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The challenges facing British farmers

Wyn Grant

The financial challenges facing British farmers were emphasised by the Department of Environment, Food and Rural Affairs (Defra) farm business income forecasts for farmers for the year to February 2016.

(https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/495704/fbs-businessincome-statsnotice-28jan16.pdf, accessed 15 February 2016). They showed that average incomes were expected to fall by almost half on dairy farms in 2015-16 to £46,000 and by 46 per cent on pig farms to £26,500. Cereal farmers were forecast to see a 24 per cent drop in incomes to £34,000.

The only sectors that recorded a substantial increase in incomes were specialist poultry farm, who have benefitted from reduced input costs, and less favoured area livestock farms. Their estimated rise to £21,500 is mainly due to increased BPS payment rates for moorland and seriously disadvantaged area land.

Prices could, of course, recover, although this looks unlikely for dairying in the medium term. Even if prices do recover, they are likely to remain volatile, increasing uncertainty and making forward planning more difficult and investment more hazardous.

There are also significant structural forces at work that disadvantage farmers. Retailer power remains strong and competition on price between supermarkets has intensified. The Groceries Code Adjudicator has published a critical report on prices at Tesco. (<https://www.gov.uk/government/publications/gca-investigation-into-tesco-plc>, accessed 15 February 2016) but her powers remain limited and suppliers are reluctant to come forward with relevant information.

Many farmers have, of course, responded to declining farm incomes either by moving into agricultural contracting or haulage or by diversifying into a wide range of non-farm activities from holiday lets, through niche food processing and renewable energy to on farm business units or storage. However, not all farms offer such opportunities and the most lucrative ones have by now been taken up.

The ageing of the farm population is not confined to the United Kingdom, but it still represents a significant challenge. 'By 2010, almost a third of [farm] holders were aged 65 and over whilst only 14% were under 45 years old. Throughout the 2000 to 2010 period just over half (53%) of the holders were aged 45 to 64. In 2010 the median age for holders in the UK was 59 years old, unchanged from 2007.'

(https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/315103/auk-2013-29may14.pdf, accessed 15 February 2016).

A high land price, boosted by the CAP and the attraction of estates for sporting and leisure purposes, has made it difficult to enter farming other than through inheritance. Many children of farmers are in any case reluctant to assume the burden of running a demanding business with an uncertain future. One route for new entrants was tenanted farms let by local authorities, but their

numbers are declining rapidly as local government sells them off as a means of coping with public expenditure cuts. The lack of new entrants undermines the possibilities of innovation in the sector.

All these challenges are compounded by the uncertainty created by the forthcoming referendum on Brexit in the United Kingdom. It is difficult to predict the consequences for agriculture with any precision, given the absence of contingency plans by the UK Government and the uncertainties that would follow a vote to leave. However, it is difficult to see that they would, on balance, be advantageous.

The process of exit

The process of exit is set out in Article 50 of the Lisbon Treaty and is discussed by Alan Swinbank in his article. After a referendum, the UK Government would inform the European Council of its intention to withdraw. This might not happen immediately, given the political confusion that would prevail and the absence of contingency planning. The start of the process could also be delayed by another member state.

Negotiations would eventually begin on a withdrawal agreement. The Council adopts a decision authorising the opening of the negotiations and nominates the Union negotiator or the head of the EU's negotiation team. The Council of Ministers, having obtained the consent of the European Parliament (i.e. the EP has a right of veto over the withdrawal agreement), concludes the agreement, acting by a Qualified Majority Vote (QMV – roughly two-thirds). It is possible that some member states would need to hold a referendum to confirm the agreement.

During the negotiation, the withdrawing Member State would continue to participate in other EU business. The UK would remain a member of the EU while these negotiations took place. If they were not completed within two years, the withdrawal would come into force in any case (unless the European Council voted unanimously to extend them with the agreement of the UK). Given the complexity of the issues, and likely disagreements between the continuing states (acting by qualified majority), all of this two year period would probably be necessary. A 2013 House of Commons research paper notes, 'It would not be possible to withdraw from, say, the Common Agricultural Policy overnight without causing enormous disruption for farmers. Transitional arrangements for an alternative regime to be put in place would have to form part of the withdrawal agreement.' (Thompson and Harai, 2013: 11).

There has been some speculation about the possibility of the EU offering improved terms in order to forestall exit. These would then be put to a second referendum. This is not a very likely scenario, but the possibility of it adds to the uncertainties.

The optimal outcome from a UK perspective would be a free trade agreement which gave unfettered access to the single market, including the absence of any tariff barriers for UK farm exports, e.g., sheepmeat. It is often argued that given the scale of trade between the UK and the EU, such an agreement would be in the interests of both parties. However, some price would be extracted in terms of a contribution to the costs of the single market and an obligation to abide by its rules. The EU would not give too favourable a deal to the UK; otherwise it might incentivise other member states to be attracted by the possibility of withdrawal.

Farm subsidies

Data from the Farm Business Survey for 2014/15 for England show a very considerable dependence on the Single Farm Payment Scheme and other payments, albeit in a year which was not a good one for many farms commercially. Across all farm types, the Single Farm Payment Scheme accounted for 56 per cent of total income and agri-environment and other payments for a further 15 per cent. Three sectors were less reliant on these payments: specialist pigs (20 per cent in total; horticulture, 17 per cent in total; and specialist poultry, eight per cent in total). These are, of course, average figures across all farm types, for the farms included in the Farm Business Survey, and the situation of individual farms may vary considerably.

In particular, the data reveals the importance of agri-environment payments and the Single Farm Payment Scheme to hill livestock producers. In 2014/15, agri-environment payments alone equalled 60 per cent of Farm Business Income. Together with the Single Farm Payment, itself more than offsetting losses on agricultural activities, the net outcome was a relatively small overall operating profit.

Following Brexit, at some point the UK would become responsible for funding all agricultural policy measures in the UK. The EU would probably continue to bear the responsibility of financing for some time, although precisely how long is unclear. It might be thought that, given that the UK is a net contributor to the EU budget (and to the CAP), it would be possible for Pillar 1 and Pillar 2 support to farm businesses to be continued at their existing level after exit from the EU. Farmers would certainly wish to see a level playing field with their European competitors in terms of subsidies. There is also a case for continuing direct payments post-Brexit as a means of offsetting market volatility.

However, the Treasury could in all likelihood see Brexit as an opportunity to reduce the overall cost of payments to farmers, and/or to ask the devolved administrations to assume part of the burden. Its view is that such payments are marketing distorting and an unnecessary charge on the public purse. In its 2005 policy statement with Defra, the Treasury stated: 'Our vision for agriculture within the next 10 to 15 years' is for it to be 'internationally competitive without reliance on subsidy or protection.' (HM Treasury and Defra, 2005: 9).

The policy instruments in Pillar 1 would probably not change given that path dependence theory predicts inertia in the form of policy. We do not think it likely that there would be any reversion to alternative policy instruments for direct payments such as the deficiency payments that were used before Britain joined the EU. The most likely scenario would be the continuation of Basic Payments (formerly Single Farm Payments) at a reducing percentage of the historic figure. The possibility of payments moving 'up the hill', as happened in England following the 2013 CAP reform, is one that needs to be kept in mind.

Pillar 1 is more vulnerable to attack than Pillar 2. In part this is because Pillar 2 involves contractual arrangements which have a number of years to run. The environmental and conservation lobbies are also likely to press hard for the retention of Pillar 2 schemes. This is also consistent with government policy which favours transfer of resources to Pillar 2.

Regulation

The main complaint of farmers about the Common Agricultural Policy (CAP) relates to the transaction costs involved in form filling and what are seen as the unduly onerous nature of some regulations. However, farmers should not expect a bonfire of controls after Brexit. In political terms, there is substantial domestic support from environmental, conservation, animal welfare, public health and consumer lobbies for appropriate regulation of agriculture. UK farmers benefit to some extent from the political cover provided by farmers in other member states where agriculture is a higher percentage of GDP or there is a strong cultural attachment to farming as an activity.

Brexit will occur when the UK dismantles legal rules that allow EU legislation to become part of UK law. Dismantling laws occurs through their repeal. The key piece of legislation is the 1972 European Communities Act (ECA). Repeal of ECA will have legal consequences for legislation brought in under the Act. What these legal consequences are remain highly contested.

One possibility is that most of the environmental legislation affecting agriculture may also stop applying to farmers on the date BREXIT happens. This is because much of it is in the form of secondary legislation that was brought into UK law under s.2(2) European Communities Act 1972. On the date of repeal of the ECA that secondary legislation too will fall away. It is likely that in practice immediately after Brexit, the existing regulatory framework would very likely be retained through a separate Act of the UK Parliament (or other legal instrument) while its content and purposes were reviewed.

Plant protection

Plant protection has been an area of particular concern for farmers in recent years. The number of available synthetic products has reduced, in part for commercial reasons, in part because of regulatory interventions. Recent restrictions on three neonicotinoids by the EU, without what is regarded as sufficient field trial evidence to back the decision, has posed difficulties for farmers growing oil seed rape. As the NFU 2015 report notes (p. 21), 'The EU Plant Protection legislation, which lays down rules for the placing of plant protection products on the market introduced hazard cut-off criteria that lowers the threshold of tolerance for active toxicity, rather than adopting a risk-based approach. The implications for agriculture are that this leads to further restrictions on vital crop protection products, important for securing crop yields and quality.' Criteria for endocrine disruptors are currently being developed and this is likely to lead to the withdrawal of more existing products.

A further difficulty is that the internal market in relation to plant protection products is incomplete because of continuing regulatory barriers. This reduces incentives to develop and register new products, particularly biologicals, which may serve as substitutes for withdrawn chemical products or complement existing synthetics. Registration is based on a two-tier system, with active ingredients being approved at the EU level and products by government agencies at the member state level. These agencies have varying levels of resourcing and the quality of some of them has been questioned. Delays occur in the registration process, which can take as long as eight years, making it more difficult for innovative products to recoup their development costs.

The EU sought to overcome this by introducing a 'zonal' system of registration with three climate-based geographical zones and one across the EU for glasshouse products. The idea was that once a product had been approved by one authority in the zone, it could then be quickly

adopted by the other member state authorities. As is so often the case in the EU, implementation has been far from straightforward.

One might hope for more progress under the Dutch presidency from January 2016. They intend to propose a 'road map' to the Council which would include the acceleration of approval and authorization procedures and the finalising of low risk substances criteria. (<http://www.ibma-global.org/upload/documents/2aconyjsustainableplantprotectionpresentation01.pdf>, accessed 11 December 2015).

The UK had its own system of plant protection regulation before it joined the EU. The current agency, the Chemicals Regulation Directorate (CRD) could become a purely domestic agency, but it would have to be guided by approvals of active ingredients by the EU. Firms would be reluctant to develop distinctive products purely for the UK market. Products that have been restricted by the EU could, in principle, be used by the UK, but there would be substantial political pressure to oppose this by a strong domestic environmental lobby.

Conclusions

Brexit would serve as a distraction from the many practical challenges facing the UK farming sector. A further complication is that a vote in favour in the UK but against in Scotland could be used as a justification for calling for a new independence referendum in Scotland. If Scotland left the UK, rUK would not only have a land border with another EU member state in Ireland, but potentially one with Scotland as well. More generally, agriculture would benefit from a stable and predictable decision-making environment to focus on the many challenges that it faces.

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