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UK Agriculture and Food Policy Post Brexit: An Irish Perspective

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Introduction and Background

The UK withdrew from the European Union on 1 February 2020 and the UK-EU Withdrawal Agreement came into force. The Withdrawal Agreement provides for a transition period during which EU law applies to - and in - the UK in accordance with that Agreement. The transition period will end on 31 December 2020; the UK government has decided not to avail of the option of a once-off extension.

Leaving the EU means that the UK is leaving the Customs Union, the Single Market and the Common Agricultural Policy (CAP). The agriculture and food sector has been highly integrated within the EU, including a centrally funded CAP budget. As a consequence of Brexit the UK is in the process of determining its future policy for agriculture and food. The two major elements of this process are (i) the future nationally determined agricultural support system as set out in the Agricultural Bill, 2019-2020, and (ii) the future relationship between the UK and the EU, including the trade relationship, currently under negotiation between the two parties.

Future UK agriculture and food policy is a matter of considerable interest to the EU 27 and particularly to Ireland. The UK is only 61% self-sufficient in food. About 70% of UK food imports come from the EU 27. Thus the questions of the future level of access to the UK market, and the levels of return from the UK market, are very relevant to the EU 27. The question of standards and regulations applying to agriculture and food in the UK in the future is also an important issue for the EU; the EU is making a strong link between a future free trade agreement and "a level playing field" between the two markets.

Ireland has a particular interest in future UK agriculture policy. Close to 41% of Ireland's agri-food exports currently go to the UK, valued at €5.6bn in 2018. Over 32% (€4.4bn) go to the EU countries excluding the UK, and 27% (€3.7bn) go 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.

Ireland's agri-food sector is vulnerable on three fronts from the UK withdrawal: (i) to new tariffs or regulatory barriers on our exports to the UK, (ii) to any loss in the return in price terms from the UK market, and (iii) to the imposition of a hard border within the island of Ireland.

The purpose of this paper is to outline the available information on future UK policy on agriculture and food, and to seek to draw some broad conclusions as regards the implications for future UK food production, and for the export prospects for the EU, and particularly for Ireland, in the UK market.

Emerging UK Policy

The emerging UK policy on agriculture and food is currently most advanced in the area of its intended domestic support system, with the publication of the Agriculture Bill 2019-2020 on 16 January 2020; this replaces the earlier version published in September 2018. The Bill sets out the new direction of national policy and provides the legislative framework for future agriculture schemes. Farmers in the UK in recent years have been receiving about £3.2 billion annually from the EU under the CAP (£3.4 billion when UK government funding is included). The major change for the future is that direct payments will be based on "public goods" produced by farmers. In December 2019 the UK Government made a commitment to provide the current annual budget to farmers every year of the term of the current parliament.

Future UK trade policy will determine both the terms of access to the UK market and the price level in that market. In February 2020 the UK government published its negotiating position: "The Future Relationship with the EU – The UK's Approach to Negotiations". Also in February the Council of the EU authorised the Commission to open negotiations on a new partnership agreement, followed by the detailed Council

Negotiating Directives to the Commission. In March, the Commission published the draft text of an Agreement on the New Partnership with the UK. In May "the UK Global Tariff" was published, which is to replace the EU Common Customs Tariff from 1 January 2001.

Complicating Factors

Analysis of future UK agri-food policy needs to take into account the following two complicating factors:

(i) Agriculture is a Devolved Sector within the UK

This means that the implementation of some elements of the policy are the responsibility of the devolved governments and administrations in Scotland, Wales and Northern Ireland, within a broad UK policy and financial framework. The largest expenditure area, on-farm supports (direct payments), have been devolved and that will be the case in the future.

International trade policy, heretofore an exclusive EU responsibility, will in future be a central UK responsibility. Standards and regulations for agriculture and food are likely to be a matter for the UK as a whole. (However, Northern Ireland has a new and unique status under the Ireland / NI Protocol).

Allocation of agriculture budgets between the devolved administrations is a reserved function and is not part of the block grant. The UK (the member state) received EU funding, which the UK government then allocated to the devolved administrations. The amount of future funding to each part of the UK will depend on the outcome of negotiations between the devolved administrations and the UK government. In December 2019 the UK government announced a funding level for agriculture of almost £3 billion for 2020.

(ii) The Ireland / Northern Protocol in the Withdrawal Agreement

The Protocol on Ireland and Northern Ireland provides a legally operative solution that avoids a hard border on the island of Ireland, protects the all-Ireland economy and the Good Friday Agreement, and safeguards the integrity of the EU Single Market. The Protocol applies from the end of the transition period and will continue to operate in the future unless it fails to get majority support in the NI Assembly. The main implications of the Protocol for agriculture and food policy are set out in Part C of this paper.

Summary and Conclusions

Part A: Future UK Trade Policy for Agriculture and Food

Overview of Current Trade Policy

- UK agriculture heretofore benefitted from significant import protection under the EU Common External Tariff. Producers benefitted from relatively high and stable product prices. UK consumers benefitted from security of supply of food, food quality and food safety. (UK producers also benefitted from CAP direct payments as set out in Part B).
- The UK self-sufficiency rate for food is 61%, and about 70% of its food imports come from the EU. UK-EU trade has been totally free of tariffs or other barriers, within the Customs Union and the Single Market.

The UK Food Market and Ireland / UK Trade

- The value of UK food and drink imports in 2018 was £46.8bn. Ireland was the second largest supplier, at 9.7%, coming behind the Netherlands, and ahead of France and Germany. The UK was a significant exporter of food and drink, at £22.5bn. Ireland was the single largest destination, accounting for 18% of UK exports.
- The UK has been, and continues to be, the largest destination for Ireland's food and drink exports. In 2018 the UK accounted for

40.6% of our food and drink exports, 32.4% went to the EU 26, and 27% to the rest of the world. Our food and drink exports to the UK in 2018 were valued at €5.6bn, led by beef at €1,529m (including €323m of live cattle), dairy products at €1,022m (of which cheese is the largest item), cereals and animal feed at €617m, pig-meat at €471m, and poultry-meat at €237m.

- Ireland supplies about 70% of UK beef imports, amounting to about 270,000t annually, which is about 50% of our total beef export value. The type of beef produced in Ireland is particularly suited to the UK market. For dairy products, Ireland supplies about 60% of UK butter imports (41,000t), about 82% of cheddar cheese imports (78,000t: the UK is the only significant export market for cheddar), about 45,000t of other cheese and 26,000t of milk powder. The UK market for lamb is largely supplied by New Zealand imports under a tariff-rate quota. The UK market accounts for about 23% of Ireland's lamb exports; over 70% goes to the EU 26. The UK accounted for 57% of our pig-meat exports.
- Trade in the sub-category Prepared Consumer Foods (PCF) is particularly important. In 2018 Ireland exported €1,781m of PCF to the UK, which was 68% of our total PCF exports. Imports to Ireland from the UK of PCF in 2018 were higher, at €2,139m. This reflects the significance of UK-owned supermarkets here, the traditional Ireland / UK "single market" for food products, and the role of strong food brands.

UK-EU Trade Negotiations: Agriculture and Food

- The UK low self-sufficiency rate for food means that future UK trade policy will impact mainly on the side of imports. The key issues for Ireland are (i) that new tariff barriers or regulatory barriers to our exports to the UK are prevented, or at least minimised, and (ii) that the return in price terms from the UK market is retained, or at least that any reductions are minimised.
- The future situation in Northern Ireland, including trade between NI and the EU, and trade between NI and the UK, is dealt with separately in Part C.
- Prior to Brexit, the UK had the benefit of full free trade with its largest trading partner, the EU. The UK is now in the process of seeking to offset future trade costs from leaving the EU by seeking to negotiate preferential trade agreements elsewhere, including with the US, Australia and New Zealand.
- The UK market price for agricultural products in the future is likely to be largely determined by the price of imports, which in turn will be influenced by UK import tariffs, and by UK standards. The UK has published its tariff schedule, termed "UK Global Tariff", which will apply from the end of transition, except where preferential agreements are in place. However, a major unknown factor is the longer-term UK import regime that may emerge from the negotiations between the UK and the US, and other non-EU countries.
- At the end of transition, trade agreements in place between the EU and several countries, such as Japan and Canada, will no longer apply to the UK. The UK is in the process of seeking to negotiate bilateral agreements with these third countries.
- Both the EU and UK set out their positions on their future relationship, including a trade deal, early in 2020. Both the EU and the UK stated their preference for a Comprehensive Free Trade agreement (CFTA) and both accept that "rules of origin" are a necessary part of a trade agreement. Rules of origin define the maximum amount of a good that can come from a country outside a free trade area and benefit from the terms of the FTA.
- At the time of writing in early September it is apparent that future UK-EU trade will take place under one of the following three broad scenarios, and apply from 1 January 2021 following the end of transition. Scenario 1 is that a Comprehensive Free Trade

Agreement is reached. Scenario 2 is that the negotiations fail, and that UK-EU trade from the end of transition takes place under WTO rules. Scenario 3 assumes that, in the event that a CFTA is not possible, an agreed compromise agreement is reached, termed here as a "Limited Trade Agreement".

- Even if a Comprehensive Free Trade Agreement is reached between the UK and the EU, from 1 January 2021 the UK will have left the EU Customs Union and Single Market, and will have less than full and free access to the EU market. A range of customs checks and controls, regulatory compliance checks and rules of origin checks will apply on Great Britain (GB) exports to the EU, and on EU exports to GB.
- **If there is a trade agreement** between the UK and the EU, then trade between them will be on the terms of that agreement. Imports into the UK from the rest of the world will be on the terms of the UK Global Tariff, unless in situations where the UK has a preferential trade agreement with the supplier country.
- **If a trade agreement** is not reached between the EU and the UK, then the UK Global Tariff will apply on imports to the UK from the EU, including Ireland. The EU will be competing in the UK market on the same basis as all other exporting countries trading with the UK under WTO rules. Imports into the EU, including Ireland, from the UK will be on the terms of the EU Common External Tariff.
- **A no trade agreement and implementation of the UK Global Tariff would be a devastating outcome for Irish agriculture and food**, with the beef sector the most vulnerable. Exports of fresh/chilled beef carcases to GB would be subject to a tariff of 12% + £147/100kg (equivalent to about £190/100kg or 55%). With about 50% of our beef exports currently going to the UK, there would be a major disruption and losses in the Irish cattle and beef sector. Market diversification would be likely to be a slow and difficult process. In the dairy sector, Irish butter exports would face a UK tariff of £158/100kg, and cheddar cheese exports would face a UK tariff of £139/100kg. Irish pig-meat exports would face a UK tariff of £44/100kg.
- Arising from the Ireland / NI Protocol, the EU's external tariffs and regulatory standards will apply to Northern Ireland trade from the end of transition. (Details in Part C).
- In March 2019 the UK government published its proposed tariff regime that would apply in the event that a Withdrawal Agreement was not concluded. While that proposal has been replaced by the UK Global Tariff, Ireland and the EU need to be concerned that the 2019 regime may be the ultimate objective, in the context of future preferential trade agreements with the US and others.

The UK Land Bridge

- The UK land bridge describes the route to the continental EU market from Ireland using the UK ports and road network. It is strategically important because it offers traders in high-value or time-sensitive products, including food products, significantly faster transit times than alternative routes.
- Free movement of goods at the UK-EU border, as currently prevails, will end at the end of 2020. Even in the best-case scenario of a comprehensive free-trade agreement involving zero tariffs and zero quotas, new procedures and controls will apply at the UK-EU border. Clearly the level of controls and delays at the border would become more severe if tariffs apply on UK-EU trade.
- Lorry traffic from the UK to Continental Europe is highly concentrated as it is predominantly through the port of Dover and the Channel Tunnel. The problem for Ireland is that it is difficult to see how our transit traffic through the UK could be physically separated from UK traffic and given an advantage over UK traffic in an ongoing road overcrowding situation.

- A complicating factor is that the UK government is seeking full transit rights for UK trucks crossing the EU, including the rights to make pick-ups and drop-offs, within member states. The EU position is that the UK cannot expect to have the same level of access to the EU after Brexit.

Food Standards and Trade Agreements

- In addition to prices / markets policy and direct payments policy, 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. The overall EU objective is to set and enforce high standards while also ensuring the functioning of the Single Market.
- In situations where standards between different countries in a trade agreement are different, free trade can take place if an agreement is reached on "equivalence" of standards. This means recognition by one country that the other country's standards offer the equivalent level of protection, despite being different.
- A major concern for the EU is that the UK, while conducting trade negotiations with the EU, is conducting parallel negotiation with the US and with other third countries. The lower food standards in the US relative to the EU are well known and documented. In February 2019, the US Trade Representative set out the US negotiating objectives with the UK, including increasing agri-food exports to the UK.
- The EU concern has been heightened by the mixed messages coming from the UK government in relation to food standards. The Conservative party election manifesto included a commitment to protect UK food standards. However, a campaign initiated by the UK Farmers Unions to have the UK Agriculture Bill amended to include a commitment on food standards was defeated by the government.
- Future UK policy on food standards remains undecided. On balance, it seems probable that a combination of circumstance including concerns about food security and safety in the pandemic situation, decisions by some Supermarket groups not to lower standards, and the anticipated advice of the newly established Trade and Agriculture Commission, are likely to favour the retention of current food standards by the UK government, at least in the short-term.

Part B: UK Domestic Agriculture Support System

- Farmers in the UK have been receiving £3.2bn – £3.4bn annually under the EU's Common Agricultural Policy. These payments have been about 94% funded by the EU and 6% by the UK exchequer. CAP direct payments to farmers aim to ensure food security within the EU and help to give farmers a fair standard of living. CAP direct payments are divided into two categories: Pillar 1, which is by far the larger part, is of an income support to farmers, the Basic Payment Scheme. A range of conditions, known as cross-compliance, must be met by farmers. Pillar 2 consists of payments linked to environmental or regional objectives.
- Direct payments account for over 70% of aggregate farm income in the UK, ranging from 65% in England, to 85% in Northern Ireland and 97% in Wales. The UK government department responsible for agriculture, DEFRA, estimated in 2018 that without direct payments some 42% of farms had costs exceeding their revenue.
- Although farms in England are relatively large by EU standards, the average farm income in three recent years was only £37,000, and over 60% came from direct payments. Beef and/or sheep farms had very low incomes and 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 and horticulture sectors have a low reliance on DP's.

UK Agriculture Bill

- The UK Agriculture Bill 2019-20 setting out its future agriculture and food policy was published in January 2020. Some parts of the Bill relate to the UK in total, particularly provision in relation to international trade, and measures on food security and on fair dealing in the supply chain.
- However, the main body of the Bill, which covers domestic agriculture support, applies to England. The implementation of agriculture policy on direct payments outside England is the responsibility of the devolved governments in Scotland, Wales and Northern Ireland. The Scottish government introduced its Agriculture Bill in November 2019, which proposes to keep farm support payments largely the same until 2024. The Welsh government has stated its intention to introduce an Agriculture (Wales) Bill.
- The current system of direct payments under the CAP will be phased-out in England over seven years starting in 2021. The new agricultural support system will be based on the principle of "public money for public goods", such as environmental improvements. Environment Land Management (ELM) schemes will be the mainstay of future farm support; the details of such schemes are not yet available to farmers.
- The principle of public money for public goods is a major change from the current system in several ways. It breaks the link between direct payments and the area of land farmed. It also breaks the link between payments and the enterprise on the farm; currently some enterprises such as beef and sheep are highly dependent on direct payments to return an income to the farmer.
- The UK Department of Environment, Food and Rural Affairs (DEFRA), which is responsible for the implementation of the new policy, published "Farming for the Future: Policy and Progress Update" in February 2020. It states that farmers and foresters will be paid for managing their land in a way that will deliver clean air, clean and plentiful water, thriving plants and wildlife; protection from and mitigation of environmental hazards, and also mitigation of and adaption to climate change. It states that Environment Land Management scheme will start in late 2024.
- The major change in the UK direct payments system has many negative implications for UK farmers and UK agriculture. First, the annual funding is guaranteed only for the term of the current parliament. Second, as funding is spread to some sectors which currently do not receive direct payments, those farmers currently most dependent on DP's including beef and sheep producers are likely to lose out. Third, it is likely that many farmers will be faced with higher costs or lower output to meet the new policy objectives. Many beef and sheep farms are likely to go out of business.
- The commitment to food security in the Bill is quite weak, and is based on a broad definition of security including global security. This element, combined with lower direct payments to low-income farming sectors including beef and sheep, may lead to a further decline in UK food self-sufficiency, and an increased reliance on imports to prevent food shortages. This factor may result in the UK reducing its food standards over time, particularly if it becomes more reliant on non-EU supplier countries.
- The UK National Farmers Union and other farming interests seem to accept the switch to the new "public money for public goods" support system. However, they want three conditions attached. First, food production itself should be considered a public good. Second, current UK food standards and animal welfare standards should be protected in future trade deals. Third, farmers want a long-term assurance on funding, so that they can undertake long-term investment.
- Overall, it is apparent that the main motivation of the UK government in replacing the CAP by a model of support

still under construction is that "if it is European then it has to go". The lack of a thought-out alternative agriculture policy is clear, with only vague objectives and pilot schemes being offered to farmers.

Part C: Agriculture and Food Policy in Northern Ireland

- Agriculture in the UK is a devolved sector which means that the implementation of many elements of agriculture policy, including direct payments to farmers, is the responsibility of the Northern Ireland Executive, within an overall UK framework.
- The funding of agriculture policy is shifting from the EU CAP budget to the UK exchequer. Heretofore, the UK government received the EU funding, which it then allocated between the four nations. Agricultural funding transferred to the devolved governments is not part of the "block grants". For the future, the NI agriculture budget will be decided by the UK government, following consultation, and within the overall agriculture budget for the UK.
- A further important factor influencing the future of agriculture and food policy in Northern Ireland is the agreement between the UK and the EU of the Ireland/Northern Ireland Protocol in the Withdrawal Agreement. This will have particular implications for both trade policy and regulatory policy for NI agriculture and food.

Overview of NI Agriculture

- Farms in Northern Ireland are smaller than in England (average size of 41ha vs 87ha), a higher proportion are in the relatively low-income cattle and sheep enterprises (79% vs 44%), and a much higher proportion of the land area in NI is designated as "Areas of Natural Constraint" or ANC's (70% vs 19%).
- Agriculture in Northern Ireland has a high dependence on direct payments. Over the three years 2016-18, direct payments ranged from a 67% to 117% of aggregate farm income. The viability of the cattle, sheep and cereals sectors is totally dependent of the DP's. In the case of dairy farms, the average farm would not yield a viable income in the absence of DP's. Only the intensive sectors of pigs and poultry would have a future in the absence of DP's at, or close to, the current level.
- The UK government has committed to providing the current annual budget to farming in every year of this Parliament. NI will receive £279m for agriculture for the 2020/21 year. A Briefing Paper from the NI Assembly Research Service raises some relevant questions about future funding, and on the relevance of the principle of "public money for public goods" for the devolved administrations, including NI.
- Future policy on farm supports (direct payments), a devolved function, is less-developed in Northern Ireland than in England, where the Agriculture Bill is going through parliament. It is also less-developed than in Scotland, which introduced its own Agriculture Bill in November 2019. The Welsh government has stated its intention to introduce a Wales (Agriculture) Bill.
- If direct payments in Northern Ireland in the future are linked exclusively to the environmental contribution of farming, it is likely that farmers will have to adjust their farms, either by cutting production or incurring additional costs, thereby further eroding their incomes.
- There seems to be a clear-cut case for a separate NI policy on farmer direct payments that is sensitive to the situation in NI farming, and that will optimise the benefit to farmers of the annual budget for direct payments. At the time of writing in early September, no indication is evident from the Assembly or from the NI Department of Agriculture (DAERA) that a Northern Ireland Agriculture Bill is being planned.

The Ireland/Northern Ireland Protocol

- The Protocol on Ireland / Northern Ireland was agreed by the European Council including the UK PM on 17th October 2019. The objective of the Protocol is to provide a legally operative solution that avoids a hard border on the island of Ireland, protects the all-Ireland economy and the Good Friday Agreement, and safeguards the integrity of the EU Single Market.

- Northern Ireland will remain aligned to a specific set of rules of the EU Single Market for goods covering the following areas of regulation: legislation on goods, sanitary (public health and animal health) and phytosanitary (plant health) rules, rules on agricultural production and marketing, VAT and excise in relation to goods, and state aid rules. These rules will apply on imports into NI, in order to avoid a hard border between Ireland and NI.

- Northern Ireland will be part of the UK customs territory. But in order to avoid a hard border, the EU's customs code will apply to goods entering NI. EU customs duties will apply on goods entering NI if those goods risk entering the EU's Single Market. A Joint UK-EU Committee has responsibility to establish the risk assessment criteria.

- The Protocol contains an article on consent which gives the NI Assembly a decisive voice on the long-term application of relevant EU law in NI. In the event that the Protocol were to be rejected by the Assembly, the Agreement requires the Joint Committee to make recommendations to the UK and the EU on necessary measures, taking account of the Good Friday Agreement.

- The Ireland / NI Protocol is quite different from the earlier "Backstop" arrangement which was rejected by the UK parliament. The Backstop was explicitly linked to the terms of the future relationship between the UK and the EU. The new Protocol is unconnected to the future trade relationship.

- A significant development has been the announcement in August by the UK government of an expenditure of £355m in NI to help offset new costs facing traders arising from implementation of the Protocol and fund new investment at ports. Overall, the expenditure package can be seen as a practical step by the UK government to implement the Protocol. However, in early September Michel Barnier stated that the UK still needs to complete many practical preparations.

- The impact of the Protocol from 1 January 2021 for the NI agriculture and food sector looks positive in two ways, in addition to the benefit of avoiding a hard border on the island of Ireland. First, irrespective of the outcome of the UK-EU trade negotiations, exports from NI will have free access to both the GB market and the EU market. (Exporters to GB may have to comply with export declaration forms). Second, the standards applying to agriculture and food in NI will continue as at present. Both these factors should be positive for product prices in Northern Ireland.

Part A: Future UK Trade Policy for Agriculture and Food

(i) Overview of Current Trade Policy

UK agriculture has benefitted 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 health, 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. Eurostat data on consumer expenditure on food and non-alcoholic drink as % of total consumer expenditure shows the UK is lowest at 7.8%, relative to Germany at 10.8%, France at 13.1%, and the EU 28 average, which stands at 12.1% (not including food expenditure in restaurants, hotels, etc). (The most likely explanation for the relatively low consumer expenditure on food in the UK is the economic power of the retail supermarkets).

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 producer prices. 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.

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%

(EU 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 the following Parts B and C 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.

(ii) The UK Food Market and Ireland/UK Trade

About 53% of food consumed in the UK is produced in the UK; however, when account is taken of food exported by the UK, the self-sufficiency rate is 61%. About 70% of food imported to the UK comes from the EU, including 98% of dairy product imports and 82% of meat imports. The British National Farmers Union state that food self-sufficiency has fallen from 78% in 1984 to the current level of 61%.

The value of UK food, feed and drink imports in 2018 was £46.8bn. The main sources of imports were Netherlands (12%), Ireland (9.7%), France (9.5%) and Germany (9.1%). UK exports of food, feed and drink were £22.5bn. The main destinations for UK food, feed and drink exports were Ireland (18%), France (9.8%), US (9.8%) and Netherlands (7.2%). The high level of imports into Ireland reflects the significance of UK supermarkets here and the traditional single market between Ireland and the UK for food products and food brands.

Focussing on the main food product groups produced in the EU including Ireland, and on imports only, the following table gives the value of these imports into the UK, and the relative share coming from the EU. (Only in the case of beverages is the UK a net exporter).

Imports to the UK of Main Food Groups, 2018 (£m)

Food Group	Total Imports	Imports from EU	EU as % of Total
Meat and Preparations	6,797	5,596	82.3%
Dairy Products and Eggs	3,386	3,341	98.7%
Fish and Preparations	3,183	1,081	34%
Cereals and Preparations	4,085	3,299	80.6%
Fruit and Vegetables	11,112	7,021	63.2%
Animal Feed	2,364	1,325	56%
Beverages	5,829	4,213	72.3%

(Agriculture in the United Kingdom, DEFRA)

The following table, which focusses on the main products of direct relevance to Ireland as a food exporter, shows the volume UK gross imports, exports and net imports. It also shows the value of gross imports in order to indicate their relative importance.

UK Trade in Key Food Products by Volume, 2018 (000 tonnes)

	Imports	Exports	Net Imports	Gross Import Value (£m)
Beef and Veal	290	110	180	£1,168
Lamb	78	83	-5	£373
Pork and Bacon	672	239	433	£1,396
Poultrymeat	376	54	322	£1,018
Butter	84	62	22	£361
Cheese	517	190	321	£1,685
Wheat	2,490	358	3,123	£454
Fresh Vegetables	2,295	145	2,150	£2,482
Fresh Fruit	3,741	157	3,584	£3,984

(DEFRA)

The CSO Trade Statistics show that the value of Ireland's agri-food exports in 2018 was €13,665m. The top five product groups were: Dairy Products: €4,586m; Beef: €2,862m (including €428m of Live cattle exports); Beverages: €1,423m; Pigmeat: €829m; Fish: €578m.

The UK has been, and continues to be, the largest destination for Ireland's agri-food exports. In 2018 the UK accounted for 40.6 % of our agri-food exports, 32.4% went to the rest of the EU and 27 % to the rest of the world.

The following table sets out the value of agri-food trade between Ireland and the UK, broken down by the main product groups. (Certain product groups included in the CSO Trade Statistics under agri-food are excluded here, namely forestry and tea, coffee etc.).

Agri-food Trade between Ireland and UK by Category, 2018 (€m)

	Exports	(of which)	Imports	(of which)
	To UK	To NI	From UK	From NI
Beef	1,205	114	121	13
Dairy Products	1,022	114	632	261
Pigmeat	471	43	161	8
Cereals & Preparations	397	85	702	77
Live Animals	323	80	180	8
Beverages	287	76	407	89
Animal Feedstuffs	238	77	313	119
Poultrymeat	237	29	169	14
Fruit & Veg.	140	29	199	17
Fruit & Veg Products	112	14	254	29
Sheepmeat	58	1	30	-
Other Foods	435	65	897	83
Total	4,925	727	4,049	719

(CSO Trade Statistics)

The Department of Agriculture, Food and the Marine has further analysed the CSO data to look specifically at trade in Prepared Consumer Foods, which is shown in Appendix 1. This is significant for a number of reasons. First, it helps explain the substantial "Other Foods" category in the above table. Second, exports of Prepared Consumer Foods (PCF) to the UK in 2018, at €1,781m, account for 68% of our total exports of PCF (the next highest destination was France at 6%). Third, imports of PCF from the UK, at €2,139m, exceeded trade in these products in the opposite direction.

Details of the significance of the UK market for Ireland's main agriculture products

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 (tariff-rate quotas or TRQ's, discussed later).

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.

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.

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%. Thus the UK market would continue to be largely supplied by zero tariff imports from the southern hemisphere.

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.

Irish exports of pigmeat to the UK in 2018 were €471, or 57% of our total exports.

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.

(iii) UK-EU Trade Negotiations: Agriculture and Food

The UK is only about 61% self-sufficient in food, and thus future agri-food trade policy will impact mainly on the side of imports. About 70% of UK agri-food imports currently come from the EU. The key issues for Ireland in the UK-EU trade negotiations in agri-food are (i) that new tariff barriers or regulatory barriers to our exports to the UK are prevented, or at least minimised, and (ii) that the return in price terms from the UK market is retained, or at least that any reductions are minimised. (The Ireland / NI border issue is dealt with separately in Part C).

The following recent developments set the agenda as regards future UK trade policy.
In February 2020 the UK government published its negotiating position: "The Future Relationship with the EU – The UK's Approach to Negotiations". Also in February, the Council of the EU authorised the Commission to open negotiations on a new partnership agreement, followed by the detailed Council Negotiating Directives to the Commission. On 18 March, the Commission published the draft text of an Agreement on the New Partnership with the UK, a comprehensive document of 440 pages. Prior to Brexit, the UK had the benefit of full free trade with its largest trading partner, the EU. It is now in the process of seeking to offset future trade costs from leaving the EU by seeking to negotiate preferential trade agreements elsewhere. In Summer 2020, in parallel with the negotiations with the EU on the future relationship, the UK has launched free trade negotiations with the US, Australia and New Zealand, and also the replacement of a number of EU free trade agreements, from which the UK will no longer benefit.

A further relevant recent development is that in May 2020 the UK government announced the tariff schedule that will apply from the end of transition on 1 January 2021, termed the UK Global Tariff. This replaces the EU's Common External Tariff which applies to UK imports up to the end of transition. The details are set out in the following Section (iv).

General Trade and WTO-related Issues

The UK is a member of the World Trade Organisation (WTO), as is the EU and all its member states. The broad position is that, on leaving the EU, the UK assumes full responsibility for its own trade policy and continues to be subject to all its WTO obligations. The following outlines some general trade-related and WTO-related issues that are relevant to the agri-food sector.

Existing International Trade Agreements Negotiated by the EU: At the end of the transition period, trade agreements concluded by the EU with a number of countries, for example Canada and Japan, will no longer apply to the UK. The UK is currently in the process of negotiating bilateral agreements with these non-EU countries to replace the EU agreements. The UK has signed agreements with a number of countries including Norway, Switzerland, South Africa and South Korea, and many others are under negotiation including with Canada. Free Trade Agreement provisions remain unaltered for the EU (e.g. preferential market access, tariff rate quotas).

Aggregate Measure of Support: The UK will be required to observe its WTO commitment on "aggregate measure of support" or AMS, which is a calculation of the combined effects of all supports. This is not likely to be a problem for the UK as its future import tariffs and internal supports are not expected be higher than the current EU tariffs and internal supports.

Tariff-Rate Quotas: The EU operates a system of import agreements with some supplier countries through tariff-rate quotas (TRQ's) on certain agricultural products, including sheep-meat and beef. TRQ's provide a preferential import regime (low or zero tariffs for an agreed quota of imports). The UK and the EU have been in negotiation on the splitting of these quotas between them and agreement has been reached. The supplier countries have made the case that they are also interested parties, and have concerns about the agreement. The main details of the UK-EU agreement are set out in Appendix 11.

Rules of Origin: Both the EU and UK positions accept that "rules of origin" are a necessary part of an agreement. Rules of origin define the maximum amount of a good that can come from outside a free trade area (FTA) and still qualify for the beneficial terms of the FTA. Also, in the absence of rules of origin, there is a risk of trade displacement where, for example, the UK supplied its home market from higher imports, and thereby increased exports of its own production to the EU. Rules of origin become increasingly relevant if the UK import tariff regime diverges from the EU Common External Tariff. In a blog "Reflections on the UK Global Tariff" by Gasiorek and Garrett published on the UK Trade Policy Observatory, the following points are made: "Having tariffs different from the EU's Common Tariff means that rules of origin will become more of an issue in the negotiations [...] The closer the alignment between the UK Global Tariff and the EU CET the easier it would be to minimise the complications".

Future UK-EU Trade: Three Broad Scenarios

At the time of writing in early September there are three broad scenarios for future UK-EU trade. Scenario 1 is that a Comprehensive Free Trade Agreement (CFTA) is reached. Scenario 2 is that the negotiations fail, and that UK-EU trade from the beginning of 2021 takes place under WTO rules. Scenario 3 assumes that, in the event that a CFTA is not possible, an agreed compromise agreement is reached, termed here as a "Limited Trade Agreement". Whichever scenario prevails, it will apply from the end of transition.

Scenario 1: Comprehensive Free Trade Agreement.

This would be in line with the statement of the Council of the EU on 13th February authorising the opening of negotiations with the UK for a new partnership agreement, which states: "The political declaration that accompanied the Withdrawal Agreement sets out the framework for the future relationship between the EU and the UK. It establishes the parameters of an ambitious, broad, deep and flexible partnership across trade and economic cooperation with a comprehensive and balanced Free Trade Agreement at its core." The Annex to the Council decision setting out the detail of its mandate to the Commission, published on 25th February, stated in relation to trade in goods:

> *The envisaged partnership should aim at establishing a free trade area ensuring no tariffs, fees, charges having equivalent effect, or quantitative restrictions across all sectors provided that a level playing field is ensured [..] The envisaged partnership should include appropriate rules of origin.*

The UK government statement on the Future Relationship with the EU, also published in February, called for a Comprehensive Free Trade Agreement. Dealing with trade in goods it states:

> *The provisions on market access should be comprehensive and ensure there are no tariffs, fees, charges and quantitative restrictions on trade in manufactured and agricultural goods between the UK and the EU, where the goods meet the relevant rules of origin.*

Changes Happening in Any Scenario (including Scenario 1) in relation to Trade in Goods

At the end of the transition period on 1 January 2021, the UK will no longer participate in the EU Single Market and Customs Union, nor benefit from the EU's international agreements. In July 2020 the EU Commission published a communication on readiness for changes at the end of the transition period. These changes, summarised here in relation to trade in goods, will take place in any event, whether or not a future trade agreement is reached between the UK and the EU.

The changes in relation to trade in goods outlined in the following paragraphs will not apply with respect to trade between the EU and Northern Ireland, where the Protocol on Ireland and Northern Ireland, which is an integral part of the Withdrawal Agreement, will apply at the end of transition, alongside any future UK-EU trade agreement. The changes outlined will generally apply to trade between Great Britain (GB) and the EU.

Customs Checks and Controls. From 1 January 2021, Customs authorities in the EU will apply controls according to the risk-based system of the EU Customs Code on imports from GB, as apply on EU external borders generally. Similar controls and checks will be applied by UK Customs authorities on imports from the EU to GB. These controls are likely to increase administrative burdens for businesses and longer delivery times. EU businesses wishing to import from or export to GB will need to have an Economic Operators Registration and Identification number (EORI).

Value Added Tax. From 1 January 2021, VAT will be due upon importation of goods into the EU from GB, at the rate applying to the same goods in the EU. Goods exported from the EU to the UK will be exempt from VAT, as is the case for other destinations outside the EU.

Regulatory Compliance Checks. From 1 January 2021, the EU and the UK will have two separate regulatory systems. All products exported from the EU to GB will have to comply with UK rules and standards, and will be subject to any UK regulatory compliance checks on imports. Similarly, products imported from GB to the EU will need to comply with EU rules and standards, and will be subject to checks and controls on imports. EU businesses that currently distribute products coming from GB will become importers or exporters, and must comply with the relevant EU rules.

Originating Status of Goods Traded. In general terms, "rules of origin" define the maximum amount of a good that can come from countries outside a free trade area (FTA) and still qualify for the beneficial terms of the relevant FTA. The originating status of goods imported into the EU from the UK will have to be demonstrated in order for them to be entitled to preferential treatment under a future UK-

EU trade agreement. Goods not meeting EU origin requirements would be liable to customs duties even if a free trade agreement is in place. In the absence of a UK-EU preferential trade agreement, EU exporters may have to reassess their supply chains, as GB content will become "non-originating" in relations to existing EU preferential trade agreements.

Scenario 2: No Trade Agreement / Trade under WTO Rules

If the UK-EU negotiations failed to reach an agreement, then trade would take place under WTO rules. Full border controls between the EU and GB would be put in place, to implement import tariffs and regulatory controls.[1]

GB exports to the EU would be subject to the EU Common External Tariff; EU import tariffs for the main agri-food products are relatively high. The practical effect would be that GB exports of most agri-food products would not be competitive in the EU market.

EU exports to GB would be subject to the UK Global Tariff (details in the following section and Appendix 111). The UK Global Tariff for the main agriculture products would be broadly equivalent to the EU Common External Tariff, and would generally mean that the GB market would no longer be a competitive market. At best, if some EU exports reached the GB market, having paid the tariff, they would be competing with other suppliers to the GB market on the same terms under WTO rules. The practical effect would be that the EU would be at a disadvantage in the GB market relative to supplies from lower cost countries including the US and Brazil.

<u>A no trade agreement and implementation of the UK Global Tariff would be a devastating outcome for Irish agriculture and food</u>, with the beef sector the most vulnerable. Exports of fresh/chilled beef carcases to GB would be subject to a tariff of 12% + £147/100kg (equivalent to about £190/100kg or 55%). With about 50% of our beef exports currently going to the UK, there would be a major disruption to the Irish cattle and beef sector. Market diversification would be likely to be a slow and difficult process. A no trade agreement would also have major negative implications for other sectors. In the dairy sector, Irish butter exports would face a UK tariff of £158/100kg, and cheddar cheese exports would face a UK tariff of £139/100kg. Irish pig-meat exports would face a UK tariff of £44/100kg.

Over time the UK government may be concerned if the impact of the Global Tariff were to raise food prices. In that situation the UK would be free to improve market access, either by reducing tariffs generally, or introducing tariff-rate quotas, provided the measures applied fairly to all supplier countries. Alternatively, the UK may conclude Free Trade Agreements with a number of non-EU countries. (See Section vi). The broad impact would be that prices in the UK market would fall, making it uneconomic for EU exports.

Scenario 3: Negotiated Compromise / Limited UK-EU Trade Agreement.

The UK and the EU may fail to agree on a CFTA as outlines in Scenario 1, probably because one or both sides cannot accept the attached conditions or "red lines" required by the other party. However the parties may decide that a more limited trade agreement is preferable to a "no trade deal" WTO-based outcome.

If the UK and the EU reach a compromise position it may hinge on some compromises by both parties on the "level playing field" issue. The level playing field is a key issue for the EU as set out in its negotiating strategy:

> *Given the Union and the UK's geographic proximity and economic interdependence, the envisaged partnership must ensure open and fair competition, encompassing robust commitments to ensure a level playing field […] These commitments should prevent distortions of trade and unfair competitive advantages so as to ensure a sustainable and long-lasting relationship between the Parties. To that end, the envisaged agreement*

should uphold common high standards, and corresponding high standards over time, with Union standards as a reference point, in the areas of State aid, competition, state-owned enterprises, social and employment standards, environmental standards, climate change, relevant tax matters, and other regulatory measures in these areas [...] The Union should also have the possibility to apply autonomous, including interim, measures to react quickly to disruptions of the equal conditions of competition in relevant areas, with Union standards as a reference point.

A comprehensive analysis of the level playing field is set out in an IIEA publication by Sophie Andrews-McCarroll in June 2020. The first conclusion in the document underlines the principles at stake on both sides:

The current deadlock on the level playing field is a reflection of the conflict between the fundamental premise of the Brexit project, and the founding principles of the EU. It would be an almost existential concession for the EU to undermine its level playing field by compromising on its standards for the sake of a Free Trade Agreement – one that would undermine the very principles at the core of the European project. Meanwhile, the UK Government argues that regulatory autonomy and legal sovereignty, as the principles of the Brexit project, are simply not worth sacrificing for access to the Single Market. As it develops its independent trade policy, the UK will be seeking flexibility to broker trade agreements with third countries such as the US, India and China, all of whom would look favourably on a lighter regulatory environment.

Following the EU-UK round of negotiations that concluded on 23rd July some progress was reported. The EU seemed to accept the UK opposition to a role for the European Court of Justice in the governance of a future agreement, and the UK seemed to accept that a future agreement should be a single agreement rather than a series of separate agreements. The EU will have to limit concessions on the level playing field to a degree acceptable to the Member States, given that it is such a fundamental issue for the EU. The UK may have to accept a limited agreement on trade in goods, involving some commitment by them as regards non-regression in standards, and terms satisfactory to both parties on dispute settlement and governance. Overall, market access would be decided by the terms of the agreement, and could change over time. Also, the EU may insist on having a provision for autonomous measures to remedy breaches of fair competition. At the time of writing in early September 2020, there is no basis for any further speculation on the details of such a scenario.

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[1] Staged Implementation of Border Controls by the UK.

In early 2020 the UK government stated that from 1 January 2021 the UK would operate a full, external border as a sovereign nation, including controls on the movement of goods between Great Britain (GB) and the EU. In July, the UK government announced its decision to introduce the new border controls in three stages, in order to give industry extra time to make necessary arrangements.

From January 2001: Traders importing goods will need to prepare for basic customs requirements, such as keeping adequate records. Traders will have up to six months to complete customs declarations, and where tariffs are payable payment can be deferred until the customs declarations are made. There will be physical checks at the point of destination on high-risk live animals and plants, and a requirement to pre-notify of movement of such goods.

From April 2021: All products of animal origin (meat, milk and dairy products, eggs) and all regulated plants and plant products will require pre-notification and the relevant health documentation.

From July 2021: Traders importing any goods will have to make full customs declarations at the point of importation and pay the relevant tariffs. Sanitary and phytosanitary (SPS) checks on animals, animal products, plants and plant products will take place at GB Border Control Posts and not at destinations.

(iv) The UK Global Tariff

In May 2020 the UK government published the tariff schedule that will apply from the end of transition on 1 January 2021, termed the UK Global Tariff. This replaces the EU's Common External Tariff which applies to UK imports up to the end of transition. The new "Most Favoured Nation" tariff will apply to UK imports under World Trade Organisation rules, but with three broad exceptions: (i) imports from developing countries that benefit from the Generalised Scheme of Preferences, (ii) imports under agreed tariff rate quotas, and (iii) imports from countries with which the UK negotiates preferential trade agreements (also known as Free Trade Agreements).

The UK Global Tariff involves some broad amendments which are summarised as follows:

- The removal of tariffs completely for some products, either where existing tariffs are very low, or where the UK has zero or limited production, or where UK businesses would benefit from lower-cost imported inputs,
- The retention but simplification of other tariffs by rounding them down to the nearest tariff band,
- Where tariffs contain a fixed element that heretofore was expressed in euro, this is converted to £ sterling, at the average exchange rate of the past five years: €1 = £0.837.

An example of simplification and currency conversion is the tariff for beef carcases or sides, fresh or chilled: EU Common Tariff: 12.8% + €176.8/100kg. UK Global Tariff: 12% + £147/100kg. (Examples of the UK Global Tariff for the main products exported by Ireland are set out in Appendix 111). The following two tables give an overview of the UK Global Tariff in comparison with the EU Common External Tariff.

% of Tariff Lines at Zero Tariff

	EU Common External Tariff	UK Global Tariff
Agriculture	16%	23%
Fish	8%	8%
Processed Agricultural Products	29%	41%
Industrial Goods	31%	57%
All Goods	27%	47%

(UK Department of International Trade: "The UK Global Tariff". May 2020)

Thus, for example, while 16% of agriculture tariff lines on UK imports are currently at zero rate, this increases to 23% under the UK Global Tariff.

In the following table it is seen, for example, that the average tariff rate for agricultural products entering the UK heretofore is 18.3%, this falls to 16.1% under the UK Global Tariff.

Average Tariff Rates in Certain Categories (%)[2]

	EU Common External Tariff	UK Global Tariff
Agriculture	18.3%	16.1%
Fish	11.7%	11.0%
Processed Agricultural Products	15.9%	10.6%
Industrial Goods	3.7%	2.5%
All Goods	7.2%	5.7%

(UK DIT)

(v) The UK Land Bridge

The UK land bridge is a term used to describe the route to the continental EU market from Ireland using the UK ports and road network. It is strategically important because it offers traders in high-value or time-sensitive products, including food products, significantly faster transit times than alternative routes. Each year approximately 2 million tonnes of exports from Ireland and 1 million tonnes of imports into Ireland use the land bridge, involving 150,000 truck crossings.

A report for the Government by the Irish Maritime Development Office in 2018 on the implications of Brexit on the use of the land bridge summarised the relative importance of the land bridge as follows:

> *The land bridge offers superior transit times to European markets. The alternative is to use direct Roll-on / Roll-off (RoRo) or Lift-on / Lift-off (LoLo) services to the continent, both of which add significantly to transit times. The land bridge route through Dublin and Calais takes approximately 20 hours, when time in port is included. Comparable direct RoRo services can take up to 40 hours, and direct LoLo services can take up to 60 hours. Although the land bridge is more expensive than direct routes when UK haulage costs are included, its superior transit time is a competitive prerequisite in certain industry sectors.*

The IMDO study concluded that the land bridge is a strategically important route to market for many Irish importers and exporters. It confirmed that many sectors of the Irish economy, including but not limited to agri-food, seafood and other sectors trading in time-sensitive produce, will be adversely affected by any deterioration in current transit times or increases in current costs.

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[2] March 2019 UK Tariff Proposal: Taking into account all the uncertainties regarding the UK longer-term strategy for agri-food, it must be noted that the UK government Tariff Schedule announced in March 2019 may become relevant again (Appendix 1V). The proposal involved low tariffs and / or tariff rate quotas for some major agri-food products. While that proposal was made during the Withdrawal negotiations to apply in the event of failure to reach a Withdrawal Agreement, and has been replaced by the UK Global Tariff announced in May 2020, some elements may be revisited by the UK government in the future, in the context of a national strategy to make the UK a "low cost, low regulation" economy.

Free movement of goods at the UK-EU border, as currently prevails, will end at the end of 2020, when the UK leaves the Customs Union and the Single Market. Even in the best-case scenario of a comprehensive free-trade agreement involving zero tariffs and zero quotas, new procedures and controls will apply at the UK-EU border, as outlined earlier. Clearly the level of controls and delays at the border would become more severe if tariffs apply on UK-EU trade.

The Irish Government Contingency Action Plan published in July 2019 noted that the UK, on leaving the EU, will remain a member of the Common Transit Convention (CTC). The CTC includes all EU member states and Iceland, Norway, Switzerland, Turkey, North Macedonia and Serbia. Future membership of the CTC would enable goods from one member state to move to another via the UK under the agreed Common Transit Procedure. In broad terms, this would allow goods moving in transit through the UK after transition to maintain their EU status and would facilitate their movement through ports when entering and leaving the UK. However, the main treat to the effective operation of the Land Bridge arises from the increased checks and controls on goods moving between the UK and the EU in both directions.

It is a reflection of the magnitude of the problems anticipated by the UK government at its ports, and the level of unpreparedness of UK industry, that it announced in July that its border controls applying at the end of transition will be introduced in three stages over a six month period. In August the UK government announced that it is prepared to reactivate the "Operation Brock" contingency plan (originally proposed in 2019 in the event of a no-deal Brexit) to temporarily hold large numbers of trucks in parking areas and on the M20 close to the port of Dover, in the event of tailbacks caused by the new border regime. The UK government has stated that it hopes that the disruption was unlikely to extend much beyond mid 2021 but intends to keep the contingency plan in operation until end October 2021.

The underlying problem is that lorry traffic from the UK to Continental Europe is highly concentrated in south-east England. A UK Institute of Government report in July 2020 on "Preparing Brexit" shows that lorry traffic movement is predominantly through the port of Dover, at 2.48m lorries, and the Channel Tunnel, at 1.69m lorries, in 2018. The problem for Ireland is that it is difficult to see how our transit traffic through the UK could be physically separated from UK traffic and given an advantage over UK traffic in an ongoing road overcrowding situation.

A complicating factor is that the UK government is seeking full transit rights for UK trucks crossing the EU, including the rights to make pick-ups and drop-offs, known as "cabotage", within member states. The EU position is that the UK cannot expect to have the same level of access to the EU after Brexit. The EU also has concerns about risks to a level playing field in road haulage.

The Irish Government has in place a cross-departmental Land Bridge Project Group since 2017, chaired by the Department of Foreign Affairs and Trade. At the time of writing in early September, an update from the Government is awaited.

Separately from the major threat to the efficient operation of the land bridge from the end of transition, which is on the UK side, progress has been achieved in relation to potential problems on the continental EU side. A draft agreement has been reached between Irish and EU officials to ensure that Irish goods on arrival at continental ports are exempt from checks applying to British goods. The agreement provides that Irish food exports will access "green lanes" when they come off ferries from British ports. A pre-notification and certification regime will apply to Irish goods which will recognise that Irish goods are compliant with all EU food safety legislation. The deal requires technical changes to EU rules on surveillance of food products entering the EU, and must be approved by the Member States.

(vi) A Major Unknown: Future UK Trade Deals with Other Countries

The UK market price for agricultural products in the future is likely to be determined by the price of imports, which in turn would be influenced by UK import tariffs and UK standards, and also transport costs and currency values. As regards import tariffs, the UK has published its tariff schedule, termed "UK Global Tariff", which will apply from the end of the transition period. However, a major unknown factor is the longer-term UK import regime because the UK has commenced the process of negotiating a number of trade agreements with non-EU countries.

United States: In March 2020 the UK published its strategy on a future trade deal with the US. The UK has a trade surplus with the US and can expect that the US will adopt a strong position in the negotiations. The US is looking very much at the UK food market, where its access has been constrained heretofore by EU tariffs. The US has indicated in a statement from its Trade Representative that a major issue will be regulatory standards in relation to food. The US views many current EU/UK standards as unreasonable barriers to trade.

Australia and New Zealand: In June 2020 the UK government published its strategy on free trade negotiations with these two countries, and stated that it expects talks to begin shortly. The detailed UK government assessments of the impact of free trade agreements with these countries recognise that these countries hold a comparative advantage in food production. In relation to New Zealand it states:

> *In the long run, New Zealand producers may be able to supply UK retailers and UK producers at lower cost relative to domestic producers". In relation to Australia it states the same conclusion and adds: "Australia has a strong comparative advantage in its exports of beef, dairy products, wheat, pigmeat and poultry relative to the UK.*

Trans-Pacific Partnership: Also in June the UK government updated its position on accession to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). The CPTPP entered force at the end of 2018 as a free trade agreement between Canada, Australia, Japan, Mexico, New Zealand, Singapore and shortly afterwards Vietnam. Four further countries, including Chile and Mexico are in the process of ratification.

(vii) Food Standards and Trade Agreements

In addition to prices / markets policy and direct payments policy, 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 repeals the European Communities Act 1972, and provides for the incorporation of EU food safety 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. Most statements from the UK government have indicated that its intention is to retain high food standards. However, this position can be viewed as an interim arrangement, and could change in the context of future UK trade policy in the agri-food sector.

Food Safety Issues in Trade Agreements

International science-based food safety standards are set through the Joint Food and Agriculture Organisation of the UN and the World Health Organisation (FAO/WHO) Food Standards Programme. These standards set the benchmark for SPS (sanitary and phytosanitary) Agreements in international trade agreements as regards food safety, animal health and plant health. The FAO/WHO standards also play a role in TBT (technical barriers to trade) Agreements within trade agreements.

In situations where standards between different countries in a trade agreement are different, free trade can take place if an agreement is reached on "equivalence" of standards. This means recognition by one country that the other country's standards offer the equivalent level of protection, despite being different. The WTO has set guidelines on equivalence; however agreement on equivalence can be a complex and lengthy process within trade negotiations.

EU Concerns

An important requirement of the EU in relation to a Free Trade Agreement with the UK is that it is "underpinned by robust commitments ensuring a level playing field for open and fair competition". The EU "Draft text of the Agreement on the New Partnership with the UK" contains substantial and detailed sections on SPS and TBT. In broad terms the EU objective is to protect its high standards and protect the Single Market.

A major concern for the EU is that the UK, while conducting trade negotiations with the EU, is conducting parallel negotiation with the US, and also with Australia, New Zealand and Japan. The lower food standards in the US relative to the EU are well known and documented (including by this author in a July 2019 IIEA publication). In February 2019 the US Trade Representative set out the US negotiating objectives with the UK, making it clear that these include increasing agri-food exports to the UK and challenging existing non-tariff barriers to its exports to the UK.

Mixed Messages from the UK on Food Standards

The EU concern has been heightened by the mixed messages coming from the UK government in relation to food standards. The Conservative party election manifesto included a commitment to protect UK food standards. However, a campaign initiated by the UK Farmers Unions, and supported by many other interests in the food industry and in public health, to have the UK Agriculture Bill amended by the Commons to include a commitment on food standards was defeated by the government.

In August 2020 the UK Institute for Government published a report on "Trade and Regulation after Brexit". It is critical of the Johnson government for rushing into trade negotiations with third countries before resolving its regulatory position on key issues such as food standards. The report states that the UK will not be able to conclude a large number of trade agreements at speed and maintain its regulatory autonomy after Brexit. It points out that prospective trading partners are likely to tell the UK to change its standards if it wants a deal.

The report states: "The importance of trade deals as a prize of Brexit makes the UK particularly vulnerable to such pressures. But even though it is now negotiating four new trade agreements and 18 rollovers of existing EU deals, the government still lacks a firmly agreed position on many of the issues it will face." As well as pointing to differences between different departments of government, the report also states that tensions between governments in London and Edinburgh are high in relation to changes to food standards. The UK government has taken an initiative on the issue of standards in the context of future trade agreements by the establishment in July 2020 of an advisory Trade and Agriculture Commission, with a mandate to report in six months. The Commission's role is to advise on issues including: how UK trade policies should secure opportunities for UK farmers, while ensuring the sector remains competitive, and that animal welfare and environmental standards in food production are not undermined; protecting British consumer interests; and developing trade policy that opens up opportunities for the UK agriculture industry, particularly for SMEs.

It continues to be a matter of concern for Ireland and for the overall EU that the future UK policy on food standards remains undecided. On balance, it seems probable that a combination of circumstance including concerns about food security and safety in the pandemic environment, decisions by some supermarket groups not to lower standards of the food they sell, and the anticipated advice of the new Commission, are likely to favour the retention of current food standards by the UK government, at least in the immediate future. In the longer-term, lower UK domestic food production if combined with increased reliance on imports from non-EU countries may lead to lower food standards for UK consumers.

Part B: UK Domestic Agriculture Support System

(i) Overview of Supports Provided by the CAP

Farmers in the UK, like farmers throughout the EU, have benefitted from the CAP in two broad ways:

Market Supports: These include the EU Common External Tariff, the Single Market, internal market supports such as storage aid, and a range of production and marketing standards for agriculture and food products. The future of market supports are discussed mainly in Part A of this paper dealing with future trade policy, but some are also covered by the Agriculture Bill, and outlined later in this section.

Direct Payments: Farmers in the UK have been receiving about £3.2bn – £3.4bn annually under the EU's Common Agricultural Policy. These payments have been about 95% funded by the EU and 5% by the UK exchequer. CAP direct payments to farmers aim to ensure food security within the EU and give farmers a fair standard of living. CAP direct payments are divided into two categories:

Pillar 1: This consists of an income support payment to farmers known as the Basic Payment Scheme. This is "decoupled" from production, i.e. it is paid on the area of land rather than the volume of production, but can be at different rates per hectare on different farms (linked to the level of previous "coupled" payments). 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". In the UK, a "greening" or environmental payment has made up 30% of the total.

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

EU Regulatory Standards (discussed in Part A) play an important role in the operation of the Single Market for agriculture and food, and in the implementation of Direct Payments. EU regulations cover the safety and quality of food and 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.

Funding of Direct Payments in the UK

The following table sets out the funding for three recent years, 2016, 2017 and 2018. 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 25%. For Direct Payments in total, the UK co-funding rate was about 5.5% on average.

	2016	2017	2018
Pillar 1: 100% EU (€m)	3,035	3,080	3,126
Pillar 2: (€m) (EU) (UK)	806 (641) (165)	803 (542) (261)	760 (581) (179)
Total (€m) (EU) (UK)	3,841 (3,676) (96%) (165) (4%)	3,883 (3,622) (93%) (261) (7%)	3,886 (3,707) (95%) (179) (5%)
Exchange rate:	0.85	0.89	0.89
Total (£m)	3,265	3,456	3,459

(DEFRA: "Agriculture in the UK" 2018)

Importance of CAP Direct Payments to UK Farmers

The role played by CAP direct payments in providing income to farmers in the UK varies by sector of farming (discussed later) and also across the nations making up the UK.

The following table from the Commons Library Briefing paper relates to 2018. Total Income from Farming consists of value of gross output plus CAP direct payments, less production costs (intermediate consumption), less capital depreciation, less paid labour, rent and interest.

CAP Payments and Total Income from Farming, 2018 (£m)

Country	Total CAP Direct Payments	Total Income from Farming	% of Total Income from CAP Direct Payments
UK	3,331	4,697	71%
England	2,177	3,358	65%
Wales	298	308	97%
Scotland	549	672	82%
Northern Ireland	307	360	85%

(House of Commons Library Briefing Paper: Agriculture Bill 2019-20)

The Briefing Paper states: "Data shows many UK farmers would not have made a profit without CAP support. DEFRA estimated in 2018 that without direct payments some 42% of farms had costs exceeding their revenue".

Agriculture is a Devolved Sector in the UK

Agriculture is a devolved sector in the UK which means that the implementation of many elements of the policy are the responsibilities of the Governments of Scotland and Wales and the Northern Ireland Assembly. The single largest element of the policy by far in expenditure terms, direct payments to farmers, is devolved. In late 2019 the Scottish government published an Agriculture Bill for Scotland. In Wales, in January 2020 the Minister for the Environment, Energy and Rural Affairs stated the intention of the government to bring forward an Agriculture (Wales) Bill designed to work for Welsh agriculture, rural industry and communities. A White Paper will first be published towards the end of 2020.

The following part of this section thus deals mainly with future agriculture policy in England.

Significance of Direct Payments by Farming Sector: England

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.

Significance of Direct Payments (DP's) by System: England (2014/15 to 2016/17)[3]

Farm System	Cereals	Dairy	Grazing Livestock (Lowland)	Grazing Livestock (LFA)	Pigs	Horticulture	General Crops
Average 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%

(DEFRA: "The Future of Farming and Environment Compendium, Feb 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.

(ii) Phasing-out of CAP Supports (England)

Special Arrangements for 2020

The UK left the EU on 1 February 2020. For most policy areas, existing EU law is retained in the UK to the end of the transition period, which is set to end on 31 December 2020. This is the case as regards such major elements of EU policy as the Customs Union and the Single Market.

However, CAP direct payments are not covered by this general arrangement. Farm payments in the UK for 2020 will continue in the same or very similar way as in previous years, but funded by the UK exchequer. The Commons Briefing Paper on the Agriculture Bill states:

> *CAP Direct Payments rules were disapplied for 2020 under the terms of the UK Withdrawal Agreement. [...] EU rules are being domesticated under the "Direct Payments to Farmers (Legislative Continuity) Bill 2019-20" for claim year 2020. This will enable continued payment of direct payments as now in 2020, and provisions for the Agriculture Bill are intended to apply to payments from 2021.*

[3] The above table is based on farm survey data, where farms are categorised by system of farming rather than by enterprise. "Grazing livestock" farms may consist of mainly beef enterprises, mainly sheep enterprises, or a mixture of beef and sheep. On "pigs" systems, direct payments are not paid on the pig production; the DP's may, for example, have applied on supplementary cereals enterprises on these farms.

Arrangements for 2021 - 2027

Current direct payments to farmers under Pillar 1 of CAP (Basic Payment Scheme) will be phased-out over a seven year agricultural transition period, 2021-27. EU regulations in relation to these measures are being carried into UK law. The Secretary of State has power under the Agriculture Bill to amend this law, which will apply from the end of transition at end 2020.

Information has been provided by the government on the rates of reduction in the current direct payments, but only for the first year.

Rates of Reduction 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%

(Example: a DP of £40,000 would suffer a 5% cut on first £30,000 and 10% on £10,000)

(iii) Agriculture Bill 2019-20

In September 2018 the UK government published the Agriculture Bill 2017-18; this fell with the dissolution of Parliament in October 2019. The Agriculture Bill 2019-20 was published in January 2020. Much of the following information and analysis draws on the House of Commons Library Briefing Paper on the Agriculture Bill published on 10th February.

Some parts of the Bill relate to the UK in total, particularly provision in relation to international trade, including compliance with World Trade Organisation (WTO) rules. Also, measures on food security and on fair dealing in the supply chain apply to the four countries.

However, the main body of the Bill, which covers domestic agriculture support, applies only to England. The implementation of agriculture policy on direct payments is largely a responsibility of the devolved governments in Scotland, Wales and Northern Ireland. The House of Commons Briefing Paper states:

> *The provisions on new farm support schemes mainly apply to England. Powers are included in a schedule for Northern Ireland to enable preparation of replacement schemes. Some provisions of the Bill apply to Wales but these are intended to be temporary [...] Welsh Ministers intend to introduce this Assembly term a Wales Agriculture Bill. The Scottish Government introduced legislation in November 2019 which proposes to keep farm support approaches largely the same until 2024.*

Within the UK, England accounts for 76% of total agricultural output, Scotland for 14%, Northern Ireland for 5% and Wales for 4%.

Summary of Main Elements of the Agriculture Bill 2019-20

New Agriculture Support System: The current system of direct payments under the CAP are to be phased out over a seven year period starting in 2021. Part 1 of the Bill deals with establishing a new agricultural support system based on the principle of "public money for public goods", such as environmental improvements and animal welfare improvements. The principle of public money for public goods is a major change from the current system in several ways. For example, it breaks the link between direct payments and the area of land farmed. It also breaks the link between payments and the enterprise on the farm; currently some enterprises are highly dependent on direct payments to return an income to the farmer. Environment Land Management (ELM) schemes will be the mainstay of future farm support. However, the details of such schemes are not yet available to farmers.

The Commons Library Briefing Paper states:

> *Part 1 of the Bill provides for the overall outcomes which the new system is aiming for, and the administrative and enforcement framework. DEFRA (Department of the Environment, Food and Rural Affairs) is expected to publish a policy statement setting out further information on ELM schemes. The bill itself does not contain further details on the specific schemes that might be set up under these powers.*

The Bill includes requirements on the Secretary of State to prepare multi-annual financial assistance plans. The first plan is to run for seven years from 2021. Subsequent plan periods must not be shorter than five years.

Intervention in Markets: The Bill gives Ministers powers to intervene in agricultural markets in exceptional conditions, such as exceptional financial support to farmers, or to operate public intervention or private: storage aid schemes.

Increase Transparency and Fairness in the Food Supply Chain: The Bill introduces new requirements on collection and sharing of data, by placing fair dealing obligations on business purchasers, and by introducing measures on Producer Organisations.

Marketing Standards: The Bill provides for legislation to amend or revoke existing EU or domestic standards, or set new standards.

Compliance with WTO Agreement: The Bill sets out provisions to enable the UK to meet its obligations under the WTO Agreement on Agriculture. (The WTO sets limits on supports that are considered trade-distorting).

Capital Investment: The UK government has stated that support will be provided during the transition period to farmers to invest in equipment, technology and infrastructure.

Farmer Retirement: There is provision in the Bill to de-link payments from the land for all farmers during the agricultural transition period. There is provision also for direct payments to be made in a lump-sum, rather than over 7 years. Thus a payment recipient could receive the payment while no longer being a farmer, e.g. the recipient may have retired or moved to another business.

Simplification: The Bill gives power to the Secretary of State to modify the legislation on the BPS. This is limited to a number of purposes, the main ones relate to simplification and reduction in the burden on claimants.

Measures Previously Funded Under Pillar 2 of CAP: The main scheme has been the Countryside Stewardship scheme, and the government has stated that remaining EU funding under CAP Pillar 2 (rural development and environment projects) will continue until the current funding is used up, or 2023, whichever is earliest. The government has stated its commitment to a smooth transition from this scheme to the new Environment Land Management scheme (ELM).

Standards: The Agriculture Bill gives power to UK Ministers to amend the EU "Horizontal Regulation" (Reg 1306/2013), which covers rules on how farmers must comply with EU rules on environmental and animal welfare standards (known as "cross-compliance").

New Measures: The bill contains a number of new measures compared to the previous Bill, including:

A requirement for Ministers to consider the need to encourage the production of food in England, in an environmentally sensitive way.

A requirement for Ministers to set out multi-annual plans in relation to financial assistance measures. The first plan will be for seven years to the end of 2027. Plans after that are to be for at least five years.

A requirement to report on food security at least once every five years. This places a duty on the DEFRA Minister to produce a report every five years on UK food security. (The definition of security is a broad one, including global food availability as well as domestic supply). As there is no requirement for the Minister to take any action in relation to identified issues, this clause is seen as relatively weak

A range of new measures relating to farming and the countryside. These include measures on agricultural tenancies, regulation of fertilisers, identification and traceability of animals.

DEFRA Update on Details and Timetable for New Agriculture Support System

The Department of Environment, Food and Rural Affairs (DEFRA) published the "Health and Harmony" consultation document in February 2018, setting out the government's intention to reform agriculture policy fundamentally. In February 2020 DEFRA published "Farming for the Future: Policy and Progress Update". The paper covers all the main elements of the new policy direction which have been outlined earlier in this paper.

(i) Environmental Land Management Scheme

In response to the question: what will ELM pay for, the following answer is given:

> *Through ELM, farmers, foresters and other land managers will be paid for managing their land in a way that will deliver clean air, clean and plentiful water, thriving plants and wildlife; protection from and mitigation of environmental hazards; beauty, heritage and engagement with the environment; mitigation of and adaption to climate change, particularly to support the delivery of our net zero targets.*

As regards the time-frame for introduction of the ELM, the paper states that since September 2018 DEFRA has been undertaking detailed planning, and are considering a range of options for the design of the scheme, and preparing for the launch of the national pilot in 2021. It states: "As part of the design process we have established and launched an ambitious programme of tests and trials". The paper goes on to state that ELM will start in late 2024.

(ii) Supporting a Prosperous and Productive Sector

A second policy area which is likely to be of strong interest to farmers is that relating to support for increased productivity. The paper states: "We will provide grants to farmers, foresters and growers so they can invest in equipment, technology, and infrastructure that will help their businesses to prosper while improving their productivity and enhancing the environment". The scheme is due to open in 2021. The paper states that the investments eligible for grant aid could include: precision slurry application equipment, variable rate nutrient and pesticide applicators, efficient irrigation systems, energy-efficient lighting, robotic milking equipment, automated produce sorting and packing equipment, and food processing equipment.

(iii) Animal Health and Welfare

DEFRA states that: "We intend to launch the first schemes to improve the health of farm animals from 2022 to 2023, tackling endemic diseases in particular. We are co-designing schemes with farmers, vets and their representatives, prioritising cattle (dairy and beef), sheep, pigs and poultry".

As regards animal welfare, DEFRA states that its reform package will contain three inter-related strands as follows. (a) Ensure that baseline regulatory requirements maintain current high standards. It notes that "Increases in baseline regulatory requirements will also need to take into account how this affects the competitiveness of our sector in relation to standards which apply to imports". (b) To tap into consumer willingness to pay for welfare enhancements by developing reforms which provide improved consumer transparency. (c) Use public funds to pay for animal welfare enhancements that are valued by the public and not sufficiently by the market. DEFRA is in the consultation process with relevant parties and no target dates are provided for the introduction of these measures.

(iv) Addressing Unfair Trading Practices

DEFRA states that policy must ensure that the market for farm products work more efficiently, transparently and fairly. There are provisions in the Bill to introduce statutory codes of practice for contracts between qualifying sellers and business purchasers. The DEFRA paper "Farming for the Future" states: "The first stage to contract regulation will focus on the dairy and red meats sectors and we intend to launch public consultations to explore issues in both these sectors in Spring 2020". Also, the Bill contains powers to collect and share data from those within, or closely connected to, the agri-food supply chain.

(v) De-linked Payments and Optional Lump Sums

As part of the phasing out of the current direct payments, the government intends to de-link payments from the land for all farmers. Once payments are de-linked, the level of payments will be based on a reference period, and recipients will no longer have to farm in order to receive payments during the transition period. De-linked payments will be phased out over the transition period to 2027. DEFRA has stated that the earliest that payments will be de-linked is 2022 but it could be later. DEFRA is to examine the option of offering farmers a once-off lump-sum payment instead of the annual direct payments due during the transition period, subject to affordability.

Current Status of Agriculture Bill

The Bill returned to the House of Lords on 7th July for the Committee stage; the UK government is confident that it will be enacted before the end of transition at the end of 2020.

Part C: Agriculture and Food Policy in Northern Ireland

Agriculture in the UK is a devolved sector which broadly means that the implementation of many elements of agriculture policy is the responsibility of the devolved governments, including the Northern Ireland Executive, within an overall UK framework. Heretofore, the implementation of the largest expenditure area which is on-farm supports (direct payments) has been devolved, and that will be the case in the future. The Northern Ireland Executive may decide that the policy priorities and details in NI differ from those in England, as set out in the UK Agriculture Bill, and may also differ from those in Scotland and Wales.

As a consequence of Brexit, the funding of agriculture policy is shifting from the EU CAP budget to the UK exchequer. Heretofore, the UK government received the EU funding, which it then allocated between the four nations. Agricultural funding transferred to the devolved governments is not part of the "block grants". Ultimately it is decided by the UK government. The situation for the immediate future is that the UK government has committed to retain the recent funding for agriculture in the UK each year for the term of the current parliament.

A further important factor influencing the future of agriculture and food policy in Northern Ireland is the agreement between the UK and the EU of the Ireland/Northern Ireland Protocol in the Withdrawal Agreement. This will have particular implications for both trade policy and regulatory policy for NI agriculture and food.

(i) Overview of Supports Provided by the CAP in Northern Ireland

Farms in Northern Ireland are smaller than in England (average size of 41ha vs 87ha), a higher proportion are in the relatively low-income cattle and sheep enterprises (79% vs 44%), and a much higher proportion of the land area in NI is designated as "less-favoured", also known as "Areas of Natural Constraint" or ANC's (70% vs 19%).

The summary economic accounts for the Northern Ireland agriculture sector are shown in the following table. The table seeks to separate the income earned from the market (product sales less total production costs) and the income from direct payments. (The main direct payment is known as the Basic Payment Scheme; the figures shown for this item also includes some recently introduced related schemes, the Greening Payment and the Young Farmer Payment).

Output, Costs, Direct Payments and Income in Agriculture in Northern Ireland (£m)

	2016	2017	2018
Gross Output	1,788	2,103	2,134
Total Costs	1,833	1,950	2,075
Income from the Market	-45	153	59
Direct Payments: Total Pillar 1: Basic payments scheme Pillar 2:	306 274 32	314 288 26	301 286 15
Total Income from Farming	262	467	360
DPs as % of Total Income	117%	67%	84%

(From Statistical Review of Northern Ireland Agriculture, DAERA)

The above table shows that, in aggregate, agriculture in Northern Ireland has a high dependence on direct payments. Over the three years, 2016-18, direct payments ranged from a 67% of income to 117% of income. Also, it is noteworthy that direct payments are a relatively stable component of income, whereas income from the market is more volatile. (The main Pillar 2 payment in NI is for the Less-favoured Areas scheme; followed by Environmental schemes).

The following data published by the Northern Ireland Department for Agriculture, Environment and Rural Affairs (DAERA), based on farm surveys, sets out the average level of Farm Business Income across the main farm enterprises. (Farm business income is the return to all unpaid family farm labour and their capital invested in the farm business; it included both income from the market and direct payments).

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 Business 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

(based on DEFRA data)

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 of 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.

(ii) Future Strategy on Agriculture Supports in Northern Ireland

Future policy on on-farm supports, a devolved function, is less-developed in Northern Ireland than in England, where the Agriculture Bill is going through parliament. It is also less-developed than in Scotland, which introduced its own Agriculture Bill in November 2019. In Wales the Government has stated its intention to publish a White Paper on the future of Welsh agriculture before the end of 2020, to be followed by the introduction of an Agriculture (Wales) Bill.

In Northern Ireland the Research and Information Service of the NI Assembly published a Briefing Paper on the UK Agriculture Bill in February 2020. The briefing paper focusses in particular on NI specific components of the Bill, and some elements of the Bill requiring legislative consent from the NI Assembly. It looks at the issue of financing direct payments post the agriculture transition period which runs to 2027. It looks briefly at the important issue of whether the UK Agriculture

Bill is compliant with the Ireland/Northern Ireland Protocol. It concludes with the question: Could a Northern Ireland Agriculture Bill be brought forward?

The research paper notes the high level of reliance by NI farming on direct payments, particularly on cattle, sheep and cereals farms. It also notes the significance of the food and drinks processing sector in the NI economy, accounting for 2.3% of GVA or £904m in 2018. The sector had export sales value of £3,541m, of which £2,271m (64%) went to the rest of the UK. Agriculture and food processing in NI account for 73,000 jobs (49,300 on farms and 23,600 in processing).

Elements of UK Agriculture Bill that extend to NI
The briefing paper referred to sets out the specific elements of the UK bill that extend and apply to NI. The following are the main ones.

WTO Agreement on Agriculture. Since leaving the EU, the UK is an independent member of the WTO. Both the EU and the UK are signatories to the WTO Agreement on Agriculture, and thus have obligations in relation to market access, domestic support of agriculture, and export competition. It is to be expected that the UK government will determine its WTO policy for all of the UK; whether or not it holds some consultation with the devolved governments remains to be seen.

Regulation and Standards. A key issue related to future trade policy is regulation and standards in relation to agriculture and food. Farmers throughout the UK including NI are concerned that current standards will be undermined by lower standards applying to imports in the future. The UK government has decided that this issue is not being dealt with in the Agriculture Bill. Following some disagreement within the UK government on the issue of food standards, the government recently established an advisory Trade and Agriculture Commission, which should report by end 2020.

Food Security. This places a duty on the DEFRA Minister to produce a report every five years on UK food security. (The definition of security is a broad one, including global food availability as well as domestic supply). As there is no requirement for the Minister to take any action in relation to identified issues, this clause is seen as relatively weak.

Other Clauses that extend to NI: These include clauses on Fair Dealing with Agricultural Producers, Producer Organisations, Traceability of Animals, and Organic Products.

Financial Support for NI Agriculture after EU Exit / Future Role of Direct Payments
Schedule 6 of the UK Agriculture Bill confers powers on the DAERA Minister in Northern Ireland that are similar to those that the DEFRA will hold in England. The most important one is the power to provide financial support to agriculture in NI after EU exit. (Other policy areas covered by this section relate to intervention in agricultural markets, collection and sharing of data, and marketing standards).

It is already decided that direct payments to farmers in NI will continue to be paid in 2020, broadly as in previous years. The DAERA Minister will have power under the Agriculture Bill to extend the basic payment scheme for one or more years after 2020, which differs from the situation for England, where such payments are being phased-out from 2021. The DAERA Minister also has power under the Bill to modify legislation in order to make payments for Areas of Natural Constraints.

As stated earlier in this paper, the UK government has committed to providing the current annual budget to farming in every year of this Parliament. It has been decided that NI will receive £279m for agriculture for the 2020/21 year.

The NI Assembly Briefing Paper raises some questions as regards the following years. It notes that the Conservative Party election manifesto contained a commitment to repeal the Fixed Term Parliament Act; thus the parliament may last less than five years. It notes that if convergence were to apply to per-hectare payments, as recommended by the Bew Report, NI's share of UK funding would decline. Also, it raises the question of whether the principle of "public money for public goods" will have relevance for the devolved administrations, including NI.

The NI Briefing Paper also raises the question of whether DAERA plan to seek access to a dedicated rural component of the proposed UK Shared Prosperity Fund that will replace EU Structural Funds.

No Clarity To-date on NI Agriculture Bill

As outlined in Part B of this paper, the principle underpinning future direct payments in the UK Agriculture Bill, which will apply to England, is "public money for public goods". This means that only the environmental contribution of farmers is deemed eligible for support. Other roles of farmers, such as food production, food safety and security, and rural economy contributions are deemed not significant in terms of public financial support. As outlined above, the viability of the vast majority of farmers in Northern Ireland is highly dependent on direct payments as currently apply. Also, as outlined, the structure and scale of farming in NI is much different to farming in England. If direct payments in the future are linked exclusively to the environmental contribution of farming, it is likely that farmers will have to adjust their farms, either by cutting production or incurring additional costs, thereby further eroding their incomes.

Thus there seems to be a clear-cut case for a separate NI agriculture policy on farmer direct payments that is sensitive to the situation in NI farming, and that will optimise the benefit to farmers of the allocated annual budget for direct payments. At the time of writing in early September, no indication is evident from the Assembly or DAERA that an NI Agriculture Bill is being planned.

(iii) Implications of the Ireland/ NI Protocol for NI Agriculture

The Protocol on Ireland / Northern Ireland was agreed by the European Council including the UK PM on 17th October 2019. The objective of the Protocol is to provide a legally operative solution that avoids a hard border on the island of Ireland, protects the all-Ireland economy and the Good Friday Agreement, and safeguards the integrity of the EU Single Market. The Protocol replaced the previous Ireland / NI "Backstop" agreement

The UK-EU Withdrawal Agreement, including the Protocol, has been ratified by the UK Parliament and by the European Parliament on behalf of the EU. The Protocol will apply from the end of the transition period and will continue to operate into the future unless it fails to get the majority support of the Northern Ireland Assembly. The following are the main elements of the Protocol.

Single Market: Northern Ireland will remain aligned to a specific set of rules of the EU Single Market for goods covering the following areas of regulation: legislation on goods, sanitary (public health and animal health) and phytosanitary (plant health) rules, rules on agricultural production and marketing, VAT and excise in relation to goods, and state aid rules. These rules will apply on imports into NI, in order to avoid a hard border between Ireland and NI.

Customs Union: Northern Ireland will be part of the UK customs territory, and for example goods produced in NI can in future be exported to a third country under the same conditions as goods produced in other parts of the UK. But in order to avoid a hard border within the island of Ireland, the EU's customs code will apply to goods entering NI. EU customs duties will apply on goods entering NI if those goods risk entering the EU's Single Market. The situation can be summarised as follows.

- For goods entering NI from the rest of the UK (GB) that are not at risk of entering the EU's Single Market, no customs duties will be payable. Goods entering NI from GB that are at risk of moving on to the EU will be liable to pay the EU customs duty.

- Goods entering NI from a non-EU country (other than GB) that are not at risk of moving on to the EU will be liable to pay the UK customs duty. Goods entering NI from a non-EU country that are at risk of moving on to the EU market will be liable to pay the EU customs duty.

A Joint Committee set up by the EU and UK has responsibility to establish the criteria for risk assessment before the end of the transition period.

No customs or regulatory controls will apply on trade between NI and the EU.

Exports from NI to GB: No customs duties will apply. However, it is understood that NI exporters may have to fill out export declaration forms setting out some basic information on the goods.

VAT: In order to avoid a hard border on the island of Ireland, and protect the integrity of the Single Market, the EU's VAT rules will continue to apply in Northern Ireland. In addition, VAT exemptions and reduced rates applying in Ireland may also be applied in NI in order to avoid distorting the level playing field on the island of Ireland. Within NI, the UK authority (HMRC) will remain responsible for applying VAT legislation, including collection of VAT. The UK will keep revenues accruing from this tax.

Implementation of EU Regulations and Customs Controls in NI: UK authorities will implement the provisions of EU law that the Protocol requires in respect of imports to NI. All checks will be carried out by UK authorities with appropriate supervisory and enforcement mechanisms for the EU. The Court of Justice of the European Union will have jurisdiction for the implementation of EU law in NI. The UK may participate in such proceedings before the CJEU in the same way as a Member State.

Consent: The Protocol contains a new article on consent. This will give the Northern Ireland Assembly a decisive voice on the long-term application of relevant EU law in NI. It relates to the issues of regulatory alignment on goods, customs, VAT, the Single Electricity Market, and state aid. The consent article means in practice that four years after the end of the transition period, the Assembly can by simple majority give consent to the continued application of EU law in NI. Every four years thereafter (or every eight years if there is cross-community support for retaining EU law), the Assembly can vote on the continued application of EU law. In the event that the vote was against continuing the relevant EU law, the Protocol will continue to apply for a further two years.

General Issues: The Protocol is without prejudice to the provisions of the Good Friday Agreement 1998 in respect of the constitutional status of Northern Ireland and the principle of consent. The Protocol acknowledges that Ireland and the UK may continue to make arrangements between themselves relating to movements of persons, i.e. the Common Travel Area.

It should be noted that the Ireland / NI Protocol is quite different from the earlier "Backstop" arrangement which was rejected by the UK parliament. The Backstop was explicitly linked to the terms of the future relationship between the UK and the EU; it was an insurance policy that would have come into operation if the future trade relationship did not meet the objective of preventing a hard border on the island of Ireland. The new Protocol is an indefinite arrangement that is unconnected to the future trade relationship. The Protocol will stand if no agreement is reached on the future UK-EU relationship. (In the event that the Protocol were to be rejected by the Assembly, the Agreement requires the Joint Committee to make recommendations to the UK and the EU on necessary measures, taking into account the obligations of the parties to the Good Friday Agreement).

Issues Arising from the Ireland / NI Protocol

The NI Assembly Briefing Paper sets out a number of important implications for agriculture and food policy in NI arising from the Ireland/NI Protocol:

> *Amongst other things, the Protocol effectively binds Northern Ireland to a series of EU regulations as they relate to goods, with agricultural products being particularly prominent. Adherence to these regulations is how NI will be able to access the EU Single Market, and Annex 2 of the Protocol which is substantial, lists all the requirements. It is useful to note here that NI is also required to automatically adopt any changes to the EU regulations listed in Annex 2.*
>
> *In addition, any new EU regulations as they relate to agri-food goods and manufactured good, can be added to Annex 2, provided this is agreed by the Joint Committee which will oversee the operation of the Ireland/NI Protocol.*
>
> *It should also be noted that Article 10 and Annexes 5 and 6 of the Protocol also tie NI into EU state aid rules as they relate to areas covered within the Protocol and which involve trade between NI and the EU.*
>
> *Whilst the Joint Committee will have a key role to play in the operation of the Protocol, the European Commission and the European Court of Justice will ultimately have responsibility and powers to ensure that Northern Ireland adheres to the rules it is required to.*

Implementation of the Protocol

In May 2020 the UK government published "The UK's Approach to the Northern Ireland Protocol", (referred to as the "Command Paper"). It should be noted that under the Withdrawal Agreement the Protocol itself is not open for renegotiation. However, the implementation details are to be resolved by the EU-UK Withdrawal Agreement Joint Committee and the Ireland/Northern Ireland Specialised Committee. The content and tone of thee Command Paper raised concern in Ireland that the UK strategy was to use the Protocol implementation "as a weapon" to strengthen its hand in the UK-EU trade negotiations.

The Command Paper is focussed very much on the movement of goods across the Irish Sea, in particular from GB to NI. Its central objective seems to be to reassure people in NI that they will not be disadvantaged as a result of the Protocol. (A Precis and Analysis of the Protocol has been published by Katy Hayward of Queens University Belfast and "UK in a Changing Europe").

Major claims by the UK government in the Command Paper are that there will be no tariffs on internal UK trade and that that there will be no new customs infrastructure in Northern Ireland. However the Paper accepts that the future situation for agri-food trade is different than for trade in other goods under the Protocol. It states that:

> *Building on the existing practice established to maintain the Single Epidemiological Unit on the island of Ireland, NI would align with EU SPS rules, including those relating to placing on the market of agri-food goods. Agri-food goods entering NI from GB would do so via a Border Inspection Post or Designated Point of Entry as required by EU law. They would be subject to identity and documentary checks and physical examination by UK authorities as required by the relevant EU rules.*

A significant development has been the announcement in August by the UK government of an expenditure of £355m in NI to help offset new costs facing traders arising from implementation of the Protocol and fund new investment at ports. A "trader support service", funded by £100m per year for two years, is intended to offset the administrative costs of bringing goods into NI. Reference was made by UK government to an "enduring commitment", signalling that the support would go beyond the first two years. Also, £155m is being provided to fund investment in digital technology at ports and other points of entry. Overall, the expenditure package can be seen as a practical step by the UK government to implement the Protocol, and to offset criticism by traders and NI consumers.

However, in his address to the IIEA on 2nd September, Michel Barnier noted that "important questions remain open" as regards to the UK preparation for the implementation of the Protocol. He stated: "The EU needs to be sure that the Union Customs Code will be applied in its entirety for goods arriving in Northern Ireland. Similarly, we need to know that goods leaving NI respect all applicable EU export procedures and formalities. And we need to be certain that all necessary controls are carried out on live animals or animal-derived products arriving in NI from GB and the rest of the world". Mr Barnier concluded that the UK still needs to complete many practical preparations.

Protocol a Positive Outcome for NI Agri-food Sector

The impact of the Protocol from 1 January 2021 for the Northern Ireland agriculture and food sector looks positive in two ways, in addition to the obvious benefit of avoiding a hard on the island of Ireland. First, irrespective of the outcome of the UK-EU trade negotiations, exports from NI will have free access to both the GB market and the EU market. (As outlined above, exporters to GB may have to comply with export declaration forms). Second, the standards applying to agriculture and food in NI will continue as at present. Both these factors should be positive for product prices in Northern Ireland.

Appendix I

Prepared Consumer Foods Trade between Ireland and UK by Category, 2018 (€m)

	Exports	**(of which)**	**Imports**	**(of which)**
	To UK	To NI	From UK	From NI
Meat Preparations	637	51	294	16
Chocolate based Products	237	13	212	7
Breads	137	20	107	2
Waters, Soft Drinks etc	125	12	227	13
Dairy Preparations	117	4	79	2
Pizza / Quiche	110	4	40	4
Other Food Products	109	16	157	7
Cereals based Products	67	29	258	29
Fruit & Veg based Prod.	62	14	221	28
Sauces, Soups etc	51	10	204	6
Sugar based Products	48	6	103	8
Other	82	9	237	11
Total	1,781	188	2,139	132

(Department of Agriculture, Food and the Marine; CSO)

Appendix II

Agreed Share-out of Tariff-rate Quotas between the UK and the EU (tonnes)

Sheep-meat (fresh, chilled and frozen) – Main Import Quotas

Country with TRQ	Current EU TRQ	Post Brexit	Post Brexit
		To the UK	To the EU
New Zealand	228, 389	114,195	114,195
Australia	19,186	15,349	3,837
Argentina	23,000	6,007	16,997
Uruguay	5,800	1,038	4,762
Chile	3,000	372	2,628

Beef – Main Import Quotas

Country with TRQ	Product	Current EU TRQ	Post Brexit	Post Brexit
			To the UK	To the EU
Australia	High quality beef	7,150	4,669	2,481
Argentina	High quality beef	29,500	118	29,382
Uruguay	High quality beef	6,000	726	5,274
US/Canada	High quality beef	11,500	23	11,447
Brazil	High quality beef	10,000	1,050	8,950
Open to all	Frozen beef	54,000	11,140	43,735
Open to all	Beef for manufacturing	63,703	44,019	19,684

Appendix III

UK Global Tariff for Main Agricultural Products and Comparison with EU CET

Product	EU Common External Tariff	UK Global Tariff
Beef, fresh/chilled carcases Frozen beef carcases	12.8% + €176.8/100kg 12.8% + €304.1/100kg	12% + £147/100kg 12% + £254/100/kg
Lamb, fresh/chilled legs Frozen lamb legs	12.8% + €227.7/100kg 12.8% + €167.5/100kg	12% + £186/100kg 12% + £140/100kg
Butter, fat content not >85% Cheddar cheese	€189.6/100kg €169.1/100kg	£158/100kg 139/100kg
Pigmeat, fresh/chilled carcases	€53.6/100kg	£44/100kg
Poultrymeat, frozen	€35.8/100kg	£29/100kg
Common wheat, medium q. Barley Maize	€95/t €93/t €10.4/t	£79/t £77/t 0

Appendix IV

UK Import Tariff Rates in a "No Withdrawal Deal" Brexit: March 2019 Proposal

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 stated 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 poultry-meat, 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.

Proposed UK "No Withdrawal 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	-

(UK Department of International Trade. AHDB)

Appendix V

Non Brexit Issues Relevant to Agriculture and Food Policy in the UK

(i) Implications of Covid 19 for Policy in the Agriculture and Food Sector
The UK Agriculture Bill and the UK and EU opening positions on the negotiations on the future relationship between them, including trade relationship, were drawn up before the advent of the Covid 19 pandemic to Europe. An immediate impact has been a change in food consumption patterns and disruption to food markets in EU countries and in the UK. There may be longer-term implications, including greater concern about food supply security, food safety and food quality. This may be a particularly relevant issue for the UK, as a major net food importing country. There is also the over-arching issue of the implications of Covid 19 for the public finances of many countries, including the UK.

(ii) The Link between Food and Health – the Dimbleby Review
In parallel with the agriculture and food policy reform contained in the Agriculture Bill, DEFRA set up an independent review in 2019 of the food system in the UK, chaired by Henry Dimbleby, Non-Executive Director of DEFRA (Department of Environment, Food and Rural Affairs). The DEFRA publication "Farming for the Future" published in February 2020 states: "*The choices we make about what we eat have a direct impact on all our lives and wellbeing. Obesity, diabetes, cardiac disease and other diet-related conditions are harming the lives of millions*". *The DEFRA publication also states: "The review will cover the entire food chain from farm to fork, building on work already underway in the Agriculture Bill. The objective is to ensure that we deliver healthy and affordable food, creating a system that is built upon a strong and sustainable agriculture sector*". The Dimbleby Report is due to be published in Winter 2020, and its recommendations are intended to shape a White Paper, which is scheduled to be published six months later in Summer 2021.

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