What effect might a ‘No Deal’ Brexit have on farming in the UK?

16th September 2019

Background

It remains unclear whether the UK will leave the EU without ‘a deal’ on 31st October 2019, or at a later date, if it is not possible to renegotiate the withdrawal agreement agreed by the previous May government.

‘No Deal’ means that the UK has not signed the withdrawal agreement under Article 50 and so all agreements between the UK and the EU (and some third country agreements the UK is only party to via the EU) will end on the day the UK ceases to be a member state.

There is widespread agreement that the farming and food sector will be one of the sectors most affected by a ‘No Deal’ Brexit; the parts of the Project Yellowhammer report released by the government in mid-September confirm this. As well as the main areas covered in this paper – trade arrangements, agricultural policy and support, labour and regulation – there are other issues that will affect the sector and wider economy. A significant one is the removal, without replacement, of many of the rules that underpin the UK’s economic and regulatory structure.

Suspension or prorogation of parliament and proposed policies

The government’s suspension of parliament in early-September could affect bills that have been making their way through parliament. The government could have carried over bills into the next parliamentary session but it has chosen not to do so. It is not currently clear what it intends to do with bills proposed in the session of parliament that has just ended.

Therefore for the purposes of this paper we have assumed that the Johnson-led government will implement policies proposed by the May-led government (such as the Agriculture Bill and proposed agricultural policy, and the ‘No Deal’ schedule of tariffs published in March 2019) unless it has said otherwise (such as the post-Brexit immigration system that was announced by Home Secretary Priti Patel in mid-August and since replaced.)

At a glance

	Trade arrangements	Agricultural policy and support	Labour	Regulation
Harvest 2019 / establishment for 2020 crops	For most producers, the temptation will be not to change what they produce. This is the lowest-risk decision, based on the incomplete information currently available.	There are no proposed changes in farm support or agri-environment schemes until 2021.	The shortage of workers is likely to raise casual labour costs for businesses.	Regulation is very unlikely to change at all over the next 3-6 months as any changes could prevent trade with the EU, which will remain our main trading partner for at least this long.
Medium-term (2020 onwards)	The effects on UK trade – imports and exports – will vary between sectors, and also within sectors.	It is clear that the new schemes, in all of the countries in the UK, will need to be significantly bigger than current agri-environment schemes if farm profits are to be broadly maintained at their current levels.	Farm businesses should have open and honest conversations with key overseas staff about their plans, your plans for them and about applying for settled status where appropriate.	This depends on whose rules the UK wants to align to most – the EU’s, the US’s, the WTO’s or create its own bespoke ones.

Trade arrangements

For the agri-food sector, our trade arrangements with the EU are very important as it is currently our main trading partner. 60% of our agri-food exports go to the EU and 70% of the food and drink we import comes from the EU. This balance may change after Brexit as the government's ambition is to open up new export markets. This will also, inevitably, lead to imports coming from new places.

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For farmers, the most immediate issue is what to produce in 2019-20.

A key issue is how markets will change due to tariffs, non-tariff barriers, and certification and inspection checks.

After a 'No Deal' exit, the UK will no longer be able to trade with the EU as part of the Single Market or Customs Union. Instead it will have to trade with the EU (and other countries) under WTO terms as a 'third country' until it has negotiated free trade agreements.

This means that the EU will impose its standard Most Favoured Nation (MFN) tariffs on UK exports into the EU, making them more expensive. This will affect goods currently exported to the EU, such as sheep and barley. Merchants have added clauses to grain contracts that pass the responsibility for paying any tariffs onto farmers, which could significantly reduce profits for farmers. The situation is similar for livestock producers. A large proportion of UK lamb is exported to the EU, particularly France, so export tariffs are likely to reduce the amount we send, creating a surplus in the UK, which will put downward pressure on already low prices.

Imports into the UK from the EU and elsewhere will have tariffs added to them based on the 'schedule' of tariffs that the government wants to impose. The May government published a set of tariffs in March 2019 that it would implement in the event of a 'No Deal' for 12 months until a permanent schedule is agreed. It is assumed, in the absence of any further news, that the Johnson government also intends to apply them (see Annex for table of some of the proposed tariffs and the change in protection for UK farming).

The schedule reduces tariffs for most (non-farming) goods to zero so that that there would be little change from the current tariff-free trade between EU Member States. This is to try to prevent higher prices for consumers.

The schedule proposes import tariffs for some agricultural products, such as beef, lamb, pork, poultry and some dairy, with the aim of protecting sensitive UK farming sectors. However, many of the tariffs are lower than the ones applied by the EU, which will increase low cost competition for UK farmers, which farming unions claim will undermine sectors like beef, eggs and dairy (although see paragraph on non-tariff barriers below). The NFU has called on the government to review its policy on import tariffs.

Therefore the effects on UK trade – imports and exports – will vary between sectors, and also within sectors, as for some products such as high quality beef cuts the UK is a net importer while it is a net exporter of beef offal.

Non-tariff barriers may be just as significant as tariffs. They can be used by countries to make trade more difficult. They can include barriers such as bureaucratic paperwork or licensing or veterinary inspections. It is not yet clear what these barriers might be, either to UK exports or imports, although certification could be a significant one[1]. The EU requires all food it imports to be certified or granted 'listed status', mainly for food safety reasons, which is a process that usually takes up to nine months to complete. Currently only organic food and drink has the appropriate certification, so this could be a major issue for the majority of our food exports.

There may be a similar issue with customs declarations and paying import duties. Only around half of UK firms that trade with the EU had signed up to the government's system for simplifying customs declarations and delaying import duty payments. This has prompted the government to automatically enrol firms in the scheme.

All of these changes will, at least in the short-term, slow trade, change market balances and add costs to the food and other supply chains. Both the British Retail Consortium and the Food and Drink Federation have warned that a 'No Deal' Brexit will affect the availability of fresh food and drink, particularly fruit and vegetables.

[1] At the time of writing (13th September 2019) there is a proposal that Northern Ireland could remain part of the EU Single Market for agriculture and food, which would avoid a hard border on the island of Ireland, and move checks to the Irish Sea.

A further significant variable is the exchange rate. Sterling has weakened since the Johnson government came into power in late July and most market analysts expect it to weaken further until there is greater clarity on the terms of Brexit. A weaker Sterling makes our exports more competitive and increases the cost of imports, which can have a positive effect on trade – although not by as large an amount as the change in the exchange rate. Also weaker Sterling increases the cost of imported inputs such as farm machinery, fertilisers and chemicals, which would offset some of the gains.

For most producers, the temptation will be not to change what they produce. This is the lowest-risk decision based on the incomplete information currently available. However, where production is mainly destined for export and where practical, serious consideration should be given to producing for UK markets, at least for this year, unless very strong terms can be agreed to share or negate the risk from the new tariffs.

The best insurance for a farm business remains to be as high-performing as possible. Top-performing farms (in terms of the ratio of what they produce compared with the inputs needed to produce it) are in a far stronger position to cope with the changes (see Annex B).

For consumers, a switch to WTO trading terms and weakening Sterling will increase the price of food, as so much of it is imported. This will have a disproportionate effect on people on lower incomes as they spend a greater proportion of it on food and drink.

Medium-term (2020 onwards)

Longer-term, the UK must negotiate the amount of imports it will allow tariff-free (known as Tariff Rate Quotas or TRQs) and the level of support that it provides to farmers, which must not exceed levels set by the Uruguay Round Agreement on Agriculture, which applies constraints on WTO member states' spending on agricultural policy. These negotiations may be quickly agreed but they are not automatic and there is already evidence that some countries, including the US, Canada and New Zealand, will take the opportunity to get better access for their exports to UK markets. A number have also said that, 'walking away abruptly from treaty obligations with its largest trading partner also sends concerning signals to others considering bilateral agreements in the future.'[2]

The UK Trade Policy Observatory says that a 'No Deal' Brexit will have a negative impact on overall UK output (by around -12%, exports (-20%) and imports (-2%)), driven largely by the increased cost of trading with the EU[3]. The EU will also experience hits to its output, exports and imports, but smaller ones (-1%, -3%, -2% respectively), as even though the UK imports more from the EU than it exports to it, the share of the EU in the UK's trade is much more substantial than the share of the UK in the trade of the EU.

The UKTPO also notes that if the 'No Deal' liberalising tariff rates published by the UK government in March 2019 are applied, the impacts on UK businesses will be greater than if the EU's standard set of tariffs had been used. As stated above, this is a deliberate decision by the UK government to try to reduce the impact of Brexit on consumer prices but it exposes UK firms (and farms) to more competition.

[2] Joint letter to the government co-ordinated by the US Chamber of Commerce on 3 September 2019. The business federations that signed it represent businesses in the US, Australia, Brazil, Canada, Egypt, New Zealand and South Korea.
[3] UK Trade Policy Observatory. Briefing Paper 29. March 2019. Deal or 'No Deal'? The Economic Consequences of the UK's 'No Deal' Tariffs. Michael Gasiorek and Julia Magntorn Garrett. The UKTPO is a partnership between the University of Sussex and Chatham House. It is an independent expert group that initiates, comments on and analyses trade policy proposals for the UK.

Agricultural policy and support

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There are no proposed changes in farm support or agri-environment schemes until 2021. This was reaffirmed by the Johnson government on 19th August. The Scottish Government has also pledged to maintain support at current levels, but there is no detail on whether the form or target of the support may change.

It is not clear whether and at what scale the government would implement any temporary 'exceptional' measures to support farmers if markets and profits were significantly affected by a 'No Deal' Brexit. It has promised farmers "will have the support they need"[4] and there are press reports of a £500m support package but no details have been published and it is not clear whether it would use policy tools like price support or storage aid schemes.

Medium-term (2020 onwards)

The government has said that a significant benefit of Brexit is that it allows the UK to leave the Common Agricultural Policy, which it considers to be fundamentally flawed.

In the Agriculture Bill for England and its supporting documents, which were published in September 2018, the government said it wanted to:

1. Phase out Basic Payments to zero between 2021 and 2028.
2. Replace the current agri-environment schemes with a new Environmental Land Management System (ELMS) that pays 'public money for public goods'.
3. Introduce new support for increasing agricultural productivity and higher animal health and welfare programmes.
4. Replace the current rural development schemes with support through the new UK Industrial Strategy Shared Prosperity Fund, which the government is expected to consult on during 2019.

The government will work on the design of its new agricultural, environmental and industrial policies between 2019 and 2021. It is currently running a number of Pioneer schemes on the design of the new ELMS and has also invited proposals to 'test and trial' different agri-environment approaches. They will be followed by a national pilot before the new ELMS is expected to come into full operation in 2025.

It is clear that **the new ELMS will need to be significantly bigger than current agri-environment schemes – in terms of numbers of agreements, area covered and payments per hectare – if farm profits are to be broadly maintained at their current levels** due to the high proportion of farm profits that Basic Payments represent. Such an increase in scale may be planned – but the government has not given any indication about this.

See our paper on *Farm support, the new Environmental Land Management Scheme and the funding gap* for more detail on this, and also Annex B for a summary of how farm profits in England might change by 2028 compared with now.

To date there is no equivalent to the Agriculture Bill for Scotland although a Rural Support Bill will be enacted in 2019-2020 and the Scottish Government has made some commitments on continuation of the Common Agricultural Policy until 2024.

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[4] Boris Johnson speaking at Shervington Farm, Newport on 30 July 2019. Also, Michael Gove to the House of Commons on 3 September 2019.

Labour

> *"Potentially [access to EU labour] is going to be the most important issue in the long-term."*
>
> *Minette Batters,* NFU

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Farming relies heavily on overseas workers. It relies on 80,000 seasonal workers for crop picking, sorting and processing in the food supply chain. Autumn and winter is a critical time due to fruit and vegetable harvests and the food supply chain is building up to Christmas. On average one-third of employees in the food chain are EU citizens.

Brexit has already affected the supply of seasonal labour over the past three years and a 'No Deal' Brexit will stop the free movement of EU workers.

The Home Office announced in August that it wants to remove the existing 'Leave to Remain' system for EU citizens after 31st October and make alternative arrangements; it has since dropped the proposal as it could have been challenged in the courts.

Instead, it has announced a temporary Leave to Remain scheme which allows EU nationals arriving in the UK before the end of 2020 to stay for three years in the event of a 'No Deal' Brexit. The uncertainty is already putting off temporary and permanent workers from coming to the UK. Businesses that are trying to recruit temporary workers for the Christmas period cannot tell them what their immigration status will be.

The shortage of workers is likely to raise casual labour costs for businesses, which will feed through into higher prices for consumers. It could also lower farm production as fruit and vegetables remain unpicked.

Farm businesses should keep up-to-date on all announcements by the Home Office on the immigration system, so that they can reassure any overseas staff in order to reduce staff turnover. **We suggest having open and honest conversations with key overseas staff about their plans, your plans for them and about applying for settled status where appropriate.**

Medium-term (2020 onwards)

The Seasonal Agricultural Workers Scheme (SAWS) operated in the UK for 60 years until 2014 when it was closed as it was felt that there were enough EU citizens available to work on UK farms. This will change if there is a 'No Deal' Brexit.

The government is piloting a new SAWS for seasonal workers from outside the EU. The pilot scheme is for 2,500 staff only.

It is not clear yet how and how many temporary EU workers would be permitted to work in the UK.

However, if 80,000 – 100,000 seasonal workers, from inside and outside the EU, were permitted, there should not be a significant increase in casual labour costs. Even so, the psychological impact of a 'hostile environment' on where workers choose to work should not be underestimated.

Workers in permanent positions are also in an unclear position. It is estimated that only a third of the three million EU citizens living in the UK have applied for settled status so far. The previous May government had suggested introducing a new immigration system under which the main qualification would be the offer of a job paying more than £30,000. **Many farm and food workers would not meet the proposed salary criteria and so be blocked from entering the UK.**

An analysis of the impact of Brexit on farming businesses commissioned by the AHDB factored in a 50% reduction in the availability of overseas permanent staff and, due to the reduction, a 50% rise in the cost of regular labour. If costs rise by this much, many farms would become unprofitable.

> Labour is critical in two ways – cost and quality. Lower fixed costs account for much of the difference between the top 25% farms and the rest. Labour costs are around 20-25% of fixed costs, so any changes can have a significant effect on profits. Further, the quality of labour and management is what differentiates top-performing farms so having the best staff available is critical.

Regulation

Harvest 2019 / establishment for 2020 crops

Regulation is very unlikely to change at all over the next 3-6 months as any changes could prevent trade with the EU, which will remain our main trading partner for at least this long.

Medium-term (2020 onwards)

Any changes to regulations depend almost entirely on how close the UK government wants its relationship with the EU to be.

If it wants a close relationship then regulations, standards, inspections and controls are unlikely to change significantly from what they are today. This would also be consistent with statements from the May government (and the NFU) that the UK does not want to reduce its high level of production standards.

If the UK wants to agree trade deals with other countries that have different regulations, such as the US, then regulations may change but this will have a knock-on effect on our ability to trade with the EU as anything we want to export to the EU must meet the importer’s rules.

The decision is whose rules does the UK want to align to most – the EU’s, the US’s, the WTO’s or create our own bespoke ones.

A contentious area will be genetic modification. The UK has said for the last two years that it will consider whether to allow new technologies, such as gene editing, to be used in farming based on the scientific evidence. This is different from the EU’s approach which feels more influenced by public-opinion. It also has different bodies that provide it with advice on safety and which may come to a different opinion than UK bodies.

Whether there is a deal or a ‘No Deal’ Brexit, regulation of farming and land management in the UK is likely to change.

The Farm Inspection & Regulation Review, also known as the Stacey review, published in January 2019 proposed a new approach to regulation. A new independent regulator would offer practical advice, guidance and help to incentivise good practice on issues such as biosecurity, soil quality and animal welfare. The review said that regulation should integrate incentives, including grant and loan guarantee schemes. The key question is what standards and rules will the new regulator be asked to apply!

Contact us

Jason Beedell
Director, Rural Research
Jason.beedell@struttandparker.com
020 7318 4757

Will Gemmill
Senior Director, Head of Farming
will.gemmill@struttandparker.com
01223 459471

Annex A: Selected tariffs on agricultural products published by the UK government in March 2019

<table>
<tr><th></th><th>Proposed tariff for imports into the UK
(out of TRQ quota)</th><th>Change from current position
(which is the EU's MFN tariff)</th></tr>
<tr><td>Sheep meat</td><td>12.8% + €171.3 / 100kg</td><td rowspan="2">No change
– so current protection for UK farmers maintained</td></tr>
<tr><td>Sugar (raw cane)</td><td>€33.9 / 100kg</td></tr>
<tr><td>Poultry meat (boneless)</td><td>€61.8 / 100kg</td><td>40% reduction from EU tariffs
– so lower protection for UK farmers</td></tr>
<tr><td>Beef meat</td><td>6.8% + €93.3 / 100kg</td><td>47% reduction from EU tariffs
– so lower protection for UK farmers</td></tr>
<tr><td>Butter</td><td>€60.5 / 100kg</td><td>68% reduction from EU tariffs
– so lower protection for UK farmers</td></tr>
<tr><td>Cheddar cheese</td><td>€22.1 / 100kg</td><td>87% reduction from EU tariffs
– so lower protection for UK farmers</td></tr>
<tr><td>Pork meat (fresh, boneless)</td><td>€11.4 / 100kg</td><td>87% reduction from EU tariffs
– so lower protection for UK farmers</td></tr>
<tr><td>Eggs</td><td>None</td><td rowspan="4">100% reduction from EU tariffs
– so lower protection for UK farmers – trade liberalisation</td></tr>
<tr><td>Cereals</td><td>None</td></tr>
<tr><td>Vegetables</td><td>None</td></tr>
<tr><td>Fruit and vegetables
(except fresh beans)</td><td>None</td></tr>
</table>

NB This table does not show the amount of imports the UK will allow tariff-free (known as Tariff Rate Quotas or TRQs) for simplification and also as the proposals for splitting out the UK's share of the EU's TRQs is already being challenged.

The UK has also proposed some new 'autonomous' TRQs for beef and poultry meat. TRQs are just as important to consider as tariffs in terms of their impact on markets.

Annex B: Percentage change in English farm profits in 2028 compared with 2013 - 17 baseline, with average spending per agri-environment agreement DOUBLING compared with current levels

We have modelled how the proposed changes in farm support might affect farm profits. To do this we have made a number of assumptions:

Baseline	Five-year average of 2013 – 17.
Farming net profit	We have assumed a 3% increase in net profits per year. This may be optimistic.
Agri-environment net profit	We have assumed that current payments under Countryside Stewardship continue until 2024 and are then replaced by an ELMS agreement, under which the average spending per agreement DOUBLES (i.e., is 200% of current levels)[5]. This may be optimistic. We have assumed that the area on a farm covered per agreement remains the same as under Countryside Stewardship (which is 77 ha per agreement, so just under half of utilised agricultural area per farm).
Diversification net profit	We have assumed a 3% increase in net profits per year. This may be optimistic.
Basic Payments net profit	The Government has said that payments will be cut over the seven years from 2021 to 2028. They will be cut in 2021 by between 5 and 25% depending on the total Basic Payments received; it has not said what happens afterwards. Therefore we have assumed there will be an (average) 10% cut in 2021, followed by a straight line cut to 2028 of @ 14% pa until Basic Payments are zero.

For the 'average' farmer – those in the middle 50% in terms of performance – net farm profits could fall by 50 - 70% by 2028, even if ELMS payment levels double compared with Countryside Stewardship:

	All farms	Cereals	General cropping	Dairy	LFA livestock	Lowland livestock	Mixed
Overall average	-37%	-54%	-43%	-10%	-31%	-46%	-54%
Top 25% of farms	-6%	-15%	-11%	9%	-14%	-10%	-19%
Middle 50% of farms	-47%	-56%	-66%	-3%	-47%	-63%	-68%
Bottom 25% of farms	-49%	-40%	-58%	-63%	-26%	-22%	-26%

NB Red shading of data shows a fall in net profits of 50% of more; amber shows a fall of 25 – 50%

The changes will affect farms that are highly reliant on Basic Payments most, such as cereals, mixed and lowland livestock farms. Sectors like dairy will be less affected.

The top-performing farms will be least affected by the transition as they rely less on Basic Payments for their profits. Even for these top performers, net profits for all farm types apart from dairying could fall by 6 - 19%.

5 For example, for the all farm type with middle 50% performance the new ELMS payments would be £72 / ha of UAA and £134 / ha of land in current Countryside Stewardship and Higher Level Stewardship agreements.