Brexit: it’s a big deal

BTG Advisory considers the implications of Brexit for UK farmers, notably uncertainty around future government subsidies, seasonal labour, and future trading relationships. Notwithstanding the industry having benefited from the decline of sterling, we consider the broader consequences for animal welfare standards, food pricing and quality in the UK.

The majority of farmers got what they wanted from the EU referendum. According to a poll carried out by *Farmers Weekly* prior to the vote on 23 June 2016, about 60% of them would vote to leave. Frustration at expensive European bureaucracy, the prospect of decision-making at a national level and the chance to create new trading relationships were cited as big influences. But with such a heavy reliance on income from the Brussels budget, plus unfettered access to lucrative export destinations, did turkeys vote for Christmas? The fog is probably at its thickest while trade agreements are proposed, and new policy frameworks drawn up. However, we now know which pillars of the Brexit negotiations will bear the heaviest load for farm business across the UK.

EU Subsidies

It doesn’t take an industry expert to understand how important European subsidies are to UK farmers. Just take a quick look at the numbers. About €3bn (£2.67bn) is given to farmers in the UK each year in the form of direct support through the Basic Payment Scheme. That means farmers in England are eligible to receive in the region of €235 (£209) for every hectare of land they own. The average size of a farm in the UK is 57 hectares, equating to an annual income of about £12,000. Furthermore, farm businesses can top up that money by applying for a slice of the €5.2bn (£4.6bn) rural development pot which is generally focused on the delivery of schemes to protect and enhance the environment.

The Conservative government has committed to retaining the subsidy system as it is until 2024, but will remodel it once it is in total control of its administration. Crucially, with ownership of the scheme comes full accountability and the government is going to have to justify the payment of public money to farmers. Not only will a decision have to be made as to who gets what, but also the size of the overall pot is going to be up for discussion. Most experts agree that the days of area-based payments look numbered, and Michael Gove – a well-known environmentalist – is in charge at Defra.

At the Oxford Farming Conference in January he stated that that those farmers who can fit the mantra “public money for public goods” will be the ones who can attract the most financial support. That could include those who enhance natural habitats, reduce soil erosion or clean up watercourses, for example. But the big winners could be those who can go over and above by reducing downstream flood risks by maintaining woodland that captures carbon and pollutants from large infrastructure. The government’s plan for the environment is due to be published during 2018 and will give farmers the clearest indication yet of the direction of travel.

The Labour Conundrum

Labour availability was an issue before the referendum and one that the farming lobby is quick to criticise the government over. Since the Seasonal Agricultural Workers Scheme (SAWS) was abolished in 2012 there has been no sign of a replacement. The SAWS allowed fruit and vegetable growers to employ workers from Bulgaria and Romania as seasonal workers for up to six months at a time within the limit of an annual quota. About 20,000 people made use of the scheme. But the UK’s impending departure from Europe has created a lack of clarity over immigration and movement, a problem compounded by fears of xenophobia and a devaluation of sterling which has driven workers away from the UK’s shores.

An NFU survey last year revealed a 29% shortfall in seasonal workers with the fruit and vegetable industries most affected. It is an issue that, at the time of writing, remains unresolved, with NFU Scotland the latest to add its weight to calls for a new-look seasonal workers scheme to be embedded in time for 2018’s fruit and vegetable harvest so it could be tried and tested before the UK formally exits the EU.

Post-Brexit EU Trade

Britain's future trading relationship with the EU is probably the most influential and important topic for farmers to consider, yet few talk about it while subsidy payments and availability of crop protection products continue to circle. It is a complex, confusing area, littered with what-ifs. At least the UK food and drink industry has been quick to see the danger. The unified response from the NFU, British Retail Consortium and the Food and Drink Federation is clear: UK food and drink must not be forgotten during trade negotiations.

British products currently enjoy free trade across the EU, meaning food and drink can be bought from and sold to 27 EU member states without tariffs. About 50 countries outside the EU have gained market access to do business with its members, but most have had to pay to do so. This drives up the cost of their product, making it more expensive to the end consumer. The risk is that the UK could soon be in the same boat. Equally, if tariffs are not levied on food and drink being imported into the UK, it could flood in, displacing domestic production. While consumers might be attracted to cheap food, the question is whether they are willing to accept that it won't be produced to UK standards.

Price Versus Quality

How food is produced in countries that could soon become trading partners with the UK has already hit the headlines. Animal welfare in the UK is well regulated and we have some of the highest standards in the world for this. But issues relating to food production are already on consumers' minds – stocking densities, antibiotic use, genetic modification and pesticide use to name but a few.

When the Brexit process is complete, it is likely that more imported food will find its way onto supermarket shelves and be sold at a lower price than British produce. The question is whether consumers will recognise the reason for non-domestic produce being cheaper. Major fears have already been raised in the national press, with the poultry industry being used as an example. America is just one country where the chicken industry uses chlorine to wash poultry as part of the processing cycle to eradicate any potential for salmonella contamination. By contrast, the UK uses the more expensive method of implementing prevention measures throughout the life cycle of the poultry flock, plus stringent food safety steps during processing to reduce the risk of food poisoning. American beef is generally produced in a more cost-effective feedlot environment, rather than grazed on grass, with growth hormones routinely used to bulk animals up. These hormones are banned in the UK, and most cattle are grazed, but with American farmers keen to expand their export opportunities, the two products, which, on the plate, look identical, could soon be squaring up on the shelves. The government is yet to announce whether food imported into the UK will have to match the standards of UK produced food.

Plant Protection Products

It is, therefore, somewhat ironic that UK farmers are holding out hope that post-Brexit the government will allow the use of certain plant protection products at home which have been banned abroad. Currently the availability of chemicals for killing pests, weeds and diseases in crops are decided upon at European level and can be banned or authorised for use across all member states.

Two huge battles have been waged in recent months in Brussels over the future of products that farmers say are essential to productive agriculture. The first is glyphosate – the world's most-used weed killer, known to many as Roundup – which is manufactured by global agro-chemical company Monsanto. Claim and counterclaim has been made by lobbying groups and farmers alike over whether the product is carcinogenic. Little independent research exists to conclusively prove either way, but the public lobby was loud enough to limit a recent product reauthorisation to just 5 years instead of 15. Similarly, the use of neonicotinoid insecticides to kill yield-robbing aphids and other pests is the focus of intense scrutiny in Brussels. Campaigners say these kill bees and other pollinators, while farmers argue that there is not sufficient research at field scale to prove the claim. The UK government has banned them from being used on flowering crops for the past four years, but member states voted to ban them outright across Europe by the end of this year. The next time these issues are brought to the fore for a decision on their use, it will be a national and not an international decision, heightening the pressure on Defra to make a judgement that balances the interests of food production with the public at large.

Much To Play For

What is the likely outcome? Frustratingly, this question needs to be filed under 'too early to say', but agriculture does at least know what the main issues are, and what to focus and lobby on as Britain charts its course out of Europe.

It's worth noting that since the referendum, farming has actually experienced a bounce. The drop in the value of the pound has made UK food cheaper to those abroad who are looking to import. This has had a beneficial impact on the domestic lamb trade, for example, with about 38% of lamb produced in the UK heading overseas. Similarly, subsidies paid in euros this year have increased in value to farmers by as much as 18% on pre-referendum sums.

These, of course, are short-term gains for farmers, and few are foolish enough to think that this is the beginning of the promised land. Small family farms that have been heavily reliant on subsidies for their very existence will face huge challenges to turn a genuine profit if and when direct support is removed. And even the largest farming business are looking to diversify their income streams and make plans for activities post 2020 that are not solely reliant on income from food production. This is evidenced by land agents across the UK noting an upturn in demand for agricultural holdings that have some element of diversification potential; offerings with the chance of becoming office lets, land suited to housing development and tourism opportunities are attracting significant attention.

However, most are sitting on their hands and waiting for the outcome of negotiations which will ultimately dictate how much they invest and how they structure their businesses so that they are fit for the future. Farmers, as ever, remain resilient and the majority are positive. *Farmers Weekly* ran another poll before Christmas to see if farmers who voted to leave the EU would do the same if the referendum were held again now. The result was an overwhelming 'yes'.

Stats Panel

- 38% of lamb produced in the UK was exported to the EU in 2014
- An Agriculture & Horticulture Development Board report says the "worst-case" Brexit scenario would cut average farm profits from £38,000 a year to just £15,000
- Around 80,000 EU nationals work in UK agriculture and horticulture, in permanent or seasonal jobs
- £446m of British beef was exported in 2016
- £3.3bn of British food and drink is exported to Ireland every year with the USA, France, Netherland and Germany our next biggest export destinations.

For Further Information

If you would like to discuss any of the issues raised in this update or would like to know further details about the services we provide to the sector, please contact:

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