



# BRITISH AGRICULTURE:

The implications of a UK exit from the EU



Summary of a study by the LEI Wageningen UR for the  
National Farmers' Union of England and Wales

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Disclaimer: The NFU takes full responsibility for how the results of the LEI Wageningen UR study are summarised in this report.



## FOREWORD

The referendum on whether the UK should remain in, or leave the European Union, is rapidly approaching. The NFU has spent the past few months helping inform members of the agricultural issues at stake in the referendum. A report, drafted by the NFU, examining our current relationship with the EU has proved extremely popular since it was launched last autumn. It has helped stimulate debate and has given members some of the key information to help them make an informed decision. However, it is clear that further information is needed in order to consider more fully the potential implications for British agriculture if the UK votes to leave the EU.

In its earlier report, the NFU highlighted that while some of the positives and negatives of EU membership for British agriculture are known, there is no clarity on what a vote to leave the EU would mean. In particular, what trading arrangements would we have outside the EU and what would a British agricultural policy look like?

Therefore, the NFU commissioned a world leading agricultural research institute from the Netherlands, the LEI Wageningen UR, to assess the possible effects of a number of different trade and agricultural support policies which would, in theory, be open to the UK government in the event of a Brexit.

The findings in respect of those scenarios are presented in this summary report and can be read in full on the NFU's website. Understanding how the interactions of international trade and subsidies relate to different sectors of the agricultural industry is not easy, but I hope this summary provides an indication of what may come to pass based on a number of scenarios.

Ultimately, economic models make predictions based on what may happen under a range of assumptions. The modelling work is limited to what can be quantified. For example, it doesn't consider what the impact would be if the UK government decided to cut the level of regulation faced by our industry. Nor, to take another example, what would happen to the demand for British produce if some food manufacturers decided to relocate in order to remain in the single market.

What you will see from this report is that some of the scenarios appear to suggest that there could be serious risks to farm income from leaving the EU, while others suggest there could be a more favourable outcome. It comes down to a matter of judgement as to which of the scenarios appears the most likely.

This in turn will depend on the policy position adopted by the UK government. In the past our government has been a strong advocate of open and free trade. It has called for tariff protection across all farm sectors to be reduced and it has called for the abolition of direct support payments made through the CAP. While a member of the EU, the UK has not been able to realise those goals fully, nevertheless it has taken direct action to reduce the level of farm payments available to farmers. As yet, those who are advocating for us to leave the EU have not made it clear whether these policies would change in the event of a Brexit.

In the run up to the referendum, the NFU will present the findings of this study, as well as continue to highlight the facts about our current relationship with the EU. We will undertake a series of regional meetings in early April and NFU Council will meet in mid-April to discuss whether the NFU takes a position ahead of the referendum on behalf of the industry. Rest assured that irrespective of the outcome of the referendum in June, the NFU will continue to fight for the best interests of its members and UK agriculture.

*Meurig Raymond*

Meurig Raymond MBE FRAGs  
President NFU England & Wales





## INTRODUCTION

Across the world, agriculture is subject to government policies and interventions. As a member of the EU, the policies that affect UK farming and its food supply chain are determined largely by the EU through the CAP and indirectly by the World Trade Organisation (WTO). The conditions governing international trade in agricultural products and public support payments for farmers are two critical elements in the EU referendum debate.

The EU is the UK's biggest agri-food trading partner, with agricultural exports from the UK to the other 27 member states amounting to €16bn and imports of €40bn (2014). In percentage terms, around 60-65% of our exports go to the rest of the EU and 70% of our imports originate from the EU countries. The UK is a net importer of agricultural goods. We import significant quantities of agricultural products, including meats (processed and unprocessed), dairy, fruit and vegetables and beverages.

The bulk of our exports are unprocessed meats, dairy and beverages, but we also export large quantities of fats and oils, meat preparations, sugar/confectionery products and animal feed. As a member of the EU, we are able to trade with the other EU countries with no tariff duties applied and no costs at the border as all shipments of goods move freely around the EU.

The UK also trades with non-EU countries around the world. Around 30% of our imports come from non-EU countries and these are primarily traded under special concessions that have been granted through the EU's extensive network of preferential trade agreements. For example,

the UK imports 85,000t of sheep meat (22% of total domestic supply) mainly from New Zealand, 700,000t of sugar from the African, Caribbean and Pacific states (ACP) and Least Developed Countries (LDCs), and 230,000t of poultry meat (12% of domestic supply) mainly from Brazil and Thailand under special arrangements at zero duty.

Despite this trade being carried out under preferential conditions, customs officials from the UK and across the EU do have to make checks to ensure that those consignments are entitled to the special concessions. For instance, customs officials will check where the goods have originated from (rules of origin), the health status to minimise the risk of disease or contamination (Sanitary and Phytosanitary (SPS) rules) and that the products contain no banned substances that are deemed harmful. All these checks add costs at the border. The greater the difference in legislation between the UK and its trading partners, the greater the "trade facilitation" costs involved with these checks. Membership of the EU and adherence to the EU regulations mean there are no costs at the border for trade between the EU and UK.

Where no special bilateral trading agreement exists, the default position is that the EU must follow the agreement made with the WTO in 1995. That agreement sets "bound" (or maximum) import tariffs on agricultural goods entering the EU. The UK, as a member of the WTO, would not be permitted to raise import tariffs above this level, but it could lower them if it wished to do so.

The EU has a list of the "Common Customs Tariffs" (CCT) that it "applies" to imports. This is based on the WTO "Most Favoured Nation" (MFN) rates. In some cases the rates set by the EU in the CCT are lower than the maximum "bound" MFN rates. The CCT is applied by all EU member states, but the duty rates vary greatly. This depends on the product and whether it is imported from a country with which the EU has signed a preferential trade agreement, under special concessions to developing countries or under the default WTO rates. The average duty applied by the EU across all agricultural products is 12.2%, but it can be as high as 30-40% for wine and cheese and close to 70-90% for different types of meat.

HIGH

REGULATORY INTEGRATION

LOW

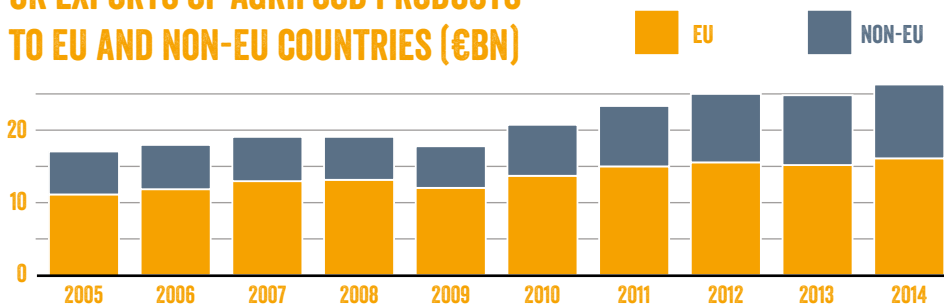


LOW

TRADE FACILITATION COSTS

HIGH

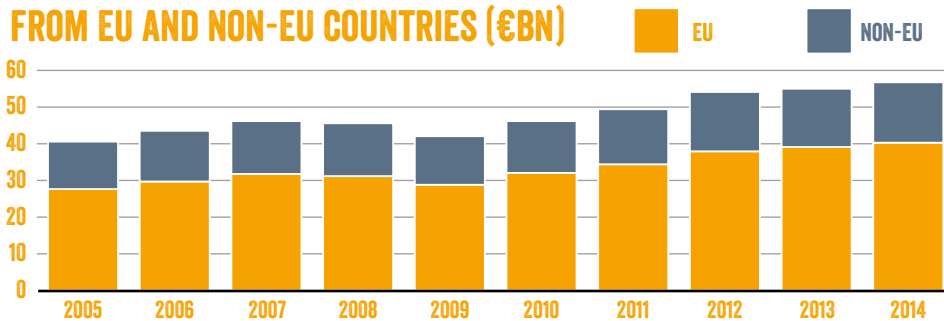
UK EXPORTS OF AGRI-FOOD PRODUCTS TO EU AND NON-EU COUNTRIES (€BN)



85,000T

THE UK IMPORTS 85,000T OF SHEEP MEAT (22% OF TOTAL DOMESTIC SUPPLY) MAINLY FROM NEW ZEALAND AT ZERO DUTY

UK IMPORTS OF AGRI-FOOD PRODUCTS FROM EU AND NON-EU COUNTRIES (€BN)



700,000T

THE UK IMPORTS 700,000T OF SUGAR FROM THE ACP COUNTRIES AND LDCs AT ZERO DUTY

EU's Common Customs Tariff (CCT) "applied" rates

Product Group	Average import tariff rate	Max rate in category
Animal products	17.7%	138%
Dairy Products	42.1%	122%
Fruit, vegetables, plants	10.9%	182%
Cereals & preparations	14.9%	52%
Oilseeds, fats & oils	6.8%	176%
Sugars & confectionery	25.2%	81%
Beverages & tobacco	20.7%	166%



230,000T

THE UK IMPORTS 230,000T OF POULTRY MEAT (12% OF DOMESTIC SUPPLY) MAINLY FROM BRAZIL AND THAILAND AT ZERO DUTY





## SCENARIOS

Three international trade scenarios which are open to the UK government in the event of a Brexit have been modelled by LEI Wageningen UR. Descriptions of each trade scenario and the reasons for including each of them in the study are laid out more fully in the following pages, but briefly the scenarios are as follows:

### THREE TRADE SCENARIOS

1. Free Trade Agreement (FTA) between the EU and the UK (p.8)
2. World Trade Organisation (WTO) default position (p.10)
3. UK trade liberalisation (UK TL) (p.12)

### THREE FARM SUPPORT SCENARIOS

Outside of the EU and therefore outside of its CAP, the UK government would need to consider what, if any, direct income support to provide to British farmers. In addition to the trade scenarios, three different approaches to UK farm support payments have been modelled:

- retention of 100% of the current level of direct payments to UK farmers (100%);
- reduction by 50% (50%);
- abolition of direct payments (0%).

For each of the scenarios, the levels of environmental payments made through the rural development programmes of the UK are assumed unchanged. This is because the UK government has been a strong advocate of policies that address the provision of environmental public goods (agri-environment schemes) and has argued for more of the CAP budget to be used in this way. It is reasonable to assume that such a policy would continue in the future.



## METHODOLOGY

LEI Wageningen UR uses an economic model, known as AGMEMOD, to estimate the impact of the trade scenarios on UK agriculture. It has been widely used in the past by the European Commission and Member States, to make projections and simulations to evaluate measures, programmes and policies affecting agriculture across the EU.

The model simulates changes in the UK's net trade position. It also considers the changes in farmgate prices, production and consumption for a range of agricultural commodities produced in the UK. The results are presented as a comparison against a baseline, which estimates what the situation will be in 2025, if the UK remains in the EU.

These results are then fed into another economic tool, based on the EU's Farm Accountancy Data Network (FADN), which draws its data from the results of the UK's Farm Business Survey. This gives a combined impact on UK farm incomes and the viability of UK farm businesses post Brexit. These results are available at regional level.

Neither the AGMEMOD model nor the FADN farm level tool are able to take into account details with respect to structural changes (e.g. farm exit, outflow of family labour) or issues such as the land market (land price). There are other potential consequences of Brexit for British agriculture that are beyond the scope of the model, and have not therefore been quantified. These would include:

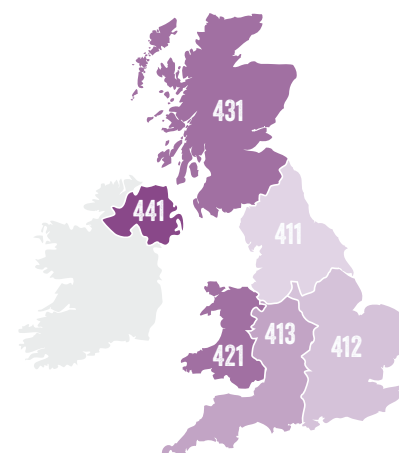
- the availability of labour, particularly seasonal labour if free movement of persons is restricted;
- any consequences for the £/€ exchange rate;
- any changes in input costs (including land prices or machinery costs). NB changes in feed costs are included;
- any changes in the regulatory burden on farm businesses;
- the implication for the wider UK food chain, particularly the food manufacturing sector, and therefore the impact on demand for primary products;
- the impact of uncertainty following a Brexit vote;
- the implication of any changes in product approvals regimes.

Unfortunately, the model doesn't provide an accurate picture of the impacts of the different trade scenarios on the horticulture sector. There is some tariff protection with respect to fruits and vegetables (e.g. seasonal tariffs with respect to tomatoes) but its impact is generally estimated to be limited. Effects on net trade are also expected to be limited and are likely to be different for different products. However, price changes are assumed to be in line with the other sectors as a result of increased costs at the border and these are fed into the FADN tool for consideration in the farm income analysis.

## THE BASELINE

The baseline is essentially the 'status quo', with the UK remaining a member of the EU (no Brexit), and no further policy changes assumed. The baseline takes into consideration the results from the latest OECD-FAO Agricultural Outlook (dating from July 2015), and the Medium Term Perspectives of the EU Commission (dating from December 2015). This means that the latest information available is used to determine the ten year horizon (2015-2025) with estimates on future price, production and demand. The baseline considers an average £/€ exchange rate over the period of 0.8p/€ and the \$/€ at 0.8c/€. All the trade results are presented as a comparison against this baseline, which estimates what the situation could be in 2025 if the UK remained in the EU. Changes in farm incomes are presented against 2013 farm income levels. This is the latest complete year that farm accounts are available through the EU's FADN (Farm Accountancy Data Network).

## FADN CLASSIFICATION OF UK REGIONS



## BASELINE – UK REMAINS IN EU

### TARIFFS:

- NONE BETWEEN UK AND EU
- CCT APPLIES TO UK TRADE WITH NON-EU COUNTRIES
- UK RETAINS FULL ACCESS TO EU'S TARIFF RATE QUOTA (TRQ) IMPORT CONCESSIONS

**0% TRADE FACILITATION COSTS**

**411 ENGLAND NORTH**  
**412 ENGLAND EAST**  
**413 ENGLAND WEST**  
**421 WALES**  
**431 SCOTLAND**  
**441 NORTHERN IRELAND**

## UK NET EXPORTS 2013/2014

(in 000 tonnes)

	Production	Use (consumption)	Net-export*
Soft wheat	14,260	14,400	-140
Barley	7,000	5,400	1,600
Rapeseed	2,312	2,118	193
Sugar	1,200	2,318	-1,117
Beef	860	1053	-190
Pork	847	1451	-603
Poultry	1,652	1,695	-43
Eggs	406	819	-413
Sheep meat	295	286	8
Butter	142	200	-58
Cheese	360	695	-335
Skimmed Milk Powder (SMP)	70	57	13
Whole Milk Powder (WMP)	42	67	-25

\*Due to rounding, numbers presented may not add up precisely to the totals provided. A minus figure means the UK is a net importer and a positive figure means it is a net exporter.





## FREE TRADE AGREEMENT (FTA) BETWEEN THE EU AND UK

This is the scenario most commonly proposed by those who advocate Brexit. The proposition being that the EU has a positive trade balance with the UK (in total and in agricultural trade) so the EU would have every interest in concluding an FTA with the UK swiftly.

**Under this scenario agricultural trade between the EU and the UK is fully liberalised apart from UK lamb exports to the EU, which the EU would deem as a sensitive product and therefore seek to limit.**

In FTAs it is normal for trading partners to seek to classify some items as “sensitive products” and to apply less than full liberalisation for these. The EU normally protects sensitive products by a Tariff Rate Quota (TRQ). It is assumed that the EU would want to classify lamb as a sensitive product (the UK is a very competitive producer in relation to the other member states and its exports have caused significant reductions in domestic production in Mediterranean countries in particular). The TRQ allows a product to enter the EU at zero duty for a set amount (quota). It is assumed this would be set at 55,000t, which is equal to the amount of fresh lamb currently exported by the UK to the EU. Beyond the quota, UK exports of lamb to the EU would face the EU’s CCT duties, imposing a tariff up to 67%, depending on the cut of meat.

For all other agricultural products, trade between the EU and UK is assumed to be duty free. The UK continues to apply the same rates set by the EU’s CCT to non-EU country imports of all agricultural products.

It is also assumed in the model that the UK will not face any effects from losing the preferential import concessions (under TRQs or otherwise) that its importers currently benefit from membership of the EU.

Under the FTA scenario, it is assumed that the UK and EU legislation will no longer necessarily be the same. This is found to be the case in most bilateral FTAs, e.g. the recent EU – Canada deal. The deal struck with Canada is in contrast to the much more integrated relationship which Norway has with the EU, whereby it is required to follow the relevant regulation. Different regulatory regimes between the UK and EU would mean that the cost of ensuring compliance with each other’s relevant trade rules increases, as border officials would be required to check matters such as country of origin and compliance with product standards. Under this scenario, based on a review of studies of different trade relations undertaken by the WTO and others, a trade facilitation cost of 5% is built into the price of traded goods.

### WHAT’S THE IMPACT ON PRICE AND PRODUCTION?

Based on the assumptions set out above, UK farmgate prices tend to increase by 5% across the board, mainly because of the trade

facilitation costs. An exception is the sheep sector, where a lower price increase (of about 2%) is projected due to the difference between the estimated price reduction coming from the over-quota production and the applied trade facilitation costs. Overall, the higher prices result in positive production responses across all sectors.

### HOW DOES THAT AFFECT USE (CONSUMPTION)?

With regards to domestic use, the increase in the price of animal products boosts animal production and the associated demand for feed. This has a positive impact on the arable sector. Given the larger price increases in beef, pork and poultry, an increase in sheep meat consumption is expected.

### WHAT’S THE IMPACT ON OUR NET TRADE POSITION?

Changes in the net trade position of the sectors depend on the relative amount of imports/exports compared to the domestic supply. For example, when the net trade is small, as in the case of beef, poultry, sheep meat, SMP and WMP (see net exports on page 7), we see significant percentage changes in the UK’s net trade position.

Overall, the FTA scenario reduces net imports for the majority of commodities. Beef imports are forecast to decline by 17.9%,



# FTA BETWEEN UK AND EU

Percentage difference in farmgate price, production, use and net exports, compared to baseline 2025

	Soft wheat	Barley	Rape-seeds	Sugar	Beef	Pork	Poultry	Eggs	Sheep	Raw milk	Butter	Cheese	SMP	WMP
Price	5.0	5.0	5.0	4.9	4.6	4.9	4.9	4.5	2.3	4.3	5.0	5.0	4.9	5.5
Production	1.2	1.2	0.1	1.1	1.1	0.7	1.5	-0.8	1.1	1.1	0.1	0.1	18.9	7.8
Use	1.2	0.4	1.8	0.0	-0.1	-0.4	0.0	0.0	2.2		-0.2	-1.1	0.0	0.0
Net exports		9.5	-7.4						-48.7				1333	
Net imports	1.6			-0.6	-17.9	-2.1	-18.2	0.4			-0.6	-2.5		-62.3

see page 6 for horticultural products

poultry by 18.2%, pork by 2.1%, and cheese by 2.5%. This is due to a projected increase in domestic production coupled with a reduction in domestic use (for beef, pork, butter, cheese). In the case of sheep meat, production is expected to increase, but consumption goes up by a greater proportion resulting in a reduction of the UK's net exports.

The UK is forecast to become a bigger net importer of wheat. For barley we see an increase in our exports off the back of increased production.

## AND ONCE WE FACTOR IN SUPPORT PAYMENTS...

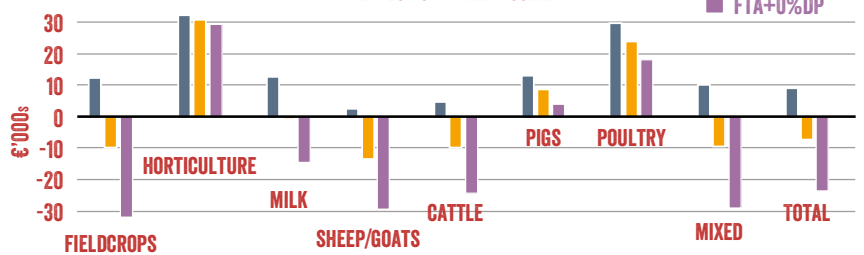
This scenario results in very different outcomes for farm incomes depending on the level of farm support retained alongside an FTA agreement. When the level of direct support is maintained at 100%, we see that as a consequence of higher prices and greater production, incomes improve across all sectors. However, when a reduction or elimination of direct support levels is factored in, we see a mixed picture. For example, cereals, dairy, livestock and mixed farms will see falls in income. In contrast, horticulture, pig and poultry businesses, which are much less reliant on direct support payments will benefit from an FTA scenario in income terms regardless of the level of support. This is due to increased domestic production boosted by higher farmgate prices and a reduction of EU exports to the UK, due to the trade facilitation costs.

Looking at the impact by region, the model projects increased farm incomes across all regions if direct support payments remain at 100% of current levels, but reduced farm incomes across all parts of the UK if direct payments were reduced by 50% or eliminated entirely.

Under this scenario with the full abolition of direct support, farm incomes would fall on average by €24,000.

## FTA BETWEEN UK AND EU

EFFECT ON FARM INCOME



## FTA BETWEEN UK AND EU

EFFECT ON FARM INCOME



Source: LEI Wageningen

## FTA BETWEEN UK AND EU

TARIFFS:

- ZERO BETWEEN UK AND EU, EXCEPT ON SHEEP MEAT
- TRQ OF 55,000T SHEEP MEAT (CCT APPLIES ABOVE THAT AMOUNT)
- CCT APPLIES TO NON-EU COUNTRY TRADE

**5% TRADE FACILITATION COSTS**





## WTO DEFAULT POSITION

If the UK leaves the EU without having negotiated free trade agreements with the EU and its international partners, it will fall back onto the WTO-default position. This means 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 162 WTO members.

**Under this scenario the EU applies its external Common Customs Tariff (CCT) to UK exports and the UK applies the same rates set by the EU's CCT to EU and non-EU country imports.**

Furthermore, UK imports no longer benefit from the EU's TRQ import concessions, meaning the UK is no longer able to import certain products like sheep meat from New Zealand at zero duty through the EU's TRQ system. Therefore, the price level in the UK for products that benefitted from that regime is likely to increase. This is factored into the model.

It is assumed that there would be no specific bilateral agreement or obligation for the UK to follow EU regulation. The divergence would consequently be even greater than under the FTA scenario. Therefore the costs of ensuring compliance with each other's relevant trade rules increase, as border officials would be required to check matters, such as country of origin and compliance with product standards. Under this scenario, based on a review of studies of different trade relation models undertaken by the WTO and others, a trade facilitation cost of 8% is built into the price of traded goods.

### WHAT'S THE IMPACT ON PRICE AND PRODUCTION?

Based on these factors, farmgate prices are projected to increase across the board. For the majority of agricultural sectors, the increase is in the region of 8%. This is mainly due to higher trade facilitation costs associated with this scenario and for some sectors it is the result of a combination of this and the closure of the EU's special import TRQ concessions and other preferential EU import arrangements, for example as seen in the sugar sector.

### HOW DOES THIS AFFECT USE (CONSUMPTION)?

As a result of farmgate price increases, production across all sectors is also expected to increase. Meanwhile, for some sectors the projected price increases have a negative impact on volumes of

domestic use (consumption), for example cheese, beef, sheep and pork.

### WHAT'S THE IMPACT ON OUR NET TRADE POSITION?

The net impact on the UK's trade position is generally positive: sheep meat and barley exports are expected to increase, whilst our position as net importer of beef and poultry is expected to improve, meaning lower levels of imports for those products.

### AND ONCE WE FACTOR IN SUPPORT PAYMENTS...

As a consequence of higher prices and greater production, the impact on UK farm income is expected to be positive. However, when the effect of different support levels is factored in, we see a mixed picture on farm incomes. For example, in the case of the horticulture, pig and poultry sectors, which are not reliant on direct support, farm income is expected to increase under this scenario, irrespective of the level of support payments granted.

The arable, livestock and dairy sectors are more sensitive to changes in the levels of support. The positive impact on farmgate prices, coupled with 100% of the current levels of direct support, results in an increase in farm incomes for all sectors and all regions of the UK. However, when a 50% reduction or complete loss of payment is applied, livestock and crop farms will see incomes decline.

The impacts are more pronounced when considered on a regional basis. Faced with reduced (50%) direct support payments, farm incomes in Wales, Scotland and Northern Ireland are all negatively affected, whilst all regions of the UK (including all of the English regions) would experience financial losses if direct support was eliminated.

Under this scenario with the full abolition of direct support, farm incomes would fall on average by €17,000.

# WTO DEFAULT POSITION SCENARIO

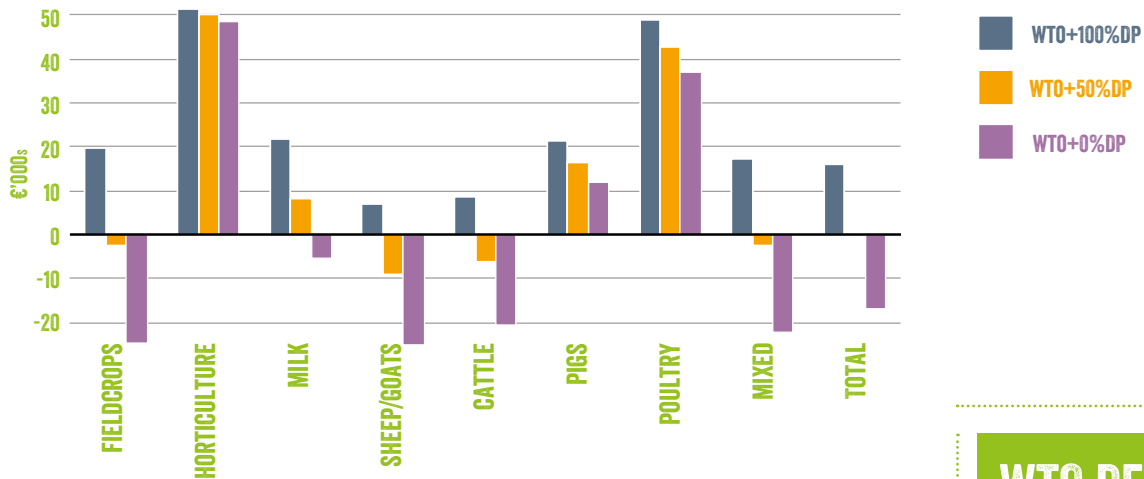
Percentage difference in farmgate price, production, use and net exports, compared to baseline 2025

	Soft wheat	Barley	Rape-seeds	Sugar	Beef	Pork	Poultry	Eggs	Sheep	Raw milk	Butter	Cheese	SMP	WMP
Price	8.0	8.0	8.0	11.5	7.4	7.8	8.1	7.1	8.8	7.2	8.8	8.3	7.8	9.3
Production	2.0	2.0	0.2	2.9	1.5	1.2	2.5	-1.3	6.8	2.0	0.4	-0.2	32.5	13.5
Use	2.1	0.6	2.9	-0.1	-0.1	-0.6	0.2	0.0	-0.8		-0.4	-1.9	0.0	0.0
Net exports		16.6	-12.4						326				2285	
Net imports	2.4			-1.5	-26.4	-3.5	-28.9	0.6			-1.4	-4.1		-107

see page 6 for horticultural products

## WTO DEFAULT – BY SECTOR

EFFECT ON FARM INCOME



## WTO DEFAULT – BY REGION

EFFECT ON FARM INCOME



Source: LEI Wageningen

## WTO DEFAULT POSITION

### TARIFFS:

- CCT APPLIED BY EU TO UK IMPORTS
- UK APPLIES THE CCT TO EU AND NON-EU COUNTRY IMPORTS
- UK LOSES ACCESS TO EU'S TRQ IMPORT CONCESSIONS

8%

TRADE FACILITATION COSTS





## UK TRADE LIBERALISATION

WTO rules prevent the UK from setting its import tariffs higher than the default “Most Favoured Nation” tariffs agreed by the EU in 1995. However, the UK would be free to set its future “applied” import tariffs below those limits.

**Under this scenario the EU applies its external Common Customs Tariff (CCT) to UK exports and the UK applies a 50% reduction in those same rates to EU and non-EU country imports.**

A trade liberalisation approach would benefit consumers through reduced prices for products that are currently protected by higher tariff levels set by the EU. There is also the added benefit to the UK government that such an approach would be easier and quicker to implement than seeking to conclude separate FTAs with its international trading partners.

As in the WTO default scenario, it is assumed that there would be no specific bilateral agreement or obligation for the UK to follow EU regulation. Therefore the costs of ensuring compliance with each other's relevant trade rules increase. Under this scenario, based on a review of studies of different trade relation models undertaken by the WTO and others, a trade facilitation cost of 8% is built into the price of traded goods.

### WHAT'S THE IMPACT ON PRICE AND PRODUCTION?

The impact on UK farmgate prices varies significantly depending on the sector. For instance, the impact on combinable crops largely reflects the increased trade facilitation costs and the loss of access for UK importers to the EU's TRQ concessions. The reduction in import tariffs by 50% has a

limited effect on combinable crops, reflecting the fact that current EU prices are in line with world prices given that existing EU tariffs are lower for these products.

Meanwhile, sugar and animal products (meats and dairy products) currently enjoy a higher degree of tariff protection, with EU prices well above the world market price. In a scenario of tariff cuts, despite higher trade facilitation costs and the loss of the EU TRQ concessions open to UK importers, there would be significant farmgate price reductions. For instance, the farmgate price for beef is estimated to fall by 15%, sheep meat by 5%, sugar by 5% and poultry by 7%.

Higher feed prices, coupled with lower farmgate prices for meat, squeeze the profitability of livestock farmers. As a consequence, UK meat production is expected to decline.

### WHAT'S THE IMPACT ON OUR NET TRADE POSITION?

The net trade position for wheat and barley is positive in this scenario. We see an increase in production and marginally higher consumption resulting in barley exports growing. Similarly, off the back of higher wheat production, our net import position will improve. Meanwhile, the picture is much more mixed for the meat sector. The sheep meat sector shows a significant reduction in production resulting in a deterioration of its net exporter position switching it to a net importer. Both the poultry

and beef sectors would experience a slow-down in production, accompanied by modest increases in consumption, which translates into higher imports.

### AND ONCE WE FACTOR IN SUPPORT PAYMENTS...

As a consequence of lower prices and reduced production, farm incomes in the dairy, beef, sheep, pig and poultry sectors would be significantly reduced, even when 100% of the direct support is retained.

Whilst the impact on arable farms is less pronounced it is still significant as declining livestock production results in less feed use.

Trade liberalisation, coupled with reduction or abolition of direct support, results in significant declines in farm incomes across all sectors, apart from horticulture where income is expected to increase no matter the level of direct support.

Across the whole of the UK, with the exception of the East of England (where the bulk of horticultural farms are located), farm incomes are expected to fall, irrespective of changes in the levels of support. Even then, the impact on East of England farm incomes is only positive if 100% of the direct support is retained.

Under this scenario with the full abolition of direct support, farm incomes would fall on average by €36,000.

# TRADE LIBERALISATION SCENARIO

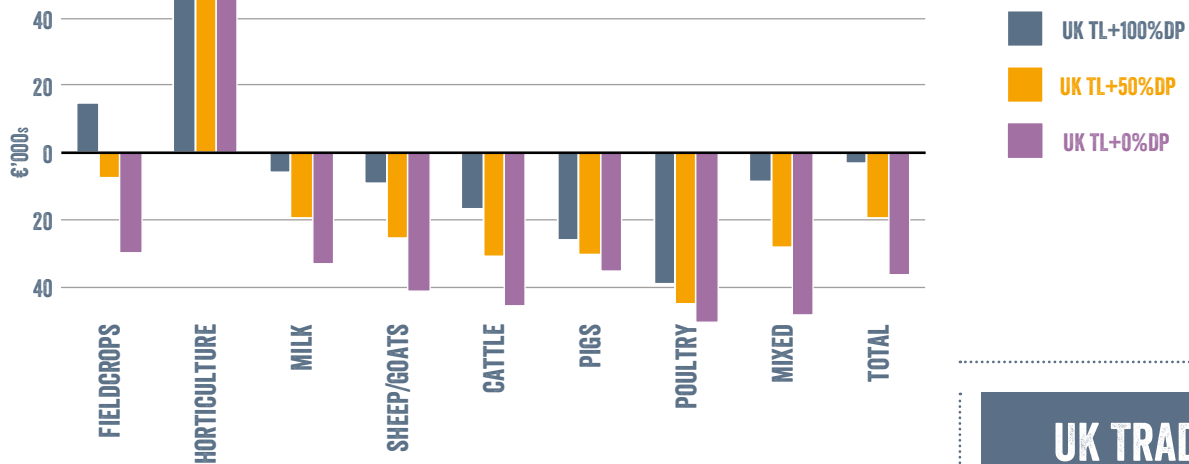
Percentage difference in farmgate price, production, use and net exports, compared to baseline 2025

	Soft wheat	Barley	Rape-seeds	Sugar	Beef	Pork	Poultry	Eggs	Sheep	Raw milk	Butter	Cheese	SMP	WMP
Price	7.9	8.0	8.0	-4.6	-14.9	-3.3	-6.6	8.7	-4.7	2.2	-0.6	3.9	8.0	3.8
Production	1.3	1.3	0.5	-1.9	-6.6	-1.9	-2.5	-1.2	-6.6	-0.7	-1.9	0.5	-2.6	-1.7
Use	-2.3	0.4	2.9	0.0	0.6	-1.7	0.1	0.0	-1.8		0.1	-0.9	0.0	0.0
Net exports		10.8	-10.0						-206				-181	
Net imports	-17.2			1.0	106	-1.3	29.0	0.5			2.2	-2.7		13.5

see page 6 for horticultural products

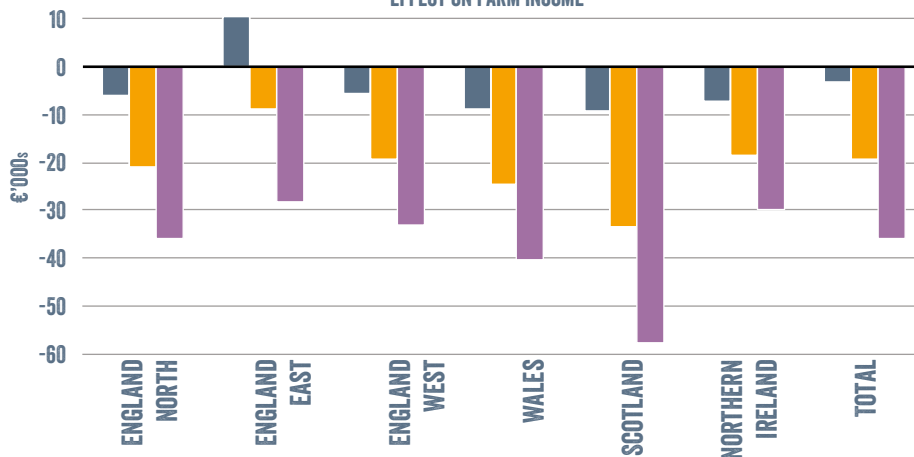
## UK TRADE LIBERALISATION - BY SECTOR

EFFECT ON FARM INCOME



## UK TRADE LIBERALISATION - BY REGION

EFFECT ON FARM INCOME



Source: LEI Wageningen

## UK TRADE LIBERALISATION

### TARIFFS:

- CCT APPLIED BY EU TO UK IMPORTS
- UK APPLIES 50% CCT RATE TO EU AND NON-EU COUNTRY IMPORTS
- UK LOSES ACCESS TO EU'S TRQ IMPORT CONCESSION

# 8%

TRADE FACILITATION COSTS





## CONCLUSIONS

The LEI Wageningen UR study provides an insight into the potential effects of two key issues for farm businesses in a post-Brexit world – our international trading relationship (and its impact on the domestic market) and the level of domestic support for farmers.

Two of the three trade scenarios modelled, namely the Free Trade Agreement between the EU and UK (FTA) and the World Trade Organisation (WTO default) both have a kind of anti-trade bias. In other words, British agricultural policy would in effect become more protectionist than it has been under the present CAP.

Under both trade scenarios, UK farmgate prices are expected to increase. This is mainly because imports would become more expensive, driven by trade facilitation costs, loss of benefits from cheaper imports under the EU's preferential trade arrangements and in the case of the WTO default scenario, higher tariffs with the EU. Higher prices would stimulate domestic production, but on the other hand they would reduce domestic use. The net result of this would be an improvement in the UK's trade balance mainly due to declining imports.

The questions to be asked about these two scenarios are political rather than economic. A more protectionist policy would be a reverse of the policies that successive British governments have pursued for the last 40 years; it would go against a world-wide trend to more open agricultural trade and would be in contradiction to the stated aims of many of those who advocate that the UK should leave the EU.

The UK Trade Liberalisation scenario would appear to be more in line with the established British government policy and with the views of many of those who favour Brexit. This scenario has a significant negative impact on farmgate prices for a number of products, but mainly for meat and some dairy products. The result would be less meat and milk production, decreasing the UK's self-sufficiency levels in those products, and creating a knock-on effect on demand for feed. Lower tariffs would offset the higher trade facilitation costs faced by importers and could therefore be appealing to the government.

The results of each scenario show that the biggest driver of UK farm income change is the level of public support payments available. The positive price impacts on farm incomes seen through both the FTA and WTO default scenarios would be offset by reductions in direct support. A reduction of direct support, or a complete elimination of it, would exacerbate the negative impact effects seen under the UK Trade Liberalisation scenario.

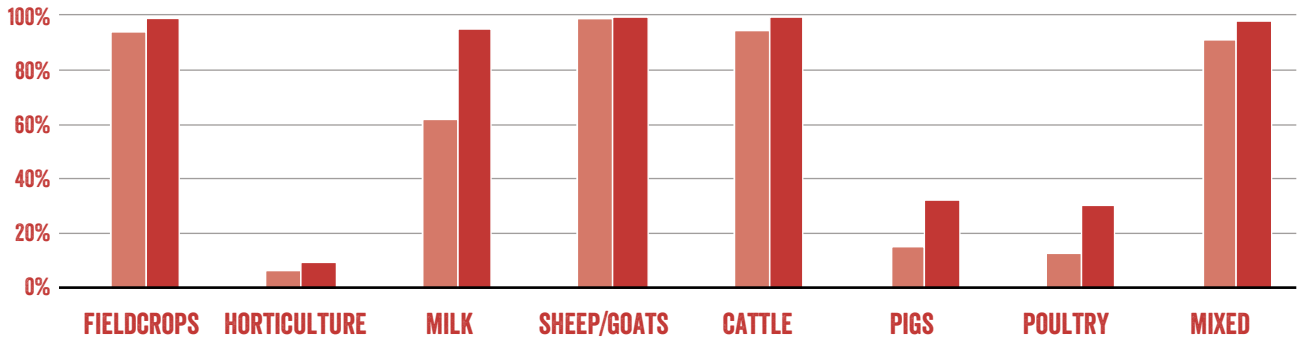
The cattle and sheep sectors are particularly dependent on direct support payments, but so too are mixed farms and field crops. Consequently, the combination of a more liberal trade policy and a reduction or elimination of direct support would make many British farms less viable.

Finally, the complexity of the political and economic reality cannot be captured in full in an econometric model like the one we have used. There are many elements that cannot be factored in the study, like the impact of Brexit on the availability of foreign labour, the price of UK land or on the £/€ exchange rate. However, despite these uncertainties, we are confident that the scenarios presented offer a good representation of the spectrum of policy options a UK government might consider in the event of Brexit.

## FTA BETWEEN UK AND EU

% OF FARMS EXPERIENCING NEGATIVE INCOME EFFECTS - BY SECTOR

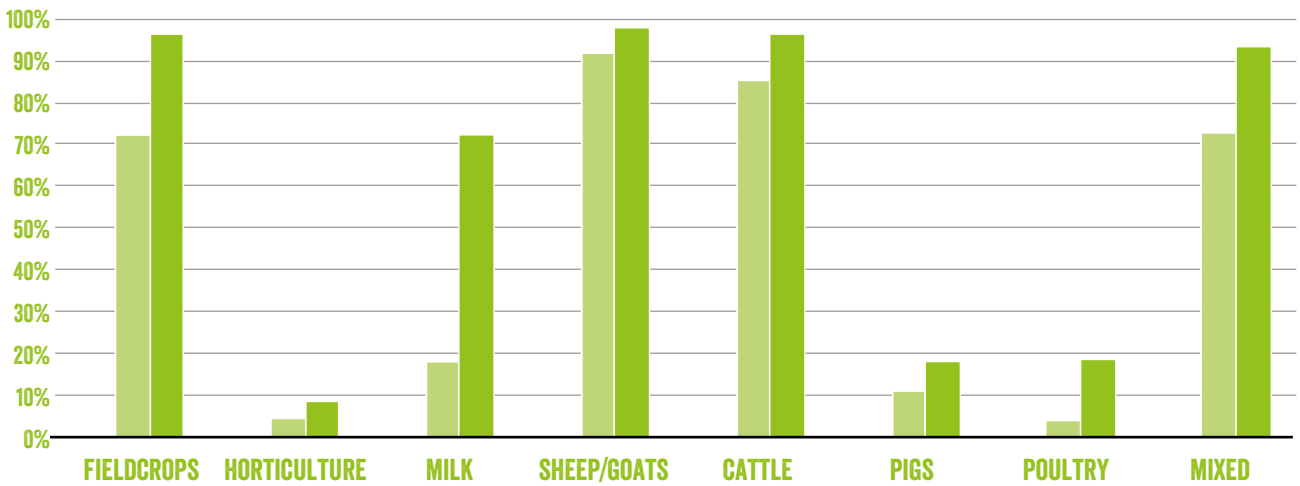
FTA+100%DP    FTA+50%DP    FTA+0%DP



## WTO DEFAULT

% OF FARMS EXPERIENCING NEGATIVE INCOME EFFECTS - BY SECTOR

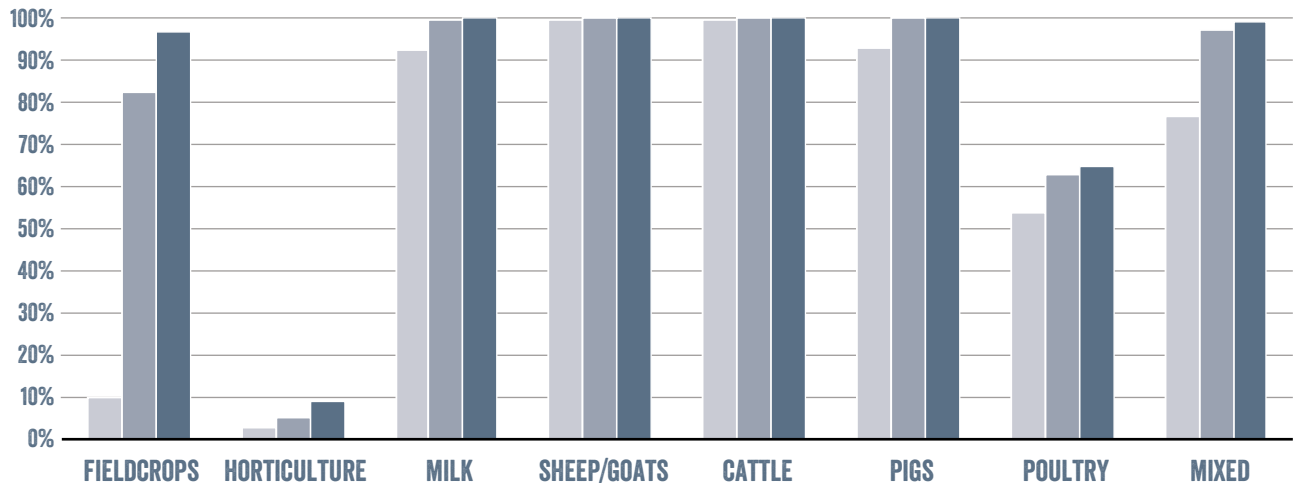
WTO+100%DP    WTO+50%DP    WTO+0%DP



## UK TRADE LIBERALISATION

% OF FARMS EXPERIENCING NEGATIVE INCOME EFFECTS - BY SECTOR

UK TL+100%DP    UK TL+50%DP    UK TL+0%DP



Source: LEI Wageningen





Published by the National Farmers' Union April 2016  
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Warwickshire, CV8 2TZ

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Printed by National Farmers Union,  
Agriculture House, Stoneleigh Park, Stoneleigh, CV82TZ  
Promoted by Ken Sutherland on behalf of the National Farmers Union,  
Agriculture House, Stoneleigh Park, Stoneleigh, CV82TZ