

Brexit: how might UK agriculture survive or thrive? Some early indications.

The UK agri-food will be one of the sectors most seriously affected by Brexit, and a number of potential policy scenarios and their possible consequences need to be considered.



Policy and Practice Notes

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

The UK agri-food system will be one of the sectors most seriously affected by Brexit. Not only is the sector reliant on trade relations within and beyond the European Union, it is also heavily dependent upon migrant labour and is currently heavily subsidised and regulated under the Common Agricultural Policy (CAP).

Synthesis of existing data, engagement with people from the industry and some new, short-term research are urgently needed to support and inform negotiations and policy development during and following Brexit. There is currently a gap in this knowledge, with no substantive research capacity to assess and explore possible effects of different trade and policy for the UK and its devolved administrations, and very limited “joining up” of expertise to provide cohesive analysis of Brexit scenarios for UK agriculture.

How can this research help?

By modelling a range of scenarios this project aims to:

- Provide a deeper and more detailed understanding of the implications of potential scenarios that parliamentarians can apply in considering future policy affecting the agri-food industries, UK food security and European and global trade.
- Provide information to industry bodies such as the NFU about potential scenarios and outcomes post Brexit, in their role as representatives of the agricultural industry.
- Provide consumers, retailers, farmers and workers in the agri-food industries, with information about the potential outcomes of policy decisions that could affect their economic and social welfare after Brexit.
- Examine in some detail the possible effects of policy decisions on households in the more vulnerable sectors of the industry, such as hill farming.



What scenarios are the researchers modelling for trade relations?

Following consultation with an advisory group of stakeholders the researchers are modelling three trade relation scenarios, designed to cover the range of likely outcomes of UK/EU negotiations:

- *Brexit-Lite*: A comprehensive UK/EU Free Trade Agreement, with UK-EU tariffs at zero. It envisages the UK's departure from the Single Market, and raises the possibility that there would be some additional costs affecting UK/EU trade. This scenario can be considered as a possible transition agreement.
- *Brexit-Comp*: To reflect comprehensive trade agreements between the UK and the Rest of the World (RoW) after Brexit, this scenario adds elimination of all tariffs between the UK and the RoW (an obviously extreme free-trade scenario), in addition to continuing free trade with the EU.
- *Brexit-WTO*: This reflects the potential for no agreement being in place by March 2019, and “reversion” to World Trade Organisation rules thereafter.



What are the implications for the Common Agricultural Policy?

Brexit implies no further UK contributions to, or receipts from, the EU budget. UK as a whole, and the devolved administrations, will need to reconsider the framework of agricultural policy currently determined by the CAP. This is a complex issue and the researchers will:

- Focus on direct farm payments as the key element for agricultural policy.
- Model the elimination of CAP direct payments over a five year period 2020-2025.
- Assume there will be lump-sum compensation (eg five years' value) to at least some existing farmers.



Will some sectors be more at risk?

As part of the research process the researchers will be investigating the potential effects on particular sectors and farm households that may prove particularly sensitive, including:

- Economically vulnerable sectors such as sheep farming.
- Regions that may be particularly vulnerable, such as upland farming.
- Demographics that may have particular needs, such as older farmers or new entrants.

What do early results indicate?

Although a final trade deal for the UK is likely to draw upon elements of each, modelling of the three scenarios does give some useful early indicators. Impact will depend on the sector, ie net importer versus net exporter, and vary across different types of farm with some more affected than others, eg beef and sheep (lowland and Less Favoured Areas).

Bespoke FTA Brexit Lite is likely to result in:

- A slight increase in producer prices in which the UK is a net importer (eg beef and cheese).
- A slight decrease in producer prices for commodities in which it is a net exporter (eg barley).
- Only small overall directional impact on producer prices across all commodities due to limited disruption of trade.
- Marginal changes in production and value of output.

Unilateral Trade Liberalisation Brexit Comp could result in:

- Reducing UK prices and output values across all commodities – although the extent to which this happens will depend on their closeness to world price counterparts – and a general reduction in prices for UK consumers.
- A particularly marked downward impact in beef and sheep sectors with significant implications for UK producers, probably resulting in reduced production.
- Scotland experiencing a particularly major decline in beef production compared with the rest of the UK, reflecting the lower proportion of beef sourced from dairy herds.

Brexit WTO, where default Most Favoured Nation tariffs are applied on UK exports to the EU and also to imports from the EU to the UK, is likely to result in:

- Significant adjustments in trade between the UK and EU.
- Significant increase in prices for imports in dairy, beef and pig from EU, making them less competitive, reducing their availability and pushing up producer prices in the UK.
- Lower producer prices in sheep and barley sectors as tariffs reduce exports of UK produce and increase domestic availability. The effect is most marked in the sheep sector.

What's next?

- Applying and comparing models and providing aggregate projections of the impacts of these scenarios on UK agriculture at the sector level.
- Assessing the impacts of these scenarios on farm production decisions and financial performance across the major farm types in the UK.
- Exploring the effects of Brexit scenarios on the welfare of farm households in "sensitive" segments of the farming population.
- Reconciliation and interpretation of the macro, sector and farm level results, and their implications post Brexit.

Project information

Brexit: How Might UK Agriculture Thrive or Survive? Is part of the ESRC-funded "UK in a Changing Europe" programme.

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Further information

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

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