Brexit: How might UK Agriculture Thrive or Survive?

The impact of Brexit on UK Agricultural Sector

The Economic Implications of Brexit on European Region

European Committee of the Regions, Brussels

22 February 2019

The Project's Aims

- To assess the impacts of selected UK agricultural and trade policy (UKAP) scenarios following Brexit

- To provide the UK Government, its devolved administrations and practitioners with a robust analysis to support future policy decision making

Selected UKAP Scenarios: Trade

Brexit – FTA	Brexit - UTL	Brexit - WTO
• UK/EU FTA, with UK-EU tariffs at zero • UK adopts the EU common tariff schedule on RoW imports • the UK's departure from the Single Market … • additional trade facilitation costs of 5% (livestock) & 2% (crops) for UK-EU trade flows	• an extreme free-trade scenario ('unilateral liberalisation') • elimination of all tariffs between UK and RoW including imports from the EU • additional trade facilitation costs of 10% (livestock) & 5% (crops) for products flowing from the UK to the EU	• no agreement by March 2019 … 'reversion' to WTO rules • UK trading with EU and RoW under WTO MFN tariffs • additional trade facilitation costs of 8% (livestock) & 4% (crops) for UK-EU trade flows

Hubbard et al. Brexit (2019) How will UK Agriculture fare? Eurochoices 17(2)

Selected UKAP Scenarios: Domestic Policy

- No further UK contributions to or receipts from the EU budget

- All **Pillar 2 payments** continue after Brexit **at current levels**

- **Pillar 1 direct payments (DP)**:
  - ***Retained as now, or***
  - ***Phased out*****:** elimination of direct payments over a 5-year period (2020-25) …. a straight-line reduction of current payment levels to zero in 2025

Modelling Six Scenarios: three trade scenario with (+) and without (-) DPs

S1 & S2: **FTA+, FTA-**
S3 & S4: **UTL+, UTL-**
S5 & S6: **WTO+, WTO-**

Baseline Scenario

- It assumes that the UK remains fully integrated in the Single Market & the Customs Union

https://www.instituteforgovernment.org.uk/our-work/brexit

- The analysis covers the projection period 2017 to 2026, with Brexit scenarios beginning in 2019

- … the outcomes in the final year (2026) represent the longer-run projections of the consequences of the scenarios

https://www.theguardian.com/society/2016/mar/20/brexit-silly-walk-best-political-cartoons-eu-europe-referendum

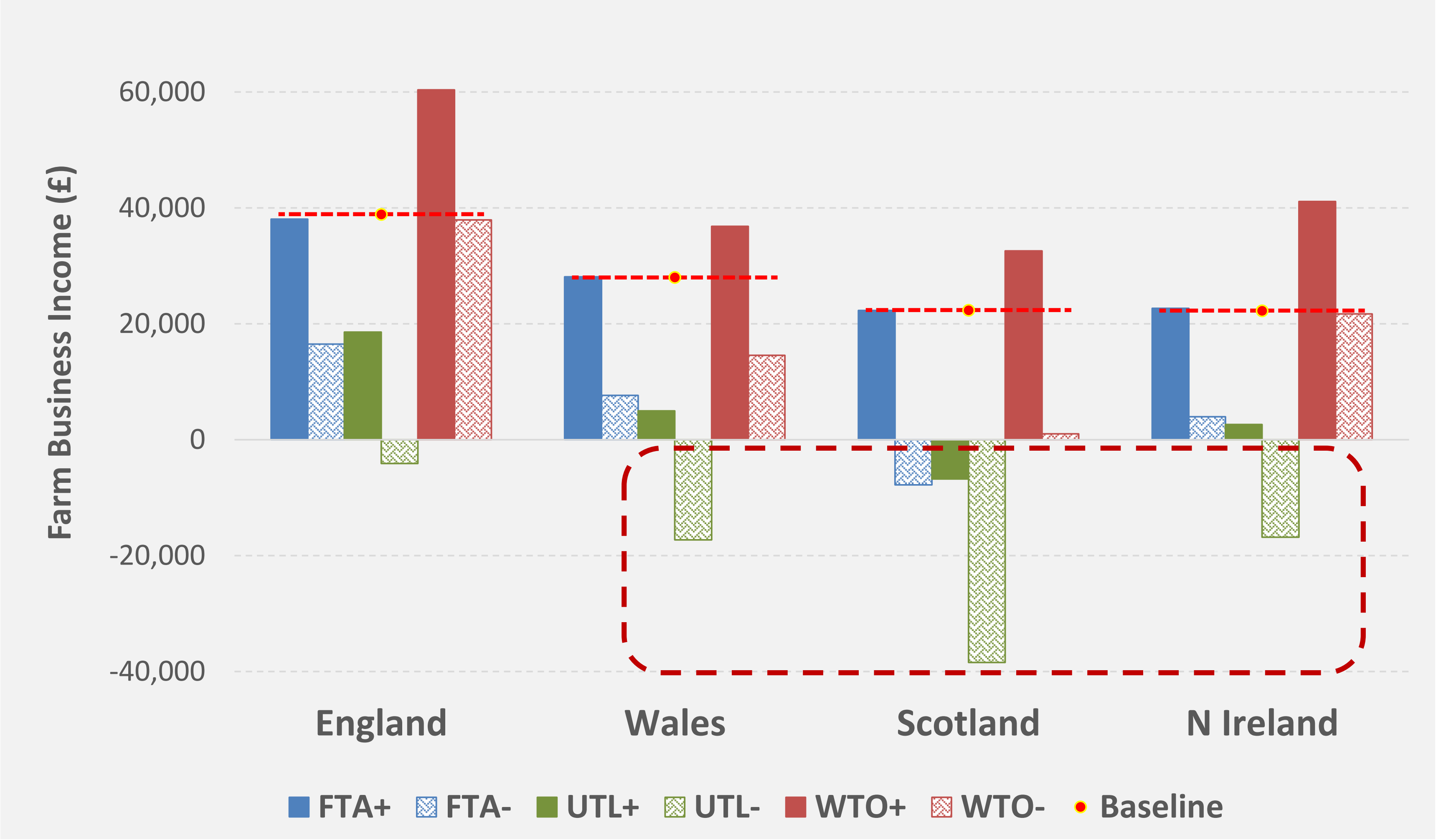
SELECTED RESULTS

Percentage Change in Prices and Production, selected commodities, UK (relative to baseline 2026)

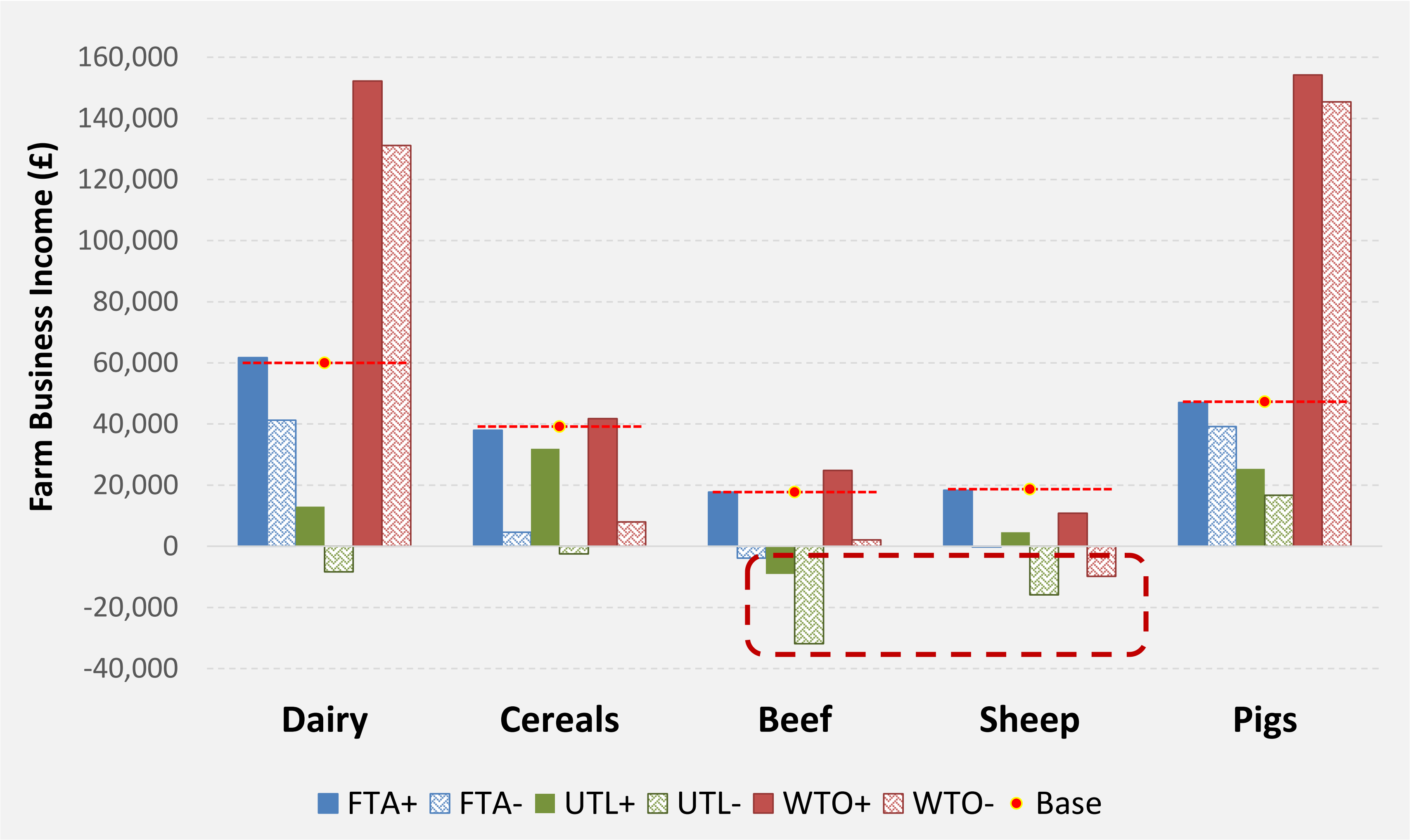
		S1	S2	S3	S4	S5	S6
		FTA+	**FTA-**	**UTL+**	**UTL-**	**WTO+**	**WTO-**
Beef:	Price	1%	2%	-42%	-42%	17%	17%
	Production	1%	0%	-12%	-13%	11%	10%
Sheep:	Price	0%	4%	-19%	-19%	-23%	-23%
	Production	0%	-2%	-5%	-8%	-9%	-12%
Milk & Dairy	Price	1%	1%	-8%	-8%	28%	28%
	Production	0%	0%	-2%	-2%	7%	6%
Pigs	Price	1%	1%	-4%	-4%	25%	25%
	Production	1%	0%	-2%	-2%	22%	22%
Poultry	Price	0%	0%	-3%	-3%	15%	15%
	Production	1%	0%	-2%	-2%	22%	22%
Barley	Price	0%	1%	-8%	-8%	-5%	-5%
	Production	0%	-1%	-1%	-2%	-1%	-1%

(FAPRI-UK model)

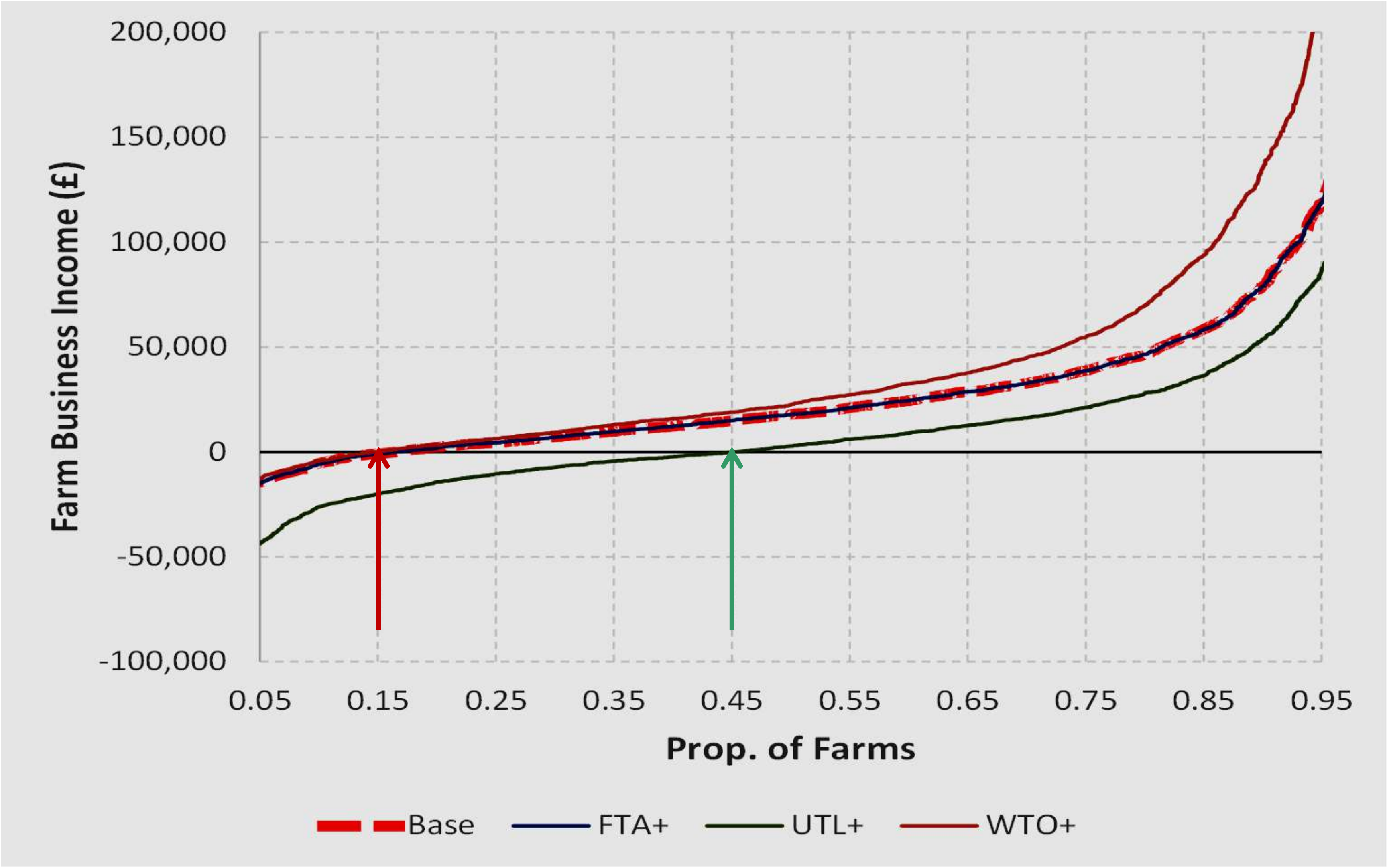
Average FBI by Country & Scenario (2026)



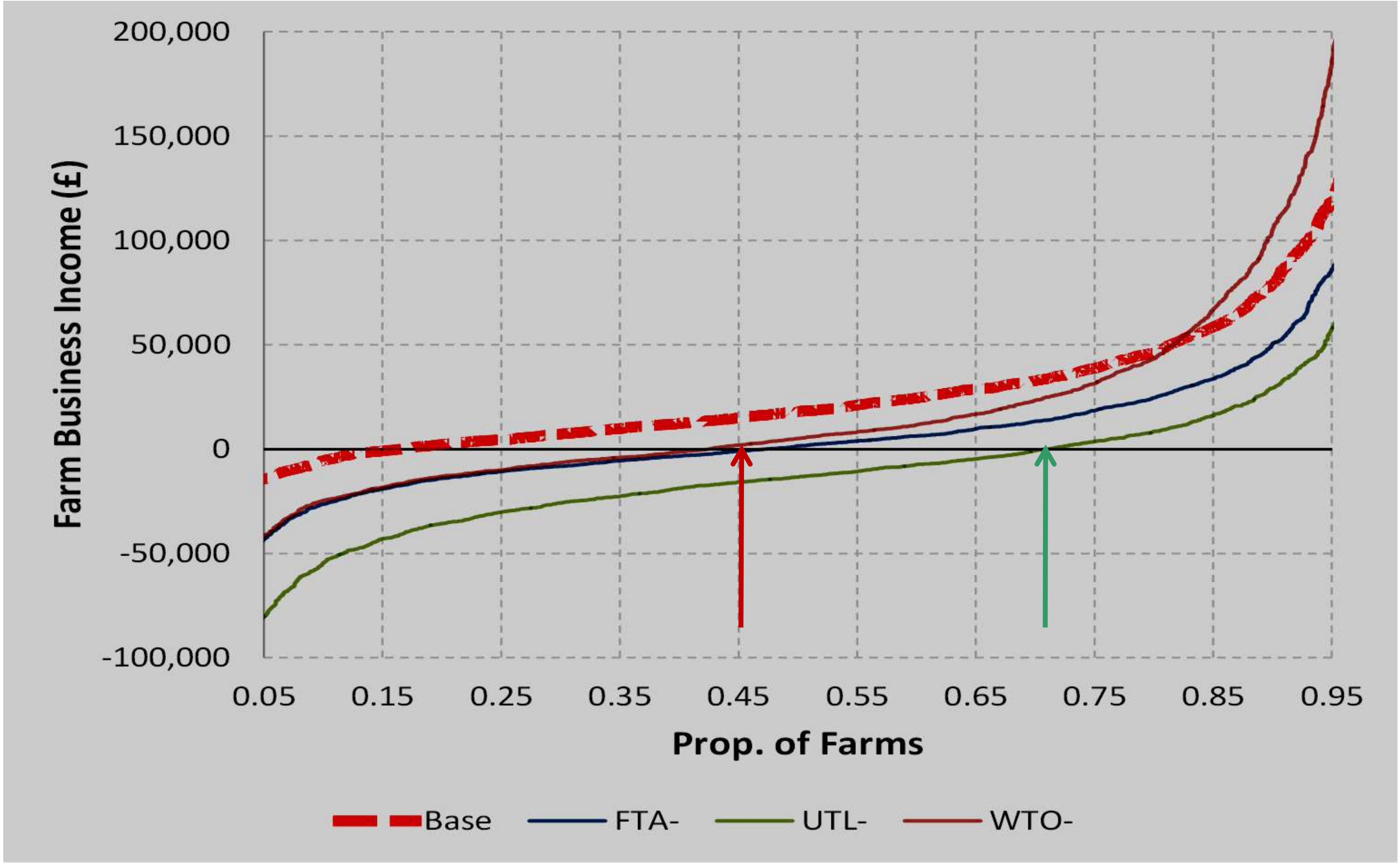
Average FBI by Scenario & Farm Type, UK (2026)



Farm Income Distribution by Scenario with DP, UK (2026)



Farm Income Distribution by Scenario without DP, UK (2026)



KEY MESSAGES FROM OUR PROJECT

Consequences of Brexit for UK agriculture?

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

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

But..

- lack of concrete policy decisions
- the uncertainty that surrounds the terms of negotiations with the EU makes the period difficult for farm business planning

What is the position regarding agricultural subsidies?

Current direct support have been guaranteed to continue until 2022

However:

- Brexit offers a unique opportunity for policymakers to rethink direct payments & possibly remove them completely ("reward vs subsidy"?)
- Funding could potentially be redirected to rural development and ecosystem services … "public money for public goods"
- …but there will be numerous other demands on the Treasury

What effects would removal of subsidies have on producers?

Subsidies … a crucial component of FBI across the UK and removal of direct payments could have implications for the sector

- There could be considerable restructuring, involving some farms 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

EU - UK FTA

- Little change although trade will be subject to additional costs
- Some increased costs on imported agricultural products

UTL

- Prices falling markedly on all domestic agricultural products
- A large increase in imports of beef

Reversion to WTO

- Tariffs increasing prices of imports
- Reduced competition from imports

Potential effects policymakers need to bear in mind?

For producers:

- Removal of agricultural subsidies will affect most farm businesses:
  - Arable and dairy farms may be relatively unaffected
  - Sheep and beef producers in more remote locations would most likely be affected and many may struggle to survive
- Under FTA, agricultural impacts are modest but by contrast under UTL there are significant impacts on prices, production and income
- Adoption of WTO tariffs favours some net importer sectors such as diary

Potential effects policymakers need to bear in mind?

For exporters:

- Any exports from the UK to the EU & rest of the world would be required to meet the product and provenance standards of the importing country

- Adoption of the WTO tariffs harms some export sectors such as sheep

For consumers:

- Prices will depend on tariffs put in place and the value of the pound

- A reverse to WTO rules would increase domestic food prices and would 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

- A complex, lengthy and disruptive process would be needed for the UK to negotiate new trade deals worldwide

Advisory Panel :

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More information about the project at:

https://research.ncl.ac.uk/esrcbrexit project

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