

# BREXIT: WHAT IMPLICATIONS FOR UK AND EU AGRICULTURAL POLICIES?

---

**Presentation to the 2017 AgriAnalyse seminar  
Oslo, February 10, 2017**

Alan Matthews  
Trinity College Dublin, Ireland  
alan.matthews@tcd.ie

# Future UK agricultural policy

- Limited official guidance to date (though farm payments guaranteed by Chancellor to 2020 and green papers promised)
- Voted **budget resources**
  - Will UK put its money where its mouth has been during years of CAP reform debates?
  - Role of the devolved administrations
- Views of **interest groups**
  - Farm groups
  - Environmental groups and others
- Will be conditioned by the **trade policy** adopted, assuming UK regains control of trade policy after Brexit
  - Liberal vs protectionist in the agrifood area?
  - If liberal trade policy, pressure for direct support for UK farming will be greater
  - WTO disciplines will set the framework
- In longer term, less precautionary **regulations** could improve competitive position of UK farming

## UK CAP allocations 2014-2020

	Pillar 1 / € million (approx non- inflation adjusted)	% share	Pillar 2 / € million (approx non-inflation adjusted)	% share
England	16,421	65.5	1,520	58.9
Northern Ireland	2,299	9.2	227	8.8
Scotland	4,096	16.3	478	18.5
Wales	2,245	8.96	355	13.7
<b>Total UK allocation</b>	<b>25.1 billion</b>		<b>2.6 billion</b>	

Note: Figures are in nominal terms (i.e. they have not been adjusted for inflation over the period)

Source: UK Government, November 2013 taken from House of Commons Library Briefing Paper, 2016

There are significant transfers to UK farmers under the CAP

## Dependence on direct payments and other transfers – share in Total Income From Farming

	2013	2014	2015	Average 2013-15	Average CAP Pillar 1 payment /ha 2012
UK (total)	63%	57%	71%	63%	301 (Eng.)
Scotland	70%	66%	74%	70%	146
Wales	144%	129%	135%	136%	258
Northern Ireland	89%	91%	153%	111%	369

Note: Approximate figures only calculated as the ratio of 'other grants and subsidies' to 'total income from farming' in the respective agricultural accounts of each region. 'Other grants and subsidies' are net and can be reduced by taxes or levies. Ignores coupled payments included in the value of output while some grants and subsidies are paid by national administration either through national schemes (e.g. animal health) or co-financing of CAP schemes.

Sources: UK agricultural accounts produced by DEFRA and the devolved administrations; payments per ha data from National Assembly of Wales Research Paper, 2013

# Implications of devolved administrations

- Agricultural policy the responsibility of **four administrations**
- EU sets **common framework** through CAP regulations.
- **CAP budget** distributed to devolved administrations based on (disputed) formula, to which they can add from own resources through their block grants
- Devolved administrations have the same **flexibility** as Member States in making their CAP implementation decisions (over some 80 decision points).
- Prime Minister's Lancaster House speech 17 Jan 2017
  - “no decisions currently taken by the devolved administrations will be removed from them.
  - “working very carefully to ensure that – as powers are repatriated from Brussels back to Britain – the right powers are returned to Westminster, and the right powers are passed to the devolved administrations of Scotland, Wales and Northern Ireland”

# Role of devolved administrations after Brexit

- Extent of differentiation will need to be regulated by new powers at UK level
  - e.g. market support policy, caps on trade-distorting support and other forms of state aids
- Extent of differentiation limited by funding possibilities
  - **Allocation of agricultural funding** across devolved administrations will be controversial
    - Devolved functions are included in block grant distributed according to Barnett formula (i.e. primarily based on population)
    - CAP payments currently distributed on the basis of 1991-2001 production
    - Scotland argued for [area distribution](#) at last MFF negotiations and got commitment to review formula in 2016-17 to apply post-2020
  - DEFRA (lead department for agriculture) has seen its budget reduced by 30% between 2010-11 and 2015-16

# Views of interest groups

- **National Farmers Union** ([Post-Brexit principles](#))
- “guarantees that the **support given to our farmers is on a par** with that given to farmers in the EU, who will still be our principal competitors”.
- **redesign agri-environment schemes** “which are currently running out of steam- in part because of over prescriptive EU rules”.
- **laxer approach to product regulation**, emphasising the frustration among UK farmers “with European regulation and its handling of product approvals, due to an over-politicised approach and excessive use of the precautionary principle”.

-

# Views of interest groups

- **Environmental NGOs and academics**
- ([letter from 85 NGOs July 2016](#); [National Trust Aug 2016](#))
- Reward farmers who produce **public goods** with public money
- Gradually phase out **direct area payments**
- Proposal for '**bond scheme**' resurrected by some agricultural economists

# Future UK agricultural trade policy

- **Bound agricultural tariffs**
- Fox, Written statement House of Lords 5 Dec 2016
- “.. over the coming period the Government will prepare the necessary draft schedules which replicate as far as possible our current obligations”.
- UK will leave the Customs Union so free to set its **applied tariffs**
  - Assume will set at lower levels although not zero
- Will the UK will take the opportunity to **simplify** some of the enormously complicated EU agricultural tariffs? (*ad valorem tariffication?*)
- UK will seek wide-ranging and ambitious **free trade agreements** with EU and third countries, some of whom are agricultural exporters
- UK will implement a **Generalised System of Preferences** – more generous than EU for agrifood products? as well as maintain duty-free quota-free access for **imports from LDCs?**

# Future UK agricultural trade policy

- **WTO Tariff rate quotas (distinct from TRQs in FTAs)**
- **Third country WTO TRQs** to which EU currently has access – UK should continue to have access depending on management formula, but would depend on bilateral negotiations
- What TRQ obligations will UK inherit with respect to **access third countries currently have to EU-28 TRQs?**
  - Will it be based on URAA rules for current access and minimum access quotas, or will it be based on sharing of EU-28 TRQs? (Bartels, 2006: Downes, 2006)
- **UK access to EU TRQs** – if UK has been a supplier to the EU pre-Brexit, will have claim to TRQ share after Brexit
- UK will also have possibility to open '**autonomous TRQs**', provided it observes requirements of Article XIII GATT 1947

# Future UK agricultural trade policy

- Future **free trade agreements** with EEA Member States
  - UK seeking FTA with EU
  - Bilateral FTAs with EFTA countries?
  - Likely scope in agri-food area of future FTAs?
  - What happens on Day 1 after Brexit?
- UK will also **leave the Single Market**
  - UK and EEA exporters will lose benefit of mutual recognition principle
  - Need for **certification** that exporter's goods meets importer's standards
  - Customs and VAT documentation even in FTA
  - Product re-engineering and inspections required
  - **Additional trade costs** even if trade is duty-free

# Future WTO disciplines on UK agricultural policy

- **Bound Total AMS (amber box)**
- Important if UK or devolved administrations want to use coupled support or safety net market intervention in future
- UK will insist that it has a **Bound Total AMS** as part of the EU schedule
  - Otherwise it would be limited to *de minimis* AMS support
- Question then becomes how to separate out the UK 'share' from the overall EU BTAMS ceiling
- Negotiations complicated because EU-28's notified BTAMS ceilings never been formally accepted by WTO membership (EU-25 ceilings certified in Dec 2016) (see [discussion by Brink](#))
- Also complicated because allocation key on which to base UK share is unclear
- EU BTAMS ceiling currently well above its CTAMS, so a negotiated outcome should be possible

# Impact of Brexit on EU agriculture

- Different **channels**:
  - implications for the **EU budget** and the share devoted to the CAP;
  - Implications for **EU market balances** and producer prices;
  - implications for the **future orientation of the CAP**;
  - implications for the **future regulatory environment** for EU farm and food businesses;
  - implications for **agricultural research**;
  - implications for **future EU trade and trade relationships** with third countries.

# Impacts on EU agricultural policy

- EU will propose changes to CAP regulations in 2017 with view to legislative proposals in early 2018
- Potential impact of Brexit on overall stance of EU agricultural policy is **ambiguous**
  - Exit of a 'liberal' Member State versus ....
  - loss of second-largest net contributor to EU budget
- Brexit **budget impact may be mitigated** if:
  - UK Brexit is delayed until after May 2019
  - UK continues to make unrequited payments into the EU budget after exit
  - UK fails to reach an FTA with EU: tariff revenue levied on UK imports would be additional source of EU budget revenue
  - Other Member States agree to make up the difference

### Impact of Brexit on MS budget balances, average 2014-2015

2014-2015 average, € million	Current net gain/loss	Contribution to meeting Brexit gap	Net gain/loss after Brexit	increase in EU budget contribution
Belgium	1,646	275	1,372	5.1%
Bulgaria	2,020	27	1,993	5.7%
Czech Republic	4,201	94	4,107	6.1%
Denmark	-994	191	-1,186	7.6%
Germany	-17,385	3,768	-21,154	13.2%
Estonia	350	13	337	6.1%
Ireland	41	102	-61	5.7%
Greece	5,006	124	4,882	8.4%
Spain	2,017	727	1,290	7.0%
France	-6,813	1,475	-8,288	7.1%
Croatia	181	31	150	7.6%
Italy	-4,388	1,060	-5,448	6.7%
Cyprus	43	9	33	4.5%
Latvia	769	17	752	7.0%
Lithuania	994	24	970	6.2%
Luxembourg	1,375	25	1,351	7.7%
Hungary	5,090	69	5,021	6.5%
Malta	104	5	100	4.8%
Netherlands	-5,973	819	-6,792	10.1%
Austria	-1,118	410	-1,528	14.8%
Poland	11,301	270	11,032	6.5%
Portugal	2,072	114	1,959	6.8%
Romania	4,788	103	4,685	7.1%
Slovenia	647	24	623	6.1%
Slovakia	1,993	51	1,942	7.2%
Finland	-683	140	-823	7.5%
Sweden	-2,577	553	-3,131	13.4%

Source: Own calculations by Alan Matthews based on DG BUDGET Operating balances of Member States.

Cost of making up the loss of UK net budget contribution would be borne disproportionately by four MS – Germany, Austria, Netherlands and Sweden

For further details on the assumptions behind these figures and accompanying spreadsheet, see A. Matthews, [Impact of Brexit on the EU budget](http://capreform.eu), capreform.eu, 10 Sept 2016

# Impacts on EU internal market and trade

- Even with free trade agreement, UK exit from the Customs Union will make **UK market less attractive** to EU exporters
  - Lower UK price level due to lower applied protection and ambitious free trade agreements covering agrifood liberalisation
  - Higher trade costs due to customs and regulatory requirements
  - Further exacerbated if no FTA or agri-food only partially covered
- Some EU exports currently destined for UK will be diverted to other EU markets, with **downward pressure on EU farm prices**
- Agricultural liberalisation in EU's ambitious FTA negotiations may be **more restrictive** following Brexit

# Looking ahead for EU agricultural policy after Brexit

- **Immediate implications** through potential loss of budget revenue, lower EU market prices and loss of 'liberal' voice in shaping next CAP reform
- **Indirect implications** for:
  - Regulatory including environment policies
  - Climate policy
  - Research policy
  - Trade policy
- Uncertain **longer-term implications**
  - If UK went for 'cold-turkey' liberalisation, would it provide a more credible model for future CAP than the rather unique New Zealand example in 1980s?
  - Could Brexit precipitate other exits, reversing course of European integration? or...
  - UK seen as a 'spoiler' whose exit will facilitate more wide-ranging integration among remaining Member States

# THANK YOU

- Follow [capreform.eu](https://capreform.eu) for regular updates