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Written evidence submitted by the National Farmers' Union of England & Wales to the House of Lords' EU Select Committee inquiry "Brexit: Deal or No Deal"

Executive summary

1. The NFU has called for a new, comprehensive relationship with the EU to be put in place to allow as free and frictionless trade as possible. The NFU has also called for a transitional period between the UK leaving the EU and before this new relationship comes into force.¹ The NFU therefore welcomed the confirmation by the Prime Minister in September 2017 that this too was the government's intention. The NFU particularly welcomes the stability and certainty a transitional period could provide.² However, the NFU believes that it is equally important for the details of this period to be made as clear as possible as soon as possible. This would help increase the ability of farm businesses to plan and invest. This is crucial as surveys of NFU members through the Farm Confidence Survey showed in April this year that 20%³ of respondents are likely to reduce investment as a result of the EU Referendum outcome.
2. Numerous impact assessments⁴ have shown the potential impact on British Farming of different outcomes arising from Brexit. Economic models have their limitations, but many have shown that if the government pursues a trade liberalisation agenda, along with greatly reduced public investment in agriculture, it would have a devastating financial impact on many farm businesses. A hard Brexit (also known as the WTO default or "fortress UK") approach whereby exported product to the EU faced the EU's Most Favoured Nations (MFN) tariffs would have a particularly devastating impact on the British sheep sector. The British sheep sector exports more than 30% of its total production each year, almost exclusively (96%)⁵ to the EU. Similarly other traditionally net exporting sectors of British agriculture such as the wheat and barley sectors would be negatively impacted by the imposition of duties on entering the EU market.

¹ <https://www.nfuonline.com/assets/98496>

² <https://www.nfuonline.com/news/brexit-news/eu-referendum-news/transitional-period-will-provide-important-stability-nfu-says/>

³ <https://www.nfuonline.com/cross-sector/farm-business/economic-intelligence/economic-intelligence-news/farmer-confidence-falls-as-brexit-uncertainty-looms/>

⁴ [AFBI](#) (2017), [AHDB](#) (2017), [European Parliament](#) (2017), [NFU](#) (2016)

⁵ https://ahdb.org.uk/documents/Horizon_meatanddairy_Sept2017.pdf

Is the Prime Minister's Florence speech a good basis for the UK and EU to reach agreement in the Article 50 negotiations?

3. The Prime Minister's commitment to a transitional period after the UK leaves the EU, will provide important stability for farm businesses and prepares the ground for both sides to make progress in Brexit negotiations. However, more details are needed if farmers and growers are to have the certainty to plan and invest in their businesses in the future.
4. Farmers and growers are becoming increasingly alarmed at the prospect of a "no deal" departure from the EU. The resulting disruption to trade, access to labour and business stability would pose a fundamental threat to the viability of many of their businesses. The implementation period that the Prime Minister spoke of will be crucial if we are to reach a Brexit settlement that backs British farming, although we await further details on exactly how such a transition will work.
5. We believe at least two years is needed to ensure a smooth Brexit, while also agreeing a future relationship between the EU and UK which recognises their mutual importance in terms of trade.
6. With over 70%⁶ of our exports of food and non-alcoholic drinks being sent to EU markets (see Table 1), the NFU has been making the strongest case for a comprehensive free trade agreement between the EU and UK. We were pleased to hear the Prime Minister say there is no intention to impose tariffs where none currently exist, which the NFU takes as a strong commitment to securing a free trade deal with the EU.

6.1 Table 1

UK Food and Drink Trade Profile		
	2015	2016
Food and non-alcoholic drink	£12.4bn	£13.8bn
EU share	72.3%	71.4%
Non-EU share	27.7%	28.6%
Trade balance	£21.2bn	£22.4bn
Source: FDF		

7. Any agreement should maintain as far as practicable the free flow of agri-food products between the EU and UK, and following the Prime Minister's speech this remains a realistic prospect, although much now depends on proper progress being made in the negotiations.

⁶ Food and Drink Federation

8. We were also very interested to hear the Prime Minister's commitment to maintaining free movement of people involving a registration system for new arrivals. However, the industry desperately needs more detail on how the immigration system will work both during and after the transition – vague pledges and offers are not enough if potential workers are to be reassured that they can legally take up the jobs on offer.
9. The Prime Minister's speech reflects many of the Brexit policies the NFU has proposed since the EU referendum. Despite the lack of detail, we hope that her speech will move negotiations forward so that there is stability for agriculture, businesses, the economy and society at large after Brexit.

What would be the implications, good and bad, of 'no deal'?

10. Last year the UK exported £13.8bn worth of food and non-alcoholic drinks. 71.4% of those exports went to the EU and 28.6% to non-EU markets. The top three export markets were Ireland, United States and France. UK exports range from high-value, processed products to low-value products that struggle to find a market in the UK (e.g. fifth quarter of animal carcasses). However, the UK has a negative agri-food trade balance of £22.4bn, which makes the UK a net importer of food. The UK self-sufficiency ratio is 61% for all food and 75% for indigenous food. This shows there is considerable scope for the UK food chain to deliver an increasing proportion of the nation's future demand for high quality, safe, affordable food.
11. UK farmers are clear that there will be opportunities arising from leaving the EU, including increasing the amount of home-grown food consumed by the British public. However, given the extent of our trade in food with the EU, failure to secure a comprehensive trade deal would cause considerable disruption to farming in the UK. Although there is some scope for import substitution in the long term, farming operates on long timescales. For example, the first full crop to be produced post-Brexit will be in the ground in less than a year and a proportion of the crop that is being planted now will be sold post Brexit.
12. Furthermore, due to the amount of food we import that isn't grown here, as well as issues such as managing carcass balance, simply upping production to quickly offset any reduction in food imports isn't feasible or realistic. The resulting effect would therefore be an increase in consumer prices, which the NFU believes would quickly trigger countervailing action from the government in the form of reduced "applied" tariffs at the border. In effect this would mean that the UK exporters would face the EU's MFN tariffs whilst EU exporters would be able to carry on exporting into the UK with less disruption and whilst facing much lower "applied" tariffs.

Is a transition arrangement a necessary component of any lasting agreement, and if so, why?

13. Transitional arrangements would give farmers more time to plan for the eventual new relationship the UK will have with the EU. However, the nature of this relationship, and the effect it will have on the industry, is also vitally important to consider when discussing transition. To this end, in 2016 the NFU commissioned a world-leading agricultural research institute – LEI Wageningen – to study the potential effects of possible future arrangements. It modelled the effects of three potential outcomes for a future trade relationship with the EU. The scenarios and results can be summarised as follows:
14. **An FTA between the UK and the EU** assumes that agricultural trade between the EU and the UK is broadly tariff-free, apart from UK lamb exports to the EU, which under this scenario the EU would deem as a "sensitive product" and therefore seek to limit imports. Based on those

assumptions, UK farmgate prices tend to increase due to increased cost of doing business as a result of not being in the Single Market.⁷

15. **The WTO default scenario** assumes that trade in agricultural products between the EU and UK would follow the WTO's non-discrimination "Most Favoured Nation" (MFN) rules. Those rules apply equally to all WTO members. The estimated impacts for British food and farming are: an increase in farmgate prices; imports would become more expensive due to greater trade costs and, under the WTO agreement, higher tariffs to pay to trade with the EU. This would result in stimulation of domestic production caused by higher farmgate prices with a high probability of price rises for consumers. This poses serious questions as to how long the UK government would wish to trade universally under the subsequent WTO MFN terms. Some form of trade liberalisation involving a unilateral reduction in import tariffs along the lines of the third scenario would appear to be a likely response from government, not least in an attempt to tackle potential food inflation. The effects of this are outlined in the next modelled scenario.
16. **UK Trade Liberalisation** is the third scenario where the UK government introduces a reduction in its agreed WTO tariffs of 50%. Estimated impacts for British food and farming are: lower farmgate prices for UK meat and dairy producers in particular, impacts on production levels and a decrease in the availability of assured British products in shops. However, not only it is uncertain that such an approach would lead to cheaper food for consumers, any such advantage to the British public would be more than offset by the damage done to the ability of UK farmers and growers to deliver the many benefits they currently provide for our economy, environment and the wellbeing of the nation.
17. There are further studies by the Agriculture and Horticulture Development Board⁸ and the Agri-Food and Biosciences Institute⁹ that have modelled very similar trading arrangements with very similar outcomes for farmgate prices.
18. The Agri-Food and Biosciences Institute based in Belfast, in partnership with the Food and Agriculture Policy research Institute (FAPRI) based at the University of Missouri analysed the impact of potential policy scenarios on the main product sectors within the farming sector, including:
 - Bespoke Free Trade Agreement with the EU
 - World Trade Organisation (WTO) default Most Favoured Nation tariffs
 - Unilateral Trade Liberalisation
19. The FAPRI study found that in every scenario, markets would be disrupted with some or all producers facing lower returns, and in certain cases possible higher consumer prices within the UK market. It clearly shows that failure to reach a deal with the EU, combined with taking a complete free trade approach would be devastating for British agriculture.
20. Whilst on the face of it the WTO default scenario (whereby trade is undertaken on the basis of the EU's MFN tariff schedule) looks positive for some – but by no means all farmers - at least in the short term. However, it's worth noting that this would be a highly protectionist outcome, with high tariffs applied to many agricultural goods. We do not believe that the government will tolerate the subsequent rise in food prices for long, and we could expect a swift response reducing tariffs, leading to the Unilateral Trade Liberalisation scenario which would negatively

⁷ Based on a literature review of studies of different trade relations a "trade facilitation" cost of 5% is built into the price of traded goods.

⁸ https://ahdb.org.uk/brexit/documents/Horizon_BrexitScenarios_11oct17.pdf

⁹ <https://www.afbini.gov.uk/sites/afbini.gov.uk/files/publications/FAPRI-UK%20Brexit%20Report%20-%20FINAL%20Clean.pdf>

impact every single sector of agriculture, with beef and sheep production particularly devastated (see Table 2).

21. Even in sectors where the outcome of the WTO default scenario appears favourable, for example the pigs sector, it should be further noted that this scenario does not take into consideration the critical element of carcass balance, whereby cuts of lower demand and therefore lesser value, or products not demanded in the UK would no longer be able to be exported duty free into the EU. This is a significant issue for the cull sow market and would result in downward pressure on prime meat prices.

21.1 Table 2 Impact of different trading scenarios on British Agriculture (AFBI / FAPRI study)

		Bespoke Free Trade Agreement	WTO default	Unilateral trade liberalisation
		<ul style="list-style-type: none"> UK retains tariff and quota free access to the EU and EU retains tariff and quota free access to the UK UK maintains EU tariff structure to rest of the world 5% trade facilitation costs on UK-EU27 trade 	<ul style="list-style-type: none"> MFN tariffs applied to imports from the EU TRQs from 3rd countries retained MFN tariffs applied to UK exports destined for the EU No change in tariff structure for exports to the rest of the world 8% trade facilitation costs on UK-EU27 trade 	<ul style="list-style-type: none"> Zero tariffs applied on imports to the UK from both the EU and the rest of the world MFN tariffs applied to UK exports destined for the EU No change in tariff structure for exports to the rest of the world 8% trade facilitation costs on UK-EU27 trade
Beef				
	Price	+3%	+17%	-45%
	Production	0%	+10%	-10%
	Output Value	+3%	+29%	-50%
Sheep:				
	Price	-1%	-30%	-29%
	Production	0%	-11%	-11%
	Output Value	-1%	-38%	-36%
Pigs				
	Price	0%	+18%	-12%
	Production	+1%	+22%	-6%
	Output Value	+1%	+44%	-17%
Poultry				
	Price	0%	+15%	-9%
	Production	0%	+11%	-3%
	Output Value	0%	+28%	-12%

Milk & dairy				
	Price	+1%	+30%	-10%
	Production	0%	+7%	-2%
	Output Value	+2%	+37%	-12%
Wheat				
	Price	-1%	-4%	-5%
	Production	0%	-1%	-1%
	Output Value	-1%	-4%	-6%
Barley				
	Price	-1%	-5%	-7%
	Production	0%	-1%	-2%
	Output Value	-2%	-6%	-8%

The wider economic impact of failing to get a deal with the EU

22. Beyond the potential impacts on the sector directly, failure to agree a comprehensive economic agreement with the EU would have effects on the wider economy, which in turn would affect the sector in different ways. Indeed, uncertainty already in the economy is having impacts for agriculture. In brief:
23. Farmer confidence is absolutely critical to the future of a profitable and productive food and farming sector. Confidence feeds through to investment on farm. The latest NFU's Farmer Confidence survey shows that farmers' confidence for the medium-term has fallen. The survey shows an 18-point drop during the last two years. This is a significant shift from the fairly resilient and optimistic medium term outlook we have seen coming from farmers in the past. The same study also found that 20%¹⁰ of respondents are likely to reduce investment as a result of the EU Referendum outcome.
24. The fall in the value of the pound since the Referendum has helped to support farmgate prices and export volumes of agricultural produce over the past year. However, the fall in pound has also led to increases in key farming costs across the board. Total input costs have seen an overall increase of 5% since the EU Referendum, according to the latest Defra's Agricultural Price Index.¹¹ Some key farming costs have seen much greater increases – for example feed wheat prices have risen by over 28%, fertiliser prices are 25% higher than in June 2016 and energy prices have increased in price by 8% since the EU vote.
25. The NFU has highlighted the reliance of the agri-food sector on non-UK citizens working in the supply chain.¹² Since the referendum vote a combination of factors have led to increased difficulty in labour needs being met. Specifically, for horticultural enterprises seeking seasonal labour found that supply reduced by 17% in the five months to May 2017.¹³
26. Transitional arrangements would increase certainty in each of these areas, including potentially having an impact on the value of the Pound.

¹⁰ <https://www.nfuonline.com/cross-sector/farm-business/economic-intelligence/economic-intelligence-news/farmer-confidence-falls-as-brexite-uncertainty-looms/>

¹¹ <https://www.gov.uk/government/statistics/agricultural-price-indices>

¹² <https://www.nfuonline.com/assets/97783>

¹³ <https://www.nfuonline.com/news/latest-news/drop-in-seasonal-workers-leaves-some-farms-critically-short/>

27. A transition period would afford the government more time in which to implement a new Domestic Agricultural Policy to best support the sector. The NFU believes¹⁴ such a policy should be centred on three cornerstones of improving farm productivity; rewarding and enhancing what farmers do for the environment; and empowering them with the tools to manage price volatility. The right policies will ensure that competitive, profitable and progressive farm businesses are central in a dynamic UK food chain.

How will the UK-EU relationship be conducted during the transition period? How long should the transition period last?

28. The NFU believes that there should be minimal change in the relationship between the EU and UK during the transitional period. We believe at least two years is needed to ensure a smooth Brexit, while also agreeing a future relationship between the EU and UK which recognises their mutual importance in terms of trade.

¹⁴ <https://www.nfuonline.com/news/brexit-news/eu-referendum-news/nfu-unveils-detailed-plans-for-a-future-domestic-agricultural-policy/>