Brexit: Implications for UK Agriculture

John Davis
Director of Economics AFBI

Content of Presentation

- ❑ What is Brexit and how long will it take?
- ❑ Implications for agri-food sectors
  - ➢ *Agri-food trade policies*
  - ➢ *Domestic agri-food policies*
- ❑ Current research by AFBI-Economics analysing the economic impacts of Brexit on the agri-food sector




afbi Agri-Food and Biosciences Institute

What is Brexit and How long will it take?




Agri-Food and Biosciences Institute

Brexit: The process by which the UK leaves the EU

- ❑ Initiated by triggering Article 50 of the Lisbon Treaty of the EU
  - ➢ maximum of two years – though extension possible
  - ➢ UK remains full member of EU
  - ➢ all EU policies and obligations remain in place
- ❑ Major change in our governance - far reaching implications for agri-food
- ❑ Following exit UK responsible for all trade and domestic agri-food policies



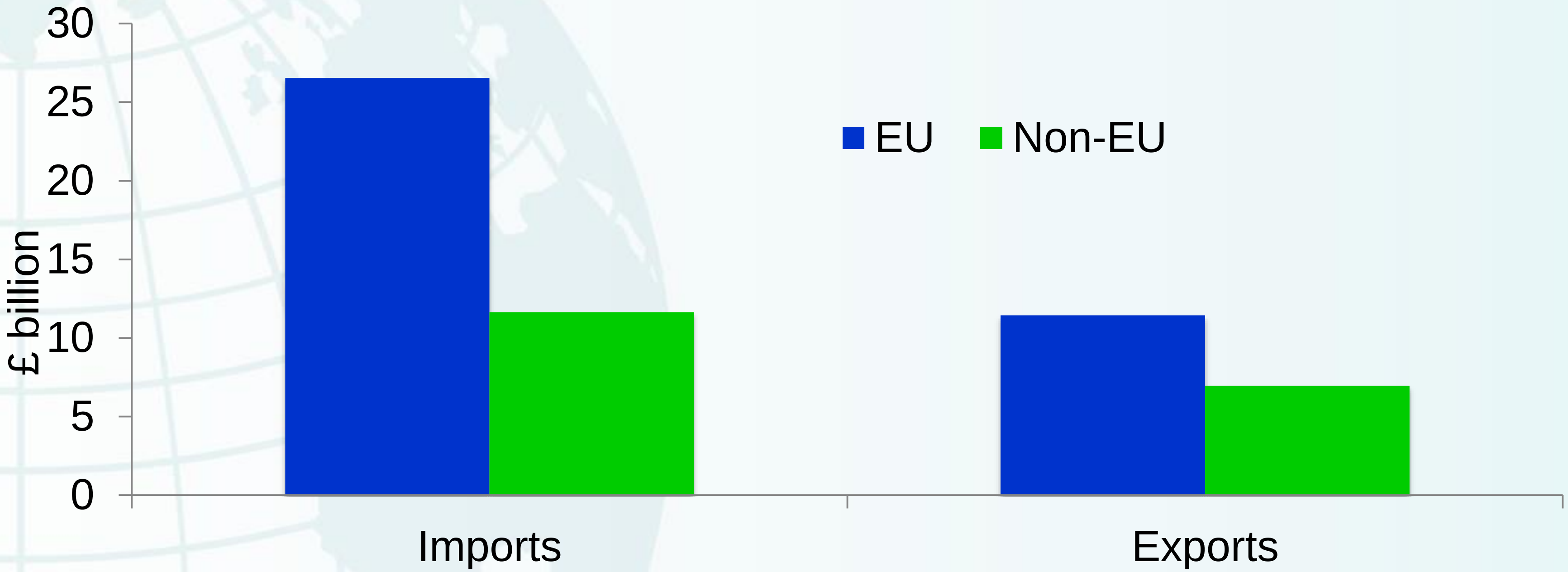

afbi Agri-Food and Biosciences Institute

UK Agri-Food Trade Relationships




Agri-Food and Biosciences Institute

UK Agri-Food Trade:
Deeply Embedded in EU Markets

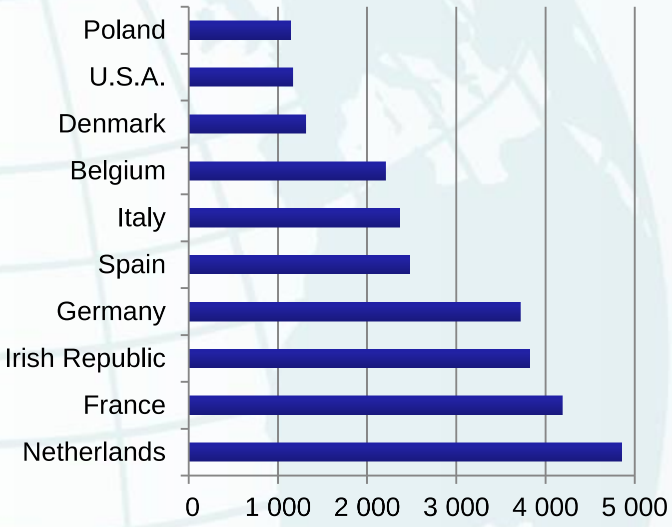


- 70% UK imports from other EU member states
- 62% UK exports to other EU member states
- UK: £20 billion deficit on agri-food trade; £15 billion with EU

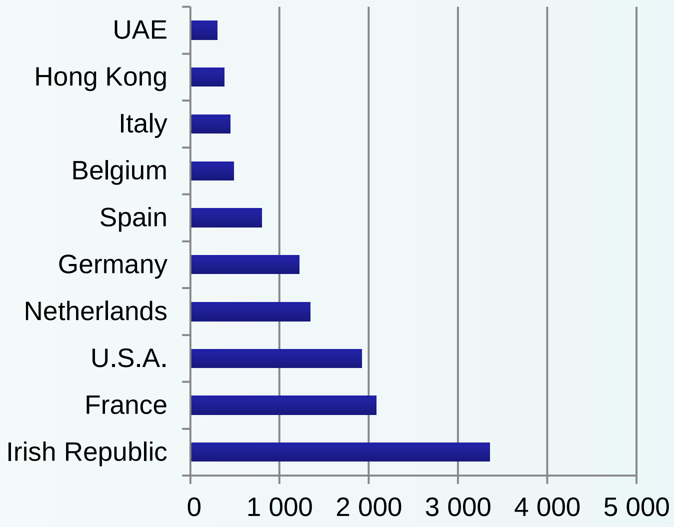



UK's Important Agri-Food Trade Partners: Predominantly EU

Imports: £million



Exports: £million



- **The Republic of Ireland stands out as a UK trading partner**

50% RoI agri-food exports go to UK

***52% RoI agri-food imports originate from* UK**

afbi Agri-Food and Biosciences Institute

Post-Brexit Options
UK Agri-Food Trade Policy




afbi Agri-Food and Biosciences Institute

Post-Brexit Options for UK Agri-Food Trade Policy

- **Great uncertainty around UK's future trade policies**
  - White Paper (2017): *"UK will not be seeking membership of the Single Market and will pursue an ambitious and comprehensive Free Trade Agreement and a new customs agreement" (p 35).*
  - Bespoke Free Trade Agreement with the EU with minimal tariffs for certain sectors of the economy

- **'Hard Brexit' Alternatives**
  - WTO tariffs: UK falls back to the WTO-default position, with default MFN tariffs
  - Trade liberalisation: UK pursues trade deals with low tariffs or quota access

- **Impacts on trade flows will be primary drivers of changes in commodity prices and production**




Bespoke Free Trade Agreement with the EU

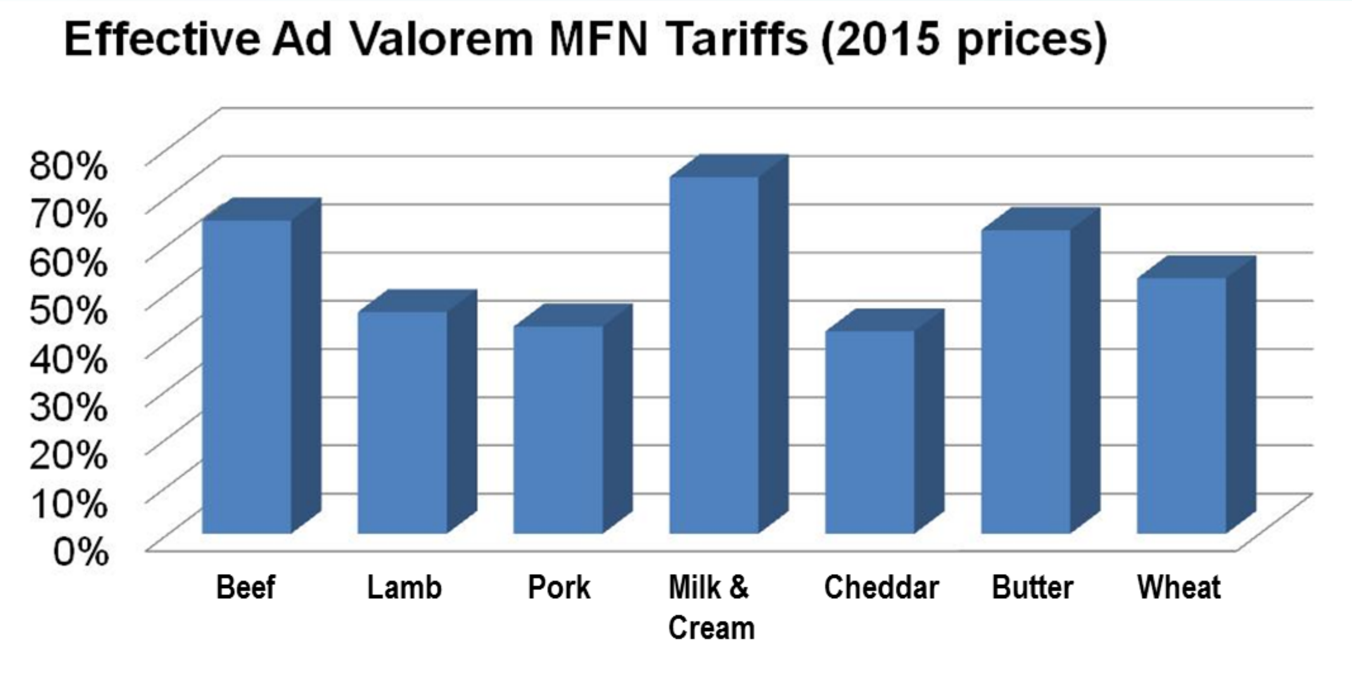
- ❑ Disruption of trade minimised if zero or minimal tariffs for agri-food sector
- ❑ But increased transaction costs associated with:
  - ➢ Auditing rules of origin
  - ➢ Administration of sanitary and phytosanitary inspections
  - ➢ Ensuring compliance with other requirements at the border.
- ❑ Equivalent to tariffs on exports and imports of at least 5% (Matthews, 2016)




afbi Agri-Food and Biosciences Institute

'Hard Brexit' Alternative: WTO-default Position

- High tariffs will significantly disrupt trade flows
- Impact would vary across sectors depending on whether the UK is a net importer or exporter:
  - Impacts on UK sheep meat exported to the EU - rechanneled to the UK (approx 27% of UK production)
  - Potentially, reduced beef imports from the EU

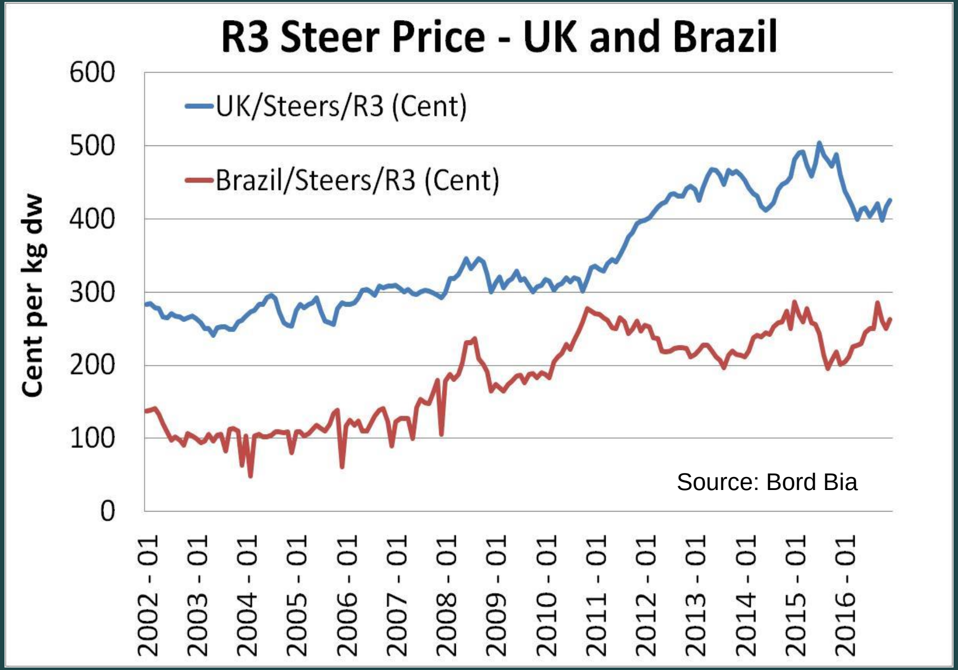


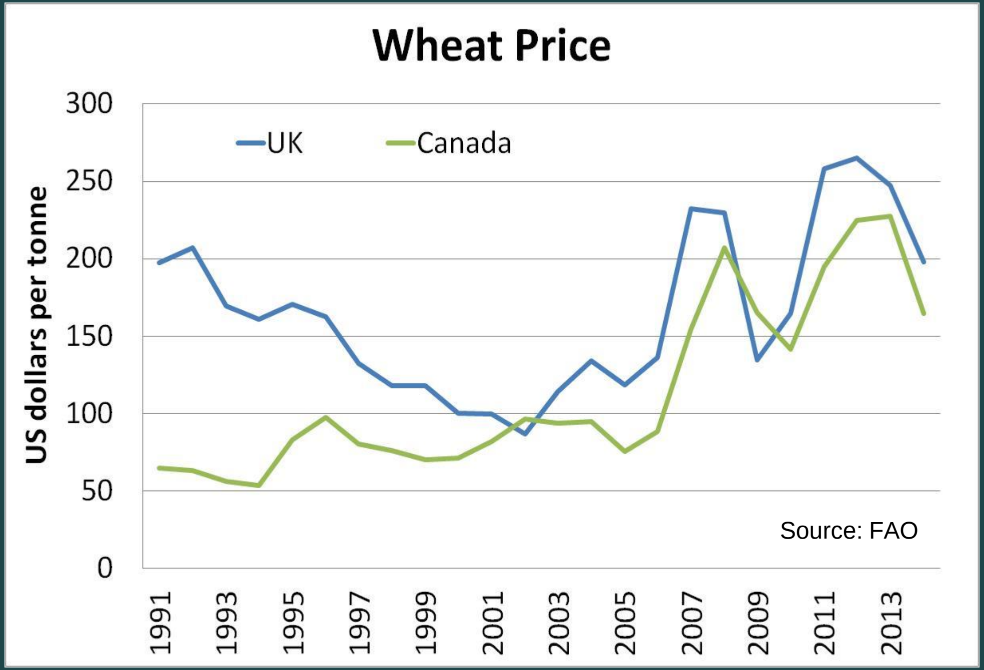
Source: AHDB



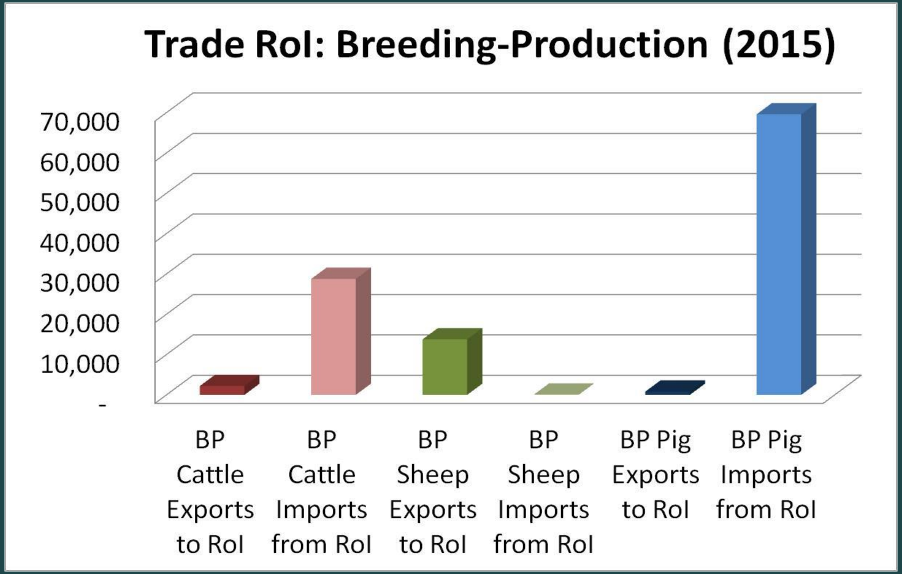

‘Hard Brexit’ Alternative: Trade Liberalisation

- Increased inflow of imports from rest of the world likely to push UK prices closer to world levels
- Impact will vary across sectors
- Where will political priorities lie – with producers or consumers?





Implications for NI of Restricted Trade With EU

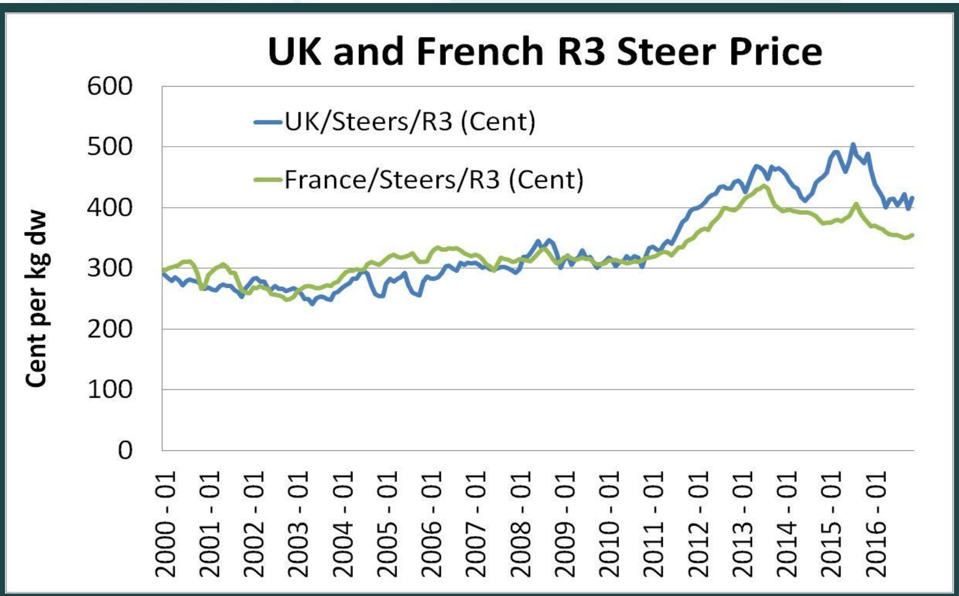


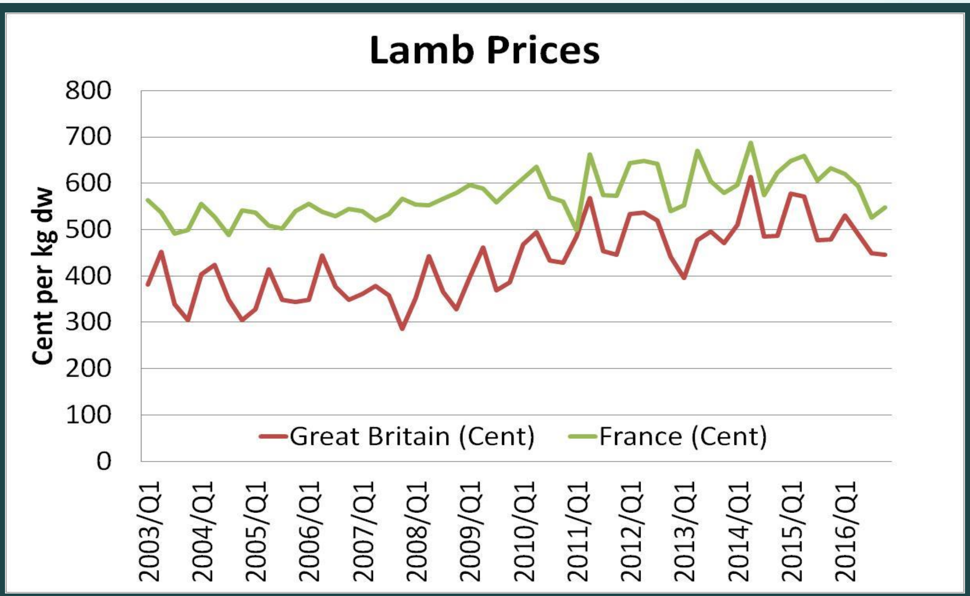
- Substantial trade in livestock between RoI and NI
  - Both for 'Direct Slaughter' and for 'Breeding/Fattening'
- What happens to raw milk exported from NI to RoI (at least 25%)?
  - Can this be processed locally?
  - Implications for infrastructure
  - Need for strategic planning

Agri-Food and Biosciences Institute

AFBI-Economics Analysing Post-Brexit Options

- UK-leading in Agri-Food Sectoral Modelling
- FAPRI-UK modelling system operated in collaboration with partners in University of Missouri
- Unique resource to analyse impacts of post-Brexit options
  - Analysis at UK level and individually for England, Scotland, Wales and NI
  - Fundamental redesign of model to reflect UK position outside the EU and market prices thus clearing at UK level rather than EU level





Post-Brexit Options for Domestic UK Agri-Food Policy

Agri-Food and Biosciences Institute

Uncertainty Around Post-Brexit Domestic UK Agri-Food Policy

- White Paper (2017) – little detail on possible shape of a UKAP
  - Repeated assurances on two fronts:
    - UK budget would provide funding at existing levels for Pillar 1 (Basic Payments) up to 2020;
    - Honour longer-term commitments made under Pillar 2 agri-environmental and similar agreements




afbi Agri-Food and Biosciences Institute

Opportunity to Refashion UK Agri-Food Policies Post-Brexit

- ❑ Brexit has loosened the grip of path dependency via the CAP on UK agri-food policy

- ❑ CAP structures that shaped domestic policy will be stripped away

  - ➢ *a new relationship between over-arching national policies and the priorities of the devolved administrations*

- ❑ A re-evaluation of the basic principles of policy interventions




afbi Agri-Food and Biosciences Institute

Priorities for a Post-Brexit UKAP

- White Paper (2017):

"Leaving the EU offers the UK a significant opportunity to design new, better and more efficient policies for delivering sustainable and productive farming, land management and rural communities" (8.15).

- Farming Minister George Eustice (AES-Defra Conference 2017):

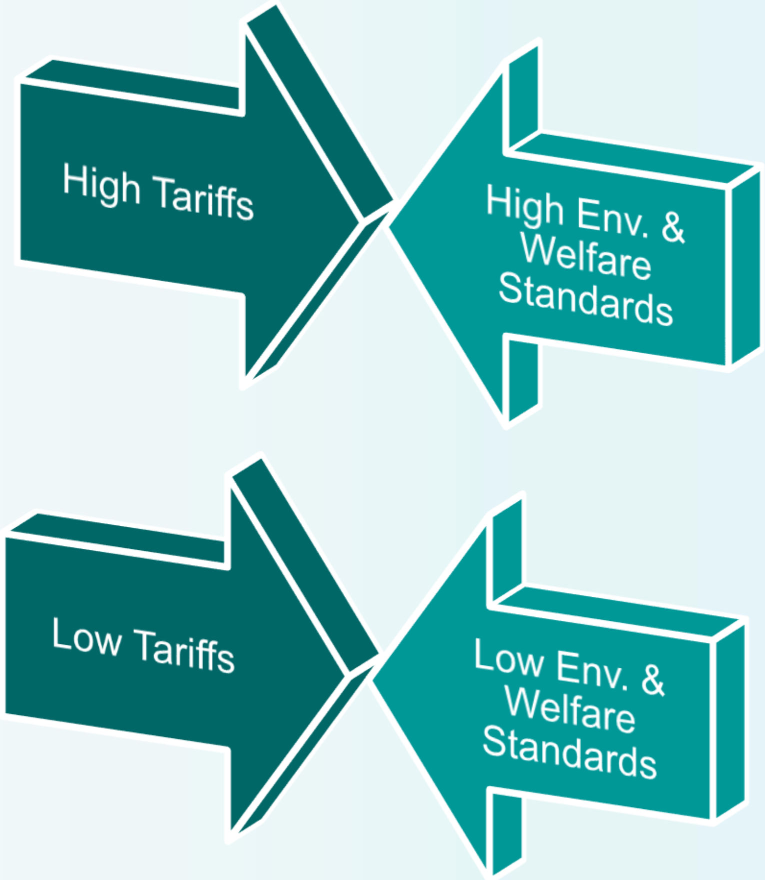
"Opportunity to build a new agricultural policy from first principles" – an overarching UK framework with devolved variations.

  - Correcting market failure central – key role for agri-environment schemes
  - Raising productivity of UK agriculture – funds for knowledge transfer and capital investment
  - Tools to manage risk and uncertainty
  - Cross-party recognition of importance of agriculture in the wider economy

afbi Agri-Food and Biosciences Institute

Consistency Needed in UK Trade and Agricultural Policies

- ❑ Retaining high standards constrains the extent that UK markets can be liberalised
  - ➢ At least in the short-run
- ❑ Competiveness becomes an issue if low tariffs are established alongside relatively high standards
- ❑ What can be done to help farmers if trade barriers are lowered?
  - ➢ How can productivity improvements be achieved?
  - ➢ Early adoption of scientific advances



afbi Agri-Food and Biosciences Institute

Summary of Key Messages

- ❑ UK agri-food trade currently is deeply embedded in EU markets
- ❑ Brexit threatens the stability of these long-established trade patterns
- ❑ Impacts on trade flows will be key drivers of changes in UK commodity prices and production; currently a key unknown
- ❑ Solutions will be needed for the unique challenges facing NI agri-food
- ❑ A UKAP should promote growth in human capital and sector productivity; the early adoption of the latest scientific advances will play a key role
- ❑ Consistency between trade and domestic policies will be vital; will policies favour consumers or producers?




afbi Agri-Food and Biosciences Institute

Brexit Coverage

- Issue 15 (2), 2016; Six articles, pp 2-33

- Forthcoming: Issue 16 (2), 2017
  Six articles on post-Brexit options for UK Agri-Food

Agri-Food and Biosciences Institute

Thank you for your attention