Worshipful Company of Farmers

AGRICULTURAL IMPLICATIONS OF BREXIT

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February 2016
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Disclaimer
The author acknowledges and thanks Ian Bailey, Sophia Davidova, Berkeley Hill, David Harvey, Alan Swinbank, Jill Thomasson, Derrick Wilkinson, his IEEP colleagues, David Baldock, Martin Nesbit and Alejandro Colsa, and reviewers from the Worshipful Company of Farmers for their help and comments on earlier drafts of this paper. He takes full responsibility for what is written here.
Executive Summary - key messages

1. A referendum to remain or leave the European Union will take place before 31/12/17, and is most likely between June 2016 and April 2017. The policies which follow Brexit will not be clear by the referendum, only general indications.

2. Following a ‘leave’ vote, there will be a two-year negotiation period of intense debate on Britain’s trading relationship with the EU and the rest of the world, and on the British Agricultural Policy (BAP) to replace the Common Agricultural Policy (CAP).

3. The EU trade question is fundamentally a choice between remaining close to the EU single market, and therefore having to retain most EU existing regulation, or leaving the single market in order to allow some deregulation.

4. Whichever outcome, there will be more customs controls, and thus higher trading costs, than now on trade with the EU (both ways). These could depress UK farm prices and raise some consumer costs. If the UK then chooses lower protection levels on agriculture with the rest of the world this would also depress some UK farmer prices, but reduce consumer costs. Therefore together, farmers might face weaker prices, whilst consumer food prices, on balance, may not be much affected.

5. UK domestic agricultural support will not be higher than now under the CAP, and could well be lower. It is likely that a UK government will continue with some direct payments to farmers – but for how long, with what conditions is unknown. Aspects of rural development policy are also likely to continue. UK policy could be less risk averse and more positive with respect to agricultural technology. The details of these policies will diverge between England, Scotland, Wales and Northern Ireland.

6. These uncertainties, starting from depressed prices in 2016, will reduce confidence and investment in agriculture, and probably reduce rents, land prices and lending to agriculture, unless and until clarity emerges on the new British Agricultural policy.

7. Direct payments are decoupled from production, so agricultural production effects of any cuts will be small, production changes may arise if third country trade is opened.

8. The effects of these changes will cause some disruption and hardship in the short run. Farms most vulnerable are those dependent on current payments, for example the grazing livestock sector, and farms which are heavily borrowed.

9. However, markets for all inputs and services to farming will adjust to these shocks, and processors and retailers will be concerned to ensure continuity of supplies. Farmers themselves will adjust; there is much scope to improve UK agricultural productivity which has slipped compared to other EU countries. There could be a catalytic effect of Brexit with beneficial long run effects for the sector as a whole.

10. From a countryside and environmental perspective there are strong downside risks associated with these potential developments. Much therefore depends on how the opportunity to design a new British rural policy better tuned to UK needs is grasped.

11. This author expects the status quo will prevail and the UK will remain in the EU. However the referendum debate will expose, yet again, that current CAP is not well tuned to support environmentally sustainable and viable farming. The so-called ‘reformed EU’ will still have an insufficiently reformed agricultural policy.
Referendum, renegotiations and timing

12. A referendum on whether the United Kingdom should remain in or leave the European Union will be held before 31 December 2017, most likely between June 2016 and April 2017. The terms of the renegotiation for a ‘reformed EU’ underway at the time of writing have no direct bearing on agricultural or food issues. The outcome of the referendum is unpredictable; opinion polls on continued EU membership are running close, but with still maybe a sixth of voters undecided.

13. In the event of a ‘Leave’ result in the referendum the withdrawal negotiations will formally commence when the government notifies the EU of its intention to quit. Brexit will not be an overnight affair it will be a long drawn-out process with significant uncertainty for the UK farming sector and those who sell to and buy from it. The withdrawal negotiations should be completed in two years, but could be extended.

14. It is frequently suggested that exit before the end of the EU’s seven-year Multiannual Financial Framework (MFF) would be awkward and thus the likely date of departure would be 31st December 2020. This would be seven months into the next Government, and potentially between 3 and 4½ years after the referendum result. This seems an undesirable prolongation of uncertainty.

15. This report considers the implications, principally for the agricultural sector and farmers, of a vote to leave the EU. It has not been possible to explore the different perspectives of the devolved territories of the UK. So the report may appear as an English view; but Euroscepticism, which is driving the issue, is heavily an English phenomenon. The report is an exercise in conjecture. Those advocating ‘Leave’ have not detailed their preferred policies. Unless these emerge during the referendum debate, voters, including farmers, will be deciding with no clarity on the policies which will apply on EU exit. Only broad directions and implications can therefore be explored at this stage.

Have the EU and CAP been beneficial for UK agriculture?

16. It seems reasonable to pose and answer this question before analyzing the impacts of withdrawal. For farmers, and their representative organisations, the EU means its Common Agricultural Policy. Few inside, and especially outside, British agriculture think this is a well articulated and expedited policy. The main criticisms are that the support mechanisms are badly targeted, inefficient and poor value for public money.

17. Examination of the output and incomes in agriculture before and after the UK joined the EEC in 1973 do not show that agriculture boomed after accession, although land prices certainly rose. This suggests that departure from the CAP will therefore not necessarily cause output and incomes to plummet.

18. These observations validate economists’ suggestion that injection of subsidy into a competitive market sector like agriculture does not raise the incomes earned in that sector. Rather they are shared throughout all the trading partners in the food supply chain, and they become capitalized into land values. This suggests that withdrawing subsidy may have the reverse effect – initial shock to incomes, subsequently
dispersed up and down the food chain and reflected in land values and rents.

19. Assembling lists of good and bad features of the experience of 42 years under the CAP leads to the conclusion that the CAP has not been an unambiguously ‘good thing’ for UK farming, and prompts the thought that escaping the CAP per se would not necessarily be a complete disaster.

**What will replace EU policies upon withdrawal?**

20. The two key areas that farmers should probe in order to be in a position to assess the effects of withdrawal from the EU are (i) the UK trading relationship with the EU and with the rest of the world, and (ii) the post-Brexit UK agricultural policy.

21. Prior to the announcement of the referendum date there is no definitive account of the key policies which a UK government outside the EU will favour. There is however a reasonably clear indication of general policy principles and direction of those who favour leaving the EU. Their rhetoric suggests a predisposition towards free trade, deregulation, relatively low priority to environment and small government. This contrasts with agriculture as guided under the CAP, which: has well-developed border protection, is heavily regulated, has given a progressively higher priority to dealing with environmental market failures, and it is generously supported from the public purse. Juxtaposing these two observations suggests a rather different approach to agricultural policy post-Brexit.

22. The strategy post-Brexit could take a ‘cold bath’ approach stressing the power of strong competition, the healthy release from the burdens of regulation and deadening effects of subsidy which will unleash a surge in farm restructuring, improved productivity and profitability. Or it could acknowledge **multifunctional farming**, in which released EU budget contributions are redeployed in the UK recognizing the special characteristics and multiple roles of farming which produces food and also stewards a high proportion of the British natural environment.

23. Where on this spectrum of possibilities the UK ends up will depend on what will undoubtedly be an intense UK political debate on the goals of agricultural policy which will immediately follow a ‘leave’ referendum result. This will have the active participation of farming and other stakeholders. There is nothing pre-ordained about the outcome.

**Trade policy**

24. The UK has run a substantial trade deficit in agricultural and food products for a very long time. UK self supply in temperate agricultural products has fluctuated between 30% and 70% since the mid-nineteenth Century. In round figures the UK currently imports about £40b of food products and exports about £20b. This deficit has grown. Seventy percent of UK agri-food imports originate in, and 62% of agri-food exports are destined to, the EU.

25. There is a great deal of speculation about **the trading relationship which the UK will seek with the EU**. This is a complex area with a wide range of possibilities. However, the outcome is not simply a matter of UK choice. It will depend on what can be negotiated with the EU. In this negotiation between the UK and the European Commission on behalf of the EU27, each party will of course pursue their own economic interests. The negotiation will be conducted in the context that UK politicians have just persuaded voters that the EU is an enormous failure which is a
drag on UK economy and society. This suggests a less than cheerful atmosphere.

26. A key aspect of the negotiation is to find an optimal position in the trade-off between maintaining open access to the EU single market, which UK businesses will want to preserve, and freeing the UK from what is depicted by Eurosceptics as an excessive EU regulatory burden. Success in achieving a Norwegian- or Swiss-like position with open access to the single market could allow trading relationships to continue seamlessly. However, it also implies adopting most single market regulation, with some influence but no vote on how it evolves, and also contributing to the EU budget. Seeking a bilateral Free Trade Agreement with the EU may free the UK from some existing regulation (when the UK eventually gets round to amending such regulation in its own legislation) and eliminate any contributions to the EU budget, but all trade destined for the EU will still have to respect EU regulatory standards.

27. Equally important for UK farming is the relationship achieved with third country markets in the rest of the world. The options here are just as complex. The UK as an independent country may seek to continue to apply the same terms as under the EU’s 138 Free Trade Agreements (FTAs) and Preferential Trade Agreements (PTAs) in place or under negotiation. Or the UK may seek to renegotiate these agreements. A critical issue for UK farming is whether and how much the UK might seek a more liberal trade stance, lowering the tariff protection including for sensitive agricultural products such as beef, lamb, dairy and fruit and vegetables.

28. Over many years there has been enormous progress in liberalizing merchandise trade, tariff barriers are low, the exceptions remain the service and agricultural sectors. Non-tariff barriers have become more important and one of the greatest achievements of the EU has been in creating the single market which reduces these barriers and associated costs. The UK currently enjoys the best possible access to the single market as a full EU member, therefore any alternative arrangement almost inevitably must involve more border and custom controls and thus higher trading costs. The UK might be able to extend the benefits of current EU trade agreements with third countries; it will take considerable time to negotiate better terms on its own. It is hard to see how trading costs could be lower outside the EU, benefits of exit must therefore revolve around lower regulatory costs for business.

**British Agricultural Policy**

29. If the UK exits the EU it will then be able to choose whatever agricultural policy it considers is in the best interests of its farmers, consumers and society. The question is what policy would it choose? The answer to this will differ between England, Scotland, Wales and Northern Ireland. This aspect is not considered further here.

30. The agricultural policy chosen will of course be heavily determined by the budget resources the government is prepared to vote, the views and approaches taken by the main interested parties – which generally comprise farmers, the food chain, consumers and environmental interests – and conditioned by the trade policy adopted. There can be no doubt that farmers’ organisations will be prominent in these discussions emphasizing the competitive terms between British farmers and their EU and third-country counterparts. But so too will be countryside and environmental interests who will stress the public land management role of farming.

31. It is assumed that all current CAP payments and rural development contracts will
continue to apply until the date of UK exit. If UK exit is 31/12/2020, then the full terms of the current CAP regulations which extend to this date will apply.

32. It is suggested that post-Brexit, agriculture and food will still be considered exceptional and there will therefore be a British agricultural policy to follow the CAP. It can be predicted with reasonable confidence that there will not be a return to a market intervention (e.g. deficiency payment) approach to agriculture as existed pre-EEC entry. The objectives of British agricultural policy will be the customary mix of: stimulating productivity; improving resource efficiency; helping farmers reduce pollution, deal with volatility, market imperfections and especially the pervasive environmental market failures surrounding land management; and also deal with the particular difficulties of farming in the remoter and marginal rural areas.

33. The UK post-CAP policy will inevitably be structured around how much, and in what way, the current instruments of the CAP are rolled over and changed to suit the UK public purse, and conditions. A prime focus of the post-exit debate will be on the fate of the CAP direct payments (£2.5 billion in 2014) which constitute 75% of current EU CAP related agricultural expenditure in the UK.

34. The report examines a number of official statements and other opinions on this question. It is concluded that UK will not walk away overnight from direct payments to its farmers post-Brexit. Some form of such payments, paid from the UK Treasury will continue, but details at what rate, to whom, for how long and with what conditionality is not yet knowable. These will be determined following intense negotiations in the UK during the withdrawal period.

35. A strategic decision about continued but nationalized direct payments is whether they are explicitly referred to as transitional and thus only paid for a specified finite period (say 5 to 10 years), perhaps even convertible to a bond which could be cashed-in. Other key decisions will be their environmental conditionality, whether they are progressively tapered or limited by size of payment, and how the issue of active farmer is dealt with.

36. Any continuing direct payments are likely to continue to be made as a uniform per hectare payment in one or two regions (of England) and decoupled from production. To the extent that young farmer and greening payment ideas might be dropped then English direct payments may be correspondingly smaller. Different decisions on these details can be expected in the other territories.

37. It is suggested that the main elements of current rural development programmes will continue in UK rural policy. Whether they remain as multi-annual and programmed structures will no doubt be reviewed. The objectives will likely remain a mix of: improving agricultural productivity and marketing, purchasing public environmental services from farmers, supporting rural infrastructure and encouraging economic diversification. Agreeing the objectives and measures to deal with farming and land use in the uplands, i.e. the remote and marginal areas will be a difficult aspect of this debate. This is not a settled area of policy and current controversy over upland land management during the late 2015 floods in Cumbria, Lancashire, Yorkshire and Scotland will figure in such debate.

Other policy

38. Agriculture is subject to a wide variety of other regulation which emanates from the
EU. Thirty-one such areas of regulation are listed in the report. The future applicability of these EU regulations and directives in the UK in event of exit from the EU is uncertain. Continental traders can be expected to be extremely vigilant that the UK is not seeking, through Brexit, to achieve competitive advantage by deregulating its domestic business whilst maintaining open access to the EU market. It would be most unwise of any business to consider that if the UK has left the EU then these regulations would no longer apply. The terms of access to seasonal and casual labour, much of which is currently provided by citizens of the EU, will also be a highly important issue for several parts of UK agriculture and food processing.

Economic effects of Brexit

39. It is a difficult task to assess the likely effects of policy change which is not well specified. Clearly the impacts will be greater the wider the divergence from the status quo. But in all cases there will be a long lead-in time before policy changes take effect, and some of the new policies could be phased in over an adjustment period.

40. From an economic perspective, because direct payments to farmers are largely decoupled from production, any cut in these payments is not expected to have large impacts on production levels. It is the trade policy changes which might bring about changes in prices, costs and therefore production and consumption. Increases in trade costs tend to drive a wedge between producer and consumer prices, driving the former down and the latter up. This could happen for trade with the EU. Reducing trade barriers with the rest of the world could reduce producer and consumer prices in the UK. Without knowing the outcome of the trade negotiations it is very hard to quantify these effects.

Comparative static impacts

41. Frightening impacts can be suggested by showing data on the current dependence on direct payments of different UK farming systems and calculating the drop in farm business income if these payments were eliminated from one year to the next and nothing else changes. Such figures show falls in farm business income ranging from 31% for dairy farms to 112% and 137% for grazing farms in the lowlands and Less Favoured Areas, respectively.

42. There can be no doubt that if direct payments were abolished in this way the effects would be disastrous for a great many farms. However, there will be several years notice of any such likelihood starting from the day after the referendum. Also there are precedents suggesting that payments are more likely to be phased down, and even then with some degree of protection for certain types, sizes, or locations of farm, or those undertaking specified public services.

Knock on indirect and induced effects

43. The time lags in coming to the decisions and then implementing any new British agricultural policy are important because economic agents anticipate and react. This applies to farming which has alert and responsive representative organisations and media. The introduction of the CAP in the UK was not accompanied by a sustained rise in farmers’ income so it is not obvious that subsidy removal should cause a prolonged collapse. There will be a series of indirect and induced effects resulting from any substantial removal of CAP supports, which will soften the impact.
44. The land market will be amongst the first to react. In the event of credible information that direct payments were planned to disappear over a short time period, the market could quickly swing from the current excess demand to the opposite situation. No one will bid current rents given the prospect or fear of withdrawal of direct payments and a more competitive trading environment for farming. Land owners would struggle to find anyone to take on the land and they might be reluctant to take it back in hand themselves in these circumstances. Rents would therefore be expected to falter and fall. Impacts on land prices would follow. It is shown that land prices have reacted to past CAP changes, so there is every reason to expect a reaction to withdrawal from the EU and CAP. Of course this reaction will depend on the extent to which a British Government decides to continue to fund direct payments.

45. Uncertainty accompanying a vote to leave will cause a loss of confidence in farming which will spread up and down the food chain. A fierce, open policy debate on continuation of direct payments will induce a highly cautious attitude towards any farm expenditures and especially new investment. Farm machinery, equipment manufacturers and input suppliers will certainly notice, and there will of course be some attempts to induce farmers to continue buying. In short, price pressures for other farm inputs besides rents would ease. For the livestock half of British agriculture a major cost is feed, these costs are already at a low level. A depressed UK market beset by Brexit anxiety (which coincides with a period of slow growth globally) would tend to keep it that way.

46. In addition, farmers themselves would adjust. Brexit would be a significant wake-up call to the industry and perhaps catalyse change. Of course the best farmers are already alive to the benefits of precision and knowledge-intensive farming, but the tail in productivity performance in UK agriculture is still long. There is wide scope to improve the efficiency of use of fertilisers, crop protection products, energy and animal feed, and this does not all require expensive investment in GPS-based electronic monitoring and control systems.

Evidence of modelling and the NZ experience

47. There is little modelling evidence available to date, and of course model results depend on model assumptions. A recent assumes the UK nationalizes the CAP payments (i.e. continues them) calculates the economy-wide effects of higher trade costs resulting from Brexit. These costs more than offset the budget benefits of leaving the EU and result in real losses in the UK of between 0.2% and 0.67% of national income (depending if trade facilitation costs rose 2% or 5% respectively).

48. An often-cited example of dramatic agricultural policy change is the case of the New Zealand withdrawal of supports in the mid-1980s. New Zealand farming in the 1980s was not at all similar to the UK farm sector in the 2020s facing Brexit. New Zealand agriculture (6% of GDP, 7% of employment) is a key economic sector providing 53% of merchandise exports which are produced at great distance from markets. Whereas UK agriculture contributes just 0.5% of GDP, 0.8% of employment, and is a net importer. Along with the short duration of the NZ subsidies in contrast to the UK’s 42 years of EU membership and the large devaluation of the New Zealand dollar, these all suggest caution in drawing lessons from New Zealand for UK agricultural subsidy removal. Brexit for the UK could be a much bigger event than
subsidy reduction in New Zealand. However, the NZ experience certainly showed that the pain of subsidy removal was short-lived.

**Wider implications for the EU and for the UK**

49. **European integration itself will falter** if the UK exits. This outcome would be seen in Paris, Berlin and the other EU capitals as a highly significant and negative development. It might precipitate other exits, and it could put back the course of European integration noticeably. The EU will have a budget hole left by UK exit which it will have to fund either by increased subscriptions from the remaining members or by cutting expenditures. This smaller EU might even decide, post-2020, to follow the UK and cut agricultural support expenditures. This would lessen some of the pain of UK adjustment to lower farm support.

50. UK exit is highly likely to disrupt the **UK ‘settlement’**. There are very different degrees to which the four UK territories benefit from the EU, and similarly there are differences also between regions within England, including rural versus urban areas. Post-Brexit, Scottish independence becomes more likely (though not a forgone conclusion). This would be a complication for many sectors including agriculture, for example livestock trade, which would take many years to resolve.

**Final words.**

51. A referendum vote to leave the UK will create massive uncertainty and anxiety in the UK food and farming sector undermining confidence for many years. Agricultural policy is the most highly developed EU sectoral policy. It still takes more than a third of the EU budget, and it has dominated UK thinking for over four decades. Departure from the EU is a significant rupture from the past.

52. The worst fear of farmers is the combination of: fast removal of direct payments, much if not all existing regulation remaining, continued free access to the UK for the still-supported EU farmers, and exposure of UK farming to more competition from the world’s lowest cost exporters. This outcome would be regarded as equally undesirable by environmental interests. The very anticipation of this scenario will drive a significant and powerful reaction to try and ensure it does not come about. The outcome is still likely to include a reduction in agricultural support levels. There will ensue a vigorous UK debate on the most sensible policy to achieve an efficient, viable and environmentally sustainable industry for the long term.

53. Probably the greatest shock to UK farming will be in the 12 months following a ‘leave’ vote in the referendum. As the effects of this shock work through the system, and critically, depending on the intelligence of the policy debate which then follows, the longer run course of British agriculture could be a less precarious, more resilient industry capable of dealing with the inevitable challenges it will continue to face not least from climate change.

54. This author judges that most British people are not so fed up with the EU, and are unlikely to be convinced that an alternative is self evidently better, so inertia will win and the vote will be to ‘remain’. If so, Britain and the rest of the EU are left with an agricultural policy with all the problems exposed by this discussion – not least the dangerous dependency of many farmers on poorly calibrated supports and an agricultural sector not in balance with its natural environment. No change in agricultural policy in or out of the EU is not a sensible option.
1 **Introduction:** renegotiation, referendum, procedure and timing for EU exit, structure of the report

55. The UK Prime Minister David Cameron announced on 23 January 2013 in his Bloomberg Lecture that, if elected as Conservative Prime Minister, he planned to negotiate a new settlement with the European Union (EU) and put membership of this reformed EU to an in/out referendum by the end of 2017. He was subsequently elected as leader of a Conservative government on 7 May 2015 and a bill to call an EU referendum was duly passed by Parliament in autumn 2015.

1.1 **Renegotiation**

56. The Bloomberg speech spelled out three areas where the UK would be seeking change and five principles for the reformed EU. However, these general suggestions were not spelled out in any further detail until almost two years later, on 10th November 2015, when the Prime Minister wrote to the President of the European Council, Donald Tusk, setting out “four main areas where the UK is seeking reform”.

1) **Economic governance**, essentially seeking equal treatment of non-Eurozone and Eurozone member states

2) **Competitiveness** to stimulate jobs and growth mentioning the need to cut regulation, add a single digital market and capital markets union to the single market and complete trade deals with America, China, Japan and ASEAN.

3) **Sovereignty**: end the UK obligation to an “Ever Closer Union”, allow groups of national parliaments to stop unwanted legislative proposals, fully implement EU commitments to subsidiarity, and in any future proposals dealing with Justice and Home affairs to preserve the UK’s ability to choose to participate.

4) **Immigration**: the UK “needs to be able to exert greater control on arrivals from inside the EU”, mentioning: cracking down on abuse of free movement, tougher and longer re-entry bans for fraudsters, stronger powers to deport criminals, and proposing that people coming to Britain from the EU must live here and contribute for four years before they qualify for in-work benefits or social housing.

57. None of these issues directly or materially impact agriculture. Although the references to over-regulation might, in principle, cover food, agriculture and environment, there are no expectations that any aspects of the Common Agricultural Policy (CAP) or food or environmental regulations affecting farming are the subject of UK demands in this negotiation. Similarly, there is no reference under immigration to issues directly aimed at seasonal or casual labour for agriculture. Also, to be clear, there is no mention whatsoever in the menu of issues being negotiated of matters relating to the EU budget, the UK rebate or the funding of the CAP. It is therefore safe to assume that the CAP which the UK would be choosing to leave is the CAP as reformed over the period 2011-2014, implemented in 2015/16 and to be further simplified in successive years.

58. The Prime Minister and Chancellor have indicated that their preference is to achieve
a successful renegotiation and then put the weight of the Government\(^1\) behind the campaign to accept this settlement and remain in the EU. However, he has also indicated that if the renegotiation is not successful he is prepared to urge the British people to leave. The overwhelming, and publicly expressed, desire in the EU is to keep Britain in membership. This sentiment has also been voiced by the leaders of the USA and China.

59. The negotiations on these UK demands only commenced at the Heads of Government level at the December 2015 European Council. The hope is that political agreement – which will be translated at a much later date into any required Treaty changes – will be reached at the European Council meeting on 16\(^{th}\) February 2016.

1.2 Referendum procedure and timing

60. The referendum question will be: 

*Should the United Kingdom remain a member of the European Union or leave the European Union?*

The referendum has to take place before 31\(^{st}\) December 2017 and cannot take place on the local election days, 5\(^{th}\) May 2016, or 4\(^{th}\) May 2017. After debate, it was also settled that the electorate will be as currently constituted, namely those over 18.

61. Given a four-month notice period to announce the arrangements for purdah, and that the renegotiation is unlikely to be completed until mid-February, it seems that the earliest conceivable date for the referendum could be in June 2016. There are quite strong reasons for the Government to wish to hold the referendum by spring 2017. First there is a wish by the French for this question not to impinge on their two-stage Presidential elections (late April and early May 2017), and likewise for the election of the German Chancellor on 11\(^{th}\) October 2017. In addition, it is suggested that it is not very appropriate for the UK to have a referendum on continued membership in the second semester of 2017 because it holds the six-month EU Presidency from 1\(^{st}\) July 2017.

62. The outcome of the referendum is uncertain. Some argue that, on complex issues such as the EU, inertia tends to win the day. If there is not deeply felt, widely held, dissatisfaction with the current state of affairs, and if there is deep uncertainty about the benefits of the alternative, then the status quo prevails. This may well apply to EU membership. But equally voters can use referenda to register a protest against the government of the day. Figure 1 shows Ipsos, Mori, ICM polls on EU membership since 1977. It can be seen for a long period in the 1990s and from 2014 until September 2015 there was a clear majority in favour of remaining in. This has more recently been replaced by a narrower and fluctuating balance of view, but many polls show around a sixth of voters undecided. The campaign will probably not start in earnest until the referendum date is announced.

63. This paper explores potential consequences for UK agriculture of a referendum decision to leave the EU. In doing so it tries to contemplate the atmosphere and debates which would then be set in motion in a country which has chosen to exit the European Union. It does not set out to evaluate which from among the options of

\(^1\) Albeit with freedom for Government Ministers who favour exit to argue for their beliefs.
trade and agricultural and other policies the UK will, or should, then choose, but it
tries to anticipate and explain what will be the range of choices and some of the
principal implications of making these choices.

**Figure 1** Opinion polls on EU membership since 1977

64. Examining the effects of leaving the EU means entering the realms of great
uncertainty. Henceforth the phrase ‘leaving the EU’ will be replaced by the shorter
term, Brexit. This report does not consider in detail the different implications of
Brexit for the devolved territories of the UK. It is far from clear which combination of
the four UK territories will ultimately remain outside the EU. There can be little doubt
that EU Membership is an epoch-defining decision.

65. Brexit will not be an overnight affair. Joining the EU itself involved a protracted
period of (two) application(s), and then once accepted, this was followed by a five-
year transition period to fully adjust to all EEC policies in the 1970s. Since then the
EU has enlarged and steadily integrated. There has been a constant process of
development from a common market to the European Union with much
harmonization of regulation at EU level, not least to achieve the European single
market. Withdrawal from the EU will correspondingly be a long drawn-out process
and not a one-day event. The provisions relating to exit from the Union are in Article
50 of the Treaty of the European Union. This specifies a two-year period from the
date of notification of intention to quit to negotiate a withdrawal agreement. In the
case of marital divorce, the two most important issues to be settled are access to the
kids and money. Correspondingly for withdrawal of an EU member state the two
most important issues in the exit negotiation will be access to each other’s markets,
i.e. the future trading relationship between the UK and the EU, and a settlement of
EU budgetary matters.

66. If the negotiations take longer than two years then with the unanimous agreement of
EU members, the period can be extended. Once completed it is for the unanimous
decision of the European Council and the European Parliament without UK
participation to accept or reject the withdrawal package. In the event of rejection of
the withdrawal agreement, the UK exits the EU with no agreed relationships.
67. Even if the formal withdrawal process is achieved in the two-year period it will take many more years of political and administrative effort to enact new regulations to replace all EU regulations. A large part of the withdrawal negotiation with the EU will be about the trade relationships sought by the UK. This is the subject of Section 3.1 below. It is quite possible that it may take a decade or more, to complete the process particularly negotiating new trade agreements with third countries.

68. On paper the earliest conceivable sequence is that a referendum is held say in late June or early July 2016 before schools break up for summer holidays. This seemed to be the aim of the Prime Minister at the time of the December 2015 European Council where he succeeded in persuading the Council to accept that all four British demands would be addressed with agreement possible in February 2016. A referendum in summer 2016 could conceivably lead to a withdrawal agreement completed in summer 2018. The latest legal date for the referendum is in mid-December 2017 with, at best, completion of the withdrawal negotiations in December 2019. However, it has been suggested that exit before the end of the EU’s seven year Multiannual Financial Framework (MFF) which runs for the calendar years 2014-2020 is awkward. This suggests a likely date of departure of 31st December 2020. However, this would be seven months into the next Government, and potentially between 3 and 4½ years after the referendum result. This does seem an undesirable prolongation of uncertainty.

69. The rest of this paper analyses possible implications for UK farming of a decision to withdraw from the EU and in the process to withdraw from the CAP. This is conducted in three stages explained in sections 2, 3 and 4 by posing and providing some answers to the following three questions.

1) Has the CAP been beneficial for UK agriculture?
2) What will replace EU policies and CAP upon withdrawal?
3) What are the likely economic and other impacts for British agriculture?

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2 E.g. by Matthews (2015a) and Gardner (2015) and often repeated by commentators.
3 This report was commissioned by a farmer’s organisation and therefore the implications refer mostly to the farming sector. Gardner’s (2015) report for Agra Informa takes a wider view embracing more food industry concerns.
2 Have the EU and CAP been beneficial for UK agriculture?

70. Most observers seem to presume that because EU trade and agricultural policy has, respectively, protected farmers and provided them with generous supports accounting for a large share of the EU budget, then farmers will necessarily and obviously be worse off outside the EU and the CAP. Curiously though, when asked if they have benefitted from the CAP, many farmers and their representative organisations are distinctly lukewarm about the CAP if not hostile. It prompts the question heading this section, has the CAP been beneficial for UK agriculture? If the answer is no, then perhaps farmers may not be so badly off upon exit as most seem inclined to think.

71. The question is also posed because for a great many years, indeed for most of the period since the UK accession to the EEC, general non-farming opinion in the UK has been critical of the CAP. The original CAP as constructed by the six EC founding members provided strong commodity market protection. High internal EC prices were maintained by the effective instruments of intervention purchasing to keep domestic prices up. This was backed-up by variable export subsidies (refunds) necessary to dispose of the accumulating stocks onto third country markets, and a set of variable import levies to maintain high, stable prices in the EEC compared to the lower, but fluctuating, world market prices. This was all supported by financial solidarity from the EU budget (FEOGA – as it was then called). This provided a stable regime for EEC farmers and the industry responded with a surge of productivity growth and structural development. So successful was this support that the enlarging Community switched from net import to net export surplus position for major supported commodities. It eventually found it was repeatedly accumulating commodity stocks whose disposal cost increased the more product the EU dumped onto, and depressed, world markets. This refers to the period from the mid 1970s to the early 1990s and the emergence of cereal, beef and milk powder mountains and wine lakes.

72. The policy was constantly the subject of criticism over a long period. See for example D Gale Johnson (1973) World Agriculture in Disarray, and Buckwell et al (1982) The Costs of the Common Agricultural Policy. The criticism was that as a policy to support incomes to deal with rural poverty, which undoubtedly existed, supporting product prices was extremely inefficient. The benefits of supported prices accrue in proportion to production and thus to the largest producers of the supported commodities. EEC prices were held far above world market levels, raising food prices higher than they would otherwise have been. Thus citizens paid twice for the policy, once (with regressive effects) in their food prices, and second, in taxation to pay contributions to the EEC budget to meet the costs of intervention and surplus disposal, and still had much rural poverty. The international criticisms were that the CAP depressed and destabilized world markets.

73. When the UK joined the EEC, the expectation was always that we would be net budget contributors. This was because the UK is a relatively open economy. We were net food importers with strong trading links to Commonwealth suppliers (Canada, Australia and New Zealand). Given that import levies including agricultural levies were part of EU own resources (i.e. contributions to the EU budget) and the UK
received back relatively little in the way of intervention or export refunds this inevitably led to the UK’s unfavourable EU budget balance. At this time the CAP accounted for the majority of the EU budget as the structural funds and regional policy were still developing. Therefore, from the outset politically, economically and financially, in the UK the CAP was seen as misconceived policy.

74. It is interesting therefore to look back and see if there were noticeable effects of joining the EEC on aggregate UK agricultural output and incomes. This is shown in Figure 2. The output volume index shows an initial drop post-accession and then a sharp recovery which tapers off from the mid-1980s. Looking back over the whole post-war period it can be seen that output volume doubled, and very roughly by equal amounts before and after accession. The value of gross output, expressed in inflation adjusted, i.e. real value terms shows a quite different trend. There was a sharp jump up upon accession – explained partly by the highly supported prices in the EU. Thereafter, as real world commodity market prices trended down for the rest of the 20th Century, the (albeit higher and protected) EU prices steadily followed them down.

Figure 2  UK Gross Output of agriculture: volume and real value, 1951-97

75. Figure 3 develops more detail showing information from the annual aggregate accounts for UK agriculture since 1938. It can be seen that gross input value followed a very similar path to that of gross output value, so that the difference, Net Product, was fairly static for most of the post-war period. It jumped upon EC accession but then declined. When interest, rents and paid labour are deducted from net product to show farming income, the result is that any benefit of EC accession in farming income terms was dissipated very quickly.

Note that UK accession to the EU was followed a year later by the OPEC oil price quadrupling which caused many commodity prices to spike.

The author is indebted to Prof Berkeley Hill for providing these long time series on farming incomes. The main sources are Hill (2012) and Marks and Britton (1988).

This is a rather different perspective than that depicted by Gardner (2015) who focussed on the rise in gross product in current prices – allowing him to misleadingly claim that “the 20 years after 1973 were certainly boom years for British agriculture” (p50).
76. Even when it is taken into account that there was a secular decline in farm labour throughout this period farming income expressed per unit of labour\(^7\), shown in Figure 4, follows the highly erratic trend downwards from accession in 1973 until after the end of the 20\(^{th}\) Century, and only turned up since 2007/8 following the financial and economic crises.

Fig 4 UK, Total Income From Farming, aggregate and per AWU, real terms.

\(^7\) Annual Work Unit is the concept used.
commodity crises. In short, this data does not suggest that the CAP has provided a bonanza for farming incomes. Indeed, these observations validate economists’ suggestions that sudden injection of subsidies into a competitive market sector (like agriculture) do not raise the incomes of the direct beneficiaries of that support, farmers. Rather they are dissipated and shared by all the trading partners up and down the food supply chain. The point is that the reverse is also likely to be true. When supports are withdrawn, the pain will not rest solely with the direct beneficiaries. This is taken up in detail in section 4. And of course UK farmers do not operate in isolation, but in competition with those in the rest of Europe and indeed the world.

77. This is not in any way to suggest that the CAP has had no impact on British farming, it has profound impacts. This is not the place to describe and analyse all the changes which have occurred, but over the four decades of membership there have been large changes in crop areas, e.g. the surge of oilseed production; renewable energy policies have affected crops grown for the energy market, as illustrated by the recent growth in maize for anaerobic digestion. Like-wise there have been large fluctuations in livestock numbers e.g. the surge and subsequent fall in grazing livestock, especially sheep, as headage payments came in and were later phased out. Dairy cow numbers reached 3.2 million in 1984 and since the introduction of milk quotas (finally dismantled 30 years later) have fallen to 1.8 million. However, it is suggested that the overall impact of a policy whose prime objective was to increase the productivity of farming ‘thereby to raise the living standards of those engaged in agriculture’ has not shown strong obvious effects on the latter.

78. In a more impressionistic way and not differentiating between regions or farm types, a list of benefits to UK farming of the CAP might be summarized as in Table 1 below:

<table>
<thead>
<tr>
<th>Table 1 Good aspects of the CAP for UK farming</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 1973 to 1993 farmers were part of the high stable protected price system of the CAP.</td>
</tr>
<tr>
<td>Arable agriculture expanded, essentially these were good times, though there were plenty of complications given the monetary instability (MCAs etc)</td>
</tr>
<tr>
<td>This period saw big technical and structural progress in farming - but this was seen in unprotected and less protected sectors too – pigs, poultry, horticulture.</td>
</tr>
<tr>
<td>The EU provided important markets for UK exports – e.g. lamb</td>
</tr>
<tr>
<td>From late 1980s, UK was a pioneer in integrating environment into the CAP, starting with Environmentally Sensitive Areas and then Countryside Stewardship</td>
</tr>
<tr>
<td>Many farmers have benefited from Pillar 2 RDR schemes since 2000</td>
</tr>
<tr>
<td>CAP direct payments are a stable (and fought for) big contribution to farming incomes, especially for some sectors, e.g. grazing livestock</td>
</tr>
<tr>
<td>Big widening of UK food culture to embrace continental food, wine, pasta, olive oil, F&amp;V. inspiring higher quality UK food marketing?</td>
</tr>
</tbody>
</table>

8 This is one of the five Treaty objectives for the CAP.
79. But equally, when asked if they feel the CAP has been beneficial or harmful, farmers provide many suggestions about aspects of the CAP which they perceive as not having been so good for them. Some of these are listed in Table 2.

<table>
<thead>
<tr>
<th>Table 2 Unwelcome aspects of the CAP for UK farming</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK has lost out to some EU exports – some produced at lower welfare standards (e.g. pigmeat)</td>
</tr>
<tr>
<td>Most farmers will point to bureaucracy – but how much of this is MAFF/DEFRA/RPA gold-plating and IT incompetence?</td>
</tr>
<tr>
<td>Economists argue that Direct Payments have dragged the sector down because they keep non-viable businesses going, slowing restructuring and productivity advance</td>
</tr>
<tr>
<td>EU policy on biotechnology has been to discourage this technology and EU based research</td>
</tr>
<tr>
<td>EU policy on pesticides is highly precautionary</td>
</tr>
<tr>
<td>Non-farmers consistently point to the untargeted, wastefulness, inefficiency, poor-value for money of the CAP + high consumer cost</td>
</tr>
</tbody>
</table>

80. It is not possible to weigh up these qualitative assessments. A thorough ex-post analysis of the benefits and costs of the CAP on UK agriculture would also have to define and measure the observed changes against what would have transpired had the UK not joined the EEC in 1973, i.e. under some counter-factual policy. It would also have to consider the broader interests and aims of EU agricultural and rural policy. These go much wider than simply income levels and agricultural output. They are concerned with slowing the population outflow from some rural areas, assisting rural economic diversification to maintain rural employment and services, and thus a living and working countryside, encouraging rural tourism, local and traditional foods and so on. However, the conclusion from this more restricted analysis of sector income data and a mixed bag of positive and negative aspects of the way the CAP has operated in the UK certainly suggests that the CAP has not been an unambiguously ‘good thing’ for UK farming, and prompts the thought that escaping the CAP per se would not necessarily be a complete disaster.

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9 These are the author’s observations based on many years of CAP watching and discussion – there is no claim that they are derived from systematic, representative farmer polling.
3 \hspace{1cm} \textbf{What will replace EU policies upon withdrawal?}

81. Understandably, when considering the impact of EU policies on their businesses, most farmers think primarily about the CAP. In fact, the provisions for international trade are also very important for the economic fortunes of farmers. Although most food production is consumed in the country it is produced, agricultural products, commodities, processed food, fibre and increasingly fuels are all tradables and international prices have important impacts on EU prices. The two most important features about agricultural trade for EU producers are that there are no barriers to agricultural and food trade within the single market of the European Union, and common sets of EU trade arrangements apply for all Member States with countries in the rest of the world.

82. Continental agriculture has a long history of protectionism, the UK since the mid-nineteenth Century has been more open\(^\text{10}\). Unsurprisingly, the agricultural trade policy of the EEC was therefore to provide a high degree of protection through the common external tariff\(^\text{11}\). However, applied tariff rates fell substantially since the 1990s following the Uruguay Round Agreement on Agriculture under the GATT/WTO and the associated 1992 MacSharry and subsequent CAP reforms. Matthews (2015a) shows a table of the 2067 current product tariff lines in the EU’s Common External Tariff (CET). The simple average tariff is 14.8\% and the range is from 0\% to 197\%. If the UK cannot get, or decides not to seek, more favourable access, these are the tariffs UK exporters would face getting into the EU.

83. Whilst multilateral trade negotiations have stalled this century, there has been a great deal of effort to secure bilateral and regional trade deals. A large number of Free Trade Areas (FTAs, albeit often with special arrangements for agriculture) and Preferential Trade Agreements (PTAs) have been negotiated, or are currently under negotiation, between the EU and 138 other countries. These are shown in Figure 6 below. The largest such agreement is currently under negotiation with the United States (Transatlantic Trade and Investment Partnership TTIP).

84. The trade stance adopted by a post-Brexit government, both in general and specifically for agricultural products, will be critically important for the future fortunes of UK farming. This will involve decisions about the relationship between the UK and the EU and, separately, with the rest of the world. These decisions have to be addressed, and in particular the relationship with the EU settled, during the withdrawal negotiations. Indeed they will be a major component of those negotiations.

85. Thus the two key areas that farmers should probe in order to be in a position to assess the effects of withdrawal from the EU are trade and agricultural policy. These are dealt with greater length in what follows. To some extent the decisions on these two policy areas will then determine the scope for change in many other areas of

\(^{10}\) See Tracy (1989) Government and Agriculture in Western Europe 1880-1988, for a readable account of these differences.

\(^{11}\) Although from the outset the EU, including the UK once we joined, gave preferential trade access to former colonies and dependent territories referred to as the African, Caribbean and Pacific countries under various schemes, which have steadily evolved.
regulation. This is because the more the UK seeks to maintain full access to the EU single market, the less room for manoeuvre it will have to change regulations affecting tradable products which move around the single market.

86. After trade and the CAP the next most important regulations and issues affecting agriculture, which are currently the competence of the EU, are environmental regulations, plant and animal health, energy especially renewable energy, licensing of certain inputs and technologies, and some aspects of labour markets.

87. It is not knowable what the policy choices will be on this wide range of issues by a post-Brexit government. They will be decided by a Conservative government, at least until May 2020, but the identities and instincts of its leader, chancellor, foreign secretary and environment secretary are unknown. How much of post-Brexit policy will be determined by those already advocating ‘leave’, or strongly disposed towards it if significant reforms are not secured, is also not known although it seems reasonable to assume that they will be fairly influential as their view will have won the day in the referendum.12

88. The main evidence of the thinking of those advocating exit is in their speeches, and writings. There is not a great deal in print explaining these ideas. The United Kingdom Independence Party (UKIP) manifesto for the 2015 General Election is one obvious source. However, UKIP have only one MP and will not be part of a post-Brexit government. A much fuller source is the voluminous (1032 page) account of ideas and potential policies provided by the report produced by Business for Britain with the provocative title ‘Change or Go’.13 Even this document does not lay out a set of preferred specific policy choices, it does however make clear the general policy principles and direction in all the main areas.

89. Before outlining the range of policy choices in front of a Post-Brexit government the general character of the approach of Eurosceptics to economic policy is summarised. This is a predisposition towards the

- free trade, i.e. anti-protection,
- deregulation,
- small government . . . end of the political spectrum, and
- many prominent Eurosceptics give fairly low priority to the environment.

90. The implications for agriculture are apparent. This sector, as guided under the CAP, has well-developed border protection (though at a lower level than in the 20th Century), it is heavily regulated, has given a progressively higher priority to dealing with environmental market failures, and it is generously supported from the public purse. Juxtaposing these two observations suggests a rather different approach to agricultural policy post-Brexit than under the CAP.

91. The outcome of this process is not clear. Determining trade and agricultural policy will be an intensely political process with the present beneficiaries of EU policies

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12 It is quite cumbersome to have to write ‘those who have already decided that the UK should depart the EU and those who are inclined in that direction if significant reforms are not agreed in the renegotiation’, so henceforth this stance is summarised as Eurosceptic.

13 Elliot et al (2015?) Change or Go. How Britain would gain influence and prosper outside an unreformed EU, Business for Britain, London. (No date could be found.)
vigorously defending their case. Farmers in general, and especially under duress and facing or experiencing bankruptcy, will command considerable public sympathy.

92. The strategy of the the post-Brexit government towards these issues might therefore be somewhere on the spectrum between the following two approaches. They could stress:

- **The cold bath effect!** The power of competition, the healthy release from the burdens of regulation and deadening effect of subsidy which will unleash a surge in farming productivity and profitability, dynamised by lower food and thus lower labour costs, but of course, with due reference to the need to safeguard the environment.

- Or they could acknowledge multifunctional farming, in which released EU budget contributions are redeployed as necessary in the UK recognizing the special characteristics and multiple roles of farming which produces food and also stewards a high proportion of the British natural environment. This would target continued support for stimulating productivity and improved marketing plus adequately addressing environmental and social market failures, whilst ensuring no competitive disadvantage for the UK vis a vis EU, CAP-supported farmers.

The much cited precedent for the benefits of the cold bath treatment is the New Zealand strategy in the mid-1980s. The results of this are summarized in section 4.3 below.

### 3.1 Trade policy

93. UK food, drink and animal feed exports were valued at £18.9b in 2014, and corresponding imports were £39.6 billion\(^\text{14}\). The UK trade deficit in these products was thus £20.7 billion. This agricultural trade gap steadily widened from around £10b in the mid-1990s (in real terms) as the real value of imports has grown faster than that of exports. A high proportion of this trade originates in, or is destined to, other EU countries: 62% of UK agri-food exports and 70% of UK imports in 2013\(^\text{15}\). The four biggest EU destinations of UK agricultural exports are Irish republic (£3.4b), France (£2.1b), Netherlands (£1.3b) and Germany (£1.2b). The largest EU sources of UK agricultural imports are Netherlands (£4.9b) France (£4.2b), Irish Republic (£3.8b) and Germany (£.7b). This strong two-way trading relationship with the EU has developed significantly since UK membership of the EEC.

94. Since the open trade strategy set in the mid-nineteenth Century, UK self-supply in temperate agricultural products has fluctuated between low points of around 40% in the conflict decades to the current level of around 60%. This changing degree of import dependence is depicted in Figure 5 showing UK self-sufficiency ratios. Some of the decline in self supply in recent decades arose as consumer tastes evolved towards Mediterranean fruit and vegetables less easily grown in Britain.

95. The make-up of UK food and agricultural imports (by value) are about 20% unprocessed commodities (fruit and vegetables, beverages and animal feed), 44%
lightly processed (meats, cheese and butter) and 36% highly processed (e.g. drinks - wine, meat products) and UK exports in these three categories are about 10%, 34% and 56% respectively. Table 3 summarises the major food product trade flows to and from the UK. This helps identify products potentially at risk if the terms of trade are changed post Brexit.

Table 3  Commodity mix of UK food, drink and animal feed trade, 2014

<table>
<thead>
<tr>
<th>SITC code</th>
<th>UK food &amp; agricultural trade £ million</th>
<th>2014 (provisional) Imports</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Fruit and Veg and prep</td>
<td>8,746</td>
<td>901</td>
</tr>
<tr>
<td>1</td>
<td>Meat and meat prep</td>
<td>5,988</td>
<td>1,655</td>
</tr>
<tr>
<td>11</td>
<td>Beverages</td>
<td>5,211</td>
<td>6,562</td>
</tr>
<tr>
<td>4</td>
<td>Cereals and cereal prep</td>
<td>3,255</td>
<td>1,939</td>
</tr>
<tr>
<td>7</td>
<td>Coffee, tea etc</td>
<td>2,891</td>
<td>1,227</td>
</tr>
<tr>
<td>2</td>
<td>Dairy and eggs</td>
<td>2,872</td>
<td>1,498</td>
</tr>
<tr>
<td>9</td>
<td>Misc edible prep</td>
<td>2,780</td>
<td>1,598</td>
</tr>
<tr>
<td>3</td>
<td>Fish and fish prep</td>
<td>2,737</td>
<td>1,561</td>
</tr>
<tr>
<td>8</td>
<td>Animal feed</td>
<td>2,036</td>
<td>899</td>
</tr>
<tr>
<td>22+54</td>
<td>Oils/fats and oilseeds</td>
<td>1,714</td>
<td>625</td>
</tr>
<tr>
<td>6</td>
<td>Sugar and sugar prep</td>
<td>1,326</td>
<td>407</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>39,556</td>
<td>18,872</td>
</tr>
</tbody>
</table>

Source: Defra Agriculture in UK (2015) Table 12.1

96. Regarding prices, the EU has typically been one of the world’s highest agricultural price regions. However, since the CAP reforms of the mid-1990s, EU and world prices have moved closer and the gap is now narrower than it has been for 60 years. Despite this, it is still often repeated that the UK relationship with the EU has resulted in higher food prices than would be the case with a more open trade regime\(^\text{16}\).

Figure 5  UK self sufficiency ranges

<table>
<thead>
<tr>
<th>Period</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>1750–1830s</td>
<td>90% 10%</td>
</tr>
<tr>
<td>1870s</td>
<td>60%</td>
</tr>
<tr>
<td>1914</td>
<td>40%</td>
</tr>
<tr>
<td>1930s</td>
<td>30% 10%</td>
</tr>
<tr>
<td>1950s</td>
<td>40% 10%</td>
</tr>
<tr>
<td>1980s</td>
<td>60% 10%</td>
</tr>
<tr>
<td>2000s</td>
<td>60%</td>
</tr>
</tbody>
</table>


\(^{16}\) Evidence for this is the prominence given in Change or Go to the food price argument, see their figure 11 (p41) showing the rise in food prices from 1970 to 2015 – which are implied to have resulted from EU membership (ignoring the home-grown rampant inflation through this period), and in Fig 28 (p55), that over a third (38%) of their calculated £933/year cost of EU membership per household arises from the food price effect.
97. Seven analyses of present and prospective UK relationships with the EU with special reference to agriculture have been published in the last two years:

1) The Foreign Office Balance of Competence review (2014), Agriculture
2) House of Commons (2015) briefing paper Exiting the EU
4) Swinbank A (2014) If the British left: Agricultural policy outside the CAP
5) National Farmers Union (2015) UK farming’s relationship with the EU
7) IEEP (2015) Environmental implications of UK exit from the EU.

A broader, economy-wide, analysis which includes consideration of agriculture is Bootle’s (2015) book ‘The Trouble with €urope’ (sic). All of these analyses of Brexit examine the options for the post-exit relationship with the EU. With different emphases and degrees of detail they step their way through some of the options summarized in Table 4 below. This table is based on seven options identified and described by Bootle. The second and third columns of the table summarise the degree of access to the EU single market, and non-EU trade. The fourth and fifth columns indicate the degree to which EU legislation on social and employment matters, and on products will continue to apply. The sixth column shows if the arrangement means contributions to the EU budget, and the final column shows if adoption of the Common Agricultural Policy is required.

98. Briefly, the seven options are:

1) Remaining as a full member of the EU.
2) Apply to join the European Economic Area (EEA) alongside Norway. This gives almost identical access to the single market as EU membership but at the ‘costs’ of applying most EU legislation (over which there would be consultation but no decision powers for UK) and contributing seriously to the EU budget.
3) Apply to join the EEA, but leave the single market (so single market rules would then only apply to exports to the EU) and the four freedoms. This is a midway position between Norway and Switzerland.
4) Replicate the Swiss arrangement, viz a bilateral agreements with the EU giving access to the single market (for goods not services), voluntarily follow most EU rules and contribute to the EU budget.
5) Follow Turkey’s example and join (actually, effectively remain in) the European customs union17.
6) Negotiate a Free Trade Area (FTA) with the EU but without all the constraints as accepted by the Swiss in their agreement. This is Bootle’s favoured option. It would not for example include free movement of labour.
7) Seek no special deal with the EU and accept the same relations as currently exemplified by the USA. Note however that the EU and USA are currently well into the negotiations for TTIP which is essentially a Free Trade Agreement.

To fully understand each option requires digesting the details of the trade and

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17 A customs union is a free trade area (for agreed products) with a common external tariff.
regulatory provisions for each arrangement\textsuperscript{18}. These are explained in varying levels of detail in the six studies listed above.

99. Gaining access to options 2 to 6 are not just a matter of UK decision. We will have to apply for, and negotiate membership terms. Each such negotiation then becomes of interest to all other trading partners. When one country A gives some kind of preferential (i.e. lower tariff or non-tariff barrier) access to exports of another, then all other countries who export to country A take note and wonder if their own access has been disadvantaged in any way. These moves can then lead to knock-on other renegotiations or claims for compensation for disadvantage.

100. This report is not the place to argue the merits and demerits of these alternative trade relationships, that is for the protagonists of change to do. In what follows six broad consequences of these choices are explained.

101. The first point is that the Common Agricultural Policy only applies to full members of the EU, thus options 2 to 7 all mean that this policy no longer applies. It is for the UK to decide what, if anything to put in its place. This is taken up in section 3.2.

102. The second point is that full access to the EU single market is maintained only in options 2 and 3, that is Membership of the European Economic Area. If, the UK were able to negotiate a bilateral Free Trade agreement with the EU as Switzerland has done (taking a great many years to build), then this could extend most of the current access to the single market to the UK. All other options imply that trade with the EU will involve dealing with border and customs controls, possible regulatory and labelling issues and in some cases customs tariffs. In short, they involve what are referred to as higher trade facilitation costs. How big these costs are and to which products they specifically apply will be determined by the negotiations.

103. To illustrate, Table 5 shows likely tariff rates which might apply to a selection of agricultural and food products under each of these options\textsuperscript{19}. It is worth offering the reminder that trade barriers such as tariffs do not prevent trade. Despite these tariffs, the EU is still the world’s largest agricultural importer with agricultural commodities entering the EU over such barriers (although much enters under preferential arrangements). Tariffs increase the costs, and reduce the profitability of such trade from the perspective of the exporter, and increase the landed price of the produce for EU consumers.

\textsuperscript{18} Trade agreements are highly complex legal contracts between countries where details matter. A health warning is offered that for most of the following statements trade experts (which does not include the author) may take different views.

\textsuperscript{19} These are the current tariffs applied to the products shown for the countries shown into the EU. Product definitions are: Wheat - high quality durum wheat, Carcases and half carcases of domestic lamb, milk and cream of fat content not exceeding 1% by weight, processed Emmentaler, and single malt whisky.
Table 4  
UK trade policy options post Brexit

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Full EU Member</td>
<td>Full access + the four ‘freedoms’ for labour, capital, goods and services</td>
<td>EU Common External Tariff (CET)</td>
<td>All</td>
<td>All</td>
<td>Yes full</td>
</tr>
<tr>
<td>2</td>
<td>European Economic Area</td>
<td>Full access via EEA + + Rules of origin + + the four freedoms</td>
<td>Under European Free Trade Area rules (EFTA), other FTA or separate agreements.</td>
<td>Essentially all</td>
<td>Essentially all</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>EEA e.g. Norway</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>EEA lite</td>
<td>Full access. but Single Market rules only apply to non-EU exports</td>
<td>Same as for Option 2</td>
<td>None</td>
<td>Only for exports to the EU</td>
<td>Voluntary</td>
</tr>
<tr>
<td>4</td>
<td>Bilateral Free Trade</td>
<td>Yes, most areas (not services) + rules of origin</td>
<td>Same as for option 2</td>
<td>None</td>
<td>All voluntarily</td>
<td>Voluntary</td>
</tr>
<tr>
<td></td>
<td>Area e.g. Switzerland</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Customs Union</td>
<td>Full access for goods but not agricultural products or services</td>
<td>Subject to EU CET for industrial but not agricultural products</td>
<td>None</td>
<td>All</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>e.g. Turkey</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Free Trade Area</td>
<td>No tariffs, but not in Single Market. Free movement for goods not lab.</td>
<td>Free trade agreements</td>
<td>None</td>
<td>Only on exports to EU</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>‘Bootle’</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>WTO only e.g. United</td>
<td>EU treated same as all countries, but face EU tariffs on exports to EU</td>
<td>Free trade agreements</td>
<td>None</td>
<td>Only on exports to EU</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>States</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 5  Illustration of potential tariffs facing UK exports to the EU under alternative trade options

<table>
<thead>
<tr>
<th>Applied tariff rates on EU imports from:</th>
<th>Wheat</th>
<th>Lamb</th>
<th>Milk</th>
<th>Cheese</th>
<th>Whisky</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  EU</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2  EEA (e.g. Norway)</td>
<td>0</td>
<td>0</td>
<td>€13.8/100kg</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4  FTA (e.g. Switzerland)</td>
<td>0</td>
<td>12.8% +€171.3/100kg</td>
<td>€13.8/100kg</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5  Customs Union (e.g. Turkey)</td>
<td>0</td>
<td>0% + €171.3/100Kg</td>
<td>€13.8/100kg</td>
<td>€71.9/100Kg + veterinary control</td>
<td>0</td>
</tr>
<tr>
<td>7  WTO only, (e.g. USA)</td>
<td>0</td>
<td>12.8% + €171.3/100kg + veterinary control</td>
<td>€13.8/100kg</td>
<td>€71.9/100Kg + veterinary control</td>
<td>0</td>
</tr>
</tbody>
</table>

104. The third point is that if the UK exits the EU then it will no longer have the access arrangements the EU has already negotiated through Free Trade Agreements or Preferential Trade Agreements (PTAs) with numerous countries around the world, with many more in the course of negotiation. Figure 6 reproduces a list compiled by the European Commission in 2013 showing 48 countries with which the EU has in place a preferential trade agreement, a further 84 countries with which it is negotiating, or has, a PTA which is awaiting formal ratification, and another 7 (including China) with which it is considering opening negotiations for a PTA or investment agreement. Thus the UK will have to negotiate new such agreements, and until such time as they are concluded UK exports will face the so-called Most Favoured Nation, i.e. WTO framework, tariffs. It is hard to imagine that the UK can have as much bargaining power in negotiating such agreements than the EU negotiating on behalf of its market of 500 million.

105. The fourth point is that whilst the EEA option 2 allows the UK to escape the CAP, and to seek to negotiate its own FTAs for extra-EU trade with any countries it chooses, this option requires the UK to continue to apply most existing single market, social, employment and product regulation (for which it does not have opt outs). Not shown in Table 4 is that as these legally applicable regulations are subsequently revised the UK’s influence is limited to consultation and expert advisory input and not on the decision process itself. This inability to influence single market and other relevant regulation also applies to the EEA lite option 3. It is only by choosing options 4, 5 and 6 that the UK can escape having to implement EU single market regulation whilst having no influence on its shape.
The fifth point is that under all options if the UK wishes to export products to the EU, then suppliers have to meet EU regulations, standards and labelling for such products. Under options 2 (EEA Norway), 4 (Bilateral FTA Switzerland) and 5 (Customs Union Turkey) these product standards and regulations have also to be respected for all production. For the other cases it is for producers to decide if it is simpler and cheaper to apply the same (high) EU standards to all their production or to work with different standards (and labelling) for different markets at home and for exports to different regions. In many cases, for example with fresh produce, such differentiation is often costly so processors generally work to the highest standards for all their throughput.

The sixth point is that full EEA members (Option 2) contribute to the EU Budget to gain access to the single market and participate in many EU programmes. Such contributions may also be judged worthwhile in options 3 and 4. The current calibration of these budget contributions by non-EU members is complex and changing. As an indication, Norway currently contributes about €100 per head of population to the EU budget, compared to the UK’s contribution (after rebate) of about €180/head.

In the event of a vote to leave the EU, the UK government and its trade negotiating team will no doubt be fired with enthusiasm to obtain the best possible conditions for what they believe will be a new spur to the general growth and development of the UK economy. The EU is likely to approach the negotiations with a different mind set. To begin with, the context of the negotiations will be that UK politicians have just successfully persuaded their citizens that the EU should be dumped as it has been acting as a drag on British economy and society.

In addition to any reluctance to be cooperative about the break-up of their club, the EU will be mindful of two matters. First, they will be concerned to
ensure that their own protected markets are not breached by cheaper imports originating outside Europe and consigned to the EU via a newly liberalized UK. The safeguard to prevent this are the rules of origin, which quickly become very complex for processed products containing ingredients from many countries, i.e. many processed foods. These rules often take up a significant part of the substance of any trade agreement. The proper application of these rules can be a significant trade impediment. This issue has not been a problem for the EU with current EEA trading partners as far as agricultural and food products are concerned because these countries are all even more protective than the EU, and they are small economies. Having the much larger, more open and more liberal UK in the same position as Norway or Switzerland will be regarded in the EU as a significant threat.

110. Second, the countries which have expended much effort and bargaining to create Free Trade Areas with the EU which included the large UK market may now wish to return to the EU and seek compensation for loss of access to that part of its market. This serves to make the point that one disturbance to delicately balanced trade agreements made in the past can have lead to further rounds of change.

111. Even this brief overview should be enough to illustrate the complexity of the trade renegotiations which will have to be conducted during and beyond the EU withdrawal process. What will matter to UK farmers and food and agricultural product traders is the answers to the following three questions:

i. Do UK exporters have unfettered access to the single market, and therefore do EU producers have the same access to our market?

ii. Do we have to continue to apply all/most EU regulations? Does this apply for all UK production, or just for UK exports to the EU?

iii. Do third country exporters have same, better or worse access to the UK market for agricultural products, and vice versa for UK exporters?

There will not be clarity on the answers to these questions until quite a way into the withdrawal negotiations. The outcome is not knowable, yet for individual exporters it could make or break their business.

112. In short, as far as trade with the EU is concerned, the UK currently enjoys the best possible access to the single market as a full EU member, therefore any alternative arrangement must involve higher frictions and trading costs. Whether this can be offset by easier access to third country markets (and vice versa) will depends on the trade agreements negotiated by the UK on its own which could take many years to achieve. Likewise, whether the additional trade costs can be offset by lower regulatory burden is another matter which will take many years to discover.

113. For food and agriculture, the higher trade costs, and the potential easing of access to the UK for third country imports would mean downward pressure on UK producer prices. Consumer food prices might be raised by the higher trade facilitation costs, but lowered if the UK reduces protection for agricultural products. The net food price effect is thus indeterminate.
3.2 British Agricultural Policy

114. Escaping the CAP (and its funding) is often offered (by non-farming interests) as one of the prizes of withdrawal from the EU\textsuperscript{21}. There is no doubt that if the UK exits the EU it will be free of any obligation to implement the support arrangements under the CAP. It will then be able to choose whatever agricultural policy it considers is in the best interests of its farmers, consumers and society. The question is what policy would it choose? This will of course be heavily determined by the budget resources the government is prepared to vote for agricultural policy, the views and approaches taken by the main interested parties – that is farmers, the food chain, consumers and environmental interests – and conditioned by the trade policy adopted. There can be no doubt that farmers’ organisations will be prominent in these discussions emphasizing the competitive terms between British farmers and their EU and third-country counterparts.

115. Following paragraph 68 above, it is assumed that exit takes place on 1/1/2021, i.e. after the current EU financial perspective and the period for which the current CAP applies. Further, it is presumed that full CAP payments and programmes under the Rural Development Regulation (RDR) will continue to apply fully until that date. All the while the UK is a member of the EU, then EU policies legally apply. Indeed, it is also assumed that continued transitional UK funding would be found for any multi-year contracts running under the RDR (or other structural funds) which extend beyond 2021. However, from the day of a referendum vote to leave the EU farmers would be on notice that agricultural policy will change. On the timing suggested, there will be between 3 and 4½ years to participate in the negotiations on a successor UK agricultural policy, and in the meantime farmers would be advised to use their remaining CAP payments to ready their business for this new policy or themselves for retirement.

116. Given escape from the CAP, some will ask why the UK would have to replace the CAP with any British agricultural policy at all. This is a perfectly sensible question to pose. What is special about agriculture? The short answers are that it provides a large share of the daily food needs of the population, it has a highly fragmented, atomistic structure, is exposed to the inherent volatility of a biology and weather-determined outdoor activity which is also associated with deep and pervasive environmental market failures and highly unbalanced terms of competition with its suppliers and immediate customers. These provide reason enough to demand some degree of collective policy action to deal with these challenges\textsuperscript{22}. Add to this the political realities of the recent history of generous support which competitors on the doorstep will continue to receive, and this is why there will be a

\textsuperscript{21} Interestingly Bootle says “the non-fiscal costs resulting from EU’s subsidies to domestic producers and tariffs on agricultural imports are 0.5% of GDP, slightly less than the cost of the UK’s net budgetary contribution to the EU.” He concludes that “the CAP has faded in relative importance.”

\textsuperscript{22} See Buckwell (2015) for a fuller explanation why the EU will require agricultural policy post 2020. All of these arguments apply to the UK too.
successor British Agricultural Policy even under the most astringent, free-market, post-Brexit Government that could be imagined.

117. This does not of course explain what kind and scale of agricultural policy should be pursued. This can, should, and will be debated at length post-referendum. Suffice to opine here that for reasons of economic beliefs and WTO constraints there will not be a return in the UK to direct market intervention, even the relatively mild guaranteed price and deficiency payment approach of the UK pre-EEC.

118. Therefore, there will be a British agricultural policy whose objectives will be the customary mix of: stimulating productivity; improving resource efficiency; helping farmers reduce pollution and deal with volatility, market imperfections, and especially the pervasive environmental market failures surrounding land management; and dealing with the particular difficulties of farming in the remoter marginal rural areas.

119. The UK post-CAP policy will inevitably be structured around how much, and in what way, the current instruments of the CAP are rolled over and changed to suit the UK purse, and conditions. There is a strong path dependency in agricultural policy which it is hard to escape. Table 6 shows the evolution over the last five years of current expenditure on CAP support measures in the UK. The question most farmers would like to know is how much of these programmes will survive in one form or another post Brexit?

120. Because of their sheer magnitude and transparency, a prime focus of the post-exit agricultural policy debate will be on the fate of the CAP direct payments which constitute 75% of current EU CAP related agricultural expenditure in the UK. This discussion will therefore start with this aspect before briefly considering the fate of market regulation and what are currently termed the (Pillar 2) rural development measures.

Table 6 Structure of UK expenditure under the CAP, 2010-2014

<table>
<thead>
<tr>
<th>£ million</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>% 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pillar 1 total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which direct payments (farmers)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>market price support</td>
<td>2945</td>
<td>2879</td>
<td>2878</td>
<td>2794</td>
<td>2523</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td>2798</td>
<td>2805</td>
<td>2600</td>
<td>2685</td>
<td>2313</td>
<td>69</td>
</tr>
<tr>
<td><strong>Pillar 2 total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which agri-environment</td>
<td>785</td>
<td>886</td>
<td>868</td>
<td>916</td>
<td>831</td>
<td>25</td>
</tr>
<tr>
<td>less favoured areas</td>
<td>515</td>
<td>534</td>
<td>520</td>
<td>525</td>
<td>503</td>
<td>15</td>
</tr>
<tr>
<td>UK co-financing contribution</td>
<td>138</td>
<td>123</td>
<td>121</td>
<td>93</td>
<td>91</td>
<td>3</td>
</tr>
<tr>
<td>Total UK CAP expenditure</td>
<td>3730</td>
<td>3754</td>
<td>3545</td>
<td>3710</td>
<td>3353</td>
<td>100</td>
</tr>
</tbody>
</table>

Exchange rate used £/€ | 0.86 | 0.87 | 0.8 | 0.84 | 0.78 |

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23 In this report the term direct payment is used to embrace all of the annual payments farmers receive under Pillar 1 of the CAP. This includes the original Single Farm Payment (SFP, in the EU15), the Single Area Payments (SAP, in the EU12) and, since the 2013 reform, the new Basic Payments and Greening Payments.
Direct payments

121. UK governments have long been unconvinced of the benefits of direct payments to farmers which are seen as poor value for tax payers money. This is well documented by the Treasury/Defra 2005 Vision for the Common Agricultural Policy which says in the opening paragraph that:

The Common Agricultural Policy (CAP) remains the most visible and expensive common policy of the EU, but is increasingly out of step with the need for Europe to respond to the challenges of globalisation. Internationally, it continues to attract criticism, to create tensions in the EU’s relations with trading partners, and to impose significant costs on developing countries. Domestically, it imposes substantial costs on consumers and taxpayers but is inefficient in delivering support to farmers and promoting an attractive rural environment. Indeed much of the CAP still has a negative impact on the environment.

122. The Treasury/Defra vision described in this paper can be summarized as essentially a much pared-down policy which emphasizes a freer trading, non-supported, sector treated for competition, social and welfare supports like any other sector of the economy, but recognizing the special environmental management functions of agriculture. The key paragraph describing the fate of direct payments says:

EU spending on agriculture would be based on the current Pillar II and would support these objectives as appropriate, allowing a considerable reduction in total spending by the EU on agriculture and bringing this into line with other sectors.

This does not explicitly say that pillar 1 direct payments would be phased out or eliminated, but there is a clear implication they would be ‘considerably’ reduced. The paper strongly emphasizes that any such policy change has to be prepared well in advance, and implemented over a reasonable period to allow farmers and markets to adjust. Later sections of this report explain that the pain of subsidy removal is not long lasting and may induce economically beneficial restructuring although accompanied by (short-term) social costs.

123. More recent indications of UK Government’s attitude to the CAP direct payments are indicated by a statement by Defra made during the the most recent reform negotiations:

The majority of Pillar 1 expenditure remains on direct payments, however there is little rationale for them. Direct payments are not targeted on any particular market failure, and provide little value for money for the taxpayer. Other forms of public expenditure can usually demonstrate greater benefits than direct payments.

and in the statement summarizing agricultural policy in the Foreign Office’s

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24 Produced under a Labour government.
25 Defra evidence paper on the implementation of CAP reform in England, October 2013. This was under the Conservative/Liberal Democrat coalition Government.
review of the Balance of Competence of policies handled by the EU.\textsuperscript{26}

The debate on EU competence for agriculture as set out in the evidence submitted was strongly supportive of EU competence in relation to the Single Market for agricultural goods and to the EU’s role in negotiating global trade deals for agricultural goods. In relation to the Common Agricultural Policy (CAP), there was a recognition that it had changed significantly from its post-war origins, particularly over the past 30 years. The most damaging and trade-distorting elements had been removed and the UK had played a significant role in driving reform.

However, respondents put forward evidence that, notwithstanding the reforms, the CAP’s objectives remained unclear and that the criteria for allocation of funding were irrational and disconnected from what the policy should be aiming to achieve. The majority of respondents argued that the CAP remains misdirected, cumbersome, costly and bureaucratic.

Again this report contains excoriating criticism of direct payments, but it does not say they should be eliminated.

124. The line expressed in Business for Britain is also hedged. In their Question and answer section which summarises the principal policies advocated in the event that the UK exits the EU, the key question on agriculture and rural communities was:\textsuperscript{27}

\textit{Q183} How would independence affect the support that UK farmers receive under the EU’s Common Agricultural Policy (CAP)?

Current payments systems would be nationalised. By cutting subsidies to non-UK farmers, Britain would save a billion pounds. A national debate would then follow reviewing what agricultural subsidies are meant to achieve, who should receive them, and how much. This is no different from current decision-making but with far more transparency, and therefore greater end levels of public support. But essentially, overnight no change would happen.

125. This statement seems to indicate that CAP-like payments might continue, but paid entirely from the UK Treasury. But it leaves considerable room to change the scale, nature and distribution of such payments. This flexibility or equivocation is even more evident in section 13 of the report’s executive summary (p41) which says that:

\textit{The costs of the CAP can be brought down. Today the CAP adds around £400 to each family’s living costs per year. Outside the EU, the UK can make these savings while continuing to subsidise UK farmers.}

\textit{Farming subsidies and food standards could continue as they do today. Or Britain could choose to follow the example of New Zealand and deregulate its agricultural sector, allowing its farmers to fully compete on the world market.}

126. Perhaps the most detailed ideas on a British agricultural policy outside the EU is offered by the UKIP 2015 election manifesto. This section, overseen by Stuart Agnew MEP, indicates that some serious thought has been given to


\textsuperscript{27} Business for Britain (2015) Change or Go, p962.
their approach to agricultural policy. The manifesto (p46) says:

*Outside the EU, free of the Common Agricultural Policy (CAP) and excessive regulations, we will be able to introduce fairer, simpler ways to support farmers. For every £1 British agriculture receives from the CAP, the British taxpayer has already contributed £2, so we can easily continue to subsidise farmers after leaving the EU. We can also re-distribute payments away from wealthy landowners and large, often intensively farmed holdings, in favour of smaller food producers and family farms.*

They described their position on direct payments as follows:

*UKIP will introduce a modified UK Single Farm Payment (SFP) scheme of £80 per acre for lowland farms, with comparable arrangements for lower grades of land, capped at £120,000. Golf courses, airfields, racetracks and other non-productive areas will be excluded, as will land used for solar panels or land within 25 metres of a wind turbine. Land must conform to 2013 Entry Level Stewardship (ELS) requirements, where points are accrued according to criteria such as hedgerow maintenance, wild bird cover, wild flower mixes, etc., to qualify for subsidies.*

- Organic farms will be paid a 25 per cent premium on the SFP
- UKIP will add rare breed maintenance to the ELS points system
- There will be no set-aside, cropping or rotation restrictions
- SFP will be paid to whoever takes financial responsibility for the farming enterprise on a field-by-field basis (i.e. the farmer, not the landowner)
- Hill farmers will receive additional headage payments on livestock numbers within World Trade Organisation rules.

These suggested payments seem generous, but it must be tempting to try and attract rural votes when there is little chance of a UKIP government having to implement such generosity! UKIP influence on policy post-Brexit remains to be seen.

127. Gardner’s ’Preparing for Brexit’ analysis is ambiguous on the future of direct payments. Initially he asserts “Complete removal of support from the farm industry would be highly unlikely”\(^ {28}\). But three pages later he says, “What is certain is that no UK Government would subsidise agriculture on the scale operated under the CAP. Broadly it can be assumed that . . . direct payments would either be rapidly phased out or immediately dumped”, and this drastic view is repeated on p55 “The main thrust of any post-Brexit policy would be to eliminate direct payments to farmers and replace them with limited and flexible environmental subsidies.” His analysis of the impacts on total gross margin and farming income of various farm types (see paragraphs 147 to 154, and Tables 9 & 10 below) is also based on elimination of direct payments or their phasing-out over five years.

128. **Conclusion on direct payments**: It is most likely that no definitive indications will be available on which business planning could be based until the post-referendum government is formed and it has decided its own public expenditure, priorities and strategy.

129. The overall message from this collection of sources suggests that the UK will not walk away overnight from direct payments to its farmers post-Brexit. Some form of such payments, paid from the UK Treasury will continue, but at what rate, to whom, for how long and with what conditionality is not knowable\textsuperscript{29}. It will be determined by the intense negotiations in the UK during the withdrawal period. The history of Defra’s approach to direct payments is that they would almost certainly continue to be paid per hectare at a flat rate in one or two regions (in England) and decoupled from production. It would be surprising if the gradual decline in the real resource available for direct payments evident since 2004 is not built into any new payments scheme\textsuperscript{30}. Also to the extent that young farmer and greening payment ideas are dropped then UK payments may be correspondingly smaller.

130. If there are to be British direct payments, there will be strong determination to ensure that they are simpler in design, implementation and control than the current CAP direct payments schemes\textsuperscript{31}. A critical aspect will be whether such payments are defined from the outset as transitory. Indeed the scheme could be conceptualized in the language of transitional adjustment assistance with the funds being reduced year on year, perhaps with a pre-announced date that they disappear altogether. The introduction of a new finite term payments scheme might also be an opportunity to resurrect the idea of allowing farmers to capitalize and sell their payment stream entitlement enabling them to fund a restructuring of their businesses or retirement. This idea to create a bond scheme was initially suggested by Tangermann\textsuperscript{32} when direct payments were first introduced into the CAP.

131. If there is to be a successor payments scheme under BAP then there will inevitably be debate on all of the myriad of features of the present CAP payments scheme. To illustrate the kinds of decisions which have to be made the principal such matters are listed in Table 7 below together with the author’s guess whether they would be included in a British policy. Again it is emphasized that different choices are likely in the devolved territories.

132. In the event of a decision to continue with some British farm payments this will be seen by many interests as an opportunity to attach a variety of conditions to the payments to achieve public benefits from these public payments. These could be aimed at stimulating greater professionalism

\textsuperscript{29} On every aspect of what follows there is likely to be a different approach and debate in the four territories, England, Scotland, Wales and N Ireland. This paper has no room to discuss the arguments for each territory. What follows therefore is focussed on England. Section 5.2 below says a little more on the situation in the devolved territories.

\textsuperscript{30} In the UK the real decline in the payments budget (denominated in €) was masked by the volatility of the €/£ exchange rate. A UK funded direct payments will not have this feature.

\textsuperscript{31} In fact the CAP payments are currently under yet another simplification drive, this time demanded by Commission President Juncker of Agriculture Commissioner Hogan. However UK (especially English) farmers know that a large share of the complexities and problems of CAP implementation have been home grown through IT system choices and management. This is evidenced by the large UK disallowances and fines for its handling of direct payments since their introduction in 2004.

\textsuperscript{32} Tangermann (1991) A Bond Scheme for supporting farm incomes.
amongst farmers through certification with respect to environment (water, nutrients, green house gas emissions, soil organic matter), animal welfare, worker safety, technical efficiency, energy efficiency and so on. These would be UK discussions unencumbered by the need to agree them across the EU.

Table 7  Some features of a new British direct payment scheme?

<table>
<thead>
<tr>
<th>Payment scheme feature</th>
<th>In CAP in England</th>
<th>In BAP?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross compliance conditions</td>
<td>SMRs and GAEC</td>
<td>Yes, simplified</td>
</tr>
<tr>
<td>Active farmer</td>
<td>Yes</td>
<td>Yes, but new definition</td>
</tr>
<tr>
<td>Minimum payment area</td>
<td>5 ha</td>
<td>5 ha</td>
</tr>
<tr>
<td>First 50 hectares</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Payment ceiling or degression</td>
<td>Yes</td>
<td>Probably</td>
</tr>
<tr>
<td>Greening payment</td>
<td>Yes, 3 actions</td>
<td>No</td>
</tr>
<tr>
<td>Young farmer top up</td>
<td>yes</td>
<td>No</td>
</tr>
<tr>
<td>Top-up for areas of natural constraint</td>
<td>No</td>
<td>No, but . . .</td>
</tr>
<tr>
<td>Coupled payments</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Can be capitalized and sold</td>
<td>No</td>
<td>Maybe</td>
</tr>
<tr>
<td>Organic farming support</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Payments tapered down (and out?)</td>
<td>No</td>
<td>Maybe</td>
</tr>
</tbody>
</table>

133. It is unlikely that a UK government would introduce a set of market price supports to mirror those still available under the CAP. This system is now only invoked in exceptional situations, as for example to help the dairy sector since the Russian trade embargo in retaliation for EU sanctions over the events in Crimea and Ukraine. Such emergencies will of course continue to arise. Perhaps the best UK farmers can hope for when impacted by dire emergencies is a share of a more general contingency funds.

Rural development policy

134. Rural development measures. These are the aspects of the CAP for which there is strong official support in the UK. Indeed UK official, NGO and academic influence certainly helped create the second pillar of the CAP in the Fischler reform Agenda 2000. This is the ‘structural’ part of the policy which offers responses to market failure and imperfections. It offers a suite of

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33 Although many farmers prefer the current alternative of entitlements to annual direct payments (albeit with some strings attached) compared to competitive contractual bidding processes characteristic of Pillar 2.
measures to:

- help productivity and competitiveness (investment support plus training, skills and extension)
- improve structures and marketing of agricultural produce
- assist environmental land management (including climate measures)
- support marginal areas (less favoured area schemes)
- stimulate rural development, diversification (agro-tourism), renewable energy, rural infrastructure (broadband)
- encourage rural communities and build rural social capital (LEADER)

135. One of the strengths of this aspect of the CAP is that Member States have been able to choose from amongst the menu of schemes available those which are pertinent to its own challenges and priorities. It seems likely therefore that a BAP will include a range of measures borrowed from, or based upon, their CAP pillar 2 counterparts. The scale of such measures will depend on the funding available. Assuming that the total agricultural policy funding available post-Brexit is less than currently spent it is not clear how farmers’ organisations will approach the allocation of any cuts between having lower direct payments versus less funding for these rural development measures. They may find themselves with little choice in this matter.

136. Over the last 15 years, the agri-environmental measures and the support for farming in remoter marginal areas have accounted for the bulk (74%) of Rural Development expenditure, indeed most of this is for agri-environment. The expenditure on less favoured areas has dwindled to a trickle in England, less so in Scotland and Wales. This broad priority, which continues in the present rural development programmes until 2020, is unlikely to change whatever RD funds are voted post-Brexit. Although there is mixed evidence on the effectiveness of environmental schemes, their take up by farmers has been high with approaching two-thirds of English farmland enrolled in the recent past. The UK has large and well-supported and staffed non-governmental environmental organisations, notably the National Trust and RSPB who will undoubtedly campaign hard to maintain, and perhaps expand, such schemes.

137. The plight of the less favoured areas, and in fact all grazing livestock areas, is a particular challenge. As will be seen in section 4.1 below, this sector of farming is particularly vulnerable to large cuts in direct payments because they are highly dependent on them. This is especially so regionally in England, and in Wales and Scotland. A strong case can be made for special treatment for such areas on social and environmental grounds of maintaining rural vitality and cultural landscape. Many attempts have been made to define high nature value farming systems but this concept is not yet in wide practical application. These areas could (and in many places already do)

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34 Some will argue that funding for agri-environment should be expanded post Brexit not least to incorporate the 30% of currently misplaced greening expenditure currently in the Pillar 1 direct payments scheme.
provide considerable biodiversity, various regulating and supporting ecosystem services such as water storage, filtration and flood mitigation, carbon sequestration and pollination. Following the floods of late 2015 in Cumbria, Lancashire and Yorkshire, the land use challenge has been intensified by the controversies over optimal upland land management for flood prevention. This will figure in UK policy debates anyway and will certainly be an important aspect of debates over British Agricultural policy post-Brexit.

138. In addition, the livestock sector is associated with considerable pollutants too: greenhouse gas, ammonia, and nitrogen and phosphorus pollution of water. A further difficulty is that arranging differential support based on farming system goes in the direction of recoupling support to agricultural production. Which farming systems or areas would be included in such treatment? It is not easy to define environmental outcome-based criteria to delineate areas which merit special support from those that do not35. Thus a policy to favour marginal areas in the event of all-round cuts in direct payments is much easier to state than to define in operational terms. Nonetheless this would be a significant challenge.

139. Whether the same overall quantity of funding for these rural development schemes remains, or it rises or falls is unanswerable until some broader strategic decisions are taken. Equally unclear is the type of schemes offered for rural development. At present they are based on a rational seven-year, programming approach where stakeholders agree the goals of the schemes and their main features, and enrolment is voluntary for farmers. The bulk of the current funds are used for annual payments to land managers, with some available for capital expenditures. All of these aspects will of course be reviewed and new approaches and balances could be struck especially for agri-environment schemes as between: broad-brush versus highly focused, annual payments versus capital, individual versus collective application, management prescription versus outcome focused. The UK has experimented for 20 years with different kinds of agri-environment and marginal area supports. There is a considerable stock of accumulated evidence and experience which could be used to produce UK schemes well-tailored to UK conditions which do not have to be compromised by the need to have EU-28 wide agreement and rules36.

140. Although farmers complain of the complex bureaucracy of dealing with EU rural development programmes, generally the uptake is strong. There is recognition amongst farmers and their organisations of the need for measures to do all of the things listed in paragraph 134. Of course, there are constant discussions about the correct principles and payment rates for delivering environmental services. Farmers will say that they can only engage

35 The tangled history of definitions of disadvantaged and strongly disadvantaged LFAs and the current futile effort expended over many years to redefine less favoured areas LFA ‘more objectively’ as areas subject to natural constraint ANC illustrates these difficulties.
36 See the report by Baldock et al (2016) which explores in much more detail the environmental implications of Brexit including those arising from agricultural policy change.
in such activities if their underlying businesses are profitable. The acid test is uptake, and if farmers find that more of their access to public payments comes with environmental strings attached, then they will make their own private calculations of whether such payments are remunerative.

### 3.3 Other policy

141. The most important policies impacting farmers and probably the ones whose effects will be first to be noticed are the trade and agricultural policies considered above. After these there are many regulations currently under EU competence affecting farming and rural business. A regulatory audit conducted by the Country Land and Business Association lists 31 areas of EU regulation or activity which can affect rural business. The CLA list is summarised in Table 8.

142. The future applicability of these EU regulations and directives in the UK in event of UK exit from the EU is uncertain. It would be most unwise of any business to assume that if the UK has left the EU then these regulatory acts will no longer apply. Many of them take the form of directives. These are EU collective decisions that certain objectives should be pursued (e.g. less nitrates in ground water) with specified policy targets (e.g. maximum 50 mg/litre of N in water) and sometimes the way of going about to reach the target (e.g. in defining nitrate vulnerable zones). The Member States are then obliged to enact legislation through their own parliament to give effect to these objectives or simply do nothing if they had already achieved the target. Each EU directive therefore has a counterpart expression in UK law. UK businesses would probably be well-advised to assume that all such EU regulations and directives are still applicable until there is a clear regulatory change.

143. The relevance of many of these regulatory acts is also bound up in the decision the UK takes vis a vis the single market. The closer the form of post-Brexit relationship the UK seeks with the EU single market, the more likely that more of these acts will continue to apply in the UK. Continental traders can be expected to be extremely vigilant that the UK is not seeking, through Brexit, to achieve competitive advantage by deregulating its business whilst maintaining open access to the EU market.

144. There is no doubt that one of the big economic arguments used against the EU is the regulatory cost it imposes. However, most of these regulatory acts resulted from years of campaigning from some group in society to deal with a problem. Unless that problem has now gone away, then those promoting the original regulation will still be there and a long political debate will ensue on the merits or otherwise of the regulatory approach. A glance at the length of this list in Table 8 is enough to suggest that it will take many years to decide, regulation by regulation, whether the UK will stick to the status quo or remove or amend the regulations, and to find parliamentary time to enact the changes. The details of each such matter can be of critical concern to specific businesses; one business’s regulatory cost may be another’s product standard vital to protect that business from counterfeit.
<table>
<thead>
<tr>
<th>Policy area</th>
<th>EU Regulation/body</th>
<th>Policy area</th>
<th>EU Regulation/body</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Safety</td>
<td>Hygiene package 852/2004/EC</td>
<td>EPBD 2010/31/EU</td>
<td></td>
</tr>
<tr>
<td>Plant Health</td>
<td>Plant health 20029/EC</td>
<td>Ecodesign and energy labelling 2010/30/EU, 2009/125/EC, 92/42/EEC (water boilers)</td>
<td></td>
</tr>
<tr>
<td>Food related bodies</td>
<td>European Food Safety Agency, CPVO... 68/193/EEC 92/33/EC</td>
<td>Directives on ambient air quality (AAQ) and cleaner air for Europe 2008/50/EC</td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>Water Framework Directive 2000/60 /EC drink Water 98/83/EC</td>
<td>Competition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nitrates Directive - water protection from nitrates from agricultural sources 91/676/EEC</td>
<td>Exports to EU</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Groundwater directive 2006/118/EC</td>
<td>State Aids</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Floods Directive 2007/60/EC</td>
<td>European Regional Development Fund (ERDF)</td>
<td></td>
</tr>
<tr>
<td>Relations with ENV related bodies</td>
<td>European Environment Agency EEA Regulation EC/401/2009</td>
<td>European Social Fund (ESF)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>EU joint research fund Horizon 2020</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>LIFE programme</td>
<td></td>
</tr>
</tbody>
</table>

Source: Country Land and Business Association internal document.
4 What are the likely economic and other impacts for British agriculture?

145. It is a difficult task to project the likely effects of policy change which is not well specified. Section 3 has indicated a range of agriculture and trade policy options. Clearly the impacts will be greater the wider the divergence from the status quo. But in all cases there will be a long lead-in time before the policy changes take effect, and some of the new policies could be phased-in over an adjustment period.

146. The effects will be assessed in four stages. First, some comparative static impact effects for a range of UK farming systems assembled by Gardner are shown. This is followed in the second stage by a qualitative description of the market adjustments, including to factor markets, especially land, which are likely to follow the initial impacts. The third stage is to look at results of three economic studies which analyse subsidy removal at a more aggregate sector level, one of these is the New Zealand experience in the mid-1980s. The fourth stage comprises a brief discussion of potential macro-economic effects of Brexit and how these might impact back on the farm sector.

4.1 Comparative static impact effects on farming incomes

147. Gardner (2015) has assembled farm management survey data to show the importance of direct payments in farm income. His figures are summarized in Table 9. This form of analysis produces the apparently most dramatic ‘results’. They are called comparative static because they make a simple on-off comparison between the status quo with large subsidy payments and a future with no subsidy payment. The comparison is called ‘static’ because it ignores any consequential dynamic adjustments to costs, prices and productivity which generally accompany economic shocks of this kind.

148. The data are based on the Defra Farm Business Survey figures for a single year, 2012/13. This survey is a robust representative sample of commercial farms in England. Data for six farm types are shown. This data is the basis of farm level indicators of economic performance used both in UK and EU policy analysis. The figures show the average for financial results per farm of each type of farms. The sample size is shown in the table. Total Gross Margin (TGM) is the farm total revenues (including all subsidies) less variable costs (seeds, fertilisers, feeds, fuel). Farm Business Income (FBI) is the TGM less fixed costs (machinery, paid labour, actual rent and interest). It is the income from farming to the farmer, and partners and directors for their unpaid labour and management input, and their return on capital invested. Farm business income includes incomes to the business from all sources that use farm resources, not just the farming activity. Although it does not include income from any other jobs or businesses in which farm households may engage.

149. It can be seen that farm business income is very different across the farm
types; highest for dairy in that year, and equally lowest for the grazing livestock farms whether in lowlands or in the Less Favoured Areas (LFA). The fourth row of the table shows the annual direct payments received on average by each farm type. These are the pillar 1 direct payments, excluding other environmental or Less Favoured Area payments. The average direct payment for this whole sample of 1691 farms is £27k. This is somewhat above the overall average in England, indicating that the sample farms are larger than average.

150. The final row of the table shows that direct payments contribute between 31% and 137% of Farm Business Income. These are the percentage losses if direct payments were to be withdrawn and nothing else changed. The six types are ordered from largest Total Gross Margin to smallest from left to right. Clearly the grazing livestock activity on the lowland and LFA grazing farms are operating at a loss, part of which is being paid off by their direct payments. Economically speaking these farms would be better-off if they ceased their farming activity. Without the direct payments these farms have negative farm business income. The mixed farms are only a little bit better-off, barely showing any return when direct payments are removed. Even the cereal farms show extremely low farming incomes without the direct payments. Only dairy farms (in 2012/13 – milk prices have fallen since then) and general cropping farms are making what appear to be relatively normal positive incomes. But without knowing what investment is in these businesses it is difficult to judge how ‘normal’ these returns are. Note also that specialist farms in the fresh produce sector often rent their land season by season without Basic payments; such farms have nothing to lose from payment withdrawal.

Table 9  Farm Business Income and direct payment, £/farm, 2012/13

<table>
<thead>
<tr>
<th>2012-13 data</th>
<th>Dairy</th>
<th>General Cropping</th>
<th>Cereals</th>
<th>Mixed</th>
<th>Lowland Grazing</th>
<th>LFA Grazing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number farms in sample</td>
<td>303</td>
<td>161</td>
<td>342</td>
<td>342</td>
<td>300</td>
<td>243</td>
</tr>
<tr>
<td>Total Gross Margin</td>
<td>275,445</td>
<td>245,448</td>
<td>184,678</td>
<td>148,863</td>
<td>63,721</td>
<td>58,263</td>
</tr>
<tr>
<td>Farm Business Income</td>
<td>86,437</td>
<td>66,752</td>
<td>47,624</td>
<td>28,795</td>
<td>14,725</td>
<td>14,080</td>
</tr>
<tr>
<td>Direct payment</td>
<td>26,400</td>
<td>35,764</td>
<td>39,730</td>
<td>27,840</td>
<td>16,550</td>
<td>19,312</td>
</tr>
<tr>
<td>Farm Business Income less DP</td>
<td>60,037</td>
<td>30,988</td>
<td>7,894</td>
<td>955</td>
<td>-1,825</td>
<td>-5,232</td>
</tr>
<tr>
<td>% fall in FBI</td>
<td>31</td>
<td>54</td>
<td>83</td>
<td>97</td>
<td>112</td>
<td>137</td>
</tr>
</tbody>
</table>

Source: extracted from Gardner (2015) Figures 5.6 to 5.11.

151. Table 10 repeats some of Gardner’s analysis using now available 2014/15 data. This table shows the four sources of income: from farming, from the single payment and agri-environment schemes and earnings from diversification enterprises. The sum of these four is the Farm Business

And in fact the six types are in the same rank order on farm business income too. When direct payments are deducted then the ranking of the consequential fall in FBI is exactly reversed, Dairy farms have the smallest loss, and LFA grazing the highest.
Income. The table does not show the specialist pig, poultry and horticulture farms (which have lower reliance on CAP supports), but includes the results averaged over all farm types. The different year’s data serves to illustrate the variability in farming incomes, most of which originates in the farming income as payments and non-farm income are less volatile. In this more recent year, income from agriculture is negative for all but the dairy farms, and without direct payments even the general cropping farms would be in severe difficulty.

Table 10  Farm Business Income and direct payments, £/farm, 2014/15

<table>
<thead>
<tr>
<th>2014-15 Data</th>
<th>Dairy</th>
<th>General Cropping</th>
<th>Cereals</th>
<th>Mixed</th>
<th>Lowland Grazing</th>
<th>LFA Grazing</th>
<th>All types</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from agriculture</td>
<td>49,900</td>
<td>5,900</td>
<td>9,500</td>
<td>14,500</td>
<td>7,000</td>
<td>11,800</td>
<td>2,100</td>
</tr>
<tr>
<td>Agri-environment and other payments</td>
<td>4,500</td>
<td>7,000</td>
<td>7,000</td>
<td>6,800</td>
<td>4,800</td>
<td>8,800</td>
<td>5,900</td>
</tr>
<tr>
<td>Single Farm Payment</td>
<td>23,400</td>
<td>36,900</td>
<td>33,500</td>
<td>22,200</td>
<td>14,600</td>
<td>15,500</td>
<td>22,400</td>
</tr>
<tr>
<td>Diversification out of agriculture</td>
<td>5,800</td>
<td>14,000</td>
<td>13,700</td>
<td>6,900</td>
<td>6,100</td>
<td>2,200</td>
<td>9,300</td>
</tr>
<tr>
<td>Farm Business Income (FBI)</td>
<td>83,800</td>
<td>52,000</td>
<td>45,000</td>
<td>21,500</td>
<td>18,500</td>
<td>14,600</td>
<td>39,700</td>
</tr>
<tr>
<td>Single Payment as % FBI</td>
<td>28</td>
<td>71</td>
<td>75</td>
<td>103</td>
<td>79</td>
<td>106</td>
<td>56</td>
</tr>
<tr>
<td>All CAP payments as % FBI</td>
<td>33</td>
<td>84</td>
<td>91</td>
<td>135</td>
<td>105</td>
<td>166</td>
<td>71</td>
</tr>
</tbody>
</table>


152. There can be no doubt that these figures illustrate that a policy to eliminate direct payments from UK agriculture in one year would be a fatal shock to a great many businesses. On this evidence the grazing livestock farms (except dairying), mixed farms and even cereal farms suffering these losses in their income would find it hard to continue trading. The resilience of farms will depend a great deal on their indebtedness and their reliance on hired labour. Lightly borrowed farms where the farmer and family members supply the bulk of the labour might be able to survive. Before widening the discussion to consider the knock-on adjustments which would accompany a shock of this kind there are two mitigating factors which, for some farmers, would lessen the blow.

153. First data presented refers to average incomes and costs. For each category of farm there will be businesses performing much better than the average, but of course balanced by others performing much worse. Every survey of farm productivity always shows a wide range of technical and economic performance. Thus not all farms will suffer, but of course, this is of no comfort at all to those who do.

154. Second, the precedents set by changes in farming policy over the last several decades is that radical changes are phased in over several years. For example in England when the single farm payment was first introduced in 2004 on an historic basis, there was a seven year adjustment period when it steadily moved from 100% historically based to a flat rate payment per hectare. This transition period was explicitly agreed to lessen the burden of adjustment of the losers. It does give businesses time and money, if they deploy their payments wisely, to adjust to the new situation.
4.2 Subsequent adjustments to the loss of direct payments

155. This section tries to answer the question, who takes the hit when subsidy is removed from a system? It may appear from the above analysis that it is the farmer. However, if subsidy introduction did not cause a prolonged rise in farm incomes, why then should subsidy removal cause an enduring collapse in incomes? It was shown in section 2 above that the income effect of the adoption of the CAP in 1973 was scarcely noticeable. Of course, both the economic circumstances and the system of protection in place now are very different than the 1970s. Direct payment are much more transparent than the price support system in place at that time. However, the level of protection introduced was much higher then than it is now.

156. The reason that subsidy introduction/removal does not show up pound for pound as a rise/drop in income is that businesses and markets always adjust. The adjustments generally start well before the introduction of a new policy. If it becomes clear that a post-Brexit government is minded towards a policy of phasing out of direct payments in a pre-determined number of years this will be the only thing talked about in the farming press for the period between the referendum result and the introduction of the new policy. If it became clearer that the removal of subsidies is the chosen policy strategy despite the strongest representation of farmers organisations and other interest groups, then a range of adjustments would be set in train.

157. The land market will be amongst the first to react. In the event of credible information that direct payments were planned to disappear over a short time period, the market could quickly swing from the current excess demand by tenants willing to bid ever-higher rents to secure access to land, to the opposite situation. No one could afford to bid current rents given the prospect of withdrawal of, or substantial cut in direct payments. Land owners would struggle to find anyone to take on the land and they might be reluctant to take it back in hand themselves in these circumstances. Rents would therefore be expected to falter and fall. How quickly and how far this happens is hard to predict; it depends greatly on the reactions and words of the politicians following a ‘leave’ result in the referendum. There could be similar reactions in the land purchase market. There is little doubt that UK land prices have been strongly influenced by non-farming and non-UK purchasers. In a situation of great uncertainty, these categories of buyers may also decide to stay out of the market in anticipation of a possible collapse in prices.

158. Economists assert that the benefits of subsidies accrue to the owners of the least elastically supplied (i.e. least price responsive) factor of production, and for farms this is land. Therefore, throughout the period of CAP price support it was claimed that part of the, well-observed, rise in land prices was due to

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38 Typical estimates of producer support estimates (as a percent of farm receipts) were just below 40% in 1986-88, and fell to 20% by 2008-10, and within this the most distorting fell even more from 35% to 5%. See OECD (2012).
the capitalization of this support into land. Furthermore, as price support was converted into direct payments, economic theory suggests this would increase the degree of capitalization of support into land values. Subsequent decoupling of support payments from production was expected to weaken this capitalisation somewhat, even though the payments entitlements have to be matched with land to claim the money each year. A further complication of the relationship of payments to land was the move towards flat-rate, regionalized payment per hectare (as in England) which had the effect of raising payments (and capitalization) for some farms but reducing them for others.

159. Qualitative support for the suggestion of land values capturing the payment is illustrated in the attached post-war time series of land prices shown in £/acre, in Figure 739. This chart clearly shows the spike in both current and deflated (real) land prices in 1973 as the UK joined the EEC. It shows another jump in the mid-1990s as the MacSharry reform converted price supports into (generously calculated) direct arable area and livestock headage payments. It shows a further upturn in 2004 when the Fischler reform consolidated the previous direct payments into the largely decoupled single farm payment.

**Figure 7 Post WWII farmland prices in the UK, current and real £/acre**

160. The astonishing doubling of real land prices since 2007 cannot be explained by changes in direct payments. CAP supports had already been capitalized by then. This rise is evidently due to historically low levels of land available.

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39 The author is indebted to Ian Bailey, Head of Research at Savills for this graph.
for sale at that time and buoyant demand from non-farmers. The rise in 2004 may have been sparked by the introduction of the Single Farm Payment scheme than year. This was followed by the financial and agricultural commodity crises starting in 2007/8. Compared to alternative assets, agricultural land evidently appears a sound investment which is of course a vital natural resource necessary to address the heightened concern about global food security\(^{40}\). Clearly, the fact that agricultural land prices continue to soar despite falling real support levels (and great uncertainty about their long-term future) indicates that the capitalization effect is by no means the only, or perhaps even the most important, determinant of changes in land values.

161. More thorough analyses of the relation between CAP supports and land prices are provided by Ciaian (2010) and Swinnen \textit{et al} (2013)\(^{41}\). These researchers looked in detail at the implementation of direct payments in eleven EU Member States and 18 regions within these (including the UK territories). They analysed the impacts on farm land rent and prices. There were certainly examples of strong evidence for the effect of these payments on farm rents and land prices, especially in some of the new member states. However overall the conclusions were surprisingly muted. In their literature review (which was dominated by US studies) they concluded that

\[
\text{“Coupled support policies do increase land rents and land prices, although less than the theory predicts”. (p307)}
\]

and that

\[
\text{“reviewed studies have found a surprisingly small share of coupled subsidy benefits going to landowners”. (p308)}
\]

On their specific analyses of the EU their general conclusion was that:

\[
\text{“On average, the impact on land markets of the switch to SPS [Single Payment System] from the previous arable area and livestock headage payment appears to have been weak, and it has not led to lower capitalization than under coupled policies although there has been variation among the countries and regions”}.
\]

The quantification of these effects is bedeviled by a short data series and statistical problems so the authors do not provide coefficients showing what proportion of every £1 of direct payment accrues to land values or rents\(^{42}\). Thus we are left with the rather qualitative evidence of the association as explained in paragraph 159.

162. Other factor markets, in addition to land, would also be affected by subsidy removal. If, during the period 2016-2020 British agriculture finds itself in the

\(^{40}\) And more prosaically, is sometimes accompanied by a beautiful farm house and buildings, and might provide access to useful inheritance tax relief!


\(^{42}\) In private communication they offer a range for the UK of 25% - 60%.
situation of its government discussing phasing-out direct payments and perhaps opening markets to third countries, including for agricultural products, then industry confidence is likely to slump\textsuperscript{43}. This will induce a highly cautious attitude towards any farm expenditures and especially new investment. Farm machinery and equipment manufacturers, and input suppliers will certainly notice, and there will of course be some attempts to induce farmers to continue buying. In short, price pressures for other farm inputs besides rents would ease. For the livestock half of British agriculture a major cost is feed, these costs are already at a low level, and a depressed UK market in the context of slowed growth globally would tend to keep it that way.

163. Any evaporation of confidence will also impact on UK farm borrowing. This currently stands at £17.6 billion and given low prices is expected to rise during 2016 to £19b. Much of the lending to agriculture is secured against land, so any dip in land prices can be expected to lead to credit tightening, and perhaps increases in the cost of borrowing.

164. Product markets too can adjust. Processors and retailers of fresh products such as fruit and vegetables and some dairy products will be particularly concerned to ensure continuity of supply. Threats to the viability of their nearest primary suppliers in Britain can encourage them to look again at the contracts they are offering. It is also conceivable that in the context of a vote for Brexit there might be a patriotic resurgence of ‘buy British’ which would also encourage supermarkets to ensure they had financially sustainable contracts with their British suppliers.

165. Importantly, farmers themselves would adjust. With the prospects of farming without subsidies high in the agenda, the farming press and farm discussion groups will be abuzz with advice on how to tighten the belt and improve productivity to survive. Brexit would be a significant wake-up call and a catalyst for change in the farming industry. This is what the supporters of the cold bath treatment suggest. The steady annual payment cheques under the CAP can lull farmers into a false sense of security. Threats to those payments might shock the industry to respond. Of course, the best, wide-awake, farmers are already alive to the benefits, for example, of precision farming. But the tail in productivity performance is very long. There is wide scope to improve the efficiency of use of fertilisers, crop protection products, energy and animal feed, and this does not all require expensive investment in GPS-based electronic monitoring and control systems.

166. These adjustments are exactly what economists mean by the interplay of market forces. They are complex, incremental, interactive, decentralized processes. Each market participant makes his own small decisions, but across the whole sector it can add up to significant changes.

\textsuperscript{43} Readers might note the small element of caution even in this statement – “is likely”. It is possible to imagine a positive and energetic ‘leave’ campaign which captures the imagination by galvanising the view that life outside the constraints of the EU can unleash tremendous forces of innovation, growth and development of the British economy and to suggest this can perfectly well include agriculture. Yes, possible, but in this author’s view, unlikely.
167. In the 1970s the benefits of the introduction of the high protection in the EEC were silently and insidiously whittled away by rises in the costs of: rents, fuel, fertilisers, plant and animal health products, agricultural machinery and equipment, and by the costs of services from agronomists, accountants, land agents and lawyers. In the event of subsidy withdrawal after 2021 there is every reason to suppose that these processes will all go into reverse. Thus the total gross margins and farm business incomes will not be static as in the calculations of Tables 9 and 10. How much they would adjust to take some of the sting out of the loss of direct payments is not possible to guess. It would take some sophisticated computer modelling to estimate what these adjustments might be. One or two such models are considered in the next section.

168. The effects of Brexit on farm businesses will be a combination of those coming from changes in agricultural policy plus those caused by changes in trade policy. To the extent that trade costs with the EU rise and competition from third countries is eased, UK farmers could find more downward pressure on producer prices, exacerbating any loss in direct payments.

169. Whatever warning of impending cuts in direct payments, and whatever adjustments in farm structures, costs and productivity, there will inevitably be some, maybe many, businesses which cannot survive elimination or substantial cuts in direct payments. These businesses will fold, no doubt with considerable pain to the families involved, and drawing on assistance from the state and charitable organisations – this in itself represents a further sharing of the burden. Whilst most rural regions will feel some of these impacts, the worst and most concentrated hardship will show up in the grazing livestock regions. Each farm family will have their own story of how they then rearrange their lives. In this process debts will go unpaid, and so part of the burden of adjustment will be absorbed by the banks and traders holding these debts. This is another way in which the adjustment costs are shared more widely than simply by farmers.

170. What is being described here are the direct (subsidy cut to the farmer) and indirect (subsequent fall back in rent, machinery, fertilizer, and other input prices) impacts of a subsidy removal. Economic modellers are adept at quantifying such adjustments, although no such detailed farm-level analysis to date has been done for Brexit. Even after the direct and indirect effects are felt, there will be a further ‘round’ of induced effects. Farmers’ reduced incomes mean that they will contract their household expenditures. If rents, and other input prices come back a bit, then the businesses supplying these will find their incomes have contracted. These effects are therefore multiplied around the economy until the effect of the initial shock (withdrawal of direct payments) is worked out and a new equilibrium with lower economic output and employment is reached.

171. Input-output models can be used to calculate such effects. But note that in

44 And probably some of the benefit was also captured by food processors and retailers paying lower prices to farmers than would have occurred in the absence of the CAP protection.
the case of Brexit, a decision not to spend public funds on direct payments to farmers would either mean these funds are spent on other public projects or services, or taxes are reduced. Thus the loss in economic output and employment in farming and related industries just described would be offset by a comparable expansionary effect elsewhere in the economy – which could be larger or smaller depending on how the funds are deployed.

172. To the extent that there is a spate of farm business failures this will release farm assets onto the market, and these will be picked up by other businesses. In this way there could be some reduced management of marginal land. Whether this means reversion to scrub or a more positive alternative management will depend on how this opportunity is seized. These circumstances would be seen by some as an ideal time to reconsider a variety of possible ways of managing marginal lands for provision of public goods, whether for rewilding, carbon sequestration in boggy land or in forests, or for flood protection, water purification, or biodiversity management.

173. However, analyses of subsidy reduction or removal usually show that most agricultural land itself remains in production as it is taken on by nearby existing farms or new entrants. It is difficult to anticipate the nature of the new incomers to land ownership and management. Farming circles are replete with stories of farmers whose families acquired land in the great depression of the 1930s and became the new agricultural entrepreneurs of the post war period. There are multiple possibilities.

4.3 Three analyses of the economic effects of agricultural subsidy removal

174. Complex multi-dimensional and internationally linked sectors like agriculture are nowadays analysed using sophisticated economic models. Each such model is structured around certain assumptions about how markets work and how policy instruments interact with these markets. So-called computable general equilibrium (CGE) models try to build in the direct, indirect and induced effects explained in paragraph 170, and in addition link the agricultural sector to the economy as a whole and also sometimes link countries and regions to balance international trade. Two such modelling efforts which help give a feel for the scale of adjustments which might be set in train by CAP subsidy removal are briefly described in this section.

175. Boulanger and Philippidis (2015) analysed the budget and economic effects of Brexit using CGE methodology. Their Brexit assumptions are that the UK simply nationalizes existing agricultural (and non-agricultural) EU payments and adopts the existing EU external tariff on non-EU trade. The authors assume the UK negotiates a free trade agreement with the EU but still the main driver of change in their model is their assumption of an increase in

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45 A notable example is Lord Plumb, who, following a highly successful farming career, moved into agri-politics as President of the NFU, then European politics when as an MEP he was elected President of the European Parliament!

trade facilitation costs because of loss of single market access. This is modelled in two scenarios at either 2% or 5% extra costs on all (intra and extra-EU) trade flows.

176. Their calculations (all shown for 2020) are that the UK budget benefit from Brexit alone is €11 billion which is made up for the EU mostly by Germany, Netherlands and Poland. This brings about an overall economic benefit for the UK of just 0.56% in real income per head (GDP/capita). When a 2% of additional trade facilitation costs are factored-in this overall benefit becomes a small loss in income per head of 0.2%, and if the higher trade friction costs are assumed, the loss in real income per head rises to 0.67%.

177. In all their scenarios all other EU member states lose from Brexit, and Ireland loses most (when expressed as income per capita). Their general conclusion is that the overall economic effect of Brexit in these terms does not look large and whether it is positive or negative depends a great deal on the trade arrangements negotiated. Their agricultural policy assumption is the most favourable option of the UK government taking over existing payments. They do however point out that it would be “unequivocally beneficial to the UK” to withdraw from CAP budget (i.e. not paying out CAP-like payments to UK farmers) even with higher trade friction costs of exit.

178. Another example of the kind of results which are obtained from large-scale modelling exercises to try and understand how the agricultural economy responds to subsidy withdrawal is provided by the SCENAR 2020 study. This was conducted by a group of research institutes and universities for the European Commission. This analysis called a ‘liberalisation’ scenario involved the removal of Pillar 1 payments and border protection from all EU27 member states, but with a doubling of expenditures on rural development. The effects were estimated using the (then) best available models of the EU agricultural sector and how they interacted both with the rest of the EU economy and the rest of the world through trade. The policy changes were implemented in 2007 and projections made for 2020.

179. The calculated results were falls in income of over 19% for many farming regions including England and Wales, and Northern Ireland (but ‘only’ 0-19% fall in income in Scotland). Land prices fall 30%, although agricultural land use only falls by 5%. Overall, agricultural production rises 3%, although there are very different sectoral effects. Cereal production rises 10%, dairy production 2%, but beef production falls 14%. Two overall policy conclusions from this study were: (a) The reduction of border protection and export refunds has a

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47 This somewhat surprising result occurs because the other counties which might be expected to pick up more of the budget bill from UK exit, France, Italy and Spain all benefit from not having to finance the UK rebate.

higher impact on production than does a reduction of direct payments. (b) The reduction of direct payments has a higher impact on agricultural income than on agricultural production.

180. A third illustrative analysis is offered from some results of the economic effects of the New Zealand experience of subsidy removal in 1984. The following is cut and pasted from the Treasury/Defra (2005) vision. It is cited at length because it illustrates the way the Treasury thinks about these issues.

“...the most striking example comes from New Zealand during the 1980s. The value of support provided to New Zealand agriculture as a share of gross farm receipts fell from 35 per cent in 1983 to 13 per cent by 1987, and 3 per cent by 1994. The biggest impact of reform was a downward adjustment in the returns to land. Falls in farm income were temporary, and a relatively modest amount of marginal land went out of agricultural production. By contrast, the real value of agricultural output remained relatively steady. It fell about 14 per cent between 1984 and 1987, but then grew 6 per cent between 1987 and 1994.”

181. Saunders (2002)\(^49\) gives more of the background to these changes. She describes the policy change as follows: “NZ removed all financial control, floated its exchange rate, undertook major privatisation of state enterprises, reduced labour market legislation and removed tariffs and import regulations as well as removing support to the agricultural sector”. She stresses that most of the support removed in 1984 had only really expanded since 1978, and a high proportion of this support was to the sheep sector. The slump in lamb prices was short-lived, reflecting the NZ dollar devaluation. Part of the NZ subsidies were in the form of input subsidies which were removed – increasing fertiliser prices 23% and lime prices 40%. The land price slump followed a rise in land prices of 41% in 1981 given the high inflation and high interest rates, as well as the farm subsidies, at that time.

182. The conclusion of Saunders review was that:

“the reform period in NZ was unique and has to be seen in context of the length of support, the radical changes in economic policy in the rest of the economy and the fact that NZ is still heavily dependent on agricultural exports. However, some important messages do come out of NZ experience, firstly that the farms which suffered the most were those which had high debt ratios borrowing on the back of the rise in farm prices in the 1970s and early 1980s. These farms were left very vulnerable when the reforms came and prices fell.

183. It is concluded that New Zealand farming in the 1980s was not at all similar to the UK farm sector in the 2020s facing Brexit. New Zealand agriculture (6% of GDP, 7% of employment) is a key economic sector providing 53% of merchandise exports which are produced at great distance from any of its markets\(^50\). Whereas UK agriculture is 0.5% of UK GDP, 0.8% of employment

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and is a net importer bordering one competitor (Ireland) and adjacent to 26 other competitors in the EU. The short duration of the NZ subsidies in contrast to the 42 years the UK farming has been sheltered in the CAP, and the large devaluation of the New Zealand dollar therefore suggest caution in drawing lessons for UK agricultural subsidy removal. However, important lessons are that subsidy withdrawal does spark changes in factor prices and that changes in macro-economic variables, like the exchange rate, can have a very important influence on the outcome.

4.4 Macro-economic considerations potentially affecting agriculture

184. It is difficult to offer judgements on how macroeconomic variables such as growth, inflation, unemployment, interest and exchange rates will respond to a UK Brexit because the overall effects of Brexit on the UK economy are contested. Towards the end of his chapter on the costs and benefits of leaving the EU, Bootle concludes that “as far as narrow economic factors are concerned, it is possible that the balance of advantage from staying in, or leaving, the EU is comparatively small.” And that “This contrasts with the fulminations on both sides of the debate to the effect that membership of the EU is either absolutely vital or completely ruinous.”

185. Changes in macro economic variables upon exit have the power to mitigate or deepen an agricultural recession. If, following a convincing referendum vote, EU exit was conducted in a mood of strong, positive political and business confidence this could stimulate dynamism, new investment and growth. In turn, this could strengthen sterling but possibly also inflation and interest rates. Alternatively, if following a tightly fought campaign there was a narrow vote for EU exit, followed by a misjudged, badly handled withdrawal negotiation, and further depression in the Eurozone pushing the UK economy into a general recession, then agriculture could enter a slump as long as that experienced in the 1920-30s. Brexit is a high risk enterprise.

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5  Wider implications

5.1  On the residual EU27

186. It would be foolish to assume that the rest of the EU would be unperturbed by UK departure. This outcome would be seen in Paris, Berlin and the other EU capitals as a highly significant, negative development. The UK has currently the second largest population and economy in the EU, and could within two decades become the largest. English is the lingua franca of the Union, and our constant, long-lived, awkward off-shore, semi-attached, opt-out stance must be quite annoying to other member states. Yet our general political, economic and cultural approaches are appreciated. The bicycle metaphor for the EU (if it stops going forward it falls over) is a reason behind the ‘ever closer union’ idea, and could well turn out to be prophetic. Once one country leaves, especially the size and influence of the UK, it is not inconceivable that others could, in time, follow. There are quite strong political centrifugal forces evident in many other EU member states.

187. The EU is currently struggling to maintain two of its three biggest steps in integration. The Schengen idea of Europe without frontiers is struggling in the face of the refugee crisis of 2015. Eurozone management is grappling with the contradiction of monetary union with insufficient fiscal solidarity. Now, with its demands for a new settlement with the EU, the UK is seen as seeking to undermine one of the four fundamental freedoms of the single market by proposing discriminatory measures for EU citizens who are not domestic nationals. The deep and strong belief in the European project especially in France and Germany should overcome these ‘difficulties’ but if Britain exits it could have a profound impact putting back European integration several decades. These are reasons that the EU will try to find a way to agree to the Government’s demands for a new settlement to give British Prime Minister the ammunition he needs to argue for a ‘remain’ vote. Still, nonetheless, Brexit might be the British voter’s choice.

188. Much then will depend on the trade terms the UK can agree with the EU. However annoyed the EU27 is with UK exit they will not wish to lose access to the UK market for the large favourable trade balance they hold with the UK. Where they will certainly hold out is to ensure that the UK does not succeed in becoming a deregulated, freer-trading zone which undermines EU standards allowing back-door entry into the more protected EU market. Sensitivities will be high especially for food and agricultural products. Tough negotiations lie ahead.

189. The remaining EU27 will also have to absorb the loss of the UK’s net budget contributions. This either means the rest of the EU members stumping up to maintain current EU expenditure (estimates of the sums involved are analysed by Boulanger and Philippidis). Alternatively, the EU will have to reduce its own budget expenditure. This would certainly play into the preparations for the Multiannual Financial Framework for 2021-27. In turn
this will impact on the discussions of what CAP can be afforded by the EU post 2020 after British departure. The absence of the powerful voice of the UK arguing for market orientation and improving competitiveness whilst raising environmental performance might allow the CAP to drift further away from this model. However, the additional budgetary pressure of Brexit might conceivably push the EU27 in the UK direction, at least to some extent. This could ease slightly the adjustment difficulties for UK agriculture.

190. Little literature has appeared yet indicating EU27 thinking about their own reaction to Brexit. The feedback effect of Brexit on how the EU27 then acts is a complex subject and, will no doubt attract much discussion if the referendum result is to leave. In the meantime, the country with the greatest economic integration with the UK is the Republic of Ireland so it is not surprising that the implications, especially for the Irish agri-food sector, have been analysed. Matthew’s conclusion is that

“trade costs will be higher than they are today and will put downward pressure on producer prices in EU countries exporting to the UK and upward pressure on consumer prices in EU countries importing from the UK, such as Ireland. . . . Brexit would be unambiguously bad from the perspective of both Irish producers and consumers”.

It is interesting also to note that this seasoned observer of EU affairs also declared that “It seems hard to believe that the UK would take this step (BREXIT) against the unanimous advice of its friends both inside and outside the EU..”.

5.2 The UK devolved territories

191. Agricultural policy within the UK is a devolved matter. There are limits to the ways and extent to which the devolved territories of the UK can implement different policy measures for agriculture. These limits are currently prescribed by the CAP regulations and EU state aid rules. Since the mid-1990s there has been wide discretion in how the rural development measures are implemented in the territories, and since 2004 each successive evolution of the pillar 1 direct payments has offered a wider range of choices on precisely how they are implemented. This flexibility has been utilized to the full and a wide range of choices have been made in the four UK territories. These decisions reflect the different farming structures and different economic and political importance of agriculture in Wales, Scotland and Northern Ireland compared to England.

192. There is little doubt that Euroscepticism is stronger in England than the rest of the UK. A telling indication of this is that the Scottish Nationalist Party

52 But of course much is unlikely to appear in English!
53 Matthews A (2015a) Implications of British exit from the EU for the Irish agri-food sector.
54 The relative invisibility of the UK Independence party in Scotland and N Ireland is one example.
proposed an amendment to the referendum Bill which would have required a double majority for the UK to exit the EU; that is, a majority of votes cast for the UK as a whole and also in each of the four territories. This was rejected in the Westminster Parliament. However, the results will be declared in such a way that it will be clear after the vote if all the territories have voted the same way.

193. In the event that Scotland votes to remain in EU, whilst England and the UK as a whole vote to leave, there speculation that the Scots would demand, and hold (whether the Westminster Parliament likes it or not) a second referendum on Scottish independence. Thus, a vote for Brexit by the English risks departure from two unions – the European Union and the United Kingdom. This introduces further significant uncertainties – economically, politically, for international influence, and of course for specific sectors like agriculture. These matters are a subject in their own right and will not be taken further here.

194. Different regional views about the EU exist around the UK, including in England, and as between rural and urban areas. This partly reflects the different regional balance in benefits and costs of belonging to the EU. The most obvious examples are the higher receipts per capita of both CAP payments and structural funds per capita accruing to Scotland, Wales and N Ireland. Gardner55 shows how CAP receipts per capita are over twice as high in Scotland and Wales, and almost three time higher in N Ireland than in England, and structural funds are particularly high per capita in Wales. There is generally a higher degree of dependence on CAP payments in the more livestock-based farming sectors of Scotland, Wales and N Ireland than in England and correspondingly there is also less criticism of the CAP.

195. These different stances will certainly be an important factor in the post-referendum period as the debate starts on both trade and agricultural policy post –Brexit. A British conservative government leading these negotiations will have few MPs from Scotland, Wales and N Ireland. Even short of a breakup of the UK this political dimension adds to unpredictability of the outcome and therefore the economic and political uncertainty.

55 Gardner (2015) Figure 1.2, p14.
6 Conclusions

196. British exit from the EU creates deep uncertainties especially for agriculture which relies heavily on EU supports. The only certainty is that there will be a referendum, probably between June 2016 and April 2017, and definitely before 31/12/2017. The outcome is unpredictable. Exit may then occur four years later on 31/12/2020. The interim period will involve intense debate on the policies which will supplant EU regulations and the CAP.

197. The two key areas that farmers should probe in order to be in a position to assess the effects of withdrawal from the EU are (i) the UK trading relationship with the EU and with the rest of the world, and (ii) the post-Brexit UK agricultural policy.

198. The UK currently enjoys the best possible access to the single market as a full EU member, and benefits from the large number of preferential trading arrangements the EU has negotiated, therefore any alternative arrangement will involve higher frictions and thus trading costs. It may involve easier access to the UK market for third country agricultural exports.

199. The agricultural policy chosen post-Brexit will, of course, be heavily determined by the budget resources the government is prepared to vote. The conclusion from a review of political statements on this is that the UK will not walk away overnight from direct payments to its farmers post-Brexit. Flat-rate regional average payments, decoupled from production, would probably continue for some time, but the payment rates and conditions are unknowable at this stage. Different decisions on the details can be expected in the four UK territories.

200. A strategic decision will be whether new British agricultural direct payments are explicitly referred to as transitional and thus only paid for a specified period (say 5 to 10 years). Other key decisions will be their environmental conditionality, whether they are progressively tapered or limited, and how the issue of active farmer is dealt with.

201. It is suggested that the main elements of current rural development programmes will continue in a UK policy with objectives of improving agricultural productivity and marketing, purchasing public environmental services from farmers, supporting rural infrastructure and encouraging economic diversification. Agreeing the objectives and measures to deal with farming and land use in the uplands may be more difficult.

202. Agriculture is subject to a wide variety of other regulation which emanates from the EU. Continental traders can be expected to be extremely vigilant that the UK is not seeking, through Brexit, to achieve competitive advantage by deregulating its business whilst maintaining open access to the EU market. A safe assumption is therefore that there will not be a significant dismantling of this regulation, although there may be a less precautionary approach to biotechnology and pesticide licensing.
Economic effects of Brexit

203. Frightening impacts can be suggested by showing the current dependence on direct payments of different UK farming systems and calculating the drop in farm business income if these payments were eliminated in one stroke and nothing else changes. Analysis of farm business survey data shows falls in farm business income ranging from 31% for dairy farms to 112% and 137% for grazing farms in the lowlands and Less Favoured Areas, respectively. Such falls would of course be disastrous for many farms. However, with several years warning and phasing-in of any cuts, plus offsetting continued support for certain types or regions of farming, the impacts will be less dramatic. Nonetheless there could well be bankruptcies in some areas and for over-borrowed farms.

204. Furthermore, there will be a reaction in the land market, and potential easing of price pressures for other farm inputs besides rents. In addition, farmers themselves would adjust. The situation described would be a significant wake-up call to the industry. There is wide scope to improve the efficiency of use of fertilisers, crop protection products, energy and animal feed.

205. There is little modelling evidence on Brexit available to date. The oft-quoted New Zealand experience of severe agricultural policy change in 1984 certainly bears out the suggestion that the initial income losses and bankruptcies are less dramatic than anticipated, they are short-lived as factor markets adjust. However, there are substantial and material differences between the two situations which suggest caution in drawing lessons from New Zealand for UK agricultural subsidy removal.

206. Probably the greatest shock to UK farming will be in the 12 months following a ‘leave’ vote in the referendum. Once the effects of this shock work through the system, and critically, depending on the intelligence and constructiveness of the policy debate which then follows, the longer run course of British agriculture could be a less precarious, resilient industry capable of dealing with the inevitable challenges it will continue to face not least from climate change.

207. A referendum vote to leave the EU will create massive uncertainty and anxiety in the UK food and farming sector. The worst fear of farmers is the combination of: fast removal of direct payments, much if not all existing regulation remaining, continued free access for the still-supported EU farmers, and exposure of UK farming to more competition from the world’s lowest cost exporters. This outcome would be regarded as equally undesirable by environmental interests. So, the very anticipation of this nightmare scenario will drive a significant and powerful reaction to ensure it does not come about. The outcome is still likely to be a reduction in agricultural support levels. This will require vigilance and effort to help those worst affected to move on. There will then ensue a vigorous UK debate on the most sensible policy to achieve an efficient, viable and environmentally sustainable industry for the long term.
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