

# No Deal: the Door to the Decimation of UK Farming

By Dr Sean Rickard

## Introduction

The campaign to leave the EU was based on the idea that the UK would quickly secure a comprehensive new trading relationship with Europe and that leaving would have only positive impacts on UK farming. But today the reality looks very different. Boris Johnson has made it very clear that his over-riding priority as Prime Minister is to take the UK out of the EU by 31<sup>st</sup> October, if necessary with No Deal, no matter what the cost to the country's economy and security. The government's own forecasts and all credible independent forecasters have warned that the economic costs of No Deal will be high and long lasting.

Many industries will suffer but the industry that would suffer the most serious economic shock will be agriculture. Indeed, the Vote Leave campaign's co-convenor, Michael Gove, warned in January as Secretary of State for the Environment that "the turbulence which would be generated by our departure without a deal would be considerable" and acknowledged it would hit smaller farm and food businesses hard.<sup>1</sup> To understand the consequences of No Deal for agriculture and all those who earn their living in farming and the food industries that depend on its output, we need to separate the economic effects into two stages:

- The first stage would be the immediate aftermath – in fact it could last several years – where trade in agricultural and food products would be subject to WTO Most Favoured Nations tariff and non-tariff barriers.
- The second stage would begin after an agreement with the EU on a future trading regime came into operation, the effect of which would be to place the UK's agricultural and food industries in a weaker trading position than as members of the EU.

Boris Johnson has said that farmers "will have the support they need" in the event of No Deal.<sup>2</sup> But he has failed to provide detail about what this would mean in practice. In any case, the problems facing the farming industry in such circumstances would go far beyond the loss of EU subsidies, as this paper explains.

It is impossible to project the exact number of farmers who will go out of business. What we do know is that over 40% of them will have no net income if the basic payment is removed.<sup>3</sup> If at the same time the Government removes all tariffs and so depresses prices, these two factors combined will render over 50% of farms in this country unviable. The possibility of any compensation from the government going anywhere near offsetting this is remote because so many promises have been made to so many other sectors and not all can be fulfilled.

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<sup>1</sup> Oxford Farming Conference 2019 address by the Environment Secretary, Defra & <https://uk.reuters.com/article/us-britain-eu-gove/no-deal-brexite-would-hit-britains-farmers-food-firms-hard-gove-idUKKCN1OX135>

<sup>2</sup> Yorkshire Post, 31<sup>st</sup> July

<sup>3</sup> Agriculture Bill 2018 and Financial impact of BPS removal ,ICAW, available at <https://www.icaew.com/technical/farming-and-rural-business/general/agriculture-bill-2018-and-financial-impact-of-bps-removal>

# Section 1: Imports, exports and the broad impact of trade on the agricultural sector

## First Stage: Crashing Out with No Deal

For as long as the UK remains a member of the EU, the prices received by British farmers – with a few exceptions – are well in excess of world prices, largely because of tariff protection against competing imports from third countries. This provides security for the agricultural industry and also the British food and drink industry whose businesses rely on a modern, efficient domestic agricultural industry from which to source their raw materials. But British food companies further gain because as a member of the EU there are neither tariff nor non-tariff barriers (NTBs) on food exports to most of mainland Europe. And for those countries, such as Canada, Japan and South Korea, with whom the EU has free trade agreements (FTA) there are reduced or zero barriers on exports. NTBs relate to rules and regulations applying to trade, such as phytosanitary measures relating to food safety, animal and plant health, but as a member of the EU the UK benefits from EU-wide agreements allowing us to trade across borders in the EU without being subject to the additional paper work and checks that third countries face when importing into EU countries. Upon leaving the EU – even with an agreement – there would be a significant increase in NTBs leading to increased costs, delays and disruption for trade in food.<sup>4</sup> In short, as a member of the EU, British farmers and food producers benefit from the unfettered export opportunities to many of the world's richest consumers in the EU and beyond.

A No Deal departure from the EU would stand the current position on its head. The EU and all the countries with whom it has FTAs would immediately apply tariffs and NTBs on food imports from the UK. At the same time the Government has announced that it would, in the event of No Deal, remove tariff protection for most imports of agricultural and food products from the EU, although much reduced tariffs would continue to apply to most meat and dairy products. Under WTO Most Favoured Nation rules the UK would be required to offer precisely the same tariff rates to third countries e.g. the US, Brazil and Australia. The introduction of tariffs on all British food exports to the EU and its FTA partners would render them uncompetitive. Application of NTBs would not only involve increased administrative costs and border checks to ensure compliance with EU food safety and animal health regulations, but for many months, perhaps years, there could be an effective trade embargo on exports of animal-based products to the EU while the UK and the EU negotiated an agreement on equivalence status.

The effect of No Deal would be a sudden and significant increase in the UK's food trade deficit as exports declined and imports increased. Products destined for export would be forced back on the domestic market. For example, the sheep sector depends heavily on exports to the EU. If sheep farmers lose their EU market, they would be forced to dump excess sheep meat on the UK market depressing all livestock prices. It would be a similar story for the dairy and arable sectors. At the same time not only would food imports to the UK from EU producers continue largely tariff-free but also imports from third countries would increase significantly in response to the removal of tariff barriers, though the volumes would depend on the extent to which the UK Government relaxed NTBs. For UK farmers the impact would be lower prices. How big the initial fall in prices would be is difficult to calculate – the more so as

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<sup>4</sup> Brexit Food Prices and availability, House of Lords, EU Select Committee, 14<sup>th</sup> Report of Session 2017-19

the pound is likely to fall sharply. But a lower pound would further exacerbate farming's problems by increasing the prices of imported farm inputs such as veterinary medicines, fertilisers, plant protection products, machinery parts and animal feeds.

Even before allowance is made for the Government's plan to start removing support payments in 2022, UK farm incomes would come under enormous pressure. The likely pressures on the industry were acknowledged by Jeremy Hunt during the Conservative Leadership hustings. Some idea of the scale of the impact is provided by Mr Hunt's pledge to provide a one-off cash boost of £6bn to the farming and fishing industries. Although it was not clear if this payment would last more than one year the scale of the likely crisis can be gauged by setting it against the UK farming industry's total income of £4.7bn in 2018. It would appear Mr Hunt believes No Deal would wipe out the agricultural industry's income.

The combination of the removal of support payments – only a proportion will be made up by enhanced environmental payments – and an adverse trading environment will render the majority of farm businesses unviable. Even if a cash-strapped government facing many other post Brexit demands is prepared to provide billions of pounds of emergency support for agriculture. Based on the annual Farm Business Survey – which shows that on average support payments account for more than 60% of farm incomes – it is very clear that the impact of lower farm gate prices together with the removal of support payments would render the majority of farm businesses unviable. Even though land prices and rents would adjust in response this would not be sufficient to restore underlying profitability and it must therefore be concluded that by the mid-2020s a large proportion of farm businesses – 50% or more is not an unreasonable estimate – recognising that they face an unprofitable future will decide to cease trading.

Although rarely discussed by politicians, of critical importance to the agricultural industry's future would be the effect of all this on investment and on its main customers, the food and drinks industry. Uncertainty is the enemy of investment and crashing out of the UK will neither halt the decline in investment in food and farming that has occurred since the referendum, nor will it end the current state of unprecedented uncertainty. According to a Food and Drink Federation survey, two thirds of food and drinks businesses identified No Deal as a risk to their business.<sup>5</sup> Almost half believe crashing out of Europe would pose a 'very serious challenge' and likely result in redundancies. Long before the terms of any future agreement become clear, considerable damage will be done to the UK's food and agricultural industries resulting in a smaller food sector, greater dependence on imports and reduced food security.

## **Second Stage: Negotiating a Trade Deal with the EU**

Having crashed out of the EU there would be an economic imperative for the UK to negotiate an FTA with the EU. Given that the EU accounts for nearly half of all UK trade, this would be the overwhelming priority. Despite much talk of third country trade deals, such as with the US, it would be very difficult for the UK to conclude third country FTAs until our future relationship with the EU is settled. It is likely that an acrimonious No Deal departure from the EU would create an unfavourable atmosphere for negotiations and put the UK in a significantly weaker negotiating position than it has been in during the Article 50 process – in part because publication by the Government of its tariff schedule has given away much negotiating leverage. Boris Johnson has offered little detail about the kind of agreement he would

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<sup>5</sup> Food and Drink Federation, 30<sup>th</sup> October 2018 available at [http://www.fdf.org.uk/news\\_by\\_subject\\_news.aspx?article=8073&issue=881&newsindexpage=2](http://www.fdf.org.uk/news_by_subject_news.aspx?article=8073&issue=881&newsindexpage=2)

like to have with the EU or how he would resolve the Irish border question, but he has often stated a preference for a 'Canada-plus' FTA or what he has labelled 'SuperCanada' – essentially an FTA along the lines of the agreement negotiated between the EU and Canada but with more favourable access to the European single market for the UK's financial services and energy sectors.

Setting aside whether such an agreement is realistic or how long it might take, this is not good news for agriculture. The essence of an FTA is the removal of, or reduction in, tariffs on trade between the contracting countries, but frequently not all tariffs are removed and FTAs do not eliminate NTBs. Under the EU-Canada FTA tariffs have been removed on 91 per cent of agricultural and food products, but imports of beef and pork from Canada and EU exports of dairy products are subject to quotas while poultry and eggs are not included in the agreement. Although the EU-Canada agreement contains provisions to streamline customs procedures, all imports from Canada have to meet EU rules and regulations relating to production standards, food safety, animal or plant health and environmental protection.

Thus, if the UK negotiates a similar agreement with the EU, all food and agricultural exports to the EU will have to be accompanied by declarations, transport permits and insurance certificates, and agricultural products will in principle need to be tested at border inspection posts. Moreover, these would become much more demanding if the UK was importing food and agricultural products from third countries. In other words, the UK would not return to a position of frictionless trade with the EU. It is also the general view of trade experts that it would take more than two years – perhaps several years – to negotiate a FTA with the EU, and it would then need to be ratified by every member state through their national parliaments, meaning any country could hold up or veto the agreement. The uncertainty could continue for some years.

Once a UK-EU FTA is finalised the declared aim of a Boris Johnson administration is to enter into FTAs with third countries. Many of the countries that his government hopes eventually to negotiate FTAs with – such as the United States, Australia, New Zealand, Argentina and Brazil – will all be keen to gain tariff free access to the UK's food markets. In principle, these trade negotiations would be constrained by the extent of regulatory alignment agreed with the EU but having already removed most tariff barriers on food imports the UK would have severely diminished its negotiating position regarding agricultural and food imports. The greater the volume of imports from third countries the greater the difficulties for our exporters as the EU would never allow the UK to offset increased imports from third countries by exporting tariff free to the EU. Outside the EU, rules of origin would apply requiring exporters to prove that a food product originated in the UK, or had sufficient value added to qualify as a UK product. Failure to meet the rules of origin requirements would mean the WTO's Most Favoured Nation tariff rates being applied to our exports to the EU.

Thus, the UK agricultural industry risks being permanently caught in a vicious pincer movement: on the one hand suffering restricted access to the EU for its food and agricultural exports; and on the other, facing increasing volumes of imports from low cost third countries. The implications for agriculture would be exposure to the full force and vicissitudes of global commodity prices, leaving all sectors of the industry in a permanent state of low farm-gate prices and depressed incomes. Despite falls in land prices and rents in response to lower farm profitability, these would not be sufficient to prevent the number of farm businesses declining rapidly during the next decade and in some parts of the country – particularly the more remote upland areas – farming could cease

altogether. The evidence all points to a significant downsizing in the UK's agricultural and food industries alongside considerable land degradation in areas where it was no longer possible to earn a living from farming. The UK would depend to a much greater extent on imports – in many cases produced to lower standards than is currently the case – from the world to feed itself. Food security would be diminished.

## **Section 2: Economic Analysis of the impact of a No Deal Brexit on farm incomes**

### **Indicative projections**

Actually projecting the longer term economic impact of such policies is a large and complicated exercise. A number of organisations have attempted to estimate the impact on UK farm prices of the removal of tariff barriers on imports of produce by the UK. However, generally such studies assume 'unilateral liberalisation' i.e. tariffs on both exports and imports of food and agricultural products are set at zero. These studies all show that such a situation would be disastrous for UK agriculture. Even the unyieldingly Brexit-supporting economist Professor Patrick Minford has said, 'it would decimate our farming and manufacturing industries.' A No Deal 'crashing out of the EU' situation would do considerably more damaging because – as the government has made clear with its publication of post-Brexit tariff schedules – farmers would face the full force of tariff-free cheap imports coming from third countries into the UK (and much reduced tariffs for some meats and dairy products) while facing very high WTO tariffs on exports to the EU and other countries as we revert to "WTO rules".

In the longer term the UK would hope to negotiate Free Trade Agreements with the EU followed by a number of agricultural exporting heavy weights e.g., the US, Australia, New Zealand and countries in South America. Experts point out that experience suggests each FTA could take four years or more to negotiate. Although an FTA with the EU would probably allow us to return to tariff-free exports to the EU, there would almost certainly be restrictions particularly against any sharp increase in exports. This follows because as the UK enters into FTAs with countries such as the US, the UK market would risk being over-supplied with cheap imports whose production standards are not acceptable to the EU. In this situation British producers seeking to relieve the pressures by exporting their own surpluses to the EU would find they faced new barriers. Thus even following a FTA with the EU British agriculture would be subject to the full force and vicissitudes of global commodity prices, the effect of which was accurately recognised by Patrick Minford.

As there are so many uncertainties associated with a No Deal crashing out of the EU it would be foolish to attempt a detailed projection but Table 1 has been prepared to provide an indication of the likely impact. The table shows the position for four major farm types. Cereal farms earn the bulk of their revenue from wheat, barley and oilseeds. General cropping farms also grow a high proportion of cereals but will typically grow potatoes, sugar beet and other arable crops. Dairying is self-explanatory and grazing livestock farms rely overwhelmingly on cattle and sheep. The data are based on Farm Business Survey results for last year. The revenue reductions shown in row 5 are estimates based on the government's published schedule of tariff rates for agricultural imports.

Lower prices will result in reduced output hence the emphasis on revenue. That said the position in any one year will be influenced by the vicissitudes of global commodity prices and the exchange rate. Thus, the results should be viewed bearing these caveats in mind. Rows 1-4 show how dependent these farm types are on the Basic Payment Scheme (BPS).

**Table 1: Indicative Impact of a No Deal Brexit**

| Farm Type <sup>1</sup>  | Cereals   | General cropping | Dairying | Grazing livestock <sup>2</sup> |
|---|-----------|------------------|----------|--------------------------------|
| 1 Current income from farming (£)   | -4,635.0  | 1,753.0          | 35,716.0 | -2,645.0                       |
| 2 Basic farm payment (BPS) (£)  | 58,847.0  | 45,373.0         | 16,790.0 | 20,616.0                       |
| 3 Income from agri-environment (£)  | 5,634.0   | 5,505.0          | 6,608.0  | 3,126.0                        |
| 4 Current total income (£) <sup>3</sup>   | 59,846.0  | 52,631.0         | 55,114.0 | 21,097.0                       |
| <i>Change following removal of tariffs on imports from 3<sup>rd</sup> countries</i> |           |                  |          |                                |
| 5 Reduction in revenue (%) <sup>4</sup>   | -6.2      | -6.6             | -8.1     | -24.7                          |
| 7 Projected income from farming (£)   | -23,289.9 | -15,288.5        | 18,046.1 | -27,568.5                      |
| 8 Projected income with BPS (£) <sup>5</sup>  | 41,191.1  | 35,589.5         | 37,444.1 | -3,826.5                       |
| <i>Removal of Basic Farm Payment (BPS)</i>  |           |                  |          |                                |
| 9 Total impact on income <sup>6</sup>   | -17,655.9 | -9,783.5         | 20,654.1 | -24,442.5                      |

<sup>1</sup> Full-time, medium sized farms

<sup>2</sup> Lowland farms

<sup>3</sup> Including Basic Farm Payment (BPS) and income from agri-environmental schemes

<sup>4</sup> After allowing for both price and output effects

<sup>5</sup> Assumes BPS will not be reduced before 2022 and agri-environmental payments unchanged

<sup>6</sup> BPS to be phased out by 2027 unclear whether environmental payments will rise

Source: Authors calculations based on Farm Business Survey (FBS) for England 2017/18 and Food and Agricultural Policy Research Institute (FAPRI) analysis

## End Piece

The Government's published Agricultural Bill makes it clear that post Brexit the BPS will be rapidly phased out but has shamelessly encouraged the impression that funds will be switched to agri-environmental schemes even though the Bill contains no commitment to a level of funding. Thus row 9 is included to show the potential impact by the end of the next decade. By then the UK will probably have agreed a FTA with the EU but the fall in incomes is likely to be worse than that shown if by then FTAs are in place with 3<sup>rd</sup> countries, such as the US, involving the removal of all tariff protection for grazing livestock and dairying.

The projected falls in income would result in large scale structural change. Many farms would cease production and a much larger share of production would be supplied by larger-scale, top performing farms. That said the logic is that the domestic farming and food processing industries would shrink as the country increased its reliance on food imports. Moreover, as the majority of grazing livestock

farms tend to be small scale and populate the more remote upland and hill parts of the country, farming could be all but wiped out in these areas.

## Conclusion

In conclusion, the agricultural sector in the UK faces significant challenges from No Deal, as tariffs and non-tariff barriers are erected to our exports at the same time as the **UK Government largely removes tariffs on imports** from third country farmers. British farmers will be caught between increased competition from third countries importing produce to the UK, and increased difficulty and cost when exporting to our biggest market, the EU. Free Trade Agreements to reduce those barriers will take many years to negotiate. Coupled with the loss of the Basic Payment Scheme of support payments by 2022, the driving down of farm revenues means that more than half of farms could go out of business. There will be considerable knock-on effects for the UK's food industry, resulting in a smaller food sector with a greater dependence on imports and reduced food security.

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