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EMERGING UK AGRICULTURE AND FOOD POLICY POST-BREXIT AND ITS POTENTIAL IMPLICATIONS

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Executive Summary

Summary and key findings

The EU and its Common Agriculture Policy (CAP) support and regulate agriculture and food in the European Union. As a member of the EU, the UK's agricultural policy has been dictated in large part by the CAP for four decades. When the UK leaves the EU it will be leaving the CAP and, very likely, also leaving the Customs Union.

Ireland has two major interests in future UK agriculture policy; these stem firstly from the role of the UK as our single largest food market, and secondly from the current highly integrated character of agriculture and food production between Ireland and Northern Ireland.

The future UK policy on agriculture and food is emerging, although very much in a piecemeal and "not joined up" process. The paper examines this emerging policy in three policy areas: direct payments, external trade, and regulation. It also discusses the future viability of the UK food market for Irish exports in the context of a no-deal Brexit.

Some key findings of this paper are as follows:

- The broad thrust of the post-Brexit UK agriculture and food policy is emerging. The policy will have major implications for Ireland's access to, and return from, the UK food market. It will also pose major problems for the current highly integrated agri-food sector on the island of Ireland.
- The impact of a no-deal Brexit on the UK market is likely to differ by sector, and depend on a wide range of factors including prices in major food exporting countries, but it is probable that food prices in the UK are likely to be lower and more volatile as a result of Brexit. For the Irish beef sector, the potential loss in the UK market would be significant.
- Northern Ireland's farming and food industry will be extremely vulnerable in any post-Brexit future, as farmers in the land-based sectors, beef, dairy, lamb and cereals are almost totally dependent on the current levels of direct payments from the EU for their survival.
- In addition to the future loss in direct payments, farmers in Northern Ireland will face lower product prices if the UK implements its proposed tariff regime.
- In a no-deal scenario, exports from Northern Ireland to Ireland will face the full EU tariffs, and Ireland will be compelled under EU law to implement all EU import controls.

The EU and its Common Agriculture Policy (CAP) support and regulate agriculture and food in three main ways: (i) through the common customs tariff, which has a major impact on market prices for agricultural products, (ii) through the direct payments policy, mostly centrally funded from the EU budget, which is a major source of income for many farmers, and (iii) through standards and regulations on food quality and safety, on animal welfare and on the environment. The CAP has been an evolving policy, subjected to periodic reforms by the EU governments in response to changing internal and external circumstances. When the UK leaves the EU it will be leaving the Common Agriculture Policy and, very likely, also leaving the Customs Union.

Ireland has two major interests in future UK agriculture policy; these stem firstly from the role of the UK as our single largest food market, and secondly from the current highly integrated character of agriculture and food production on the island of Ireland. The UK is our single largest export market for agriculture and food, accounting for 37% of our exports valued at €4.5bn. It is our nearest market, with food product requirements that we can supply. On the island of Ireland, the same agriculture and food policy applies, cross-border trade is seamless, and the structure of the industry has become increasingly shaped by commercial rationality rather than historic borders.

The future UK policy on agriculture and food is emerging, although very much in a piecemeal and "not joined up" process. The paper examines the emerging policy in the three policy areas: direct payments, external trade, and regulation.

Last year the UK government published its Agricultural Bill; this deals mainly with the direct payments element. The main thrust of the proposal is that current CAP direct payments, valued at about £4bn annually to UK farmers and 95% EU funded, will be phased-out, and replaced by a very limited environment scheme. There is no funding commitment from the government beyond the end of the current parliament. A complicating factor is that, within the UK, agriculture is a devolved sector, meaning that while the EU, and to some extent London, set the policy, some of the implementation details are determined by the devolved governments or administrations. The paper seeks to assess the impact of the Agriculture Bill provisions on UK farming, with separate focus on England, as our main market, and on Northern Ireland, in the context of the economic implications for NI itself and for the policy divergence between North and South post Brexit.

Future UK policy on trade for agriculture and food is less advanced, and very much dependent on whether the Withdrawal Agreement and a future UK-EU trade agreement are secured, or whether the UK leaves in a "no-deal" situation. In the latter situation, while future UK trade policy would be determined initially by WTO rules, future trade agreements with other countries including the US would determine its longer-term policy. The paper sets out the EU import tariffs currently in place, which are relatively high for our main products including beef, butter, cheese and lamb. It also sets out the much more liberal import tariff regime recently proposed by the UK in the event of a no-deal Brexit. (The prosed future UK tariff regime, while proposed in the context of a no-deal situation, may also be relevant in any scenario where the UK operates an independent trade policy in the future, even if the Withdrawal Agreement were to be ratified by the UK). The paper seeks to make some assessment of the implications of the proposed UK liberal trade regime for the main agricultural sectors.

In relation to future UK policy on agriculture and food standards and regulations, initially the likelihood is that the UK will preserve EU law in national law, so that standards are the same immediately before and after Brexit. The longer-term situation remains unclear, but may ultimately be determined by future international trade agreements. The paper sets out some examples where US food safety standards are much inferior to those applying in the EU. The paper notes the recent strategy statement by the US Trade Representative, clarifying that US priorities in a trade agreement with the UK will include improved access to the UK food market and reduction or removal of existing non-tariff barriers, including those based on different food safety standards.

As regards the future viability of the UK food market for our exports in the context of a no-deal Brexit, all the answers are not yet clear. The impact on the UK market is likely to differ by sector, and depend on a wide range of factors including prices in major food exporting countries including the US, Oceania, and South America, transport costs, currencies, standards ultimately agreed, and consumer preference. The probability however is the food prices in the UK are likely to be lower and more volatile as a result of Brexit. For our beef sector, the potential loss in the UK market is very large.

The analysis in the paper points to an extremely vulnerable future facing farming and the food industry in Northern Ireland. Farmers in the land-based sectors, beef, dairy, lamb and cereals are virtually totally dependent on the current levels of direct payments. In addition to the future loss in direct payments, NI farmers face lower product prices if the UK implements its proposed tariff regime. The future UK regulatory standards may further complicate the border problem. Because of low farm incomes, farm size, land quality and location constraints in NI, diversification possibilities to other farming systems or non-farming alternatives are extremely limited. In a no-deal situation, exports from NI to Ireland will face the full EU tariffs. From an EU Customs Union and Single Market perspective, Ireland will be required by the EU to effectively implement all the EU import controls. Furthermore, as a food exporting country, Ireland could not allow future access to EU markets be damaged by failure to protect the EU internal market.

About the author

Con Lucey was Chief Economist of the Irish Farmers Association (IFA) from 1979 to 2008. He was a Council member of the IIEA for many years, and is a member of the IIEA's UK expert group.

Introduction

Agriculture policy in UK for over 45 years has been mostly determined by membership of the EEC/EC/EU. Agriculture was the first major sector to be integrated within Europe under the Common Agriculture Policy (CAP) in the 1960's. Production and trade in the EU agri-food sector operates within a comprehensive policy framework including the Common Customs Tariff, the Single Market, the CAP and CAP budget, and a range of EU regulations. An urgent consequence of Brexit is that the UK government must devise and implement a new policy for its agri-food sector, and that process is underway.

A complicating factor however is that, within the UK, agriculture is a devolved sector, whereby the details of implementation of parts of the policy in Scotland, Wales and Northern Ireland are decided by their devolved governments.

Future agriculture policy in the UK is understandably a matter of great interest to UK farmers and the UK agri-food industry. It is also a matter of considerable interest to the EU27 and particularly to Ireland. The UK is only about 52% self-sufficient in food. About 60% of UK food imports come from the EU27. Thus the questions of future UK market access and the levels of returns from the UK market are very relevant to the EU27.

Ireland has a particular interest in future UK agriculture policy. About 37% of Ireland's agri-food exports go to the UK, valued at €4.5bn in 2018, with 34% (€4.2bn) going to the EU countries excluding the UK, and 29% (€3.5bn) going to the rest of the world. Ireland's agri-food exports to the UK range across all the main sectors, headed by beef, dairy products and prepared foods.

Within the UK, Northern Ireland is an important trading partner with Ireland for agriculture and food. The agri-food sector on the island is highly integrated. Over 800 million litres of milk are imported annually from NI, much of which is processed here. About 400,000 lambs are imported from Northern Ireland annually for processing, and a similar number of pigs are exported annually to Northern Ireland for processing. Currently cross-border trade is seamless, with total free movement at the Ireland/NI border.

Overview of the CAP

The Common Agriculture Policy is viewed primarily as a policy for farmers and the agri-food industry, but it also has many policy implications for consumers. These include security of supply of food, regulations on food quality, food safety and animal welfare, and regulations on the environment. For the purpose of policy analysis, EU agriculture policy can be divided into three broad areas as follows:

- **Prices and markets policy**: The market price for farm products is influenced by (i) the Customs Union, in particular by the common customs tariffs which apply to imports of food products into the EU, and (ii) the Single Market, which enables free movement of goods throughout the Member States. Prices and markets policy does not involve any significant budget cost.

- **Direct payments policy**: Direct payments are made to farmers throughout the EU in order to achieve a number of objectives including food security, and environment, health and animal welfare objectives. Direct payments are "decoupled" from production, i.e. are paid on the land area of individual farms rather than the level of production on farms. Decoupling is a requirement under the rules of the World Trade Organisation (WTO). Direct payments are mostly funded from the EU budget.

- **Regulatory standards**: EU regulations cover the safety and quality of food and of animal feed, plant health, animal health and animal welfare, as well as controls on animals and food products entering the EU from third countries. Regulatory standards also relate to environmental issues, including a linkage (cross-compliance) between direct payments and environmental objectives.

The emerging UK policy on agriculture and food is currently most advanced in the area of direct payments, with the publication of the Agriculture Bill in September 2018. The future prices and markets policy depends mainly on future UK trade policy. As regards future regulatory policy, only very broad statements have been made.

Reflecting the former work experience of the author, the focus of the paper is very much on the farming sector and the related food manufacturing sector. The impact of the policy changes on farming will have direct consequences for the primary processing sector, trade and ultimately for consumers.

(An important issue likely to influence the future viability of the UK market for Irish exports is the future sterling/euro exchange rate: this issue is not included in the paper).

Part I: Changes to Direct Payments to Farmers – Overview and Implications

A: Current Agricultural Support System in UK

As outlined, UK agriculture policy is currently determined to a major extent by the EU's Common Agriculture Policy (CAP). The CAP has been evolving over time; the predominant changes of direction have been:

i. A shift from major reliance on **price supports** to a mix of **lesser price supports and direct payments (DP's)**.

ii. There has been a shift from direct payments linked to production on individual farms (known as coupled payments) to **decoupled payments** which are based on the area farmed rather than the level of production on the farm. The latter change was made mainly to ensure that farm direct payments are compatible with WTO rules, as coupled payments are deemed to encourage higher production, while decoupled payments are considered production-neutral.

iii. In the current phase of CAP (2014-2020) there is a strong emphasis on **green payments** to encourage agricultural practices which benefit climate and the environment. Member States must allocate 30% of their direct payments to green measures, such as crop diversification, permanent grassland, and biodiversity.

The current phase of CAP is in place for the period 2014 to 2020, coinciding with the current EU Multiannual Financial Framework or budget.

CAP direct payments are divided into two categories:

- **Pillar 1**: This consists of an income support payment known as the Basic Payments Scheme, which is decoupled from production, but can be at different rates per hectare on different farms (linked to the level of previous coupled payments). Some approximation of payment rates per hectare has taken place. A detailed set of conditions relating to the environment, public health, plant and animal health, and animal welfare must be fulfilled by farmers to receive these payments; this is known as "cross-compliance". Pillar 1 payments are fully funded by the EU budget.

- **Pillar 2**: This consists of payments mainly linked to regional objectives, particularly in areas of the EU designated as Less Favoured areas (LFA's also known as Areas of Natural Handicap or ANC's), or environmental objectives. The environment-linked schemes apply on an opt-in basis; farmers receive payments in return for operating particular programmes on their farms. Pillar 2 payments are co-funded by the EU and the national governments.

Historic conflict between UK agriculture policy and the CAP

Whereas the CAP seeks to balance the interests of producers and consumers, including prioritising food security, the historic farming and food policy in the UK focussed on achieving low prices for consumers, which was facilitated by liberal food imports. Prior to the UK joining the EEC in 1973, food prices in key sectors did not cover the cost of production for their farmers. The shortfall in the food market was supplied by imports at zero or low tariff levels. Incomes of UK farmers were supported by a system of Government direct payments, known as "deficiency payments".

UK governments have been critical of the CAP over the years, particularly as regards its protectionist elements and its cost to the EU budget. The criticism may be linked to a number of factors: the UK is a net food importer, is a net contributor to the EU budget, and historically operated a "cheap food" policy. Also, by EU standards, the UK has a favourable scale of farming with an average farm size of 92ha, relative to 16ha for the overall EU, and 35ha in Ireland.

Within the UK government, the responsibility for agriculture rests with the Department of Environment, Food and Rural Affairs (DEFRA); agriculture is generally seen as a relatively low-priority issue.

Structure of farming within the UK

As the following table shows, farms in England and Scotland are considerably larger in area than in Wales and Northern Ireland. England has 25,500 farms of over 100 hectares (250 acres approximately), and the average size of these is 263 hectares (650 acres). Data for Scotland is not directly comparable because of the high proportion of upland and mountain.

Table 1. Structure of Farms within the UK

	England	Wales	Scotland	N. Ireland
Total (000)	106.9	35.2	51.9	24.5
Average Size (ha)	85	48	109	41
Total >100ha (000)	25.5	4.9	8.9	2.0
Av. Size of >100ha (ha)	263	206	554	173

(Source: Department of Environment, Food and Rural Affairs, UK)

Farm output, costs, income, and CAP payments in the UK

The following table sets out in summary form the value of total farm output, farm costs, farm income before direct payments, Pillar 1 and 2 payments, and total farm income. Total farm income refers to business profits, return to labour of farm owners and unpaid family workers, and return to owned capital.

Table 2. Output, Costs, Direct Payments and Income, UK Agriculture (£m)

	2016	2017
Total Output	23,421	26,340
Total Costs (current inputs and services) (capital depreciation) (payment to employees) (rent) (interest)	22,551 (14,498) (4,063) (2,575) (573) (422)	23,753 (16,040) (4,100) (2,615) (574) (424)
Farm Income from the Market	850	2,587
Direct Payments (less levies) (Pillar 1: Basic Payments Scheme) (Pillar 2: Agri-environment, LFA's and other decoupled)	3,136 (2,568) (529)	3,156 (2,917) (508)
Total Farm Income	3,985	5,743

(Source: "Agriculture in the UK", DEFRA)

This shows that the margin between the value of farm output and the total costs in producing that output in UK agriculture is quite low, and that farm income in the absence of direct payments would be low. In 2016 (a relatively poor year) and 2017 (a relatively good year), farm income from the market as a percentage of farm output ranged from 3.6% to 9.8%. Clearly this residual income would be very sensitive to any future reduction in product prices or increase in input costs.

Funding of Direct Payments in the UK

As set out earlier, direct payments are an integral part of the current CAP. The issue for UK farming is the future replacement of these payments post-Brexit. The following table sets out the funding for three recent years: 2015, 2016 and 2017. Pillar 1 payments are fully CAP funded. Pillar 2 payments are co-financed between the CAP and the Member States; on average the UK exchequer co-funding rate was about 26%. Thus, for DP's in total, **the UK co-funding rate for total direct payments was less than 6% on average.**

Table 3. Funding of Direct Payments in the UK, £m

	2015	2016	2017
Pillar 1: 100% EU	3,112	3,035	3,080
Pillar 2	959	806	803
EU	709	641	542
UK	250 (26%)	165 (20%)	261 (33%)
Total	4,071	3,841	3,883
Total EU	3,821 (94%)	3,676 (96%)	3,622 (93%)
Total UK	250 (6%)	165 (4%)	261 (7%)

(DEFRA)

The above data indicates that **Brexit means a loss of about £3.7bn annually to UK agriculture** from the CAP. The annual net UK budget contribution to the EU, after the rebate, and taking account of EU funding of public programmes (including agriculture direct payments), is about £8.6bn. However, the funding of national agricultural policy post Brexit did not feature as a priority during the referendum. There is no explicit commitment by the UK government to the longer-term funding of its agriculture policy, apart from the political commitment to maintain funding for agriculture until the end of the current parliament (2022 at the latest but could be earlier).

Regional / country data within the UK

Within the UK, England accounts for 76% of total agricultural output, Scotland for 14%, Northern Ireland for 5% and Wales for 4%. The following looks at two countries / regions within the UK. **England** is chosen because information is available on the future policy direction in the form of the Agriculture Bill that is before parliament, and because of its importance as a market for Ireland. **Northern Ireland** is chosen because of the land border, and because of the current high level of integration in the agri-food industry on the island of Ireland.

England

The following is a summary of the agricultural accounts for England in two recent years.

Table 4. Output, Costs, DP's and Income in Agriculture, England (£m)

	2016	2017
Gross Output	17,396	19,442
Total Costs	16,536	17,494
Income from the Market	436	1,948
Direct Payments	2,024	2,129
(of which)		
-Pillar 1: Basic payment scheme	(1,663)	(1,768)
-Pillar 2:	361	348
(Countryside stewardship scheme)	(324)	(348)
Total Income from Farming	2,884	4,077

(Source: "Agriculture in the UK", DEFRA)

The table shows that, despite the favourable scale of farming in England, farm income before direct payments is relatively low, accounting for 16.6 % and 21% of gross output in the two recent years. **Direct Payments made up 70.2% and 52.2% of farm income**. With the BPS fully funded by the CAP, and an estimated 70% of Pillar 2 funded by the CAP, **about 95% of total DP's in England are currently EU-funded**.

Northern Ireland

The summary agricultural accounts for Northern Ireland are set out in the following table. The table shows that the income before direct payments in Northern Ireland was negative in 2016 and modestly positive in 2017.

Table 5. Output, Costs, DP's and Income in Agriculture, Northern Ireland (£m)

	2016	2017
Gross Output	1,784	2,093
Total Costs	1,854	1,940
Income from the Market	-70	153
Direct Payments	323	320
(of which):		
-Pillar 1: Basic payment scheme	(279)	(292)
-Pillar 2:	44	28
(Less favoured areas)	(19)	(19)
(Agri-environment)	(11)	(3)
Total Income from Farming	253	473

(Source: "Agriculture in the UK" DEFRA)

All of aggregate (total) farm income came from DP's in 2016 and 67.7% came from DP's in 2017. The fully CAP-funded BPS was the main direct payment. As regards Pillar 2 payments, 59% were CAP-funded in 2016 (Pillar 2 payments were exceptionally low in 2017, probably reflecting the ending of some programmes). About 94% of total DP's were CAP-funded in 2016.

B: Proposed Changes to Direct Farm Payments – UK Agriculture Bill

The British Conservative party's ambition to reform agriculture policy in the UK, and the direction of the reform, were well signalled even before the Brexit decision. In 2013 the Conservative Party adopted a new policy on agriculture, set out in its *Fresh Start* policy document. At that time, it was envisaged as the UK input into future reform of the CAP, and ultimate re-nationalisation of agriculture policy in the EU. The key elements of the *Fresh Start* policy are as follows:

- *In the long-term, the UK should strive to return agricultural policy to Member States, but the political situation makes this almost impossible to achieve in the near future.*
- *The direct payments to farmers in Pillar 1 of the CAP should be phased out, and there should be a parallel reduction in red tape and regulation in order to ensure a globally competitive farming sector.*
- *Pillar 2 payments for environment stewardship should be increased with new tradeable environmental payments introduced to allow productive land to be more intensively farmed and marginal land to be more focussed on environmental stewardship.*

The Conservative Party policy on agriculture before the 2017 general election included the following:

- *Commit the same cash total for farm support to the end of the term of parliament, and work with farmers, food producers, environment experts and the devolved administrations to devise a new agri-environment system, to be introduced in the following parliament.*
- *We will pursue free trade with European markets, and secure new trade agreements with other countries […] Leaving the EU also means we will be free to strike our own trade agreements with countries outside the EU.*
- *As we leave the EU, we will no longer be members of the single market or customs union but we will seek a deep and special partnership including a comprehensive free trade and customs agreement.*

UK Agriculture Bill - changes to direct payments: England

Following the 2017 UK General Election, a leading "pro-Brexit" MP, Michael Gove, was appointed as Minister in charge of the Department of Environment, Food and Rural Affairs. In February 2018, DEFRA published a detailed consultation paper *Health and Harmony: the Future for Food, Farming and the Environment in a Green Brexit*. In September 2018 Minister Gove published the new *UK Agriculture Bill*. The main body of the bill applies to agriculture in England, as the implementation of agriculture policy on direct payments is largely a responsibility of the devolved governments in Scotland, Wales and Northern Ireland. However, schedule 3 and schedule 4 respectively of the Bill extend similar powers to Wales and Northern Ireland. The Scottish government is in disagreement with London on the repatriation of EU powers to devolved administrations and announced in early 2019 its intention to bring forward a separate *Scottish Agriculture Bill.* Scotland is covered by some UK-wide provisions of the bill, for example in relation to the World Trade Organisation. (Appendix I looks at the devolution issue in more detail).

The DEFRA explanatory publication accompanying the Bill states:

> *Under our Agriculture Bill, we will spend public money on: enriching wildlife habitats, preventing flooding, improving the quality of air, soil and peat, and planting trees…*

For the first time, farmers and land managers will be able to decide for themselves how they can deliver environmental benefits from their businesses and their land, and how they integrate this into their food, timber and other commercial activities…

The Agriculture Bill will also help farm businesses become more resilient, productive and internationally competitive. By reallocating money we can boost investment in research and development and give funding to farmers for new research projects…

The Bill will help farmers in getting the right price for the food they produce, clamping down on unfair trading practices along the supply chain…

Throughout all our reforms, we will uphold high standards of plant health and animal health. We will build upon our world-leading animal welfare standards…

The Agricultural Bill will allow us to move to our new policy in a measured way. It will allow us to phase out and simplify Direct Payments in the course of an agricultural transition period, and continue to run rural development (Pillar 2) legacy schemes.

The implementation of the new agricultural policy is to be divided into two phases.

2019 – 2020: The Basic Payment Scheme (BPS) in 2019 and 2020 will be paid as in 2018, i.e. under current EU rules, but with possible simplifications in 2020.

The application process for the Countrywide Stewardship Scheme (CS) will be simplified in 2019.

2021 – 2027: During this "transition period" direct payments will be phased out starting in 2021, with the last payments made in 2027.

In 2021, direct payments will be reduced by up to the following percentages detailed in the table below (to free up about £150m to invest in "public goods" such as piloting new schemes, research and development, and providing support for farmers during transition).

Table 6. Reductions in Direct Payments 2021

Direct Payment tranche	Reduction percentage
Up to £30,000	5%
£30,000 - £50,000	10%
£50,000 - £150,000	20%
£150,000 or more	25%

(e.g. a DP of £40,000 would suffer a 5% cut on first £30,000 and 10% on £10,000)

Payments during the "transition" will be based on the payments received by the farmer in a reference period, i.e. the payments will be made whether or not the farmer continues to farm.

Countryside Stewardship (CS) agreements (Pillar II) will continue to be signed in 2021, but final CS agreements will be signed in the 2022 – 24 period.

In 2021 – 24 period, tests and trials will take place on the new Environment Land Management scheme and new Animal Health and Welfare measures.

From 2025, the Environment Land Management scheme and the Animal Health and Welfare measures will be fully up and running.

In the new system, the contracts will be based on a land management plan drawn up by the farmer / land manager. Their plan will set out how they intend to deliver the environmental benefits identified.

During the transition period, time-limited measures will be offered “to build capability to manage risk, improve productivity and deliver public goods”, including on-farm investment and support for new entrants.

Funding of new agriculture policy

The UK government is committed to maintaining current cash total funding to the end of this parliament (2022 at the latest but could be earlier). Current annual funding in England is in the range of £2bn - £2.2bn, of which 95% is funded by the CAP. No indication is given of the funding that will be allocated for agriculture thereafter.

Update on UK Government Strategy on Agriculture, Food and the Environment

The Minister responsible for DEFRA set out the government’s strategy for agriculture, food and the environment in his address to the Oxford Farming Conference in January, 2019. His overall theme was that “science is the future” and he predicted a new agricultural revolution. The following extracts summarise his message:

> *Accelerating technological advances such as the drive towards artificial intelligence, drone development, machine learning and robotics will together allow us to dramatically improve productivity on traditionally farmed land not least by reducing the need for labour, applying inputs more precisely, adjusting cultivation techniques and therefore using far fewer natural resources, whether carbon, nitrogen or water, in order to maximise growth […] Gene-editing holds out the promise of dramatically accelerating the gains we have secured through selective breeding in the past.*

Minister Gove announced that DEFRA is developing a new Food Strategy. Also, he indicated that if farmers are victims of unfair competition in the food supply chain then government should intervene. He said that the government has set up a commission to review the factors to be taken into account to ensure equitable allocation of domestic farm support spending within the four countries of the UK. He repeated the government commitment to maintain government spending up to end of the current parliament. And he referred to the contracts that would be available to farmers under the Environment Land Management scheme to be introduced in the future. However, there continues to be no commitment on the government funding of agriculture, when the EU funding ceases.

The *Agriculture Bill* has made no progress through parliament in recent months, as the wider Brexit issue dominated the agenda.

C: Assessment of Impact on Agriculture in England

i. Impact on farm income and viability

The current EU decoupled direct payment system has evolved from the previous coupled payment system. In the coupled system, DP’s were paid mainly in the “reformed” sectors, namely beef, lamb, cereals and oilseeds, and to a lesser extent, dairying. It should be remembered that in the reformed sectors, DP’s formed compensation for EU price support cuts. Sectors including pigs, poultry, potatoes, fruit and vegetables did not qualify for DP’s.

A consequence of the current direct payment system, which is based on the farm size and limited to certain sectors, is major inequality between farmers. Larger farmers in particular sectors, notably cereals, receive high levels of DP’s. Farmers specialising in potatoes or horticulture or pigs or poultry receive little or no DP’s. This is a significant factor which results in 10% of UK farms obtaining about 50% of all DP’s (and receive an average of £45,600), while the lowest 20% of farms receive less than 2% of DP’s. The UK government has used this situation to criticise the present system. However, there is no evidence that reform of the payment system was considered, as opposed to its abolition.

The following two tables are based on farm survey data for different farm systems; farm systems are based on the predominant enterprise. (Thus, for example pig farms may receive DP's for cereals grown on the farm). The first table sets out the relative importance of the sectors, and the second table sets out the significance of direct payments by sector.

Table 7. Share of Land Area and Number of Farms by Sector: England

Farm System	Cereals	Dairy	Grazing Livestock (Lowland)	Grazing Livestock (LFA)	Pigs, Poultry	Horticulture	General Crops
% of Land Area	33	9	15	14	2	2	15
% of Farms	18	6	30	12	4	4	17

Source: DEFRA, *The Future of Farming and Environment Compendium*, February 2018)

Cereals farms on average are almost double the national average farm size. In contrast, lowland grazing livestock farms (cattle or sheep or a combination) are about half the national average farm size. (Mixed farms which are not included in the table accounted for 10% of all land area and 8% of all farms).

Table 8. Significance of Direct Payments by System: England (2014/15 to 2016/17)

Farm System	Cereals	Dairy	Grazing Livestock (Lowland)	Grazing Livestock (LFA)	Pigs	Horticulture	General Crops
Av. Farm Business Income (£)	40,600	59,600	15,500	22,300	56,600	37,000	56,000
% of FBI from DP's	79%	38%	94%	91%	20%	10%	60%

(Source: DEFRA *The Future of Farming and Environment Compendium*, February 2018)

For all farms in England, the average farm business income was £37,000 and 61% of this income came from DP's. Grazing livestock systems not only had very low incomes but almost all the income came from DP's. The cereals sector was almost 80% dependent on DP's. The dairy sector, a relatively profitable sector, was almost 40% reliant on DP's. Only the pigs, poultry (not shown here) and horticulture sectors have a low reliance on DP's.

The following table shows the percentage of farms by sector which already have a farm income of zero or negative, and the percentage that would be in that category if current DP's were removed and not replaced. It shows that 42% of all farms would have a negative income if DP's were removed, with grazing livestock farms being above the national average. For dairy farms it is seen that 26% would have a negative income if DP's were removed. (Based on DEFRA data not presented here it is apparent that a further 26% of dairy farms, currently with an income of under £50,000, could become non-viable if DP's are removed).

Table 9. % of Farms with Negative Incomes before and after Removal of DP's: England

Farm System	Cereals	Dairy	Grazing Livestock (Lowland)	Grazing Livestock (LFA)	Pigs & Poultry	Horticulture	All Farms
% Negative Farm Income Currently	17	12	14	19	11	13	16
% Negative FI if DP's Removed	44	26	46	54	20	17	42

(Source: DEFRA)

Overall, the main implication of phasing out and not replacing the current DP system is that cattle farms, sheep farms, many cereals farms and some dairy farms that are currently marginally profitable, would be highly unlikely to compensate for the loss of current DP levels by means of internal management adjustments. Quite simply, they would be non-viable. For cattle and sheep farms in particular, the current farm income level including DP's is clearly inadequate to provide a reasonable farm family income. Thus resources for investment are just not there. The UK government strategy of directing these farmers to be more "resilient, productive and internationally competitive" seems unattainable and unrealistic.

ii. Supply response – Example: likely decline in beef cattle and sheep farms

The following focusses on the farming systems defined as "grazing livestock" which consist of cattle farms, sheep farms, and combined cattle and sheep farms, in both lowland areas and Less Favoured Areas. These farms have a very high reliance on CAP direct payments.

Grazing livestock (beef and sheep) in LFA's: These account for 14% of land area and 12% of farms. Over 90% of farm income on average comes from DP's. Currently 19% of these farms have a negative farm income, and this would increase to 54% if DP's are removed. Bearing in mind that suitable alternative enterprises are unlikely on these farms, the great majority of these farms are likely to cease production totally. There may be a possibility for some of the farmers to remain in a land management role (minimum production) in response to possible future environmental payments.

Grazing livestock (beef and sheep) in lowland areas: These account for 15% of land area and 30% of farms, i.e. they are relatively small farms. Over 90% of farm income on average comes from DP's. Currently 14% of these farms have a negative farm income, and this would increase to 46% if DP's are removed.

In general, there is unlikely to be any easy alternative available to many of these farmers. They may not have land suited to arable (tillage) farming, and they may not have the capital or human resources to switch to dairying. The great majority of these farmers would be expected to cease their current farming systems. Some farmers may have a land management role, if adequate incentives are provided by the UK government.

Domestic production of beef and lamb in the UK would decline substantially. The UK is currently about 65% self-sufficient for beef, and Ireland accounts for 70% of UK beef imports. In the case of lamb, the UK is a major importer from New Zealand and Australia, and in turn is a significant exporter to other EU countries. (How the UK's future increased import requirements are met will depend both on the future UK-EU trade arrangements and on the UK future trade relationships with non-EU countries; this is discussed in Part II).

iii. Future UK government funding of farm payments

Based on data presented in this paper, the loss of CAP funding to farming in England is about £2bn per annum. There is no apparent commitment to the future longer-term funding levels for UK government payments to farmers. As outlined earlier, the onus will be on the individual farmer to submit plans to participate in an Environment Land Management scheme or an Animal Health and Welfare scheme, and the government will decide whether or not to offer them a contract.

In a statement on the Agriculture Bill in October 2018 the National Farmers Union President, Ms Minette Batters, clearly signalled that farmers have not obtained any commitment on longer-term funding of agricultural policy. She said: "Farming is a long-term business and farmers need clarity on what their regulatory environment will look like now for the years ahead. A commitment from government in the Agriculture Bill that they will provide this certainty, through clear long-term funding, is essential". As far as can be seen, the government message to farmers is that the funding will be decided on an annual basis in competition with all other elements of public expenditure, with no reference to the replacement of any of the lost EU funding.

iv. An Environment Bill rather than a Farming and Food Bill

The Agriculture Bill is primarily focussed on the environment and not on farming and food production. However, farmers in general see food production as their predominant role, while also meeting environment, food safety and animal welfare objectives. In the same statement by the NFU President, she said: "It is crucial that this piece of legislation has food production at its heart, which will ensure farmers continue to deliver safe, traceable and affordable food while maintaining our high environmental and animal welfare standards". However, the reality seems very different; the environment objectives supersede by far the farm viability and food security objectives; in reality these are interdependent.

The environmental measures contained in the Agriculture Bill are vague, as are the financial incentives to be offered, and the possible additional costs on farmers to qualify for environmental schemes. UK farmers, like farmers across the EU, see their primary role as food producers, and may have difficulty accepting that there is no government support or protection for this role, and will only be supported for what may be seen as a supplementary role. Farmers' production and investment decisions are likely to be driven by the economic return from their food production role. Farmer organisations across the EU including the UK make the case that only profitable farming will ensure a good natural environment.

v. Particular challenge for farmers on tenanted land

According to DEFRA data, of the 9.673m hectares of land in commercial agricultural holdings, about 63% is owned by the farmer, 31% is farmed on a medium to long-term tenancy basis, and 6% is rented in on a seasonal basis. Tenanted farms on average obtain 83% of income from direct payments. In the case of rented and tenanted land, the income is shared between two parties, the landowner and the farmer.

While the UK government sees lower rents as a positive consequence of their Agriculture Bill, this may be only a temporary relief for tenant farmers. A dramatic reduction in farm income and farm rents is likely to precipitate a change in landowner / tenant arrangements. In the longer term landowners are likely to seek to minimise their losses. The more obvious changes are likely to include: accept rental agreements only from farmers in the higher-income sectors, transfer their land to an alternative use such as forestry, or sell the land on the open market including for non-agricultural uses.

vi. A retirement scheme for some farmers

Farmers in developed countries tend to be a relatively old segment of the workforce, and farmers in England are no different. The median age of farmers in England is 60 years.

During the transition period which runs to the end of 2027, farmers currently receiving direct payments will continue to receive the payments based on a reference period, and the payments will be made whether or not the farmer continues to farm.

i. Challenge for new entrants to farming

The greatest challenge will be for young farmers and new entrants to farming who will be required to farm with very low government income support. Also, the market and trade environment facing new entrants is likely to be less supportive than at present (see Part II). Whereas access to land by purchase or rental may be more favourable than at present, this may be more than offset by a range of negative factors. Such factors include: low income from farming, low or negative return on investment, low availability of labour, high cost of new technology, and scarcity of services such a veterinary services and agricultural contractors.

D: Likely Changes to Direct Payments in Northern Ireland and Assessment

Consultation process

In Northern Ireland, in the absence of the Northern Ireland Executive, the consultation process on future agriculture policy commenced in August 2018 with the publication of a consultation document by the Deputy Secretary of the NI Department of Agriculture, Environment and Rural Affairs (DAERA). The consultation document is titled *Northern Ireland Future Agriculture Policy Framework*, and the closing date for submissions was 10 October 2018.

There is no financial commitment in the consultation document other than the statement: "the paper assumes that the total agricultural support budget available to NI will remain constant in cash terms for the remainder of this Parliament".

The consultation paper outlines the importance of current direct payments to farming in NI:

> *Pillar I of the CAP currently provided approximately £327m per annum of direct support to NI farmers. All this is paid out as decoupled support on a per hectare basis. While this support is not linked to current production, it nevertheless has a very significant influence on the viability of the industry and its competitive position relative to other regions in receipt of similar support. Over the past five years, direct CAP support (Pillar I) amounting to £1.3bn has accounted for 83% of the cumulative total income of the NI agricultural industry. In two of these years, the industry as a whole would have been in a loss-making position without this support.*
>
> *Further measures are delivered under the CAP for a range of rural development schemes which assist farm businesses (Pillar II). Over the same five year period, farmer-facing rural development measures have delivered just over £200m of EU funding and associated national monies to improve both economic and environmental performance.*

Transitional agricultural support 2019 – 2021

No changes are anticipated in 2019. Limited changes may be made in 2020 and 2021 to simplify the current support regime. These years may also be used to make necessary preparations to deliver a new support framework from 2022 or to pilot new approaches.

Agriculture policy framework post-2021

The consultation document sets out four strategic outcomes that the future policy should deliver, namely increased productivity, improved resilience to external shocks, environmental sustainability, and an integrated, responsive and efficient supply chain. Reference is made also to food security as being highly important. The need to avoid unacceptable market distortions within the UK is also referred to.

Assessment

Although the process of future policy formulation in Northern Ireland is at a less-advanced stage than in England, there are some underlying relevant factors that must be considered. These include the extreme reliance on CAP direct payments, the lack of control by the Northern Ireland Executive on the future funding of agriculture policy, and the exceptional vulnerability of Northern Ireland agriculture to a no-deal Brexit.

i. Extreme reliance on direct payments

The following data published by the DAERA, based on farm surveys, sets out the average level of Farm Business Income (FBI) across the main farm enterprises (FBI is very similar to the measure used in Ireland and by the EU, Family Farm Income). FBI is the return to all unpaid family labour and their capital invested in the farm business. The average level of direct payments by sector is set out, and the level of FBI minus the direct payments is calculated.

Table 10. Significance of Direct Payments by System, Northern Ireland, 2016/17. (£)

Farm System	Cereals	Dairy	Cattle &Sheep (Lowland)	Cattle &Sheep (LFA)	Pigs	Mixed	All Farms
Farm B. Income	16,492	28,618	16,578	21,352	58,673	27,637	21,928
Direct Payments	30,023	24,036	24,424	32,027	14,387	24,907	27,628
FBI less DP's	-13,532	4,582	-7,847	-10,674	44,285	2,730	-5,730

(Source: DAERA)

Farm income overall would have been negative in the absence of DP's in that year. It is clear that the viability of the cattle, sheep and cereals sectors is totally dependent on the DP's. In the case of dairy farms, the average farm would not yield anything close to a viable income in the absence of DP's. Only the intensive sectors of pigs and poultry (not shown) would have a future in the absence of DP's at, or close to, the current level.

Suggestions from DAERA that the future survival of NI agriculture can be secured through "increased productivity, improved resilience to external shocks, environmental sustainability, and an integrated, responsive and efficient supply chain" are viewed by this author as being totally detached from reality.

The Ulster Farmers Union has stated that it recognises that there are big changes coming and that farmers must be prepared. However, in a statement in October last by the Ulster Farmers Union President, Ivor Ferguson, in response to the consultation process, said: "Food production must be at the heart of agricultural policy, both at the UK level and in NI. If a farm business is not profitable, it's not viable and will not be able to deliver the public goods the government is looking for".

ii. Future funding of agriculture direct payments

As stated earlier, agriculture is a devolved sector in Northern Ireland. Thus as regards direct payments policy in the future, it is likely that the Northern Ireland Executive would decide the details of the policy, but within a budget allocation provided by London.

In October 2018 the UK government announced that an independent advisory panel was being established to look at what factors should determine the distribution of agriculture funding between the four countries in the term of the current parliament.

As regards the funding of DP's after 2021/22, Northern Ireland farmers are likely to face two significant problems. First, the overall NI economy is weak, and showing little signs of recovery. Currently about 30% of income across NI (or about £10 billion annually) comes as a transfer from London. The weakness in the NI economy was outlined by cconomist John Fitzgerald, writing in the Irish Times earlier this year: "The scale of continuing transfers from London represented a major opportunity for the new devolved administration when it took office [...] Much of this funding could have been used to rapidly develop the Northern economy, rendering it less dependent on London. Instead, over the 20 years since the Belfast Agreement, the transfers have been used to fund continuing very high levels of public services". Looking to the future, it is apparent that farming in NI will have to compete for funding with other sectors and other public expenditure demands within the region.

The second likely problem is that, post-Brexit, other relatively poor regions in the UK, particularly areas of industrial decline, will be demanding more development support and more income support from the government. Northern Ireland will have to compete for funding with these regions.

iii. Particular vulnerability of NI agriculture to a no-deal Brexit

In recent months, as a "no-deal" outcome becomes more likely, the DAERA has acknowledged that this would be a particular problem for Northern Ireland. DAERA stated: "Overall, the cumulative impact from a no-deal scenario is expected to be more severe in NI than in GB, and likely to last longer. This is because of NI's unique circumstances, including in particular its geographical position as the only part of the UK with a land border with the EU, and the current lack of an Executive in NI".

In June 2019, a report commissioned by the NI Civil Service from two lawyers specialising in EU and international customs law (Pickett and Lux) sets out the major difficulties facing NI businesses in a no-deal Brexit. The report notes that trade between Northern Ireland and Ireland will be hugely affected, with agriculture trade the worst affected of all. It sets out in detail the array of checks, inspections and declarations that will be required on NI exports to Ireland. It notes that any "facilitation" measures introduced to reduce the burden of checks in order to facilitate cross-border trade would require the agreement of the EU. (In the context of imports to Ireland from Northern Ireland, Ireland will be required by the EU to effectively implement the EU external border controls; as a food exporting country within the EU, this is very much in Ireland's own interests).

Part II: Future UK Trade Policy for Agricultural Products

Preference for EU production

UK agriculture, together with EU agriculture generally, benefits from the import protection regime in place under the EU Common Customs Tariff. Although the EU has agreed in successive GATT and WTO negotiations to improve import access to its market, import tariffs for the main agricultural products, including beef and dairy products, are relatively high. In some sectors including sheepmeat, where favourable access has been negotiated with traditional supplier countries, notably New Zealand, it has been done through Tariff Rate Quotas, i.e. zero tariffs on a fixed volume of imports.

The benefits to EU producers of the EU import tariff system arise from higher and more stable product prices, thereby supporting farm income and facilitating the achievement of high animal and plant health, animal welfare, food safety and environmental standards. A strong farming sector supports a modern food manufacturing industry and contributes to a viable rural economy.

Consumers in the EU benefit from security of food supply, food quality and safety. Issues such as food traceability and environmental sustainability are increasingly important to EU consumers. The policy of EU preference has not had a major negative impact for retail food prices; food is a relatively low and declining share of consumer expenditure.

In contrast to the advantages of sourcing food from within Europe, and as locally as possible, there are multiple problems with an alternative of relying on imports from "world markets". World market prices tend to be cyclical, and are determined by short-term interaction of supply and demand for a relatively small component of world food production. For example, the price of whole milk powder, the most traded dairy product, peaked at $4,950/t in 2014, fell to $2,320 in Q2 of 2016 and recovered to $3,386 in Q3 of 2017. Also, production standards are very different in many food exporting countries than those applying in the EU. Furthermore, transport of food over long distances has an environmental cost.

EU import tariff rates

The following table sets out the EU import tariff rates for the main agricultural products. These tariff rates are a significant factor in determining producer prices within the EU including UK producers. The column on the effective tariff rate quantifies the tariff in "ad valorem" terms, relative to "world market" prices. The data in the table comes from the UK Agriculture and Horticulture Development Board (AHDB) and relates to the 2016 to 2018 period.

Table 11. EU Import Tariffs Rates

Product	EU tariff rate (€/tonne)	Effective tariff rate % (2016 – 2018)
Beef: carcases/sides; fresh/chilled	12.8% + €1,786/t	70%
Beef: carcases/sides; frozen	12.8% + €2,211/t	120%
Lamb: carcases/sides; fresh/chilled	12.8% + €1,713/t	76%
Lamb: carcases/sides; frozen	12.8% + €1,288/t	46%
Pigmeat: carcases/sides: fresh/ chilled	€536/t	30%
Pigmeat: carcases/sides; frozen	€536/t	15%
Butter	€1,896/t	32%
Whole Milk Powder	€1,304/t	51%
Cheddar Cheese	€1,671/t	57%
Wheat	€95/t	47%
Barley	€93/t	53%

(Source: European Commission; AHDB)

It should be noted that while the current level of import protection against non-EU imports is relatively high, nonetheless it is seen from Part I of this paper that farm income from the market (i.e. before receipt of EU direct payments to farmers) within UK agriculture is quite low for the main sectors, and is extremely low within Northern Ireland.

Future UK trade policy for agriculture?

The UK overall is only about 52% self-sufficient in food, and thus future trade policy will impact mainly on the side of imports. Many countries outside the EU, including the US, that wish to reach trade agreements with the UK post Brexit, view agricultural exports as a priority.

The following looks briefly at the impact of the main alternative trade policies for UK agriculture. The three options chosen here come from a paper by this author published by the IIEA in 2018 *Implications of future EU-UK trade relationships for Ireland's agri-food sector.*

Option A: The UK remains in the customs union (or negotiates an equivalent customs union with the EU) and maintains regulatory alignment with the EU.

From the perspective of UK agriculture, this is the only option that would ensure the retention of the current price level in the UK food market. Also, it would avoid tariffs on UK exports to the EU27. And there would be no need for the "backstop" for Northern Ireland.

Option B: Negotiation of a free trade agreement between the UK and the EU.

Whereas the impact on UK agriculture would clearly depend on the terms of the agreement, a number of problems can be anticipated. If the UK wishes to implement an independent trade policy with non-EU countries, the EU would be expected to put measures in place to avoid trade displacement. Trade displacement would occur where the UK supplied its home market from imports, and exported its own production to the EU. Thus, the EU may insist that UK exports to the EU are governed by Tariff Rate Quotas, limiting exports to historic levels. Border controls between the EU and the UK would be required to deal with issues of regulatory compliance, and rules of origin. The UK internal market would become more exposed to imports from non-EU countries at zero or low tariffs, thereby undermining the price level and price stability in the market.

Option C: The UK leaves without a deal with the EU, and future UK trade policy is based on WTO rules.

In this situation, the Withdrawal Agreement would not be ratified by the UK, there would be no Transition period, and the UK would rely on WTO rules to regulate its trade. This situation would result in the implementation of tariffs on UK-EU trade in both directions. The EU tariff rates on imports from the UK would be as set out in table 11. **The UK tariff rates would be much lower in most agricultural sectors, if the announcement by the UK government in March 2019 is implemented**. (See details following).

In the "no deal" scenario the UK market price for agricultural products may be undermined by low-priced imports, depending on the interaction of "world market" prices, UK tariffs, transport costs and currency values. UK producers would face high tariffs on exports to the EU. There would also be a major issues of regulatory standards on UK imports from non-EU countries to be resolved. (The UK may subsequently decide to negotiate a number of free trade agreements with non-EU countries, which could offer further tariff concessions). Option C, while currently the favoured option of the "hard Brexiteers" in the UK government, would be a doomsday scenario for many producers in the UK, if product prices no longer cover the cost of production and provide a reasonable income level to the farm family.

Proposed UK import tariff rates in a "no deal" Brexit

In March 2019, the UK government (Department of International Trade) published details of its proposed temporary tariff regime in a "no deal" scenario, which would apply for up to 12 months while consultation would take place in relation to a permanent regime. The government statement pointed out that if it maintained the current (EU) tariff regime this would impose new tariffs on imports from the EU, thus driving up prices for consumers and disrupting business supply chains. The statement also pointed out that if the UK were to maintain zero tariffs with the EU, it would have also have to extend this to the rest of the world due to WTO rules (Most Favoured Nation clause or MFN).

The UK government states that under the proposed temporary tariff, 87% of UK imports by value will have tariff-free access. Tariffs will apply to the remaining 13% of goods, including some of the main agricultural products. For some of these agricultural products, notably beef, lamb and poultrymeat, Tariff Rate Quotas (TRQ's) would also apply, i.e. zero tariffs would apply to a fixed quota of imports. The overall impact of the proposed UK import tariff regime for agricultural products would be to (i) apply a tariff on imports from the EU, which currently enjoy free trade, and (ii) replace the relatively high current tariff on imports from non-EU countries with a lower tariff.

Table 12. Proposed UK "No Deal" Tariff Rates

Product	Proposed Tariff Rate	Tariff Rate Quota
Beef	57% of EU tariff	Yes
Lamb	100% of EU tariff	Yes
Pigmeat	13% of EU tariff	No
Poultrymeat	60% of EU tariff	Yes
Butter	32% of EU tariff	No
Cheese; cheddar type	13% of EU tariff	No
Cereals	Zero tariff	-

(Source: UK Department of International Trade; AHDB)

Wider significance of UK import tariff proposal: Although the tariff proposal has been made in the context of a no-deal situation, it may also be relevant in any situation where the UK operates an independent trade policy in the future. Even if the Withdrawal Agreement were to be ratified by the UK, that country may decide in favour of an independent trade policy. In the absence of any other information from the UK, the proposed tariff regime must be interpreted as representing the broad thrust of future UK policy on agricultural trade.

Northern Ireland: The UK government announced that the proposed "no deal" tariff regime will not apply on trade from Ireland to Northern Ireland, in light of the UK government's commitment to there being no hard border on the island of Ireland. Exports from Ireland to NI that have travelled duty free could subsequently move freely to mainland UK. However, UK Revenue and Customs has indicated that if trade flows shift as a consequence of this relief, this will be investigated to see if the trade shift is driven by tax avoidance or evasion. Thus it is apparent that the NI relief may be temporary. (Irrespective of the arrangements on trade into NI from Ireland, the Irish government would be obliged to implement the EU tariff on trade from NI).

Likely implications of proposed UK import regime for the main agriculture products

The following draws on preliminary analysis by the UK Agriculture and Horticulture Development Board, as well as the author's assessment.

Beef

Current situation: The beef trade is made up of three separate segments, fresh, frozen and boneless, but for simplicity it is treated as a single product here. Currently (2018 data) the UK imports 380,000t annually. Of this, 340,000t comes tariff-free from other EU countries. 30,000t of the remaining 40,000t of imports comes from non-EU countries under EU preferential import regimes (TRQ's).

Ireland supplies about 70% of UK beef imports, amounting to about 270,000t which equates to about 50% of our total beef export value. The type of beef produced by Ireland, mainly steers and heifers, is particularly suited to the UK market.

No deal: The likely impact is as follows.[1]

i. The UK would introduce a tariff on beef imports, from both the EU and non-EU countries, set at 57% of the EU beef tariff. In addition, the UK would offer a tariff rate quota (TRQ) for 230,000t of imports at zero tariff. The TRQ would be open to EU and non-EU suppliers on a first come first served basis, and would be administered quarterly and by category of product.

ii. It can be expected that non-EU countries would be more competitive in supplying the TRQ quantity, due to lower costs and prices. Clearly the standards and regulations to be applied by the UK in the future will be a factor. (The major net exporting countries for beef are Brazil, Australia, New Zealand and Uruguay).

iii. It is expected that 30,000t imported by NI from Ireland would be at zero tariff.

iv. An estimated 75,000t- 95,000t would be imported under the new UK import tariffs (57% of EU tariff), most likely from non-EU countries, due to lower prices.

v. A switch in UK exports of about 80,000t from the EU to its home market would be anticipated, as the EU tariff would rule out such exports in the future.

vi. The combination of the changes outlined here would be likely to result in a major reduction in Ireland's future role in the UK beef market; prices would be too low and too volatile. (See later comment on "Non-price factors: all sectors).

1 This section draws from AHDB and other sources.

Lamb

Current situation: the EU provides for imports of up to 285,000t of lamb annually under TRQ's at zero tariff. The major suppliers are New Zealand: 228,000t of TRQ; Argentina: 22,000t and Australia: 19,000t. The UK is the single largest destination for these imports. The UK is also a significant lamb producer and exports about 80,000t annually to the rest of the EU.

The UK market accounts for about 23% of Ireland's lamb exports, while over 70% goes to the rest of the EU.

No deal: The likely impact is as follows.

i. The UK "no deal" tariff proposal is that future UK lamb tariffs would be set at the current EU tariff rates, i.e. no change.

ii. The EU and the UK have agreed that, post Brexit, the UK share of the NZ TRQ will be 50% and of the Australia TRQ will be 80%. (However, NZ and Australia have not agreed to this so far). Thus the UK market would continue to be largely supplied by zero tariff imports from the southern hemisphere.

iii. Exports from the EU (including Ireland) to the UK, currently tariff-free, would be subject to the UK tariff rate (same as EU tariff), and would not take place.

iv. Exports from the UK to the EU would be subject to the same tariff rate, and would be unlikely to take place.

v. Exports of live lambs from NI to Ireland would be subject to the EU tariff of €80.50/100kg, which for a 42kg lamb is a tariff of €33.80. (These exports would be likely to switch to mainland UK).

vi. From the UK producers' perspective, the future price situation in the UK market seems vulnerable, as the current safety net of exports to the EU would be lost. Future UK market stability will be very dependent on the management of the TRQs.

Pigmeat

Current situation: Imports from the rest of the EU account for about 60% of pigmeat consumption in the UK. The EU tariff prevents imports from non-EU countries.

No deal: The likely impact is as follows.

i. Under the UK "no deal" tariff proposals, the UK would introduce an import tariff equivalent to only 13% of the current EU tariff. There would be no TRQ's introduced. Preliminary analysis by the AHDB suggest that imports from the US and Canada would be competitive in the UK market in the new situation.

ii. Imports to the UK from the EU would face the new, although relatively low tariff.

iii. Prices in the UK pigmeat market are likely to be lower, and more volatile, in a "no deal" situation, as the market will be much more reliant on global supplies.

Dairy Products

Current situation: Almost all dairy product imports into the UK are from other EU countries, including Ireland, and are thus tariff-free. The EU tariffs on the main dairy products are relatively high and thus prevent imports from non-EU countries.

Ireland supplies about 60% of UK butter imports (41,000t), about 82% of cheddar cheese imports (78,000t), about 45,000t of other cheese, and about 26,000t of milk powder. The UK is our only significant export market for cheddar cheese. Ireland provides a market for about 800m litres of milk annually from Northern Ireland.

No deal: The likely impact is as follows.

i. The UK proposals include maintaining import tariffs, but at much reduced rates, for butter and some cheese including cheddar-type cheese. The proposed UK tariff on butter would be at 32% of the EU rate, and for cheddar cheese would be at 13% of the EU rate, and would apply to imports from both the EU and non-EU countries. The UK would not introduce TRQ's for these products.

ii. Imports of all other dairy products into the UK from the EU and non-EU, including liquid milk, milk powder, and other cheeses including Mozzarella, would be tariff-free.

iii. UK exports to the EU would be subject to the current EU tariffs. For example, exports of butter and cheddar cheese would be subject to the EU tariff of €1,896/t and €1,671/t respectively. The elimination of the safety valve of exports from the UK to the EU would be likely to result in more price instability in the UK market.

iv. Exports of liquid milk from NI to Ireland for processing would incur a tariff of €21.8/100kg (22cent/litre approximately), which would add 68% to the cost of the milk (AHDB) and make this trade uneconomic.

v. The impact of these changes on the UK market is difficult to assess. Future operation of tariff-free access to the UK market for many dairy products, and much lower tariffs on butter and cheddar cheese, are likely to result in a switch in suppliers from EU to non-EU sources. As an illustration, the Oceania butter price in 2018 was €4,151/t and the EU price was €5,266/t (AHDB data). The EU tariff of €1,896/t prevented imports from Oceania. In the proposed situation, exports from Oceania to the UK would face a much lower tariff of €607/t. Exports from Ireland or France, now tariff-free, would face the same UK tariff of €607/t. Clearly, other things being equal, imports from Oceania would be more competitive.

Non-price factors: all sectors

It should be noted that, for all sectors, there are factors at play other than market price difference which would influence the new market equilibrium. These include transport costs, product quality, freshness, next day delivery, consumer recognition of product, and product promotion. A related factor is that in the UK many food products including meat are largely sold under retail multiple "own label" branding, which means that the retail multiple is in effect underwriting the quality of the product.

Part III: Future UK Policy on Standards and Regulation

The third element of EU policy on agriculture and food relates to a range of standards and regulations on food safety, animal welfare and the environment. EU food safety regulation deals with a wide range of issues including: animal health, plant health, hormones, chemical residues, bacterial and viral contamination, overall hygiene, labelling, refrigeration, and animal welfare. The overall EU objective is to set and enforce high standards while also ensuring the functioning of the Single Market.

Food safety regulation and enforcement in the EU takes place at both EU and national levels. Enforcement takes place on farms, at food processing plants, during transport, in supermarkets and other retail outlets and in restaurants. It also takes place at the EU external border in relation to imports of animals, plants and food from outside the EU. The central EU legislation is the General Food Law Regulation of 2002. A large proportion of food safety risk assessment is carried out by the European Food Safety Authority (EFSA). Other EU agencies such as the EU Rapid Alert System for Food and Feed play a role in maintaining food standards.

In the context of Brexit, the *European Union Withdrawal Act* in the UK will repeal the *European Communities Act 1972*, and provide for the incorporation of EU law into domestic law. The broad thrust of the Act is to preserve all existing EU legislation in UK law, so that the same rules would apply on the day after the UK leaves the EU as before. However, this position must be viewed as a short-term and interim arrangement, and liable to major change in the context of future UK trade policy in the agri-food sector.

Future UK trade policy for agriculture and food

Following the 2016 Referendum result, key components of the UK Brexit policy include (i) exiting the EU Customs Union and Single Market, and (ii) future operation by the UK of an independent trade policy. The US government, notably President Trump, has been vocal in advocating a new comprehensive US-UK trade agreement. However, the food safety standards and regulations in the US are far inferior in many cases to those in the EU (see following examples). The initial position of the UK government has been set out by the Minister in charge of DEFRA, Michael Gove. Speaking to the NFU in February 2019 he said:

> *We have been clear across government, from the Prime Minister down, we will not lower our standards in pursuit of trade deals, and that we will use all the tools at our disposal to make sure that standards are protected and you are not left at a competitive disadvantage.*

However, a very different perspective has been given by the UK Chartered Institute of Environmental Health, which stated as follows in August 2018:

> *The UK does not feed itself and the UK's domestic production of food has been steadily declining since the early 1980's; self-sufficiency is now, by value, only about 60%. If we consider the flow of unprocessed food, the UK supplied less than half (49%) of its unprocessed food in 2016. Not only is the UK food system fragile and vulnerable to disruption, it is also heavily reliant on those of its EU neighbours. Therefore keeping open and unhindered borders with the EU for food trade may be the UK's best chance of achieving sustainable food security after Brexit. A no deal withdrawal could adversely affect public health, consumer protection, animal welfare and environment sustainability, as other countries begin to produce food for the UK to replace imports from the EU.*

Overview of US food standards in conflict with EU standards

The following are well-reported practices operating in US agriculture and the US food industry, with the approval of the US Food and Drug Administration (FDA), which are in conflict with EU food safety policy.

Chlorine-washed chicken: Chlorinated disinfectants are used in the chicken slaughter/processing industry to reduce bacterial contamination on the surface of the product. The widespread use of this product is understood to be required in order to counter the effects of low hygiene standards in the production and processing of chicken.

Hormone growth promoter use in beef farming: US beef producers widely use synthetic hormones implanted under the skin of cattle to promote growth. The effect of this practice is that beef cattle grow more rapidly with the same or less feed, thereby making farming more competitive. The EU has banned this practice as not being acceptably safe for consumers.

Use of Beta-agonists in beef farming: It is estimated that over 60% of cattle in US feedlots are produced with the use of these non-hormone synthetic growth promoters. These are veterinary medicinal products intended for treating specific animal conditions, but have been approved by the FDA as growth promoters. They have the effect of increasing muscle growth and suppressing fat accumulation. These products are banned in the EU on food safety grounds. (A major US beef processor has raised animal welfare concerns in relation to the use of these products).

Use of Ractopamine in pig production: This product (a beta-agonist) is used in pig production in the US; its effect is to increase muscle tissue and reduce fat. The European Food Safety Authority has concluded that it does not have evidence to show that the product is safe for human consumption at any level.

Higher levels of antibiotics in livestock and higher levels of pesticides: Livestock farmers in the US use higher levels of antibiotics, to promote growth and tackle disease, than their EU counterparts. The likely consequence is that antibiotic residues in US food are relatively high, with implications for human resistance. Also, there is relatively high levels of pesticide use in US agriculture, and in many cases maximum residue levels of pesticides in the US are substantially higher than in the EU.

Chicken litter: The UK Chartered Institute of Environmental Health has reported that:

> *… another practice deemed acceptable by US authorities is to incorporate what is politely referred to as chicken litter (poultry bedding material mixed with chicken faeces) into animal feed, including feed for poultry. The UK experience with BSE (mad cow disease) showed us what can occur when animal wastes are incorporated into animal feeds.*

Use of bovine somatotropin in milk production: This is a synthetic hormone used to increase the profitability of milk production. It is understood that this practice has the effect of dairy cows producing milk all-year-round without needing the natural stimulus of pregnancy and birth of a calf. This practice is banned by the EU on the grounds of the animal welfare, as it is understood to cause pain to cows.

Labelling of GMO foods: The US is the largest grower of commercial crops that have been genetically modified in the world. Regulation of GM crops in the US is divided between three agencies: the Environment Protection Agency, the FDA and the US Department of Agriculture. Recently (June 2019), President Trump ordered the agencies to ease the approval of GM crops. In the context of future US-UK trade agreements, the issue at stake is probably not the US approval process (which the US is most unlikely to discuss), but the labelling of foods containing GM material, for the benefit of consumers.

In the US, there is no compulsory labelling of GM products. The policy of the Food and Drug Administration is:

> *FDA recognises that many consumers are interested in whether food ingredients are derived from genetically engineered plants, and has issued guidance for manufacturers who wish to voluntarily label their foods as containing or not containing such ingredients.*

The EU operates two forms of labelling in relation to GM foods:

- **GM labelling**: In the case of pre-packaged GM food or feed products, the list of ingredients must indicate any that are "genetically modified". In the case of products without packaging, the words "genetically modified" must be clearly displayed in close proximity to the product. However, labelling is not required if the GM content is less than

0.9%. Also, these regulations do not apply to meat, milk or eggs produced from feed containing GM material. (As about 50% of US soya bean production is from GM crops, and the EU is a major market, it would be impractical to implement GM labelling for these products).

- **GM-free labelling**: In addition to the compulsory measures outlined, a voluntary system of GM-free labelling may be used in the EU. This applies where specific measures have been taken to strictly exclude the presence or use of GM material in food or feed products. Such voluntary labels must not be misleading to consumers.

Overall: The US policy on food safety and related issues seems to be more influenced by the interests of the food manufacturing / processing industry than the interests of food consumers. Objectives that seem high on the US agenda are low food prices, and competitive agriculture and food exports.

Future US-UK trade agreement – specific US negotiating objectives

In October 2018 the Trump Administration announced that it intended to negotiate a trade agreement with the UK once it leaves the European Union. In February 2019 the US Trade Representative published *United States – United Kingdom Negotiations: Summary of Specific Negotiating Objectives*. The introduction to the paper states that the US aim in the negotiations is to address both tariff and non-tariff barriers, and to achieve fairer and deeper trade. The following are some relevant extracts from the document.

Trade in Agricultural Goods

Secure comprehensive market access for US goods in the UK by reducing or eliminating tariffs...

Eliminate practices that unfairly decrease US market access opportunities or distort agricultural markets to the detriment of the US, including non-tariff barriers that discriminate against US agricultural goods....

Promote greater regulatory compatibility to reduce burdens associated with unnecessary differences in regulations and standards....

Establish specific commitments for trade in products developed through agricultural biotechnologies...

Sanitary and Phytosanitary Measures (SPS)

Provide for enforceable and robust SPS obligations that build on WTO rights and obligations, including with respect to science-based measures, good regulatory practice, import checks, equivalence, regionalisation, certification and risk analysis...

Establish a mechanism to remove expeditiously unwarranted barriers that block the export of US food and agricultural products, in order to obtain more open, equitable and reciprocal market access.

Establish rules that further encourage the adoption of international standards and strengthen implementation of the obligation to base SPS measures on science......

Establish new and enforceable rules to eliminate unjustified trade restrictions or unjustified commercial requirements (including unjustified labelling) that affect new technologies...

Overview on agriculture and food standards and regulations

It is apparent that the UK decision to leave the EU and operate an independent trade policy underestimated or largely ignored the implications for future standards and regulations applying to farming and food in the UK. The initial UK policy of preserving EU law into national law may be a short-term arrangement.

It is the stated intention of the UK and US governments to negotiate a new trade agreement post Brexit. In several major areas, standards and regulations on food safety in the US are inferior to those in the EU. The US policy on food safety is very much a science-based approach, reflecting the commercial objectives of its food processing industry, and the strategic national importance of agri-food exports.

The US government has wasted no time in setting out its objectives in future trade negotiations, including improved access to the UK food market, and reduction or removal of “non-tariff barriers” currently limiting access to the market. The UK is a major net importer of food, and the rest of the EU is currently the major supplier. A “no-deal” Brexit would mean a substantial shift in food imports from the EU to non-EU sources including the US. In the US-UK trade negotiations, the UK will be the weaker party in overall economic terms, and may be forced to concede on food safety to achieve secure food supplies at relatively stable consumer prices.

Appendix I: Devolution Issues in Future UK Agricultural Policy

Agriculture is a devolved sector in the UK, meaning broadly that the implementation of some parts of the policy are the responsibility of the devolved governments and administrations in Scotland, Wales and Northern Ireland, within a policy framework decided at EU or UK levels. UK's membership of the EU has meant that the policy framework is largely set by the CAP and by EU trade policy. When the UK leaves the EU it can be expected that the UK government will seek to establish a common framework. Thus an important issue in the context of future UK agriculture policy is the decision to be made on which policy elements will be retained by Westminster and which will be devolved to Edinburgh, Cardiff and Belfast. (This appendix draws substantially from the paper, *The Repatriation of Competences in Agriculture after Brexit*, by Professor Michael Keating of the Universities of Aberdeen and Edinburgh, and published by the Centre on Constitutional Change, February 2019).

When the three pillars of agricultural policy are assessed, the current situation in relation to devolution is as follows. **International trade policy**, including the common customs tariff, is an exclusive EU responsibility. **Standards and regulations** in the agriculture and food sectors are set at EU level either by the Single Market programme or by a range of specific regulations; these regulations do not allow much scope for variation at Member State or sub-state level. Agricultural products entering the EU also have to meet these standards. The policy in relation to **Direct Payments** to farmers allows some scope to vary the policy at Member State and sub-state level. The scope for variation has increased following recent rounds of CAP reform, which introduced choice and flexibility in the implementation of the CAP.

Within the current CAP direct payments policy, Member States or sub-states can choose amongst schemes, can move funds (within limits) from Pillar I to Pillar II and vice versa, and can direct funds in favour of smaller farms or in favour of young farmers. In the context of UK devolution policy, the Keating paper gives some examples of different choices made in England and in Northern Ireland (and also in Scotland and Wales). In the case of **capping of individual farm payments**, in England where farms are relatively large, the policy is to reduce the component of payments over £150,000 by only 5%; in Northern Ireland where farms are smaller, no payment exceeding £150,000 is made. Another example is that in England, 10%-15% of **funds are moved from Pillar I to Pillar II**, while in Northern Ireland no funds are moved from Pillar I to Pillar II, i.e. the policy choice in Northern Ireland is to maximise the basic payments scheme.

Allocation of Agriculture Spending in the UK, 2014 – 2020

This is summarised by Keating as follows:

> *CAP funding (within the UK) is not part of the block grant (to the devolved regions) and not subject to the Barnett formula (see later). It does, however, share the feature of being adjusted incrementally, and ultimately decided by the UK government. While all funding must be within EU approved programmes, the UK government delivers its share across the nations on be basis of historic allocations, modified by political decisions. The devolved governments then have scope for reallocating money within the agriculture envelope.*

A simple example of the Barnett formula given by Keating is that if England gets £10 extra per head for education, each of the devolved nations get an additional £10 per head; the additional amount to the devolved nations is irrespective of the current levels of payment per head.

The following table sets out the allocation of agriculture expenditure across the nations in the current CAP, 2014-2020.

Table 1: CAP Allocations within UK, 2014-2020

	% CAP Allocation	% UK Population	€ per capita
England	64	84.2	338
Scotland	17	8.3	863
Wales	9	4.7	866
Northern Ireland	9	2.8	1,404

(Source: Keating from DEFRA sources)

EU Withdrawal Act

Keating sets out the situation as follows.

> *The EU Withdrawal Bill initially proposed that the powers come back to Westminster as part of retained EU law. Some could subsequently be released to the devolved governments. The Scottish and Welsh governments opposed this on constitutional and practical grounds. The final Withdrawal Act provides that only some competences come back to Westminster for a limited period. Agreement has now been reached on the need for some common UK frameworks but not on what form these should take. They may be legislative or non-legislative. Nothing has been decided on the allocation of agricultural spending after Brexit.*

The Welsh government has given legislative consent to the Withdrawal Act but the Scottish government has not.

Future funding of agriculture policy in the UK

As already stated in this paper, there is no commitment from the UK government on the funding of agricultural policy after the end of the current parliament, which may be 2022 or may be earlier. The only clarity relates to the decision to end and not replace the single most important policy instrument on farm income, the basic payment scheme. (This paper has set out the extreme dependence of Northern Ireland farming on this scheme and funding).

It is understood that in the UK parliament a committee under Lord Bew has been established to recommend how a dedicated budget will be distributed. But the general picture emerging from the UK is that agriculture spending in the future is not a high priority, and that most of the €4bn lost to agriculture as a consequence of leaving the EU will not be replaced by the UK exchequer. The loss of funding to agriculture has a large devolution dimension, as the relative loss in Northern Ireland will be very high. The income loss at farm level from the loss of direct payments is likely to be exacerbated by future UK trade policy in a no-deal situation, in which the UK cuts or eliminates the current import tariffs on agriculture products.

Issues relevant to future devolved agricultural policy within the UK

i. The UK government will be responsible for **international trade policy**. However, the interests of agriculture in England and Northern Ireland are likely to be very different. Farming in Northern Ireland has no capacity to adjust to lower product prices.

ii. The UK government will wish to retain a **single internal market**. While a justifiable case can be make for higher direct supports to farmers in Northern Ireland, this may be seen as in conflict with the internal market.

iii. The ***UK Agriculture Bill*** is primarily a policy for England and Wales. Whatever challenges exist for the relatively large farms in adjusting to life without the basic payments scheme, they are much greater for farms in Northern Ireland. The absence of a Northern Ireland Executive voice for NI agriculture during the passage of the Bill is evidently a great loss and with likely long-term implications.

iv. The issue of the **all-island of Ireland dimension** of policy must be considered. If the UK including Northern Ireland leave the Customs Union and the Single Market an effective border will be required to collect EU tariffs, protect the EU market, implement EU regulations and maintain EU standards. A less extreme form of Brexit whereby the UK (or alternatively just Northern Ireland) remained in the Customs Union, and retained regulatory alignment with the EU, would be much less disruptive. Keating states:

Disruption of markets and supply chains would be economically damaging but also politically highly sensitive, as growth in the agriculture sector provides an important economic underpinning for the peace process and cross-border cooperation in general.

Appendix II: Policy of the UK Farmer Lobby in Brexit context

The main farmer organisation, the National Farmers Union (of England and Wales, or NFU) was largely neutral, and thus ineffective, during the Brexit referendum campaign. The following extracts from the statement from the NFU Council on 18 April 2016 summarise the situation:

...the NFU Council recognises and respects diversity of views amongst its membership...

... NFU will not be actively campaigning in the referendum...

NFU resolves that on the balance of existing evidence, the interests of farming are best served by our continuing membership of the European Union.

NFU Scotland adopted a broadly pro-remain strategy as summarised in the following statement: *Benefits of staying in the EU outweigh gains of Brexit*.

In Northern Ireland, the Ulster Farmers Union (UFU) were in a similar position to the NFU. Speaking in Dublin in March 2017 the UFU President explained that while the leadership proposed a pro-remain strategy, this was not acceptable to the membership.

In March 2017 (following the formal notification by the UK of its decision to leave the EU) the NFU published its policy document: *A New Domestic Agricultural Policy*.   The key recommendations are as follows:

i. *We see agricultural policy as being comprised of three key elements – it should (1) enhance the productivity and competitiveness of farm businesses, (2) recognise and reward the environmental goods that farmers deliver, and (3) mitigate volatility where it impacts on their commercial viability.*

ii. *The balance of these three elements will be dependent on the deal the government achieves with Brexit [...] If we get a bad deal for farming, then measures to manage volatility – such as direct payments – will remain vital to help farm businesses compete in an uncertain world.*

iii. *Direct payments are currently a key measure aimed at volatility mitigation [...] Direct payments are the most important way to manage volatility for farm businesses.*

iv. *We believe that farming should maintain the current levels of public investment through this new policy framework [...] This may be delivered in different ways, directly or indirectly to farmers, e.g. through fiscal incentives, environmental schemes or cutting edge developments in R&D.*

Following the publication of the DEFRA consultation document referred to in this paper, the President of the NFU, Ms Minette Batters, responded as follows:

> *While most British farmers would much rather farm without supports, we must be absolutely sure of a level playing field. British farms cannot compete with other countries' agricultural goods on the global market if we are disadvantaged. It is vital that we don't start overhauling parts of the present system which support farmers in providing a healthy and affordable supply of food, without tested alternative programmes and measures in place.*

Following conclusion of the Withdrawal Agreement at the European Council (including the UK) on 25 November 2018, both the NFU and the UFU supported the draft agreement, as also did the Scottish and Welsh Farmer Unions.

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