

Brexit: how will UK agriculture fare when we leave the EU?

Uncertainty surrounding negotiations with the EU makes farm planning difficult – how should UK agriculture prepare for life after Brexit?



Policy and Practice Notes

**Note No 7 – Brexit: how might UK
agriculture thrive or survive?**

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The **Rural Economy and Land Use** series of Policy and Practice Notes is published by Newcastle University's Centre for Rural Economy and aims to communicate the latest research on rural and land use challenges to a wide audience.

There is little doubt that the UK agri-food sector will be one of the most seriously affected by Brexit. Not only is it dependent on trade relations both with the European Union and with the Rest of the World, but it is also a sector dependent on migrant labour, and the most heavily subsidised and regulated under the present Common Agricultural Policy (CAP). UK farmers are guaranteed to receive the same level of subsidy as under the CAP until the end of 2022. Despite these efforts, the lack of concrete policy decisions and the uncertainty that surrounds the terms of negotiations with the EU make this period difficult for farm business planning.



Can we envisage the consequences of Brexit for UK agriculture?

The consequences of Brexit for UK agriculture will depend upon two major factors:

- Changes in and/or removal of agricultural subsidies
- Trade agreements or lack of them

We can consider the potential effects of different trade agreements by modelling three scenarios with and without Direct Payments (ie Basic Payment Scheme):

Free Trade Agreement	Unilateral Trade Liberalisation	World Trade Organisation tariffs
<ul style="list-style-type: none"> ○ comprehensive UK/EU Free Trade Agreement with UK-EU tariffs at zero ○ UK adopts the EU common tariff schedule on Rest of World imports ○ UK maintains share of EU Tariff Rate Quotas applying to Rest of World imports ○ additional trade costs of 5 per cent (livestock) and 2 per cent (crops) for UK ↔ EU trade flows 	<ul style="list-style-type: none"> ○ an extreme free-trade scenario ○ elimination of all UK import tariffs for Rest of World including imports from the EU ○ additional trade costs of 10 per cent (livestock) and 5 per cent (crops) for UK ↔ EU trade flows 	<ul style="list-style-type: none"> ○ no agreement by March 2019, hence "reversion" to WTO rules and schedules ○ UK trading with EU and Rest of World under WTO Most Favoured Nation tariffs ○ requires a UK allocation of a share of the current EU tariff rate quotas with Rest of the World ○ additional trade costs of 8 per cent (livestock) and 4 per cent (crops) for UK ↔ EU trade flows

What are the likely overall consequences of Brexit?

Across all the scenarios considered Brexit has a negative impact on UK Gross Domestic Product:

- The WTO model under Most Favoured Nation tariff reduces it the most (by about half of one per cent per annum).
- The FTA model with a Free Trade Agreement with the EU has the least effect, reducing Gross Domestic Product by 0.22 per cent per annum.

What is the position regarding agricultural subsidies?

Current agricultural direct support have been guaranteed to continue until 2022. However:

- The high levels of subsidy (provided under the Common Agricultural Policy) have received much media attention, leading to considerable discontent among taxpayers.
- Brexit offers a unique opportunity for policymakers to rethink direct payments to farmers and possibly remove them completely.
- Funding could potentially be redirected to rural development and ecosystem services.
- There will be numerous other demands on the Treasury.

What effects would removal of subsidies have on producers?

Subsidies are a crucial component of farm business income across the UK and removal of such direct payments could have implications for the sector:

- There could be land use changes and restructuring, involving some farms, particularly smaller enterprises, going out of business.
- There may be particularly significant effects for upland farms which depend on subsidies to a greater extent.
- Dairy farms will be less affected than other producers.
- Other factors, particularly trade agreements and possible volatility in the exchange rate, may be more significant overall.

What would be the effects under different trade scenarios?

Different sectors will be affected in various ways according to the different trade scenarios that have been modelled by researchers. Some likely effects are:

Under the UK-EU Free Trade Agreement model:

- Little change, although trade into and out of the UK will be subject to additional facilitation costs.
- Some increased costs on imported agricultural produce, particularly livestock.

Under the Unilateral Trade Liberalisation model:

- Prices falling markedly on all domestic agricultural produce as tariffs are removed on imports from the EU and Rest of the World.
- A large increase in imports of sheep and beef from the Rest of the World, probably pushing down prices of domestic beef to world levels (i.e. by 42 per cent).

Under the return to World Trade Organisation tariffs:

- Tariffs increasing prices of imports.
- Reduced competition from imports, enabling domestic producers to increase their prices.

What potential effects do policymakers particularly need to bear in mind?

Brexit, under any scenario, could have significant effects for UK agricultural producers, exporters and consumers.

For producers:

- Removal of agricultural subsidies will affect most farm businesses but effects will vary by sector, region and devolved governments:
 - Arable and dairy farms may be relatively unaffected.
 - Sheep and beef producers in more remote locations such as the Scottish uplands are most likely to be affected and many may struggle to survive.
- Under Free Trade Agreement with the EU agricultural impacts are modest but by contrast under Unilateral Removal of Import Tariffs there are significant impacts on prices, production and income.
- Adoption of the World Trade Agreement tariff schedule favours some net importer sectors such as dairy.

For exporters:

- Any exports from the UK to the EU and Rest of the World would be required to meet the product and provenance standards of the importing country.
- Adoption of the World Trade Agreement tariff schedule harms some export sectors such as sheep.

For consumers:

- Prices will depend not only on the tariff schedule put in place in the UK, but also the value of the pound in foreign exchange markets.
- A reversion to WTO rules would increase significantly domestic food prices which would particularly affect those with least disposable income.
- Lower (or no) tariffs could leave food prices unchanged or lower, so benefiting consumers, at least in the short term.
- While the UK would be free to negotiate new trade deals worldwide this is a complex process that could be a lengthy and disruptive.

Project information:

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The UK in a Changing Europe website: <http://ukandeu.ac.uk/> and on Twitter @UKandEU

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