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# British Agricultural Policy after Brexit



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## Introduction

After the UK leaves the EU it will need to replace the EU's Common Agricultural Policy (CAP) with a new policy framework for agriculture in the UK. Important decisions need to be taken soon both on domestic arrangements for farmers and on policy for agricultural trade with other countries. These decisions, which will determine prices and supplies of food for consumers, and have an impact on the British landscape and the natural environment, should be taken on the basis of well-informed public debate.

Until recently the Government had given little indication of its plans in this field but early in 2018 Michael Gove, the Secretary of State for the Environment, Food & Rural Affairs, outlined in a speech his ideas for agricultural policy after Brexit.<sup>1</sup> Some of these were included in the '25 Year Plan for the Environment' launched by the Prime Minister on 11 January and were repeated in a speech that Mr Gove made to the National Farmers' Union on 20 February.<sup>2</sup> Finally, on 27 February 2018 the Government published a consultation paper that primarily deals with agriculture policy in England after Brexit but contains some proposals relating to the UK as a whole.<sup>3</sup> Meanwhile the House of Commons Environment, Food and Rural Affairs Committee published a report that expressed concern on a number of matters.<sup>4</sup> Ministers have said that there will be an Agriculture Bill to implement the UK's post-Brexit agricultural policy but no timetable for its publication has been given.<sup>5</sup>

According to the Government: "Leaving the CAP means we can do much more for our environment. After a period of stability to ensure a smooth transition, we will move to a system of paying farmers public money for public goods. The principal public good we want to invest in is environmental enhancement."<sup>6</sup>

"Leaving the EU," Mr Gove has said, "allows us to deliver policies to ensure that we leave the environment in a better condition than we found it – to deliver a Green Brexit".<sup>7</sup>

This paper examines the prospects and options in light of these developments. It updates the SEE briefing of November 2016 on *Brexit: The Implications for Agriculture & Food*.<sup>8</sup>

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<sup>1</sup> HM Government, 'Speech: Farming for the next generation', 5 January 2018

<sup>2</sup> HM Government, 'Prime Minister's speech on the environment', 11 January 2018; HM Government, 'A Brighter Future for Farming', 20 February 2018

<sup>3</sup> HM Government, *Health and Harmony: the future for food, farming and the environment in a Green Brexit*, Cm 9577, 27 February 2018

<sup>4</sup> House of Commons Environment, Food and Rural Affairs Committee, *Third Report of Session 2017–19: Brexit: Trade in Food*, HC 348, 18 February 2018

<sup>5</sup> HM Government, *op. cit.*, n. 4, p. 10, para 27

<sup>6</sup> HM Government, *A Green Future: Our 25 Year Plan to Improve the Environment*, 11 January 2018, p. 36

<sup>7</sup> HM Government, *op. cit.*, n. 1

<sup>8</sup> Senior European Expert, *Brexit: The Implications for Agriculture & Food*, 5 November 2016

## The Common Agricultural Policy

The CAP has changed considerably during the 45 years of Britain's EU membership, often as a result of British pressure. The CAP's objectives now include environmental protection and rural development, as well as support for farm incomes; in international trade the EU has obtained agreement in the World Trade Organisation on limits for agricultural subsidies. The CAP has switched progressively from support of market prices to direct support for farmers, and decentralised more decisions. The process continues: France's President Macron has said, "I want to open a new debate so that the CAP helps European agriculture to make its transition and allows more flexibility at the national level for managing the life of the countryside, involves less bureaucracy, and leaves more to the regional level".<sup>9</sup>

Nevertheless, the CAP is often perceived as the most negative aspect of Britain's EU membership, particularly since for many years it took the biggest share of the EU budget. Since British farms are generally larger in size than those in other EU countries, and agriculture is less important in the national economy, the UK has received less benefit from the CAP than others. The high level of EU expenditure on agriculture, combined with Britain's low receipts, was the main justification for Britain's budget rebate, which has largely offset the budgetary cost of the CAP to the UK. In agriculture the EU has a greater degree of regulatory harmonisation, market integration, and common financing and decision-making than in any other sector. As a result, the process of moving to a UK policy framework after Brexit will be challenging and time-consuming. In order to provide time for preparation, the UK will continue to apply the CAP system during the implementation period but intends to move a longer period of transition within agricultural policy after that.<sup>10</sup>

## Domestic agricultural policy

This paper looks at scenarios for British agricultural policy when the transitional period has ended. It examines in the first place the prospects for domestic policy, taking account of recent Government statements, and then examines the future arrangements for agricultural imports and exports. It should be emphasised that for the UK, as for any modern developed society, a well-designed agricultural policy needs to embrace several inter-related aspects:

1. Domestic support for the farm sector, with a choice of appropriate mechanisms;
2. The resulting level of public expenditure;
3. Protection for agricultural producers from imports, and opportunities for exports of food and agricultural products;
4. The safety, price and quality of food for consumers;
5. The impact of farming on the environment.

This note comments on the main points of the Government's proposals, including that:

- The Government guarantees that farm support will be maintained not only during the 'implementation period' of about 2 years following Brexit in 2019, but until the end of the present Parliament in 2022;

<sup>9</sup> Government of France, 'Initiative for Europe - Speech by Emmanuel Macron for a sovereign, united, democratic Europe', 26 September 2017

<sup>10</sup> HM Government, *supra* n. 4, p. 20

- During the 'implementation period' it will reduce subsidies to larger farms by introducing a 'cap' on payments;
- In England, agriculture policy is intended to create a "more dynamic, more self-reliant agricultural industry" with public funding primarily focused on land management and the environment;<sup>11</sup>
- trade policy after Brexit is "a golden opportunity to help our farmers to grow more, sell more and export more great British food"; that they wish the UK to maintain continuity in existing EU free trade agreements with third countries; and that they recognise that "future trade relationships must work consumers, farmers, and businesses in the UK".

The consultation paper did not state what the budgetary resources would be available for agricultural support after 2022. Without this information it is hard to assess what kind of agricultural policy the UK could have. And although the paper did, for the first time, give an indication of Ministers' thinking on UK agricultural trade with non-EU countries after Brexit, that chapter was thin on detail (see below).

Another issue to be addressed is the need to take account of the views of the Scotland, Wales and Northern Ireland governments, to whom agricultural policy is devolved. The regional aspects of agricultural policy in the context of Brexit are important and complex: the task is to develop a new UK policy framework which respects the devolved responsibilities of the different nations of the UK.

A further absence is any indication of the Government's views on the possible impact on the rural environment or on farm practices (such as intensification) of the likely loss of competitiveness of British farming as a consequence of changes to domestic subsidies, whatever arrangements apply to trade with the EU and the introduction of new Free Trade Agreements with third countries. A serious loss of profitability in the beef sector, for example, could have a dramatic impact on many hill and upland landscapes.

#### The Government's main proposals

Gove's proposals to cap payments to larger farms and to "move to a system of paying farmers public money for public goods, particularly for environmental enhancement" deserve careful examination. They were well received by environmental organisations, while agricultural organisations were more circumspect: they welcomed the promise that budget support will be maintained until 2022, but expressed doubts and uncertainty about the change in the system of farm payments. They worry that their competitiveness will be compromised if they receive lower payments than producers in other countries, and face low-priced imports.

Gove implies that such changes cannot be introduced until after Brexit. But most of his ideas could have already been put into effect by the government under existing CAP rules:

- **Ceilings on payments to larger farms.** The reform package agreed by the EU in 2013 allows countries, if they wish, to apply ceilings to the main subsidy scheme (Basic Payments Scheme), and nine Member States do so. In the UK ceilings are

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<sup>11</sup> HM Government, *supra* n. 4, p. 6, para 5

already applied in Northern Ireland, Scotland and Wales, and the funds thus freed may be used for rural development.<sup>12</sup> So nothing in the CAP prevents the government from making this change in England now.<sup>13</sup>

- **Payments to farmers for environmental enhancement.** Under the CAP farmers already have to respect environmental and other rules in order to benefit from Basic Payments. They must observe current legislation relating to the environment, food safety, animal and plant health and animal welfare, and safeguard soil protection (organic matter and structure), natural habitats and water management.

One of the themes running through Ministerial statements has been the desire for lighter regulation. Gove has denounced what he called “bureaucratic box-ticking”, argued for fewer rules for financial support to farmers, and announced that a “transitional payment could be paid to recipients without the need to comply with all the onerous rules and procedures”. After that transition, the Basic Payments Scheme will be replaced by “a scheme to enhance the natural environment”.

A fundamental problem here is that payments for environmental services are in conflict with a lighter approach to farm inspection. Farmers complain about rules, but they like to receive subsidies. The payment of public money for green agriculture will require controls and inspections to ensure that the environmental services are actually provided. Such controls are more complicated and demanding than those needed for subsidies based on farm size or income. Parliament and the Treasury will wish to ensure that the use of taxpayers’ money for green farming is adequately fraud-proofed and delivers real benefits.

## **Agricultural trade policy**

### a) Trade with EU-27

Britain’s trade with the EU-27 is more significant for British farmers than for their European counterparts, as the Government’s consultation paper acknowledges.<sup>14</sup> The rest of the EU accounts for 62 per cent of UK exports and 70 per cent of UK imports of agriculture and food products.<sup>15</sup> On the other hand, the UK takes only eight per cent of the agriculture and food exports of other EU members, and supplies only three per cent of their imports. Thus, although the UK is a significant market for the EU for agriculture and food, the UK is more dependent on EU markets than the EU is on the UK.

For some countries and some products, the EU’s trade links with the UK are important. Britain is a big market for wine from France, Italy and Spain; for olive oil from Spain and Italy; for fruit and vegetables from Spain, France and the Netherlands; *etc.* For British farm exports, the most important markets are France for mutton and lamb, and the Netherlands and Ireland for beef. Ireland is particularly dependent on agricultural trade with the UK: it

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<sup>12</sup> In Wales, for example, there is a ceiling of €300,000 per farm, while amounts above €250,000 are reduced by 55 per cent, above €200,000 by 30 per cent and above €150,000 by 15 per cent

<sup>13</sup> In the past, British governments strongly opposed proposals by the European Commission for ceilings on payments to big farmers; for example, in 1992, Conservative Minister of Agriculture John Gummer returned from Brussels proclaiming triumph for farmers and the nation through his defeat of such proposals

<sup>14</sup> HM Government, *supra* n. 4, p. 61

<sup>15</sup> HM Government, *British food and farming at a glance*, 21 March 2016; food and drink manufacturing contributes £26.9 billion (gross value added) to the British economy, more than car and aerospace manufacturing combined

imports 61 per cent of its intra-EU imports from the UK, while the UK takes 59 per cent of Ireland's agriculture and food exports to the EU. Moreover, Ireland has a land border with the UK, and the question of controls at the border is a critical part of the Brexit negotiations.

### *Customs controls*

If the UK is not in the EU's Customs Union, customs controls will apply not only at the land frontier in Ireland but also on cross-Channel routes to France and other EU states. Although simplified procedures may be agreed, British exports to the EU, and EU exports to Britain, would be subject to paperwork and checks not presently required, which will add to the transaction costs of agricultural trade in both directions. The need to apply rules of origin to traded products, which would be required under a trade agreement with the EU, would add substantial costs. In response to these problems, the Prime Minister outlined proposals for a customs partnership with the EU in her Mansion House speech on 2 March 2018 but it remains to be seen if the EU will be willing to agree to such an arrangement.<sup>16</sup>

### *Trade agreement with the EU*

Gove said in his speech that, "we are confident of building a partnership with the EU that guarantees tariff-free access for agri-food goods across each other's borders". It remains to be seen how agriculture would be treated under such a free trade agreement. One cannot be sure that the EU will accept full liberalisation for agriculture: although the EU-Canada Agreement provides free trade for most agricultural products, access for some sensitive products such as beef and cheese is limited to preferential quotas. The ratification process of that Agreement showed how concerned rural areas such as Belgium's Wallonia can be about agricultural imports. On the British side, some farmers fear that, in trade negotiations with the EU, the interests of British agriculture may be sacrificed to the interests of financial services or motor vehicles.

In any case, an agreement with the EU on free trade in agricultural products is likely to include conditions for the maintenance of a 'level playing-field'. Both sides will wish to avoid distortion of competition through changes in domestic agricultural subsidies, either in the EU or in the UK. The EU may demand that the UK avoid regulatory divergence (*e.g.* a relaxation of British rules on pesticides or genetically modified crops), and that Britain's agricultural trade with third countries should not disturb the European market (*e.g.* by admitting chlorinated chicken, or lowering British prices). Thus the question of agricultural trade with the EU after Brexit is directly linked to Britain's policy for agricultural imports from the rest of the world.

### *Non-agreement*

If no bilateral agreement is reached with the EU, the UK's agricultural trade would take place on the basis of WTO rules. This would pose very serious problems for British agriculture as well as for consumers. EU tariffs on imports of agricultural products average 12.2 per cent, much higher than the average for all goods (5.3 per cent) and amongst the highest EU tariffs are 17.7 per cent for meat and 42.1 per cent for dairy products.

### *British exports to the EU*

Whether Britain is in or out of the Customs Union, and whether or not it concludes a free trade agreement with the EU-27, British exporters of agricultural produce to the EU will have to continue

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<sup>16</sup> HM Government, 'PM speech on our future economic partnership with the European Union', 2 March 2018

to meet all EU regulations, standards and labelling for such exports. For meat and livestock, EU hygiene rules are particularly demanding: this would mean that British meat plants would have to be inspected and British exports would have to go through Border Inspection Posts. If the UK decides not to maintain EU standards on its domestic market, British producers will need to decide whether to apply EU standards to all their production, or to follow different standards and labelling for home markets and for exports. In cases such as fresh produce, differentiation is costly, so processors often apply the highest standards for all their throughput. It should be noted that Norway and Switzerland apply EU product standards and regulations to all their domestic agricultural production, despite not having free trade for these products with the EU.

#### b) Trade with the rest of the world

During the EU referendum, the Leave campaign exploited the arguments of economists such as Patrick Minford that Brexit would lead to lower food prices as a result of freer trade in agriculture. Since the referendum, the Institute of Economic Affairs has produced a report saying that Brexit would let the UK avoid the EU's "costly agricultural regulations" and "quitting the EU would make it easier for Britain to buy food from all around the world and bring down our prices more".<sup>17</sup> Improved access to the UK market for their exports of beef, dairy products, GMO cereals and proteins and sugar is likely to form an important FTA objective of countries such as the USA, Canada, Brazil and Argentina, while New Zealand would be looking to export more lamb.

It is unlikely that any British Government would apply ideas as extreme as those proposed by the Leave campaign, indeed the consultation paper implies that it would not. But pressure from the Americas and New Zealand to improve their access to the UK market will be hard to refuse for a country anxious to secure FTAs with these countries. Doing so could benefit consumers (at least in terms of price, if not in quality) but the impact on the viability of the farming sectors and regions concerned would be serious.

The possibility of Brexit leading to a reduction in UK standards for food safety and animal welfare as a result of trade agreements with non-EU countries has often been mentioned in public debate. This was one of the matters raised by the Commons Committee for Environment, Food and Rural Affairs which concluded that: "We will hold the Secretary of State to his assurances that there will be no compromise on animal welfare, environmental and food standards".

#### **Scotland, Wales & Northern Ireland**

The task in agriculture is not simply to develop a new national policy, but four (separate but compatible) new policies for the different nations of the UK. Agriculture is among the policies wholly devolved to the Scottish, Welsh, and Northern Irish administrations, though agricultural trade policy is not devolved. Agricultural structures and conditions there differ from those in England, and the priorities are different, so it will be a big challenge to ensure coherence and avoid distortion of markets for agriculture and food within the UK. There will be difficulties over the relative share of public expenditure for agricultural support, as the allocations to the devolved countries are more favourable under the CAP than under the Barnett formula; Scotland already disputes the regional share-out of EU funds for rural development.

<sup>17</sup> 'Cheaper food AFTER EU exit: Consumer boost as experts now say that prices will come DOWN', John Ingham, *Daily Express*, 18 October 2016; for the full report, see: Séan Rickard, *Ploughing the Wrong Furrow: The costs of agricultural exceptionalism and the precautionary principle*, Institute of Economic Affairs, IEA Discussion Paper No. 75, 18 October 2016

A set of common principles for UK-wide frameworks has been agreed by the devolved administrations and the Government and was included in the consultation paper. These principles are to: enable the functioning of the UK's internal market while recognising regional divergence; ensure compliance with international obligations; ensure the UK can negotiate and conclude new trade agreements; enable the management of common resources; provide access to justice in cross-border cases; and to safeguard the security of the UK.<sup>18</sup>

Future UK policy on agricultural trade may also lead to regional complications. The British beef market will be attractive for the United States and South American countries, but the impact of granting access to the beef market would be felt mostly in the North and West of the UK. Vulnerability to increased lamb imports from New Zealand and restrictions on lamb exports to the EU is similarly concentrated in these parts of the country.

The prospects for agriculture in Northern Ireland will be particularly difficult because of its border with the Irish Republic and the amount of agricultural trade that currently crosses that border. Although the British Government is exploring with the Irish Government the possibility of simplified controls for goods passing by road, it will be very difficult to control effectively the passage of live animals or other agricultural products across 500 kilometres of a largely unmarked border. Moreover, if trade between the South and the North were to take place on the basis of WTO rules, with high tariffs applied on many animal products, this would be extremely damaging for farmers in Northern Ireland, as well as a temptation to fraud.

## **Conclusion**

Devising a new agricultural policy to replace the CAP is an important challenge of Brexit. Up to now the Government has given little indication of its plans in this area. While recent Ministerial statements, including the consultation paper, are a first indication, a great deal more work is needed on the details before the Government can be said to have a credible blue-print for a new agricultural policy. In particular, the absence of information about the level of the budgetary support to agriculture after 2022, about the arrangements for agricultural trade with non-EU countries and about the trading arrangements with the EU make it hard to assess these policy proposals. Nor do they yet fully take account of the views of the Scotland, Wales and Northern Ireland governments, to whom agricultural policy is devolved and who have expressed considerable reservations about the UK Government's approach so far.

The headline proposals – to reduce subsidies to larger farms by applying a ceiling to payments, and to move to a new system of paying farmers for environmental services – have been well received by environmental organisations, while agricultural organisations have been more circumspect. But what is especially notable is that practically all of the main policy changes that are proposed can already be made under existing CAP rules. Although Gove implied that they cannot be introduced until after Brexit, most of his ideas can already be put into effect now.

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<sup>18</sup> HM Government, *supra* n. 4, p. 59



## Senior European Experts

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