UK is inside the wall, so prices for many commodities are kept at levels above the world price.

The biggest questions on trade after Brexit are firstly whether we are inside or outside the wall – i.e. do we have tariff-free access to the Single Market? The next question is, what trade relationships we have with non-EU countries now that we need to conclude our own trade deals with them? Lastly, will the UK re-create tariff barriers to protect its own market, or will it be more open to trade?

## TRADE WITH EUROPE

### Templates For Future Trade

1. EEA/EFTA – Norway
2. EFTA & Free Trade – Switzerland
3. Customs Union – Turkey
4. Free-trade Deal – Canada, Chile
5. WTO Rules – New Zealand
6. Liberal Trade – Singapore

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There are a number of examples that are useful to look at in terms of possible future UK/EU trading relationships. We have identified six, and go into them in more detail in the slides that follow.

## 1. EEA/EFTA - NORWAY

- EEA gives free access to the EU Single Market
- This means free movement of services, capital and people (immigration) as well as goods
- All Single Market rules must be followed
  - a.k.a. 'Brussels red-tape'
- Norway pays for Single Market access (55% of UK rate)
- Agriculture is excluded from EEA
  - CAP does not apply; trade in farm goods would face tariffs unless 'side deal' agreed
  - Norway ≠ UK: no farm exports and high domestic prices -

Norway's Import Tariffs	Wheat	Cheese	Lamb	Beef
Tariff - €/t	€228	€3,017	€2,580	€3,449

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Membership of the European Economic Area (EEA) gives almost complete access to the EU Single Market. The members of the EEA (which includes Iceland and Liechtenstein as well as Norway) participate in free movement of goods, services, capital and people. This can be seen as both a good thing (tariff free access for goods and services) or a bad thing (labour movement). EEA members have to enact all Single Market regulation (without a say in setting the rules). Norway also contributes to the EU Budget – at around €100 per head compared to the UK's €180 per person. EEA membership is only open to members of EFTA (European Free Trade Association). Note that not all existing EEA members are keen on the UK joining their club. Agriculture and fisheries are not included in the EEA. The EEA is not a Customs Union and EEA countries are free to set their own trade policies (and tariffs) outside the EU. There are 'Country of Origin' rules to prevent EEA members providing a back-door, low tariff route into the EU. These would increase trade costs. Norway sets very high agricultural tariffs to protect its farmers. However, there is a deal between the EU and Norway that means the majority (circa 60% of EU agricultural exports to Norway) do not incur these high tariffs. Although financial services are included in the EEA (important to the UK), the framework is not comprehensive.

## 2. EFTA & FREE TRADE - SWITZERLAND

- Access to the EU Single Market is through a series of **bilateral deals** (created over 50+ years)
  - only accepts EU regulations as part of these deals
- Free movement of people – but Swiss want to restrict
- The agricultural deal (2002) does not create free trade in agricultural goods
  - reduced tariffs and non-tariff barriers
- More 'bespoke' than EEA, and more arms'-length
- But EU unlikely to be keen
  - trying to get Swiss to move to EEA model.
  - also complex, time-consuming and legislatively clumsy

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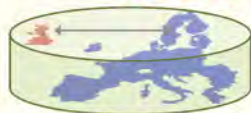
Switzerland is a member of EFTA, but has not joined the EEA. Instead of gaining Single Market access through the EEA, it does so through a series of bilateral deals. In some areas they have aligned their domestic regulations with those of the EU, in other areas they operate their own laws. This more 'bespoke' arrangement perhaps sounds like an ideal outcome for the UK. However, the EU is unlikely to offer such a 'pick and mix' option to the UK, as it is not altogether happy with the situation regarding Switzerland and is trying to get the Swiss to move towards a similar arrangement to Norway. It is also a complicated arrangement, built up over 50 years, and would be difficult to replicate in a matter of a few years. The Swiss have to accept the free movement of labour. They voted in a referendum in 2014 to restrict immigration from the EU. But the EU has flatly declined to even negotiate on this point. The agricultural bilateral deal does not result in free trade in farm goods, although there is a drive to lower tariffs as much as possible. The Swiss do not have access to the internal EU market in financial services.



### 3. CUSTOMS UNION - TURKEY

- **Not Single Market access – industrial products only**
  - agricultural goods not covered
  - some alignment of product standards etc. to facilitate trade
  - no Country of Origin rules
- **No free movement of people**
- **Might serve as a model for UK, but would need to be amended – e.g. services a key issue for UK**

#### Customs Union (EFTA / EEA)



UK & EU set a common external tariff – then trade at 'EU' prices  
But, agriculture largely outside these arrangements ∴ still tariffs on trade

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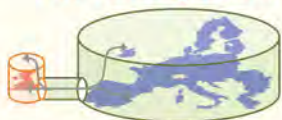
The EU-Turkey Customs Union is relatively limited in scope – it covers all industrial products (including the industrial component of processed agricultural goods). It does not cover agriculture or services (including financial services). Therefore Turkey is not part of the Single Market with its four freedoms, but can sell many goods to Europe without having to pay tariffs. Turkey does not have to enact EU legislation, but there is an ongoing effort to reduce technical barriers to trade (e.g. product standards encompassing food, plant and animal health). As the UK and EU legislation would be aligned upon an exit, this option would appear to be relatively easy to implement initially. Over time however, it is likely that UK and EU legislation might diverge. There is no free movement of people involved in the Customs Union. The fact that a Common External Tariff is set limits Turkey's flexibility in trade negotiations.

The graphic at the bottom of the slide illustrates the Customs Union. Although the UK has floated away from the EU it is still behind the same tariff wall. Trade is conducted at the (higher) internal EU prices. EEA/ EFTA are a variant on this – but the UK would be free to set its own tariff levels (with Country of Origin rules as a result). In practice, agriculture tends to fall outside all of these arrangements, and a separate agreement might be required.

### 4. FREE TRADE AGREEMENT - CANADA

- **Single Market access in the areas covered by the deal**
  - services traditionally not included
  - agricultural trade often only partially liberalised
- **No free movement of people, no budget contribution**
- **Trade transaction costs increase (circa 5%)**
- **Can take up to a decade to negotiate**
  - might be shortened as UK/EU standards aligned to begin with
- **Needs a large reservoir of goodwill**

#### Free Trade Agreement



UK & EU set their own tariffs (waived for each other), trade prices variable

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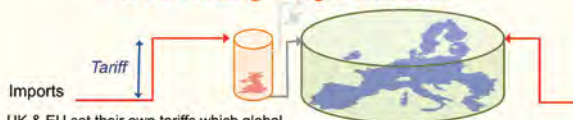
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The EU has signed free-trade deals with a number of countries including Chile, Mexico, South Korea, South Africa and Morocco. One with Canada (the Comprehensive Economic and Trade Agreement – CETA), is pending ratification. These agreements all differ. In general, agriculture (as a politically contentious subject) tends not to be fully liberalised. Services are often not included which could be a problem for the UK. Under a Free Trade Agreement, both the EU and the UK can individually set the level of tariffs that apply to the rest of the world. But these tariffs would not apply for trade between the two (again, a 'hole in the wall'). Outside of the Single Market there may be higher costs of trade (i.e. customs procedures and certification). None of the current countries with a free trade deal is as large as the UK in economic terms, or has such a complicated history with Europe. Even these, relatively simple, agreements took years to conclude. It is highly unlikely that any UK-EU agreement could be concluded within the two year timeframe between the triggering of Article 50 and the date of UK exit.

### 5. WTO TRADE – NZ, USA

- **UK to pay EU tariffs on its exports**
  - UK to charge equivalent(ish) tariffs on imports
- **Agricultural commodities may have some TRQs**
- **Trade transaction costs to increase (circa 8-10%)**
- **Controlled immigration; no EU budget contributions**
- **UK may be faced with this initially**

#### WTO Trading – High UK Tariffs



Imports  
Tariff  
UK & EU set their own tariffs which global importers pay; UK needs to export at a price low enough to be competitive after EU tariffs

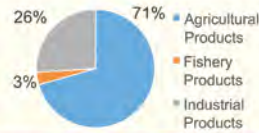
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If the UK cannot negotiate preferential access to EU markets, it will trade with Europe under World Trade Organisation (WTO) rules. Tariffs would apply to agricultural and food trade between both parties. UK exporters would pay the EU's Common External Tariff, while imports from the EU would be charged whatever tariffs the UK chooses to implement. Whilst this is often categorised as a 'New Zealand' option, it might be best to think of it more as a USA example. NZ is a country very focused on agricultural exports with a small domestic market. The UK is different. We produce a sizeable amount of farm produce, but consume most domestically, export some, and also import some. In the graphic shown, the UK decides to keep its tariffs for imports at levels similar to the EU. This is an important issue where the current EU (UK) price is above world market levels. If there is no protection for the UK market, domestic producers may be undercut by imports (NZ dairy, US pigmeat, Far Eastern poultrymeat etc.). An alternative to tariffs are non-tariff barriers – these might limit imports if production standards are not up to UK levels. To continue to trade with the EU, our domestic prices would have to fall by the equivalent of the tariff we would be required to pay and vice versa.

## TRADE OPTIONS – NZ CASE STUDY

- **NZ goods exports to EU (2015): €3.5 Billion**
- **Primarily agricultural products.**
- **Free-Trade negotiations commenced Oct 2015.**



Commodity	TRQ (T)	In-Quota Tariff (€/T)	In-Quota Tariff (%)	MFN Tariff (€)	MFN Tariff (%)
Cheese	11,000	€171	7%	€1,670/T	64%
Butter	74,693	€700	23%	€1,896/T	74%
SMP	N/A	N/A	N/A	€1,254/T	63%
Sheep Meat	228,254	€0	0%	12.8%+ €1.28/kg	38%
Beef (Premium)	1,300	€713	20%	12.8%+ €2.21/kg	75%

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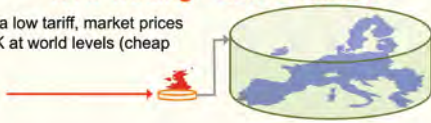
This slide shows a case-study of New Zealand agriculture. It can be seen that the nation is a major exporter of farm commodities to the EU. It has preferential access for many of its agricultural commodities. The Empire/Commonwealth was a key supplier of food to the UK. When the UK entered the EEC (as it then was) various Tariff Rate Quotas (TRQs) were provided for countries such as Canada, Australia and New Zealand. The EECs tariffs were much higher than the UK's, and if this access was not granted then there would have been an even greater upheaval in trade flows. It is not yet clear how, or if, existing EU TRQs will be apportioned between the UK and the 'rump' EU. MFN is 'Most Favoured Nation' and is effectively the standard tariff the EU applies to all WTO members. The 'In Quota Tariff %' and 'MFN Tariff %' compare the height of the barrier to current (August 2016) world market prices.

## 6. LIBERAL TRADE - SINGAPORE

- **As WTO, but UK decides to set low tariffs on imports**
- **Low food prices due to cheap imports, but major upheaval for UK producers**
- **Some right-wingers favour this option**
  - or, UK Govt to grant access to cheap food imports as part of a future free-trade deal

### WTO Trading – Low UK Tariffs

UK sets a low tariff, market prices in the UK at world levels (cheap food)



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Under Example 5 (USA) it was assumed that the UK would set tariffs at levels close to those it already applies as part of its EU membership. This would make some sense as it maintains more of the 'status quo' and gives something to negotiate in any free-trade deal. However, keeping tariffs at EU levels is likely to raise food prices in the UK (the UK is a net importer of food, and the prices of EU imports would be higher due to the tariff imposed). A UK government may therefore unilaterally reduce tariffs to keep food cheap. This would have negative effects on the UK farming sector. It might be thought that the UK could simply waive tariffs on imports from the EU to keep the situation similar to present. However, under WTO agreements, countries cannot normally discriminate between their trading partners. If the UK grants someone a special favour (such as a lower tariff rate for one of their products) then it must do the same for all other WTO members. This principle is known as Most-Favoured-Nation (MFN) treatment – i.e. you treat everyone as well as your most-favoured trading partner.

## WHAT COULD WE BE FACED WITH?

### EU Agricultural Tariffs – Selected Commodities

Commodity	€ per tonne	Tariff Rate Quotas
Wheat (feed) / Barley	€95 / €93	✓
Sugar (raw cane)	€339	✓
Skim Milk Powder	€1,254	✗
Cheese (cheddar)	€1,671	✓
Lamb (fresh/chill)	12.8% + €1,710	✓
Beef (fresh/chill)	12.8% + €1,770	✓
Pigmeat	€536	✗
Poultry cuts (fresh/chill)	€512	✓

**'Cascading tariffs' put higher barriers up for processed goods than for the raw materials – implications for the food chain**

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As shown earlier, tariffs provide a monetary 'barrier' to imports into the EU. This slide shows a selection of the tariffs that the EU currently imposes. Simplistically, this is the height of the wall UK exporters will need to get over if there is no special trade deal.

This slide also highlights the issue of 'cascading tariffs'. Under these, a relatively low tariff is applied to the raw material, then ever-higher tariffs the more processing/manufacturing is undertaken. In a very simplistic example, wheat might have a tariff of £100 per tonne, but flour a rate of £500 per tonne and bread £2,000 per tonne. The idea is that the raw materials for processing are allowed in fairly easily, but the 'value added' is encouraged to take place in the country concerned. This has implications for the UK's large food manufacturing sector.



## NON-TARIFF BARRIERS

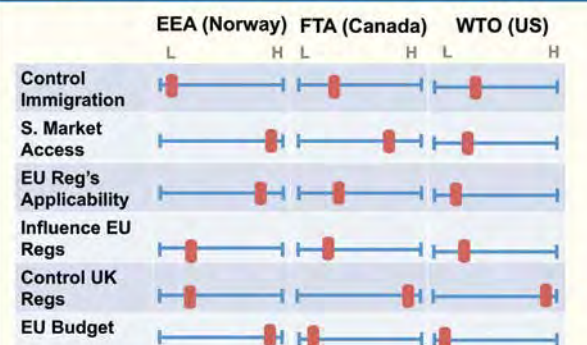
- **Barriers that restrict trade without using tariffs**
  - Quotas      Embargoes      Sanctions      Levies
  - National Purchasing Policies      Import Licences
  - Anti-dumping Duties Local Rules
- **They arise from different regulations, border controls and product specifications (e.g. GM, antibiotic, neonic?)**
- **Arguably more important than Tariffs and ironically highly regulated (by definition)**
- **WTO made little progress on this; EU has many rules**
- **Mycotoxin levels are primary reason for grain rejections at ports; (phytosanitary regulations)**
- **The UK and EU start aligned but will drift apart**

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Non-tariff barriers are other policies that prevent the free-flow of goods between countries. As tariffs have been cut around the world over the last 30-40 years non-tariff barriers have become more important. The slide gives some examples of what are included in this category. With the Single Market, there are currently none of these barriers between the UK and the rest of the EU (all standards are the same, no customs etc.). Should we leave the Single Market then these will add further transaction costs to trade. This will eventually result in a lower price to producers.

## SUMMARY OF EU TRADE OPTIONS



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This slide shows graphically how some of the main options compare. We have only focused on the three that seem the most likely. For example, it seems unlikely that the UK would get a Swiss-type deal, and a Customs Union like Turkey does not seem to cover the right areas (although it could be the basis for a more comprehensive deal). The full trade liberalisation option also looks unlikely. The slide reiterates the overall message at the start of this section. The UK will need to decide how much sovereignty it wants to trade away in return for Single Market access.

## THE WIDER WORLD

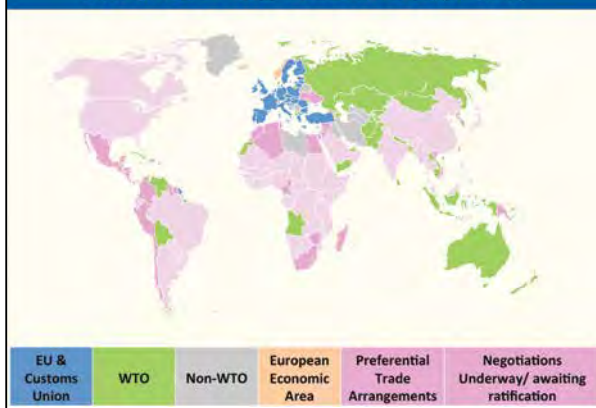
- **UK-EU deal not the only issue – UK & RoW agreements**
  - US, China, India, Canada, Australia, Japan, UAE
- **How easily can this be done?**
  - UK cannot officially negotiate its own deals until after Brexit
  - capacity: circa 30 trade specialists in UK Govt, around 600 in Brussels
  - up to 50 existing EU free trade agreements to replace
- **Could the UK 'piggyback' on existing agreements?**
  - CETA (Canada), Trans-Pacific Partnership (TPP)
- **Agriculture is not where the UK has competitive advantage**
  - scenario: free access given to Mecosur farm goods so the UK can sell financial services to South America

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It is not simply a question of doing a deal with the EU – although as our largest trading partner it is perhaps the most urgent. As part of the EU we have been party to the 50 trade deals the block has signed. Legal opinion suggests that when we leave the EU, we cannot simply take on these arrangements – we have to negotiate new deals with the other parties. It was mentioned at the start of the presentation the dearth of trade negotiators in the UK. This will be an issue as we try to engage with the rest of the world. It has been suggested that the UK could simply sign up to something that has already been negotiated. Although this would provide a short-cut, the deal done might not always be what the UK would have wanted. There is potential that in any trade deal agriculture might be the 'sacrificial lamb' in order to advance UK interests in other areas.

## CURRENT EU RELATIONSHIPS



This map shows current EU trade deals. It reinforces that there would be a great deal of work to be done to integrate the UK into global trading partnerships. The process could take a decade or two. It might be a good time to re-train as a trade negotiator!

## POLITICS OF A DEAL

- **Europe unlikely to be generous**
  - split between those countries that do a lot of trade with the UK (Germany, Ireland, Neth., France) and those that don't and have different focus, i.e. labour (Poland, Romania)
  - all must agree
- **UK must decide how much 'sovereignty' to trade for market access**
- **UK must decide on how 'open' it is going to be**
  - keep tariffs high (EU levels) to negotiate down in future deals?

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This slide restates some of the key issues that will need to be resolved over the coming years. Remember the EU is not a monolithic block but 27 Member States all with their own national interests. Some will be keen to see trade maximised, but many don't actually trade much with the UK. For some, their main export to the UK is people, so free movement of labour is far more important. At the moment 'Brexiters' are in charge of the Brexit government departments and the mood seems against any attempt to stay close to Europe if this means giving up sovereignty. However, this may change if the UK enters a prolonged economic downturn. For agriculture especially, the levels of external tariffs that the UK decides to set will be key in determining the future prospects of the sector.

## OUR GUESS

- **UK and EU heavily inter-connected – deal will be done**
- **Not going to be concluded within two years**
  - a period where the UK is trading without an agreement
  - time-limited 'bridging' deal possible to extend current rules
- **New bespoke 'UK option' – no existing template fits**
  - Customs Union plus – adding services to goods
  - allows immigration control, no budget contributions etc.
  - some financial services functions lost to Eurozone
  - agriculture might be excluded (not a political priority)
- **UK to pursue other trade deals (e.g. China, India)**
- **Special arrangements with Ireland**

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The final slide in this section makes some predictions about where the trade situation will end up for the UK after Brexit. Obviously, making predictions is fraught with danger, especially in such a fluid situation - it will almost certainly be wrong! We believe a deal will be done between the EU and UK, but it will not be neatly tied-up to coincide with the formal exit of the UK. Therefore there could be a period where the UK is trading under WTO rules (perhaps for two to five years). It might be logical to have some sort of bridging arrangements to extend existing trade rules for a limited time if a long-term deal looks possible. Logic does not always drive political decision-making however. None of the templates outlined earlier are likely to fit the UK exactly – it is simply too big and too different. Those leading the exit negotiations appear to favour something like the Turkish option – a Customs Union, but adding-in access for services. Even under any such deal, the City of London is likely to lose some of its trading rights in the EU. It is not guaranteed that agriculture would be 'bolted-on' to any trade deal. Its political clout is small.



# A BRITISH AGRICULTURAL POLICY

## CURRENT SITUATION

- **Until formal exit, UK remains part of the CAP and farmers will receive the BPS;**
  - minimum 2017 and 2018 BPS years
  - all rules such as Greening and Cross-compliance apply
- **Treasury has guaranteed Pillar 1 (BPS) funding 'until 2020'**
  - actually, until 'end of MFF' – funds up to 2019 payments
  - equivalent Euros? – conversion rate?
  - allocated 'using the principles of CAP Pillar 1' – but could be changes
- **Situation on Pillar 2 schemes currently unclear;**
  - multi-annual commitments – UK Treasury will fund part

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We remain in the EU until we leave and therefore farmers will still receive the BPS until then (although it is not clear what would happen if formal Brexit occurred part-way through a BPS year). In August it was announced by the Treasury that '[the agricultural sector] will receive the same level of funding that it would have received under Pillar 1 of CAP until end of the Multiannual Financial Framework in 2020'. However, the final year of the MFF actually pays the 2019 Basic Payment. Even Treasury / DEFRA statements carefully speak about funding being guaranteed '...up to 2020'. Therefore, funding may only actually be guaranteed for the 2019 scheme year. The system could change after Brexit, but it is likely that it will be based on the current BPS with tweaks until a whole new policy is worked out. The Treasury announcement was clear that existing agri-environment commitments would be honoured. But at the time of writing, the situation with new Rural Development schemes was unclear.

## SHORT-TERM ISSUES

- **Farmers can bank on three more BPS payments at current levels**
  - potentially one more in 2020
- **Entitlement sale values unlikely to change (could rise)**
- **Difficulties in writing tenancies / contracts that go on beyond three years;**
  - entitlement clauses – will there be 'entitlements'
  - rent levels if support is going to change
  - break clauses or reviews – not always easy as what triggers them? and uncertain timing

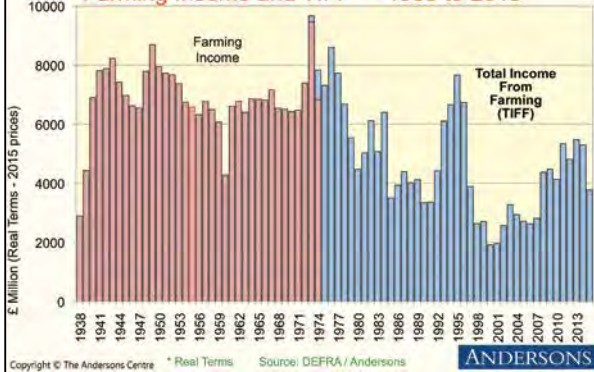
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It is pretty certain there will be three more BPS (or BPS-like) payments with the possibility of four. This gives some certainty over the lifespan and value of entitlements. Over this period, the shape of a replacement scheme should become clearer. If there looks like being no place for entitlements in this, then their value will diminish. It is currently very difficult to write clauses in FBT agreements over three years. Most transfer entitlements to the Tenant and then require them to be returned to the Landlord at the end of the lease. By the time the lease ends though, there may be no such things as entitlements. It also makes setting rents, etc. very difficult. If there is a 5-year FBT for example, the level of support could dramatically change at some point during its lifetime (and thus affect the rent that could be paid). Review or break clauses are possible, but some parties don't necessarily want a break. It is also difficult to word what triggers such a review, as the sequence of events is so uncertain.

## LONG-TERM FARM INCOMES

### Farming Income and TIFF\* – 1938 to 2015



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\* Real Terms Source: DEFRA / Andersons

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When looking at future support arrangements it is useful to look backwards to start with. This chart shows aggregate farm incomes (profits) for UK agriculture going back to WWII. The most recent statistics are the familiar Total Income From Farming (TIFF) measure. Before that, a UK-measure called 'Farming Income' is used. They do not tally exactly, but are close enough for comparison. It can be seen that, prior to entry into the EEC in 1973, farm incomes in the UK had been relatively high in the post-war period. The subsidy system that operated in the post-war period contributed greatly to this prosperity. It is outlined in more detail on the following slide.

## SUPPORT BEFORE THE EU

- **Stable (and high) farm incomes pre-EU entry largely due to Guaranteed Price system;**
  - for cereals, potatoes, fatstock (cattle, sheep & pigs), eggs and wool
  - Government made up difference between market price and that fixed in annual 'Prices Review' (negotiated with NFU)
  - dairy largely outside system due to MMB
- **Many other support measures**
  - headage payments, fertiliser subsidies, drainage grants, improvement grants etc.
- **Total funding in early 1970's = £3.5 to £4.0bn per year at current prices**

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Notwithstanding the caveats on the figures, the previous slide indicated that the period before entry was a prosperous one for UK farming. The predominant support system operating at the time was one of deficiency payments. Under these the government set a fixed price for each commodity covered (in negotiation with the NFU). Market prices were allowed to fluctuate with supply and demand, and imports from Commonwealth countries were freely allowed in. But the shortfall between the market price and the Guaranteed price was paid across to farmers. The quantity of output on which the price was paid was fixed to discourage over-production. Farmers generally liked the system but the Treasury was not keen as the amount of subsidy could not be budgeted for in advance. There were various other supports available at the time to boost the productivity of farming. The overall bill to the taxpayer was not greatly different from now (although it must be remembered that the number of farmers, and the size of the UK economy is somewhat different). But, all this was 40+ years ago, and we should not expect to return to this system of support.

## CAP FUNDING

### Support to Agriculture – 2011 to 2015



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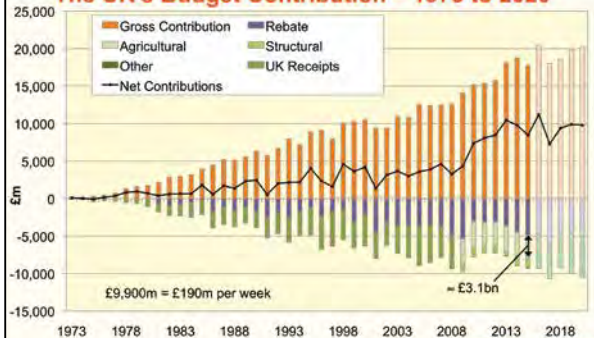
Source: DEFRA / Andersons

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This chart demonstrates the funds that have been spent on UK agriculture over the last five years. The main reason for the change (fall) in payments is exchange rates. Support under the CAP is calculated in Euros and then converted into Sterling. As the Pound strengthened during 2013 and particularly 2014, the value in Sterling terms fell. The 'Misc Other' category is largely market support (intervention buying) plus Producer Organisation spending. On average the farming industry receives over £3bn annually from the CAP.

## £350M PER WEEK FOR THE NHS . . .

### The UK's Budget Contribution – 1973 to 2020



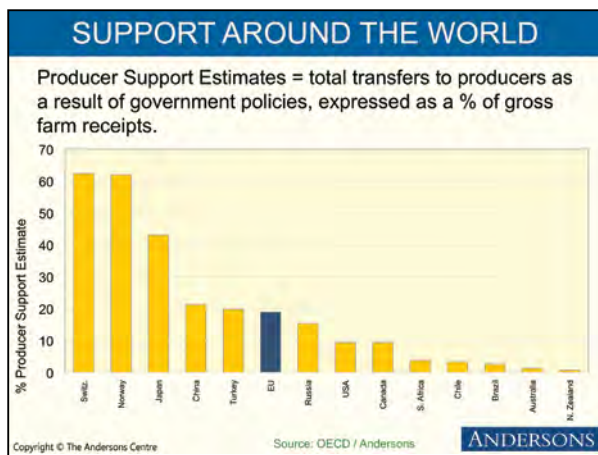
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Source: HM Treasury / Andersons

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The statistic that got the most 'traction' during the referendum campaign was the one that stated that leaving the EU would free-up £350m a week to spend on the NHS. As was pointed-out at the time, this was, at best, misleading. That figure relates to gross contributions before the UK rebate is factored-in. Even then, significant funds come back to the UK – agriculture is a major part of this. The difference between the £3.1bn highlighted on this slide of EU funding coming back to agriculture, and the circa £3.5bn receipts to UK farming outlined on the previous slide is the level of UK match-funding provided. This is required for some Rural Development programmes (Pillar 2). However, the UK does spend a net £10bn per year on EU membership. This money will be freed-up even if the UK continues to spend exactly the same on farming support, structural funds etc. However, the question must be whether Brexit will cause an economic slowdown which might negate any benefit in EU Budget savings. It should also be remembered that any future trade deal may still require the UK to pay into the EU budget.





The Organisation for Economic Cooperation and Development (OECD) tracks how much developed economies support their agricultural sector. This slide shows how 'generous' a selection of countries are. The percentage Producer Support Estimate (%PSE) represents policy transfers to agricultural producers, measured at the farm gate and expressed as a share of gross farm receipts. Simplistically, the higher the percentage, the more support farmers get. Although the EU has a high figure, it is not as high as some other countries.

### EXAMPLE SUPPORT SYSTEMS

- **New Zealand has no direct support or market measures;**
  - public spending on animal disease control, natural disaster relief and agricultural research and knowledge transfer
- **Australia much like NZ with additional spend on;**
  - drought preparedness and resilience, environmental conservation and risk management
- **US Farm Bill budgets \$956bn of spending over 10 years;**
  - includes food stamps leaving \$200bn for agriculture
  - commodity programmes – Govt – deficiency payments and revenue protection
  - crop insurance – private, but subsidised – price & yield risks
  - conservation and other programmes
- **Norway – basically, every form of support**

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As the previous slide suggested, the level of support in New Zealand is very low. Funds are targeted at areas that improve the productivity of the sector. Australia is slightly more generous. Due to the climate, many of the measures are focused on dealing with natural disasters or protecting the fragile environment. The US Farm Bill looks incredibly generous. However (for political reasons), the legislation yokes together support to farmers with food programmes for the poor. The food stamps programmes take up much of the funding – but still leaving a sizeable sum for support. There is a mix of programmes, but deficiency payments and revenue protection schemes feature heavily. Some of these are very bureaucratic. Norway is very generous to its farmers with a plethora of schemes. But it can afford to be, with its substantial oil wealth and small population.

### CROP (COMMODITY) INSURANCE

#### The Canadian Model

- **AgriInvest: Savings Account - Govt matches deposits**
  - intended to offset short-term income drops and provide funds to invest on farm
- **AgriStability: margin protection programme**
  - payment made if margin falls below 70% of average margin
- **AgriInsurance: insures losses from natural hazards**
  - Govt co-funds premiums and pays for administration
  - covers combinable and horticultural crops. Livestock plans in development
- **Also funds for competitiveness, marketing, innovation and disaster recovery**
  - total 2013-2018 = CA\$3bn. Or £350m per year

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George Eustice has spoken in favour of a crop insurance model for a future British Agricultural Policy. He has cited the Canadian example as one to follow. The Canadian farm support model is made up of a number of elements, of which crop insurance is only one. There are issues with this type of support. Savings accounts can become depleted by a run of bad years, and also if an investment is made followed by difficult times. There can be a lot of bureaucracy involved in insurance schemes and it can be expensive too.

## WHAT'S ON THE MENU? ~ 1

Policy	Pros	Cons
Keep Domestic Farm Prices High (tariffs etc.)	Relatively simple Supports activity Consumers pay	High food prices Encourages output Trade commitments
Deficiency Payments	Market free to operate Supports activity	Setting price levels Can be expensive Encourages output
Insurance Schemes (prices, yields, revenue)	Free market Farmers contribute Can be targeted	Potentially complex Risk v reward Level of 'support'
Headage / Area Payments	Simple & targeted Supports activity	Skews incentives Govt funded

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If the UK Government (or Governments) are truly starting with a blank sheet of paper, what is available to them? This slide, and the next two, outline some of the policy options. We have highlighted some positive and negative aspects of each of the options listed. Note that we have called this a 'menu' – it is possible for policy makers to choose multiple elements to form an overall farm policy.

## WHAT'S ON THE MENU? ~ 2

Policy	Pros	Cons
Decoupled Payments		
1. Like Existing BPS	Market unaffected Systems in place Can be 'conditional'	Cost to Govt Un-targeted £s to Landlords
2. Alternative DP More targeting – e.g. hill farms only	Focused objectives Less spending	Defining areas Active farmer issues
'Bond' system – personal right to support	Totally decoupled A way to phase-out support – degressive Allows industry adjustment	No ongoing aid Breaks link with land (no X-compl) Difficult politically

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This slide sets out further policy options. Where the text states decoupled payments can be 'conditional', this means they can be tied into broader policy objectives. Cross-compliance and Greening would be examples of this. For those that would like more detail on how a 'Bond' scheme might work see - [http://centaur.reading.ac.uk/4614/1/The\\_bond\\_scheme\\_-\\_EU-policy.pdf](http://centaur.reading.ac.uk/4614/1/The_bond_scheme_-_EU-policy.pdf).

## WHAT'S ON THE MENU? ~ 3

Policy	Pros	Cons
Investment Aid	Simple & discrete Farmers like it ↑ productivity (?)	Additionality? Useful investments
Agri-environment schemes	Public goods Targeted	Complexity? VFM
Other 'environment'*	As above	As above
Research, KT, advice, business managm't	↑ productivity	Long term No direct support
Marketing and Promotion	May be needed Farmers support it	Indirect support Questionable VFM

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\* e.g. floods, soils, water quality - Ecosystem Services

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The final part of the menu (dessert?) is shown on this slide. VFM is 'value for money'. 'Additionality' refers to the fact that with capital grant schemes you can end up paying grant to someone to do something they were going to do anyway (i.e. it is not achieving anything in 'addition'). Whilst we have tried to be comprehensive, there are almost certainly types of farm support that we have not included in this summary. Perhaps this merely emphasises what a complex subject area it is. Therefore the likelihood for UK administrations finding the optimum blend of policies when confronted with a blank sheet of paper is perhaps small. This means we may have a period of some years (10-15?) where support policies are tweaked and amended to reflect the changed circumstances of the UK.



## DEVOLUTION ISSUES

- **Agricultural policy is devolved in the UK;**
  - each part of the UK can set its own policies
  - broadly similar at present as they are under the framework of the CAP
- **Outside the EU would policy diverge further?**
  - could a framework UKAP be agreed to keep the playing field level?
  - would / could the devolved administrations be able to fund at different levels to DEFRA (England)?
- **Trade is a 'reserved matter' so is handled by UK government**
  - as is immigration

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The process of devolution since 1998 has made the setting of agricultural policy in the UK far more complex. In Scotland, Wales and Northern Ireland the devolution 'settlement' gives the power to set farm policy to national assemblies. At present, the fact that there is a pan-European framework under the CAP for farm policy keeps the different parts of the UK reasonably close. After Brexit there will be no such framework and we may see more divergence in policy. Some matters that affect farming strongly, such as trade and immigration policy, are reserved to the UK government. For more details of the devolution settlement see - <https://www.gov.uk/guidance/devolution-of-powers-to-scotland-wales-and-northern-ireland>

## EAP/WAP/SAP TIMINGS AND FUNDING

- **Potential 'leave' date of 31<sup>st</sup> December 2018 ??**
- **Support guaranteed 'until 2020'**
  - unclear whether this covers a 2020 BPS or not
- **Capacity of DEFRA (and devolveds) to write new policies within timescale?**
  - roll-over of BPS with minor tweaks (e.g. no Greening, X-compliance changes) for 2019 (and 2020) years
  - change in 'conditionality' could be an excuse to cut payments – but probably unlikely
  - gap in Rural Development-type funding around 2019-2020?
- **A new set of UK agricultural policies for 2021 onwards**
  - co-dependent on trade deal: freer trade = more support?

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Should Article 50 be triggered early in 2017 then the UK could leave the EU at the start of 2019. Once we leave the EU we also leave the CAP. The August 2016 Treasury announcement guarantees funding for the 2019 year, but there is doubt over 2020. Even so, there is the question whether DEFRA would have the capability to work up a vastly different UK Agricultural Policy in only a few years. Especially if its energies had been devoted to negotiating Exit and Trade deals. Therefore we might see something very much like the BPS rolled-over until such time as a replacement can be agreed. This might well be 2021. At this point the funding could start to diverge from what has been seen to date. It would now be just the UK government(s) decision on how much to support farmers. If the economy was not in good health, would any UK administration be as generous as the CAP? An important point is the linkages between various parts of policy. If there is no trade deal with Europe, and the government lowers tariffs under a 'cheap food' policy, there may be more political will to support farmers. (Although whether there would be funds to do so is another matter.)

## POSSIBLE EAP: 2025

- **Funding down to 50% of current levels? (£1bn v £2bn)**
- **Hill support based on an area payment**
  - 2.2mHa of LFA x £40 per Ha = £0.1bn (land management)
- **Wildlife and Landscapes scheme (agri-environment)**
  - refinement of CSS/ELS; similar budget - £0.4bn
- **'Natural Resources' scheme**
  - water quality, soils, flooding, etc. - £0.15bn
- **Revenue Insurance Scheme**
  - subsidised premiums and admin costs - £0.15bn
- **Other programmes – remaining £0.2bn**
  - enhanced R & D and KT, food promotion, farm efficiencies (inc. a farm grant scheme)

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The EAP is the English Agricultural Policy. It is assumed that the devolved administrations will take a slightly different (see next slide). Of course, by 2025 the UK as an entity may have altered radically. The biggest assumption is that a future UK government will not support English farming to the same extent as the CAP. We have halved the funds available. It is likely to be phased down in the 5 years 2021 to 2025. There may even be an element of residual Basic Payment for the first few years as 'adjustment aid'. Remember that this is the **English** Agricultural Policy. Therefore the starting funds are around £2bn per annum rather than the £3.5bn the whole of the UK gets. Various policy options have been costed out. Environmental actions are almost certain to be funded. Some sort of support for remote hill areas also seems likely. Otherwise, we see a re-orientation of support towards productivity and resilience. This may well be needed if English farming is in a more competitive environment. The name of the policy may well change – 'rural', 'food' and 'environment' may all appear as well as, or instead of, 'agriculture'.

## SCOTLAND - SAP

- **Current CAP funding circa £0.5bn**
  - UK funding drops 50%, ScotGov finds some extra = £0.3bn
- **Scotland to be more focused than England on production-based support**
  - LFASS-type programme paying on upland animals
  - continuation of beef (and sheep?) headage payments (would need to be aware of WTO commitments)
- **An area-based direct payment for all active farmers?**
  - at lower levels than current BPS
- **Environmental schemes a lower priority than in England**
- **Continued funding for investment and competitiveness and also promoting the Scottish food and drink 'brand'**

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The devolved parts of the UK may take a different approach to farm policy from England. However, their scope to do so could be constrained by funding. Scotland and Wales get a 'block grant' from UK Government (under the Barnett formula). This grant will be increased when agricultural spending is repatriated from the EU (the UK government will decide the overall amount and then the formula works out how much goes to each country). But agriculture is not ring-fenced in this allocation. Therefore respective Governments could decide to top-up, or raid, the agriculture budget. But the overall amount of funding is fixed (unless something like the rate of Scottish Income Tax is changed). Scotland and, to a lesser extent, Wales are seen to be more pro-farming than England. So a little extra funding may be found. As under the current CAP Scotland is likely to want to support hill areas and its beef industry. The environmental focus could be less than in England.

## WALES - WAP

- **Current CAP funding circa £0.25bn**
  - UK funding drops 50%; Welsh Government assumed unlikely to top-up
- **Recent history suggests no specific hill-farming support scheme**
- **Continued focus on making farming more competitive**
  - new entrant / retirement schemes?
  - investment aid, and business support
  - a (low-level) area-based Direct Payment (perhaps clearly time-limited)
- **Glastir (agri-env) to reduce in importance**

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In terms of agricultural policy, Wales may sit somewhere between England and Scotland. There has been a clear desire under recent Welsh administrations to try and improve the competitiveness of the farming sector. Historic-based BPS was seen as preventing restructuring. The move to a flat-rate BPS provided a trigger to move the industry forwards. Something similar may well occur as a result of Brexit. The Welsh agricultural sector is very dependent on beef and sheep farming. The latter could be severely challenged if key EU export markets become more difficult to access.

## OTHER BREXIT EFFECTS

### CONSTITUTIONAL ISSUES

- **Scotland voted 62% to remain**
- **Not necessarily trigger a 2<sup>nd</sup> independence referendum**
  - EU may not allow Scotland to take on UK's membership (Spain – Catalonia)
  - new members must have independent monetary policy, agreed to adopt Euro, and implement Schengen ('hard border' at Carlisle/Berwick?)
  - financial situation is unfavourable (oil price)
  - lose two referendums in quick succession and the issue dies
- **'Single Market access' a key demand for Scot Govt**
- **Northern Ireland is the only part of UK with a land border with EU**
  - special arrangements with The Republic?

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Scotland was even more pro-remain than London (60% remain). The turnout in Scotland was lower than the UK average at 67% - perhaps indicating a bit of 'voting fatigue'. The political dynamics of Brexit on Scotland are complex. Although it is clear that the Scottish Nationalists want to retain Single Market access, will any failure to get this necessarily trigger a second Independence Referendum? Although it would like to be an EU Member, an independent Scotland could not simply take over the UK's seat at the table. There would be many practical issues to resolve around having a 'hard' EU/UK land border (these apply to Northern Ireland too). The financial situation for an independent nation is not as good as it was in 2014. Received wisdom (from the Quebec example) is that if two referendums are lost in quick succession, the issue is buried for a generation.

Note that we have not covered Wales on the slide. It voted 52.5% for Leave (although Monmouth, Cardiff, the Vale of Glamorgan, Ceredigion and Gwynedd were all 'Remain'). Therefore, Brexit is fulfilling the overall will of the Welsh nation, and does not seem to throw up any constitutional issues.



## REGULATION

- **Parliament to enact domestic legislation required by Brexit in due course (e.g. revoke European Communities Act 1972)**
- **'Retain and reform' model for rules**
  - no time to review the '80,000 pages' of legislation derived from the EU
  - existing rules rolled over into UK law
  - gradually adapted to UK circumstances over time
- **CAP rules will disappear**
- **Some high profile areas may be addressed;**
  - Working Time Directive, Nitrates, WFD, etc.
- **Perhaps little change in many areas**

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The much discussed 'bonfire' of red-tape may not occur. There is a widely quoted figure of '80,000 pages of EU Regulation' (*although it is not clear who has counted all these*). There is not going to be enough time to review, re-write or delete all of these. Therefore the UK is likely to implement a 'Retain and Reform' model regarding EU legislation. Existing EU-derived rules will be rolled-over into a post-Brexit world, and these would gradually be changed over time. The European Communities Act 1972 would be repealed and legislation put in its place to retain the force of any EU regulations that operate under this act (and are required to be retained). There may be some 'totemic' changes in regulations to show that Brexit **has** changed things. Areas that have been discussed in relation to farming include the Water Framework Directive, Working Time Directive and Nitrates legislation. We are not convinced that there is political will to tackle even these areas. As ever, the capacity of government to make big changes must be questioned.

## LABOUR AVAILABILITY

- **Migrant labour key in agriculture (esp. horticulture)**
  - 34,513 non-UK born workers in the sector in 2014 (ONS)
  - of these, 65% (22,371) were from the EU – 6% of total agricultural labour force
  - BUT, this excludes temporary foreign workers – uncounted
  - SAWS (Rom & Bul) had 21,000 workers until it ended in 2012
  - overall, migrant worker numbers likely to be higher
- **Also, significant numbers in food processing**
- **Those (full-time?) workers already in the UK likely to be able to stay**
  - tend to shift to higher-paying sectors over time
- **Where are the replacements going to come from?**
  - full-time and seasonal

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Immigration was one of the key battlegrounds of the referendum campaign. Interestingly, there was a strong correlation between those areas that voted heavily for Brexit and where there had been a high level of **growth** in the number of migrants over the last few years (rather than the absolute level of migrants in the locality). Migrant labour is a key issue for UK agriculture – especially in the fruit and vegetable sector. Migrants are also a key source of labour in the food processing sector. However, statistics are not very robust on EU migrants (with free movement of labour, there is no mechanism to count them). Those already in the UK look set to be allowed to stay under any 'Exit' deal (as will UK workers in the EU). But the supply of new workers could dry-up. These will be required as migrants tend to move out of low-paid jobs (or return to their country of origin) over time. The NFU is lobbying hard for labour access. It is not merely a question of introducing a new Seasonal Agricultural Workers (SAWs) scheme, as many of the workers are occupying full-time posts.

## TECHNOLOGY

- **Areas where EU is 'holding back' agriculture**
  - adoption of genetic-modification technologies
  - authorisation of pesticides
- **Reasons why UK may not depart too much from EU;**
  - short-term, still bound by EU rules until we leave
  - Single Market access may see us have to accept EU rules
  - even under arms-length arrangements, we would still want to sell to Europe – and thus produce to their standards
  - requirement to set up domestic authorisation systems
- **Lobby groups will be as powerful in Whitehall as they are in Brussels**

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In the run-up to the referendum the reauthorisation of Glyphosate (Roundup) was a hot topic. There was a strong sense in the UK farming community that the science pointed clearly to the herbicide being safe, but many EU countries were refusing to authorise it for domestic political reasons. The power of the 'green lobby' is marked in a number of European states. The hope is that the UK post-Brexit will adopt a more science-led approach. Whilst this is possible, it is not inevitable. Firstly, depending on our future trade relations with the EU, we may still be subject to EU regulations to a greater or lesser extent. Secondly, it is perhaps naive to think that the power of special interest groups will be any less in the UK than they are in the EU.

## PRODUCER ORGANISATIONS

- **Key form of support in the fruit and veg sector;**
  - groups of 5 or more growers coming together
  - PO is a legally separate entity (co-operative)
  - €1m worth of production, all sales must be through the PO
- **PO regime provides 50% matched EU funding**
  - 3-5 year 'Operational Programmes'
  - collective marketing, product development, new technologies, improving product quality/value, etc.
  - total UK spend £20-£30m per year
- **Aided the development of some sectors – e.g. soft fruit**
  - can be bureaucratic
  - tendency to boost production

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The Producer organisation (PO) system is a slightly obscure branch of the CAP, but is very important in the fruit and vegetable sectors (and highly important for individual businesses). It is estimated that over half of all fruit and vegetables marketed in the UK come via POs. Currently, there are over 30 POs in the UK. Grant funding is limited to a maximum of 4.1% of eligible turnover. The current system started in 1997 and it has been one of the factors behind the success of the soft fruit sector in particular. A future UK government could replicate the system (indeed, some see it as a model for support across other farming sectors). But this is not guaranteed.

## SELF SUFFICIENCY

- **Self Sufficiency ≠ Food Security**
- **UK is currently 61% self-sufficient in food** (76% indigenous)
- **Agriculture represents 1% of UK GDP**
- **Should we import the shortfall in commodities or would we import the rest in added value goods?**
- **Does leaving the EU make this figure more important?**
  - will it be a Government / DEFRA priority?

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Food self-sufficiency is a measure often cited in arguments to support farming. The Food Production to Supply Ratio takes the farmgate value of all raw food produced in the UK and divides it by the raw value of the food consumed. It is more commonly known as the self-sufficiency ratio. It probably makes sense to focus on indigenous food, as some foods modern consumers demand cannot be commercially grown in the UK. Self-sufficiency in indigenous foods has dropped from 85% in 1990 to 76% in 2015 (although the UK population has grown over that period). If we are no longer part of the wider EU trading block does this make the UK level of self-sufficiency more important? Or, in a globalised, free-trading world, is the concept of the UK being self-sufficient as sensible as the Isle of Wight or Lincolnshire producing all its own food?

## OTHER ISSUES

- **UK agricultural researchers tap into EU funds**
  - UK received €8.8bn from EU funds in 2007-13 (in total – not just agriculture)
- **Taxation changes**
  - VAT is an EU-derived tax
- **Protected Food Names (PGI, PDO etc.)**
  - non-EU countries can register (Darjeeling tea)
- **Farming statistics**
  - many mandated by EU (FBS etc.) – will evidence be as good in future
- **State Aid rules**
- **Anything else?**

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The final slide in this section rounds up a number of other areas that could be affected by Brexit. The Government has moved to reassure scientists that EU funding for research will be replaced by UK money, but this promise is time-limited. Cross-border collaborations may become less common with UK research becoming more insular. VAT is an 'EU tax' and is partly used to fund the EU budget. A sales tax of some sort is almost certain to remain post-Brexit, but there will be greater flexibility for the UK government on how to operate the tax. Protected food names will continue to operate and UK products can continue to register. However, in future trade deals, the UK may be less robust in promoting them than the EU has been. There may be a reduction in the quality and quantity of farming statistics now they are no longer required to be collected for EU purposes. The removal of EU State Aid rules may allow more targeted government support in certain circumstances.



# IMPLICATIONS AND CONCLUSIONS

## SOME SIMPLE RULES-OF-THUMB

**'It is difficult to make predictions. Especially about the future' – Niels Bohr**

- 1. If the UK gets good Single Market access for agricultural goods then there will be little price effect**
  - 2. Where the UK produces a surplus of a commodity (wheat, OSR, lamb) then the farmgate price is likely to fall if we do not have Single Market Access**  
**If we are outside the Single Market, for commodities where the UK is a net importer then;**
    - prices would rise if the UK puts on EU-equivalent tariffs
    - farmgate prices could fall under a low-tariff regime
- **Many farm products are both imported and exported. Complicated!**

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This final section of the Seminar provides a view of what the effects of Brexit might be for the farming industry, and those that trade with and service it. The first point to make is that being very early in the process of Brexit, circumstances will look very different in two or five years time. Therefore we are presenting our 'best guess'. Different commodities will be affected in different ways by Brexit. In fact, if we retain Single Market access, there will probably be little effect at all. If we are outside of the Single Market, then those sectors where we undertake significant amounts of exports look set to be hit hardest. Those sectors with a trade deficit could see prices rise after Brexit if tariff protection similar to that seen under the EU is retained.

## MODEL FARMS – MAIN ASSUMPTIONS

- **All physical yields, input levels etc. remain the same**
  - prices only changed where there is a 'Brexit effect'
  - all in Real Terms – general inflation discounted
- **Previous 2017 exchange rate of €1 = 78p, now 85p**
  - 85p retained until 2025 under both scenarios
- **'Soft Brexit': Single Market access retained**
  - some extra trade costs – Customs etc.
  - 'UKAP' funding at 66% of CAP levels
- **'Hard Brexit': UK outside EU with no trade deal**
  - tariff barriers change prices
  - 'UKAP' funding at 33% of CAP levels

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We are using three of our model farms to present the possible financial outcomes of Brexit. Two scenarios have been used – a 'Soft' and a 'Hard' Brexit. Under the Soft conditions the UK retains Single Market access and the cut in support to farmers is 'only' around a third of the current budget. The Hard scenario sees the UK trading outside of the Single Market and having to pay tariffs if it wants to export farm goods to Europe. Support to these lowland farming businesses drops by two-thirds. It should be noted that we are not presenting extreme scenarios – what is being shown is well within the plausible range of outcomes. Figures remain real terms figures, no inflation or market fluctuations are included other than Brexit effects.

## HARD BREXIT EXAMPLE: UK LAMB PRICE

- **Current deadweight price, say 400 p/kg**
- **Import tariff into EU 12.8% plus €1.71/kg**
- **UK farmgate price in order to continue to be able to sell at 400 p/kg in France = 226 p/kg (€1 = 85p)**
- **Supply chain absorbs 20% of the loss; farmgate price = 261 p/kg**
- **Would be some 'dynamic' effects as UK price falls;**
  - cheaper domestic lamb replaces imports from NZ, etc.
  - lower prices boost domestic consumer demand
  - some sheep farmers exit industry and supply falls
- **Difficult to model. But assume this offsets half of the price fall. Farmgate price = 330 p/kg. A 17.5% fall**

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This slide takes one commodity produced by UK farming, lamb, and looks at the potential effects of losing access to the European market. Of course, it is all highly speculative, but it is intended to provide a picture of the type of changes the farming industry could see at some point after 2018. One issue not included in the 'dynamic effects' is that UK lamb could find other markets outside of Europe. This would also help mitigate any price reduction. However, these types of market development projects tend to be a long-term undertaking. Calculations like this underpin the farm models that follow.

## LOAM FARM – BREXIT SHORT TERM

- 600 Ha of combinable crops (W. Wheat, W. OSR, S. Beans)
- 240 owned, 360 FBTs; owner, 1 FT worker & harvest casual

£ per Ha	2015 <sup>①</sup>	2016 <sup>②</sup>	2017 <sup>③</sup> Pre-Brexit	2017 <sup>④</sup> Post-Brexit
Output	1,048	948	1,049	1,126
Variable Costs	431	421	389	398
Gross Margin	617	526	660	728
Overheads	404	394	405	411
Rent and Finance	243	242	243	243
Drawings	75	77	77	77
Margin From Production	(105)	(187)	(65)	(4)
BPS	179	208	188	208
Business Surplus	74	21	123	204

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To illustrate trends in cereals farm profitability we use our 'Loam Farm' model. This is a notional 600 hectare business with a simple rotation of milling wheat, oilseed rape, feed wheat and spring beans, and is based on real-life data. Before we look at long-term trends, it is useful to look at the immediate impact of Brexit. We have stated throughout the presentation that there has been a short-term boost in farm prospects thanks to the weakening of Sterling against the Euro. The figures on this slide illustrate this. Commodities react to exchange rates far more quickly and fully than other costs, some of which are agreed annually for example. Thus output has increased substantially more than inputs.

## LOAM FARM – BREXIT LONG TERM

- 600 Ha of combinable crops (W. Wheat, W. OSR, S. Beans)
- 240 owned, 360 FBTs; owner, 1 FT worker & harvest casual

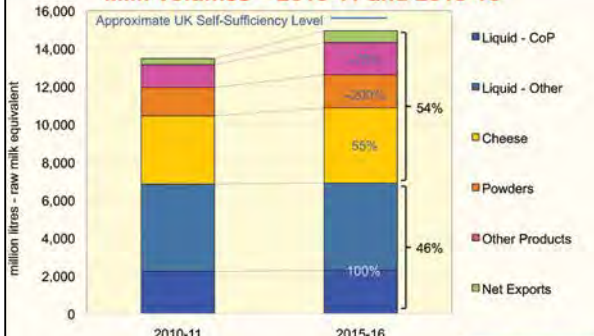
£ per Ha	2017	2025 Soft	2025 Hard
Output	1,126	1,113	999
Variable Costs	398	411	408
Gross Margin	728	702	591
Overheads	405	411	417
Rent and Finance	243	210	152
Drawings	77	77	77
Margin From Production	(4)	4	(55)
Subsidy	208	139	71
Business Surplus	204	143	16

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This slide then shows a more long-term analysis of the outlook for Loam Farm. The first column is the immediate-post Brexit situation from the previous slide. Exchange rates and general inflation are not changed. Soft Brexit, with the retained Single Market access, retains similar output, but with a slightly higher trading fee. Costs might also be hardly affected. The Hard Brexit scenario, however, shows some sharp movements. Wheat prices are decreased significantly, the UK being a net exporter. OSR does not change, as the EU has no tariffs for it, and pulses hardly change as its tariff is low. Labour has been increased on the basis that migrant workers are now unavailable, creating wage inflation in Rural Britain. Rent has fallen sharply and subsidy has been slashed by two thirds from current levels.

## UK MILK USAGE

### Milk Volumes – 2010-11 and 2015-16



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There has been substantial growth in UK dairy output over the last five years. Much of this has been in the 'manufacturing sector' – i.e. milk going for processing into products like cheese, butter, milk powders etc. This now consumes over half of all UK milk (54%). 'Net exports' is mainly milk being exported from Northern Ireland to the Republic for processing. There will be issues around this with Brexit. The main reason for showing the statistics is to demonstrate that the UK is not-self sufficient in milk and milk products. In the event of a Hard Brexit it might be thought that this would be good for UK milk prices – imports from the rest of the EU would be more difficult if the UK applied matching tariffs, and the price could rise. However, the situation is more complex than that. The figures within the column shows the self-sufficiency figures for individual commodities. There is a far wider spread. It would take time to re-orientate UK processing capacity to substitute for imports.



## FRIESIAN FARM MODEL

- 150 cows plus followers on 100 Ha (part rented)
- Year-round calving, liquid contract. Owner + worker

ppl	17/18	25/26 Soft	25/26 Hard
Milk	24.5	24.5	20.8
Total Output	27.2	27.2	23.2
Variable Costs	11.0	11.6	9.9
Overheads	9.1	9.1	9.2
Rent, Finance & Drawings	5.0	4.9	4.7
Total Costs of Production	25.1	25.6	23.8
Margin From Production	2.1	1.6	(0.6)
Subsidy	1.7	1.1	0.6
Business Surplus	3.8	2.7	0

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Source: Andersons

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Friesian Farm is our dairy farm model. The forthcoming 2017/18 year, is before Brexit will occur but still benefits from the weaker Pound with gains in the milk price. Looking to the 2025/26 milk year the two scenarios of Soft and Hard Brexit are created. Soft Brexit, assumes Single Market access is retained or regained with the EU. Both output and costs are therefore very similar to the 2017/18 year, assuming all other variables remain fixed (inflation, market fundamentals etc). However a Hard Brexit could be different. As import tariffs are for various forms of processed milk, some of which we are net importers, others we are net exporters, it might not work out quite so well. Here, a scenario with a 15% reduction in farmgate milk prices is based on the erection of tariff barriers. Concentrate feed reduces with cereals prices, as does rent and subsidy as already discussed in the Loam Farm example.

## MEADOW FARM MODEL

- 154 Ha mixed lowland farm (114 Ha owned, 40 Ha FBT)
- Beef (suckler cows, finished bulls, sheep and arable)
- Proprietor, 1FT family worker & casual

£ per Ha	17/18	25/26 Soft	25/26 Hard
Livestock Gross Margin	726	698	596
Crop Area Gross Margin	686	657	486
Total Gross Margin	718	689	573
Overheads	500	512	513
Rent, Finance & Drawings	318	309	300
Margin From Production	(103)	(131)	(240)
Subsidy	208	139	71
Business Surplus	105	8	(169)

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Source: Andersons

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'Meadow Farm' is our notional 154 hectare (380 acre) beef and sheep holding in the Midlands. It consists mostly of grassland, with some wheat and barley grown for livestock feed. There is a 60 cow suckler herd with all progeny being finished, a dairy bull beef enterprise and a 500 ewe breeding flock. It is largely a family farm using family labour. Whilst a loss from production is forecast for 2017/18 (despite the Pound weakening), the support payments enable this farm to be profitable. The Soft Brexit scenario envisaged by 2025 suggest that this farm moves into a position where it is around break-even. This is largely because the farm is so heavily dependant on direct subsidy. A Hard Brexit could be very damaging to this business model. As many as 40% of all UK lambs are exported to Mediterranean Europe so farms like this are heavily reliant on tariff-free access to the EU. Likewise, the beef sector could be vulnerable to the likes of Mercosur countries' exports depending on domestic import tariffs set. A large decline of direct subsidy leaves this business in a serious loss-making situation.

## PIGS AND POULTRY

- **Appear relatively unsupported currently but there is tariff protection from non-EU imports:**
  - €60-80/100kg pig meat *Erga Omnes*
  - €13-60/100kg poultry meat *Erga Omnes*
  - €3.50/100 chicken eggs *Erga Omnes*
  - TRQ for poultry – mainly Brazil and Thailand
- **Up to 70% of CoP is feed - cheaper cereals and proteins**
- **Rules on animal housing and welfare unlikely to change (non-tariff barrier)**
- **Self Sufficiency:**
  - Pig meat; 62%, Poultry meat; 87%, Eggs; 85%

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We have not got a model farm for the intensive livestock sector, but it is possible to draw out some general thoughts about how Brexit might impact these farms. Firstly, it is easy to assume these sectors are unsupported but, looking into the import barriers, we see that they are considerable for both pig and poultry products and illustrated. Also, on our assumption that grain prices are likely to fall under hard Brexit conditions, then it also follows that animal feed prices might soften too. This would be excellent news for housed livestock farm systems, as such a large proportion of the costs of production are the animal feed costs. Finally, whilst the UK will have autonomy on re-setting the housing regulations, we should note that the UK led the EU on sow stall bans by 12 years when they did not legally have to and so will probably not relax them Furthermore, if they did, it would potentially create non-tariff barriers, obscuring trade.

## FARM PROFITABILITY - SUMMARY

- **Likely to be a short-term 'boost'**
  - lift in prices from exchange rate shifts
  - support payments maintained in €s
- **Post 2019 or 2020 trade issues become key**
  - little change if Single Market access maintained
  - big changes if a 'Hard Brexit' materialises
  - some sectors *may* benefit (depending on UK tariff levels)
- **Subsidy payments *will* change (reduce) post 2020 whatever happens on trade**
  - accelerated structural changes – especially in 'supported' sectors like beef

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Overall, our modelling of farm profitability demonstrates that returns are unlikely to change much for the next two or three years – beyond the shifts in currency and the usual swings in farm profitability. The real effects of Brexit will be seen from 2019 or 2020 onwards. There is a wide range of possible outcomes depending, to a large extent, on the terms of our future relationship with the EU. It appears that downside outstrips upside in the medium term but the gains from Brexit could grow in the longer term as trade routes are established and non-EU countries become more important trade partners. So much depends on what the Government's plans are and how they are negotiated.

## RENTS

- **Short-term boost in profits may keep rents up**
  - potentially through 2017 and 2018 if Brexit doesn't seem to be having an effect
- **But uncertainty will limit what (prudent) tenants will be willing to pay (3-year+ commitments)**
  - especially as Brexit date nears
  - remember 2020 BPS is seemingly not guaranteed
  - might be easier to write trigger clauses nearer the time
- **Could be wider divergence in rents**
  - between sectors – depending on whether they are affected positively or negatively by trade changes
  - between land of different quality – if BPS goes, then all land no longer be under-written by basic income

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Rents are generally quite reactive to farm profitability. However, there is usually a time-lag as the market adjusts. Those negotiating rents also have to try and forecast future returns, as rents are fixed for a number of years (often three). This sits uncomfortably with a major change such as Brexit, where both the timing, and the effects are uncertain. The better returns forecast in the short-term may help to offset any downwards pressure caused by uncertainty. Longer-term, there may well be a more differentiated rental market. Some sectors will be affected by Brexit more than others, and therefore the ability of farmers in different sectors to pay rents may diverge. Under the CAP, subsidy payments (especially the area-based BPS) have tended to underwrite rents. As all farmland gets the same payment, rents have tended to be similar. In the future there may be greater weight given to land quality and its earnings capacity.

## LAND PRICES

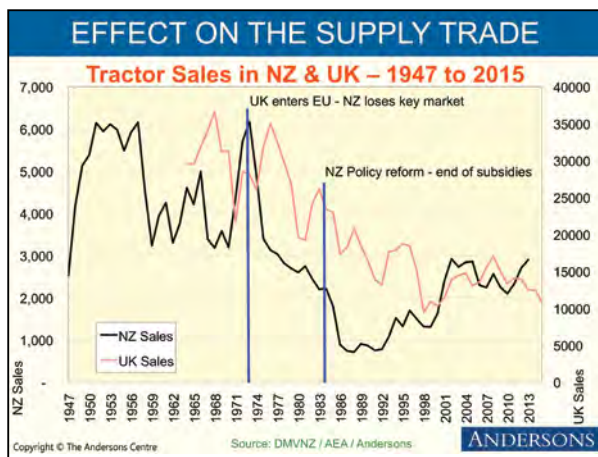
- **Prices weakened in late 2015 and early 2016**
  - lower farm incomes, Brexit uncertainty
  - sentiment suggests this could continue into 2017
- **Currency boost in farm incomes (and land values), and low Base Rates could stabilise markets short term**
- **Changes in taxation regime unlikely**
  - even if economy stalls, APR and Rollover are not big £s
- **Longer term, change in subsidy to have a (minor) effect**
- **'City' money ~ Flight or Safe-Haven?**
- **Dependent on 'hard' or 'soft' Brexit**
  - hard Brexit could see significant falls from 2020 onwards
  - even a halving of land values would leave farmers net Equity at >90% of total assets!

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Land prices are more divorced from farm profitability than rents. Other factors such as non-farming buyers, the taxation regime, supply, availability and cost of credit, and farmers' desire to grow their farms all play a part. However, the profitability of farming is still an important driver. There has been a slight fall in land prices over the past 12 months. The slump in farm incomes seen in 2015 and 2016 is part of this. 'Affordability' is another issue, both for farmers and non-farmers following the very strong rises seen over the past decade. In the past months 'Brexit' uncertainty has added to the weakening. There could be a period of stabilisation in land prices before the effects of Brexit really hit. Should a Hard Brexit materialise there could be a sharp downwards shift in prices. A drop of 10-20% compared to 2015 values is possible. It should be noted that even if this occurs, most owner-occupiers would continue to have very strong balance sheets. Alternatively, land is considered by many investors as a safe-haven, and with a weak Pound, overseas buyers might return to the UK. With base rates lower than ever, there are also arguments for land prices to rise.





This chart focuses on one input to farming – machinery, and specifically tractors. The New Zealand situation is shown as the agricultural industry there has gone through similar changes to those that Brexit might bring on the UK (although the parallels are not exact). When the UK joined the EEC in 1973 trade with one of New Zealand's major export markets was disrupted. Although the government provided high levels of support to farming, it can be seen that there was still a marked slump in tractor sales. When NZ farming subsidies were reformed (removed) in 1984 there was another slump in sales. The chart only shows units sold – the rise in average horsepower means that volumes were likely to decline anyway. Figures from the UK are therefore shown as a 'control'. Sales volumes have also dropped over the decades shown, but the policy changes in NZ appear to have pushed sales below 'trend'. Overall, the message is that, when times are hard, farmers stop spending money.

### SUPPLY TRADE ISSUES

- **Market conditions may be little changed for a period**
  - provides time to adapt
- **When/if profitability drops then 'belt tightening' likely**
  - dealing with short-term debtor issues
- **'Discretionary' purchases postponed**
  - machinery, buildings, etc.
- **Producers likely to want to 'de-risk' their businesses**
  - longer-term supply contracts
  - a continued move to low input / low cost systems
  - all purchases (investments) must demonstrate a return
- **Restructuring to accelerate**
  - a lower number of more valuable customers

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As indicated previously, any Brexit impact on the farming sector is more likely to be positive than negative in the short-term. Therefore those that trade with farmers should not see dramatic changes in their marketplace over the next two or three years. Beyond 2020 the trading conditions will alter. Even under a relatively 'Soft' Brexit, support is likely to drop. With less income available farmers will be questioning of every item of spending. It will be key for suppliers to demonstrate that what they are selling produces a positive return for the farmer and is not just a 'luxury' they can no longer afford. Lower subsidy makes farm businesses more exposed to the (volatile) marketplace, and many will be looking at ways to minimise risk. Past trends in consolidation of farm businesses will continue and probably accelerate.

### ISSUES FOR ADVISORS

- **Clients want certainty / answers; but there are none**
  - and may not be for some years
  - ∴ difficult to produce a business response to Brexit
- **Need for 'agile' advice in response to developments**
  - need to be aware of changes and their implications
- **Advice is likely to be more 'strategic' in nature**
  - overall options, directions and structure for the next decade+
- **Opportunities in the restructuring of UK farming**
  - facilitating co-operation, joint ventures etc. for efficiency
  - adoption of best-practice and new technologies
- **Trend towards fewer, larger, more sophisticated, customers to continue**

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In uncertain and changing times, farmers are likely to lean on their advisors more than normal. Unfortunately, (perhaps as this Seminar has shown) there are no hard and fast answers at present. This makes reacting to Brexit difficult. It will be vital to keep abreast of events over the next two to five years so that quality advice can be provided to clients. It may be necessary to make decisions quickly in response to political developments. The type of advice required is likely to be more wide-ranging than the annual update of budgets, preparation of tax accounts, or periodic rent review. Advisors are likely to have to work as part of a team to deliver the best results. If Brexit accelerates change in UK farming (which we think it will) then this in itself will increase the need for assistance. The client-base will continue to change over the coming years.



## WHY ARE FARMS SO RESILIENT?

- *High support levels*
- *Strong balance sheet*
- *Dedicated work force*
- *Lifestyle as well as career*
- *Very long term perspective*
- *Diversification*
- *Strong infrastructure; supply and support chains*

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When considering the effects of Brexit it is easy to predict sweeping change in every aspect of UK farming. However, history suggests that change is often slower than might be thought likely. The full effects of Brexit may therefore take many years to manifest themselves. It is worth remembering how robust many (if not most) UK farming businesses are. This is both financially (with strong balance sheets) and personally (being dedicated to their farms, their industry and their way of life). This allows businesses to weather external shocks like Brexit.

## FINAL THOUGHTS

- **Much is currently unclear**
  - it may take months / years / decades before full effects of Brexit are understood
- **Likely to be a period of upheaval and accelerated restructuring in UK agriculture**
  - but not immediately, so time to make businesses robust
- **Whatever happens, UK farmers have many advantages;**
  - 65 million affluent consumers on their doorstep
  - strong institutions and the ability to set a new course
  - good soils, good climate and good skills
- **An exciting journey lies ahead, please fasten your seatbelt**

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UK farming, and the country generally, are at the start of an unprecedented process. We have given our best estimate of where we find ourselves and what the future might hold, but the final outcome may well be very different from what currently seems likely. In a wider sense it should be remembered that Brexit brings opportunities as well as threats. Not the least of these is the ability to plot a new course for UK farming. We are lucky to operate in a modern developed economy with affluent consumers who are increasingly valuing high-quality food.

*Please call if there are any questions from this presentation.*

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## GLOSSARY OF ACRONYMS

BAP	British Agricultural Policy	PSE	Producer Support Estimate
BPS	Basic Payments Scheme	SAP	Scottish Agricultural Policy
Brexit	British Exit (from the EU)	SAWS	Seasonal Agricultural Workers Scheme
CAP	Common Agricultural Policy	SPS	Single Payment Scheme
CETA	Comprehensive Economic & Trade Agreement (with Canada)	TIFF	Total Income from Farming
CoP	Cost of Production	TTP	Trans-Pacific Partnership (trade deal)
DEFRA	Department for Environment Food & Rural Affairs	TRQ	Tariff Rate Quota
DP	Decoupled Payment	TTIP	Transatlantic Trade and Investment Partnership (EU/US trade deal)
EAP	English Agricultural Policy	UAE	United Arab Emirates
EBA	European Banking Authority	USA	United States of America
ECA	European Communities Act	VAT	Value Added Tax
ECB	European Central Bank	YFC	Young Farmer Clubs
EEA	European Economic Area	VFM	Value for Money
EFTA	European Free Trade Association	WAP	Welsh Agricultural Policy
ELS	Entry Level Stewardship Scheme	WFD	Water Framework Directive
EMA	European Medicines Agency	WTD	Working Time Directive
EU	European Union	WTO	World Trade Organisation
FBS	Farm Business Survey		
FBT	Farm Business Tenancy		
GDP	Gross Domestic Product		
GM	Genetically Modified		
KT	Knowledge Transfer		
LFASS	Less Favoured Area Support Scheme (Scotland)		
MFF	Multi-annual Financial Framework (EU Budget)		
MFN	Most-Favoured-Nation		
MMB	Milk Marketing Board		
MS	Member State (of the EU)		
NFU	National Farmers Union		
NZ	New Zealand		
OECD	Organisation for Economic Co-operation & Development		
ONS	Office for National Statistics		
PDO	Protected Designation of Origin		
PGI	Protected Geographical Indication		
PM	Prime Minister		



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