

The UK in or out of the EU: Agricultural meltdown or new opportunity?

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Introduction ...

I will ...

→ start by summarising what it is that AIC want – or should want – from UK agriculture and agricultural policy;

→ then outline how the CAP frustrates the ability of UK agriculture to rise to the 21st Century challenges;

→ then consider how following Brexit, UK agricultural policy might change and the likely effects for farming;

→ then ponder the access farmers and the food industry in general might have to the single market if the UK voted no;

→ Finally I will leave you to judge whether UK agriculture faces meltdown or new opportunity following Brexit.

What type of agricultural industry...

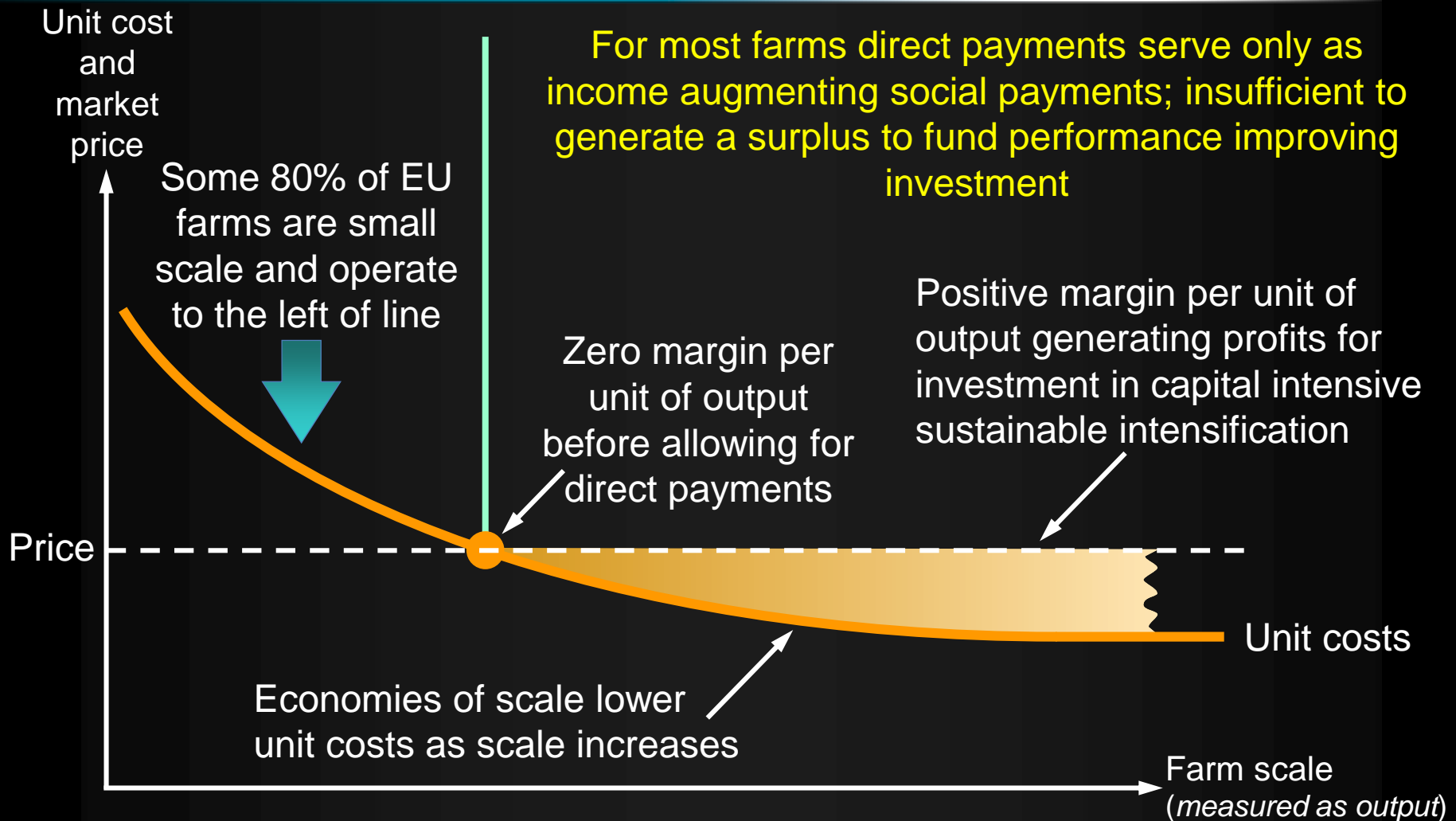
Agriculture faces a global trilemma: **food security** as the world shifts from supply-push to demand-pull; declining **natural resources** eg, arable land; and the impact of **climate change** on production

The solution is **sustainable intensification** – in essence a second green revolution involving a dramatic rise in natural resource productivity – requiring scientific research in the areas of agro-biotechnology as well as smart engineering to deliver the efficiencies of precision farming

Plant and livestock biotechnologies are scale neutral but precision farming is capital intensive necessitating high levels of investment in human and fixed capital

Large scale farms have an advantage

Limitations imposed by the CAP ...



No prospect of radical reform ...

The removal of decoupled payments would not be devastating for UK output and competitiveness as it would be followed by lower costs and restructuring to larger scale more productive farms

The CAP is hopelessly multifunctional its objectives include not only protecting farm incomes, but also preserving biodiversity, building resilience to climate change and delivering a balanced rural economy

Future CAP reforms will continue the drift towards a greater influence for market forces and modest steps towards renationalisation eg, Pillar II policies and an opt out for EU approval for GMOs

Despite the Commission's analysis that phasing out direct payments would result in EU agriculture becoming more internationally competitive there is no prospect of radical reform

- 1 The PM has not revealed details of his negotiation but it would be futile to attempt fundamental reform of the CAP;
- 2 In 2005 the government argued for the elimination of all Pillar I decoupled payments while retaining Pillar II payments to maintain the environment and promote rural development;
- 3 The coalition's priority in 2011 was to reduce public expenditure on farming 'without interfering with the EU level playing field,' but funding would continue for environmental and rural payments;
- 4 Preserving a level playing field is key argument used by the NFU to justify the continued receipt of decoupled payments and there might be compensation claims if removed rapidly;
- 5 The position is further complicated by the devolved administrations in Scotland, Wales and Northern Ireland who are supportive of decoupled payments.

So what might change ...

Decoupled payments would be reduced even eliminated but the transitional period could be lengthy and funding might be increased for Pillar II type payments which are in reality extra farm support

A change would be the attitude towards the frontiers of science and technology. England

would be more accepting of biotechnological advances eg, GM and both farmers and their suppliers would benefit from the UK's exit from the EU's long drawn out, opaque system for approving pesticide products

Consumer, environmental and public health lobbies would argue forcibly against any moderation of existing EU Directives eg, nitrate leaching

But of key importance would be the trading arrangements negotiated with the EU

Post exit trading relationships ...

- ① Outside the EU there are in principle four trading relationships for the UK with varying degrees of integration with the Single Market;
- ② Given the priority of unfettered access to the single market an EEA agreement eg, Norway or a series of EFTA agreements eg, Switzerland offer preferential arrangements for food and agriculture;
- ③ But these involve acceptance of the four ‘freedoms’ – the free movement of goods, capital, services and people – and the government has already rejected any such agreement;
- ④ Presumably, the government would seek to negotiate one or more preferential regional trade agreements (RTA). The Out campaigners assert that one could be negotiated but they provide no details;
- ⑤ Is the UK’s persistent trade deficit with the EU in food and agricultural products – £16.4bn in 2014 – sufficient? The EU may still demand the four freedoms in return for a preferential agreement.

Resort to the WTO?...

Ultimately the UK can resort to WTO MFN agreements to be in the same position as US exporters facing tariff and non-tariff barriers of various kinds involving compliance with prevailing CAP regulations

To take but one of many examples, exports of cheddar cheese with a minimum fat content of 50% would face a tariff of €167.1 per 100kg and hence the impact on our exports would be adverse

The UK would also need to negotiate RTAs with the web of countries that currently enjoy EU trade agreements or tariff preferences but there might be opposition from WTO members eg, Australia, Brazil

In many areas of food and agricultural trade EU standards are based on wider WTO standards eg, Codex Alimentarius and hence would continue to apply to all UK exports outside the EU.

Increased uncertainty ...

In principle the UK would have two years to negotiate its new trade relationships with the EU following a no vote but would agriculture be a priority and the period of uncertainty could be lengthened by a EU Council vote

The claim that leaving means regaining control over policy is perplexing as outside the EU the

UK would have to follow the regulations cited as reasons to leave and UK agriculture – with just 1% of GDP – would have to argue its own case compared to the power it now enjoys within the EU

The process of leaving would create at least two years of uncertainty during which competitors eg, Ireland might succeed in attracting food sector investment away from the UK

Concluding thoughts ...

- Following the 2013 reform, the CAP's current multifunctional structure will not change before 2027;
- This implies that the pace of structural change for EU agriculture will continue at its lacklustre, historic rate;
- The CAP will slowly evolve: more renationalisation with growing tension between market orientation & multifunctionality;
- In the event of a Brexit, UK agricultural policy reform is likely to move at a faster pace and also in a direction that gives primacy to productivity and competitiveness;
- It's impossible to anticipate the details that might emerge following a lengthy negotiation but even with a preferential RTA unfettered access to the single market is unlikely.

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Any Questions

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