IMPLICATIONS OF BREXIT FOR UK FOOD AND AGRICULTURE

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The question

• UK membership of the EU is as much about broader, political questions as it is about economics

• Following Brexit, UK Government would have to decide how to fill the policy vacuum in those areas there the EU currently has competence (trade, agriculture, regulations)

• It would also need to negotiate the kind of trade relationship with the EU27 it wanted

• Agricultural outlook will also depend on macroeconomic performance and future settings of key macro variables

• For agriculture, the situation outside the EU needs to be compared with what the CAP and EU regulations might look like after 2020
The great unknowns

- UK trade policy after Brexit
- UK agricultural policy after Brexit
- UK regulatory policy after Brexit
- UK macroeconomic performance after Brexit

- vs

- Structure of future EU CAP and future EU regulatory system assuming the UK remains a member after 2020
The process

- Article 50 Lisbon Treaty

- The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.
The trade policy dilemma

Low Regulatory autonomy High

Low Trade costs High

EU membership ‘Norway’ option EEA membership ‘Swiss’ option bilateral agreements ‘Turkish’ option Customs union ‘US/Canada’ option DCFTA ‘WTO’ option MFN tariffs

Not drawn to scale
UK tariff policy post-Brexit

Would post-Brexit UK reduce MFN tariffs to zero?

Heightened interest in food self-sufficiency with less secure imports post-Brexit

Source: NFU 2015

EU/UK MFN tariffs, per cent, 2014

<table>
<thead>
<tr>
<th>Category</th>
<th>Tariff Percentage</th>
</tr>
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<tbody>
<tr>
<td>All agriculture</td>
<td>15</td>
</tr>
<tr>
<td>Other agric products</td>
<td>10</td>
</tr>
<tr>
<td>Beverages, spirits &amp; tobacco</td>
<td>15</td>
</tr>
<tr>
<td>Sugars &amp; confectionery</td>
<td>20</td>
</tr>
<tr>
<td>Oilseeds, oils &amp; fats</td>
<td>10</td>
</tr>
<tr>
<td>Cereals and preps.</td>
<td>15</td>
</tr>
<tr>
<td>Coffee, tea, cocoa &amp; preps.</td>
<td>10</td>
</tr>
<tr>
<td>Fruits &amp; vegetables</td>
<td>10</td>
</tr>
<tr>
<td>Dairy products</td>
<td>20</td>
</tr>
<tr>
<td>Meat &amp; meat products</td>
<td>15</td>
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</tbody>
</table>

UK self-sufficiency trend

Source: NFU 2015
UK tariff and trade policy post-Brexit

- Will be governed by WTO rules… but influenced by post-Brexit negotiations with EU
- **MFN tariffs** will be bound by current EU WTO bindings
  - But what about entitlement to Special Safeguard?
- Would UK retain any share in EU’s **Tariff Rate Quotas**
  - New Zealand butter and lamb, irrelevant if MFN tariff set to zero
- Renegotiation (and extension?) of EU’s **web of FTAs**
  - Continued access by food industry to duty-free imports and export opportunities depends on having agreements in place (WTO non-discrimination rule) unless MFN tariffs set to zero
  - Sugar imports from ACP countries case study
- Implications of the **time pressure** for renegotiation to avoid disruption of supply chains
Selected UK agrifood trade flows with the EU, 2014

Meats
Cereals and preparations
Vegetables
Vegetable and fruit preparations
Beverages and spirits
Dairy produce
Meat and fish preparations
Fruits
Cocoa and cocoa preparations
Flowers and plants
Miscellaneous food preparations
Animal feed
Sugars and sugar confectionery
Fats and oils
Fish

Source: Eurostat. Possible caveat re Rotterdam effect
UK EU vs non-EU agrifood trade, 2014

- Meats
- Cereals and preparations
- Vegetables
- Vegetable and fruit preparations
- Beverages and spirits
- Dairy produce
- Meat and fish preparations
- Fruits
- Cocoa and cocoa preparations
- Flowers and plants
- Miscellaneous food preparations
- Animal feed
- Sugars and sugar confectionery
- Fats and oils
- Fish

Source: Eurostat. Possible caveat re Rotterdam effect
**EU28 Relative importance UK vs extra-EU28 trade, 2014**

- Fish
- Fruits
- Coffee, tea, spices
- Oilseeds
- Animal feed
- Meat and fish preparations
- Fats and oils
- Vegetables
- Cocoa and cocoa preparations
- Vegetable & fruit preparations
- Live animals
- Tobacco
- Meats
- Misc food preparations
- Dairy produce
- Cereals and preparation
- Beverages and spirits

- **Trade balance with UK**
- **Trade balance with extraEU**

Source: Eurostat. Possible caveat re Rotterdam effect
UK agrifood trade with the EU post-Brexit

• My expectation is that future EU27-UK agrifood trade flows would remain **duty-free**
  • Would require at minimum a EU27-UK FTA

• But UK will stay **outside the single market**
  • Implies reintroduction of border formalities, including along the Northern Ireland border
  • Administrative barriers – SAD, VAT, plant and animal passports
  • Sanitary and phytosanitary checks
  • Requirements to meet EU regulatory requirements on exports to EU and vice versa

• **Higher trade costs** equivalent to tariffs on exports and imports of at least 5%
  • Some mitigation if FTA covers some mutual recognition of equivalence of standards.
UK agricultural policy post-Brexit

- UK Cabinet Office *Balance of Competences Review*
  - Majority view “CAP remains misdirected, cumbersome, costly and bureaucratic”
- High dependence of UK farm incomes on budget transfers under the CAP
- Assumption that post-Brexit government will continue to transfer public money to farming, but
  - Will *amount* be greater, smaller or the same…. compared to transfers in CAP post 2020?
  - Will the *design* of payments be different? (P1 vs P2 priorities, land-based P1 payments, coupling, lowland vs upland, risk, capping….)
  - Will payments be *conditional* on farming practices? (GAEC standards, greening requirements)
- WTO ceilings (to be determined) would apply on trade-distorting support but not likely to be constraining
UK food prices post-Brexit

- Although EU maintains high agri tariffs, EU farm prices now close to world market levels
  - Greatly reduces UK outflow through trade account
- Post-Brexit UK tariffs unlikely to be zero?
  - Plus maybe obesity taxes?
- UK imports 2½ times more from EU than it does from rest of world
  - Additional trade costs with EU will add 5% to cost of EU imports
- Overall impact negligible
Macroeconomic channels

• Farmers significantly influenced by four key macroeconomic factors
  • Exchange rates
  • Interest rates
  • Budget transfers and fiscal resources
  • Migration policy and labour availability

• High consensus among economists that Brexit will lead to greater uncertainty *(Financial Times 3 Jan 2016)*
  • Less consensus regarding impacts on growth rates and foreign investment flows

• Greater uncertainty will lead to lower exchange rate (positive for farming) but higher interest rates (negative for farming)
Brexit and the UK net budget contribution

Source: DG BUDGET. UK Treasury figures may be slightly different, see annual statement European Union Finances published by UK Treasury
Future of UK regulation post-Brexit

• Regulatory issues now as (or more) important for agriculture as agricultural and trade policy
  • Environment
  • Health and food safety
  • Climate
  • New technologies

• Regaining regulatory sovereignty is a widely-used argument in favour of Brexit

• UK Cabinet Office *Balance of Competences Review*
  • Concern that not all EU decisions are science-based
  • Concern that EU regulations are too prescriptive
Future of UK regulation post-Brexit

• Autonomous sovereignty can be contrasted with pooled sovereignty in which a country gains the ability to influence the decisions of others
  • Definition of the ‘British interest’, e.g. in animal welfare
  • Greater flexibility vs. levelling the playing field

• Would UK post-Brexit standards be different/lower?
  • Regulatory standards play an important role in facilitating cross-border supply chains (e.g. growth promoters, PRTs, GMs, MRLs)
  • Danger that ‘Great British Food’ becomes associated with lower standards? (e.g carbon footprints)
Future CAP and EU regulatory regimes

• **Shape of the CAP post-2020**
  - Steady move in more market-oriented direction – could this be reversed?
  - Future CAP budget after 2020 – is it secure?
  - CAP 2013 reform introduced much greater flexibilities for Member States – will this trend continue?

• **Shape of future EU regulation post-2020**
  - UK governments less enthusiastic about the ‘precautionary principle’ than some other Member States
  - The EU’s Better (Smart) Regulation agenda
    • More emphasis on stakeholder consultations
    • Greater emphasis on impact assessments
It will be your choice!

Thank you