

A monthly briefing for UK farmers - August 2019

- Following the appointment of **Boris Johnson** as Prime Minister, Defra has a new Secretary of State; Michael Gove has been replaced by **Theresa Villiers**. George Eustice has also returned to Defra after resigning in February. Ms Villiers is a committed Brexiteer. Her farming and rural credentials are unknown and it remains to be seen if she continues with the future policy set out by Gove. With Mr. Johnson as Prime Minister the risk of a 'no deal' and the ramifications that would have on the farming sector appear to be heightened. *Whilst the main impact of a Boris premiership on farming will be the eventual trade implications, other issues also arise. It is not clear whether the current plans for English farm support will survive the Cabinet reshuffle that has seen Michael Gove move from Defra. In his first speech as Prime Minister Mr Johnson pledged to 'liberate' the UK from 'anti-GM rules'. The coming months and years will see if this is just rhetoric, or whether the UK will really start to diverge from EU rules and regulations – not just on GM, but in many other areas.*
- Statistics from Defra show **productivity** of English lowland beef and sheep farms fell by 21% between 1990/91 and 2017/18. LFA livestock farms and mixed farms recorded a 9% and 4% drop respectively. Other sectors fared better; general cropping farms recorded a 32% increase with both dairy and cereals farms also rising 27% and 25% respectively, over the same period. *It is obviously concerning that beef and sheep, one of the main sectors of English farming, has actually got much worse over the last 27 years. A lot of the decline in productivity occurred in the first few years of the period. However, 'flat-lining' productivity for the last two decades is still pretty poor. It is perhaps no coincidence that the beef and sheep sectors have been those that have, proportional to output, received the greatest level of subsidy in the recent past. Other sectors may feel slightly more pleased with their performance. However, even the best, general cropping, at 32% only works out at an annual increase of 1.2%, hardly stellar efficiency gains when compared with other parts of the economy. Also, much of the increase in productivity has come from a decline only in labour use, rather than using inputs, land or other resources more efficiently. The 'productivity challenge' is one of the biggest issues facing UK farming in its post-Brexit future.*
- The 2nd application window for the **Countryside Productivity Small Grants** has opened. This provides funding for farmers in England towards specific items of equipment to improve the productivity of their business. Claimants can choose from a list of items which have been specifically chosen. Grants of 40% (up to 50% in Cornwall and the Isles of Scilly) of the standard cost are available. Applications must be between £3,000 and £12,000. <https://www.gov.uk/guidance/countryside-productivity-scheme>
- The **Welsh** Government has launched a further consultation on post-Brexit agricultural support in the region. The consultation, 'Sustainable Farming and Our Land', will run until 30th October 2019.
- The **Scottish Government** has announced Scottish farmers will again receive an advance on their BPS payment. Nationally funded loans of 95% of the expected 2019 basic payment will be made to those who 'opt in' from early October, two months earlier than the normal BPS 1st December payment date.
- Over the last couple of weeks **Sterling** has weakened against the Euro as fears of a No-Deal Brexit have increased. The Pound has fallen below €1 = 90p for the first time since January. In the short-term, a weak currency is good for UK farming (although it tends to push input costs up). However, if the trade-off for this is a No-Deal Brexit then it is unlikely to result in a positive long-term outcome.
- **Agricultural waste exemptions** expire after 3 years. Therefore for those who registered their exemptions at the first opportunity in October 2013 and again in 2016 they are due for renewal in October 2019. The Environment Agency should write to those affected. Agricultural Waste Exemptions allow farm businesses to handle small quantities of waste or that of a low risk nature, such as tyres on top of silage sheets, burning hedge cuttings and building farm tracks from waste rubble etc. This allows farm businesses to avoid the annual charge that is a requirement of an environmental permit.

Trade Deals

Having been part of the EU for so long, many probably do not appreciate the significance of trade deals; the time they can take to negotiate and what they entail. But, with Brexit on the horizon, trade deals have moved up the agenda. On 28th June, twenty years to the day from when negotiations first started, the EU and Mercosur reached a political agreement on a substantial free trade deal. The EU estimates that, when fully implemented, the deal will reduce tariffs its exporters face by approximately €4 billion. The same weekend, the EU also signed the free trade agreement with Vietnam which had been largely negotiated in 2018. *Both deals are meant to send a message that, with the backdrop of the US-China trade dispute and the increased friction likely to result from Brexit, the EU is open for business and keen to conclude trade deals with other global partners. From an agri-food perspective, the Mercosur deal is attracting most attention as it could have significant implications for sectors such as beef, poultry and sugar.*

EU-Mercosur Trade Deal

The details of the Mercosur deal are complex. In summary, the South American trade-bloc, consisting of Brazil, Argentina, Uruguay and Paraguay, would see tariffs removed on 92% of all its imports to the EU over a period of 10 years. Focusing on the agri-food sector, tariffs will be cut on 82% of imports coming from Mercosur, with remaining agri-food imports subject to more partial liberalisation. Notably, this includes beef where a quota of 99,000 tonnes will be permitted to be exported to the EU at preferential rates. This will be implemented over a five-year period. Additional volumes of imports will also be allowed of poultrymeat (180,000t) and pigmeat, (25,000t), with import restrictions on sugar eased.

From an EU export perspective, tariffs will be eliminated on 91% of its total exports and 95% of agri-food exports. The dairy sector in particular will benefit from improved market access, with a quota of 30,000 tonnes for cheese, 10,000 tonnes for SMP and 5,000 tonnes for infant milk formula (Mercosur tariffs are currently at around 28% for dairy products). These volumes will be phased-in over 10 years. *However, demand for dairy products in the Mercosur market is quite lethargic and is hampered by high inflation, sluggish economic growth and a volatile political environment.*

EU beef, poultry, sugar and ethanol producers are expected to come under increased pressure from cheaper imports from South America as a result of this deal. The agreement has already attracted condemnation from the EU's farming lobby with organisations such as Copa-Copega and the Irish Farmers' Association (IFA) complaining that agriculture had been sold out to facilitate a wider deal. Tellingly, the EU Commission also announced a €1 billion fund to help farmers to adjust to any market disturbances caused by the EU-Mercosur deal, which indicates that there could be a significant impact on European farmers (although some producers are likely to benefit from it). *The feedback from the EU farming and food industry points to trouble ahead because the agreement, thus far, has only been at the political level and a number of hurdles remain. Firstly, it will be translated into legal text before being put forward for ratification by EU Member States and the European Parliament. Like the EU-Canada (CETA) agreement, there can still be several twists and turns in the process and the deal could be scuppered by a Member State or by a regional Parliament such as Wallonia. Already, there is significant pressure being exerted on the Irish Government not to back the deal and it is anticipated that there will be similar calls elsewhere.*

Any on-farm effects from this deal remain some way off, and in any case would be phased in over several years. By the time this happens, the UK is likely to have left the European Union, so the impact of this particular deal might be negligible. That said, the EU-Mercosur deal increases the competitive threat of South American products in European markets, so competing with UK exports. It is also likely to offer a template for any future trade deals between the UK and Mercosur which the UK is likely to prioritise post-Brexit.

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