Agricultural Policy Post-Brexit: UK and EU Perspectives

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AGRICULTURAL POLICY POST-BREXIT: UK AND EU PERSPECTIVES

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UK CAP allocations 2014-2020

	Pillar 1 / € million (approx non-inflation adjusted)	% share	Pillar 2 / € million (approx non-inflation adjusted)	% share
England	16,421	65.5	1,520	58.9
Northern Ireland	2,299	9.2	227	8.8
Scotland	4,096	16.3	478	18.5
Wales	2,245	8.96	355	13.7
Total UK allocation	**25.1 billion**		**2.6 billion**	

Note: Figures are in nominal terms (i.e. they have not been adjusted for inflation over the period)

Source: UK Government, November 2013 taken from House of Commons Library Briefing Paper, 2016

There are significant transfers to UK farmers under the CAP

Dependence on direct payments and other transfers – share in Total Income From Farming

	2013	2014	2015	Average 2013-15	Average CAP Pillar 1 payment /ha 2012
UK (total)	63%	57%	71%	63%	301 (Eng.)
Scotland	70%	66%	74%	70%	146
Wales	144%	129%	135%	136%	258
Northern Ireland	89%	91%	153%	111%	369

Note: Approximate figures only calculated as the ratio of ‘other grants and subsidies’ to ‘total income from farming’ in the respective agricultural accounts of each region. ‘Other grants and subsidies’ are net and can be reduced by taxes or levies. Ignores coupled payments included in the value of output while some grants and subsidies are paid by national administration either through national schemes (e.g. animal health) or co-financing of CAP schemes.

Sources: UK agricultural accounts produced by DEFRA and the devolved administrations; payments per ha data from National Assembly of Wales Research Paper, 2013

Future UK agricultural policy

- Lack of any official guidance to date (though farm payments guaranteed by Chancellor to 2020)
- Voted budget resources
  - Will UK put its money where its mouth has been during years of CAP reform debates?
  - Role of the devolved administrations
- Views of interest groups
  - Farm groups
  - Environmental groups and others
- Will be conditioned by the trade policy adopted, assuming UK regains control of trade policy after Brexit
  - Liberal vs protectionist in the agrifood area?
  - If liberal trade policy, pressure for direct support for UK farming will be greater
  - WTO disciplines
- In longer term, less precautionary regulations could improve competitive position of UK farming

Implications of devolved administrations

- Agricultural policy devolved to the three devolved administrations – Scotland, Wales and Northern Ireland - in the UK.
- EU sets common framework through CAP regulations.
- CAP budget distributed to devolved administrations based on (disputed) formula, to which they can add from own resources through their block grants
- Devolved administrations have the same flexibility as Member States in making their CAP implementation decisions (over some 80 decision points).

Role of devolved administrations after Brexit

- UK agricultural policy governance after Brexit
  - Return to more unified policy (Welsh First Minister)
  - Devolve further powers to devolved administrations
- Extent of differentiation limited by funding possibilities
  - DEFRA (lead department for agriculture) has seen its budget reduced by 30% between 2010-11 and 2015-16
  - Allocation of agricultural funding across devolved administrations will be controversial
    - Devolved functions are included in block grant distributed according to Barnett formula (i.e. by changes in population)
    - CAP payments currently distributed on the basis of 1991-2001 production
    - Scotland argued for area distribution at last MFF negotiations and got commitment to review formula in 2016-17 to apply post-2020

Views of interest groups

- **National Farmers Union** (Post-Brexit principles)
- “guarantees that the support given to our farmers is on a par with that given to farmers in the EU, who will still be our principal competitors”.
- redesign agri-environment schemes “which are currently running out of steam- in part because of over prescriptive EU rules”.
- laxer approach to product regulation, emphasising the frustration among UK farmers “with European regulation and its handling of product approvals, due to an over-politicised approach and excessive use of the precautionary principle”.
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Views of interest groups

- **Environmental NGOs and academics**
- (letter from 85 NGOs July 2016; National Trust Aug 2016

- Reward farmers who produce public goods with public money
- Gradually phase out direct area payments
- Proposal for 'bond scheme' resurrected by some agricultural economists

Future WTO disciplines

- **Bound agricultural tariffs**
- Fox, Written statement House of Lords 5 Dec 2016
- “.. over the coming period the Government will prepare the necessary draft schedules which replicate as far as possible our current obligations”.
- Will the UK will take the opportunity to simplify some of the enormously complicated EU agricultural tariffs? (*ad valorem tariffication?*)
- Assume UK will maintain duty-free quota-free access for imports from LDCs?
- UK will also implement a Generalised System of Preferences – more generous than EU for agrifood products?
- Degree of preference will depend on the UK applied tariffs on preferred imports

Future WTO disciplines

- **Bound Total AMS (amber box)**
- Important if UK or devolved administrations want to use coupled support or safety net market intervention in future
- UK will insist that it has a Bound Total AMS as part of the EU schedule
  - Otherwise it would be limited to *de minimis* AMS support
- Question then becomes how to separate out the UK ‘share’ from the overall EU BTAMS ceiling
- My suggestion is to base UK share on its contribution to the EU-12’s base schedule in 1994 (see discussion by Brink)
- Negotiations complicated because the EU-28’s notified BTAMS ceilings have never been formally accepted by WTO membership
- EU BTAMS ceiling currently well above its CTAMS, so a negotiated outcome should be possible

Future WTO disciplines

- **WTO Tariff rate quotas (distinct from TRQs in FTAs)**
- Third country WTO TRQs to which EU currently has access – UK would continue to have access depending on management formula, though may need some bilateral negotiations
- UK access to EU TRQs – if UK has been a supplier to the EU pre-Brexit, will have claim to TRQ share after Brexit
- What TRQ obligations will UK inherit with respect to access third countries currently have to EU-28 TRQs?
  - Will it be based on URAA rules for current access and minimum access quotas, or will it be based on individual divvy-up of EU-28 TRQs? (Bartels, 2006: Downes, 2006)
- UK will also have possibility to open 'autonomous TRQs', provided it observes requirements of Article XIII GATT 1947

Impacts on EU agricultural policy

- EU will initiate changes to CAP regulations in 2017 with view to legislative proposals in early 2018
- Difficult legislative timeline suggests incremental rather than substantive changes (Matthews, 2016)
- Potential impact of Brexit on overall stance of EU agricultural policy is ambiguous
  - Exit of a 'liberal' Member State versus ….
  - loss of second-largest net contributor to EU budget
- Brexit budget impact may be mitigated if:
  - UK Brexit is delayed until after May 2019
  - UK continues to make unrequited payments into the EU budget after exit
  - UK fails to reach an FTA with EU: tariff revenue levied on UK imports would be additional source of EU budget revenue
  - Other Member States agree to make up the difference

Impact of Brexit on MS budget balances, average 2014-2015

2014-2015 average, € million	Current net gain/loss	Contribution to meeting Brexit gap	Net gain/loss after Brexit	increase in EU budget contribution
Belgium	1,646	275	1,372	5.1%
Bulgaria	2,020	27	1,993	5.7%
Czech Republic	4,201	94	4,107	6.1%
Denmark	-994	191	-1,186	7.6%
Germany	-17,385	3,768	-21,154	13.2%
Estonia	350	13	337	6.1%
Ireland	41	102	-61	5.7%
Greece	5,006	124	4,882	8.4%
Spain	2,017	727	1,290	7.0%
France	-6,813	1,475	-8,288	7.1%
Croatia	181	31	150	7.6%
Italy	-4,388	1,060	-5,448	6.7%
Cyprus	43	9	33	4.5%
Latvia	769	17	752	7.0%
Lithuania	994	24	970	6.2%
Luxembourg	1,375	25	1,351	7.7%
Hungary	5,090	69	5,021	6.5%
Malta	104	5	100	4.8%
Netherlands	-5,973	819	-6,792	10.1%
Austria	-1,118	410	-1,528	14.8%
Poland	11,301	270	11,032	6.5%
Portugal	2,072	114	1,959	6.8%
Romania	4,788	103	4,685	7.1%
Slovenia	647	24	623	6.1%
Slovakia	1,993	51	1,942	7.2%
Finland	-683	140	-823	7.5%
Sweden	-2,577	553	-3,131	13.4%

Source: Own calculations by Alan Matthews based on DG BUDGET Operating balances of Member States.

Cost of making up the loss of UK net budget contribution would be borne disproportionately by four MS – Germany, Austria, Netherlands and Sweden

For further details on the assumptions behind these figures and accompanying spreadsheet, see A. Matthews, Impact of Brexit on the EU budget, capreform.eu, 10 Sept 2016

Conclusions and looking ahead

- **UK agricultural policy**
  - Extraordinary lack of forward planning
  - No clarity yet on future policy, nor even a mechanism to establish future policy
  - Chancellor’s 2020 guarantee takes pressure off

Conclusions and looking ahead

- **EU agricultural policy**
- Immediate implications through potential loss of budget revenue and loss of 'liberal' voice in shaping next CAP reform
- Indirect implications for:
  - Regulatory including environment policies
  - Climate policy
  - Research policy
  - Trade policy
- Uncertain longer-term implications
  - If UK went for 'cold-turkey' liberalisation, would it provide a more credible model than the rather unique New Zealand example in 1980s?
  - Could Brexit precipitate other exits, reversing course of European integration? or…
  - UK seen as a 'spoiler' whose exit will facilitate more wide-ranging integration among remaining Member States