INTRODUCTION

The vote on the 23rd June to leave the European Union (EU) was potentially the most important event in modern UK political history. The effects will be profound socially, politically and economically. Many of them may take years to become evident.

Farming will be affected more than most sectors of the economy. The Common Agricultural Policy (CAP) is a founding pillar of the European 'project' and has shaped our sector since the UK joined the, then, EEC, in 1973. The Single Market has influenced trading patterns in farm goods and employment markets.

There is vast uncertainty, and this brief cannot begin to answer all the questions the decision generates. But it aims to set out some of the key issues and the potential outcomes. It will be updated as the situation develops over the coming months and years.

WHAT HAPPENS NOW?

To start the formal process of negotiating exit from the EU, the UK has to issue notice under Article 50 of the Lisbon Treaty. It seems that the notification will be delayed until a new leader of the Conservative Government is chosen. Other EU countries are keen for 'divorce' proceedings to start as soon as possible.

Once Article 50 is invoked, there is a two year period to conclude negotiations. This can be extended by agreement of all parties (or, indeed, shortened). Also, after an Article 50 notification, the UK could only reverse its decision to leave the EU if all other EU Member States unanimously agreed to it.

The precise timing of the UK's exit is therefore unknown - it depends on the progress of the negotiations. A date anywhere from early 2018 to the end of 2020 seems possible. Until the actual date of exit, the UK remains part of the EU. It is thus able to continue to trade freely and remains subject to EU policies—including the Common Agricultural Policy.

TRADE

One of the key issues for UK farmers is what the future trading relationship with the EU will be. At present, agricultural products can be freely traded within the Single Market. Currently, around two-thirds of all British agricultural exports are to the EU. UK producers are also protected from imports at world market prices by the EU's external tariffs. All this potentially changes with Brexit.

Various options have been suggested. These range from a relationship where the UK remains close to the EU (like Norway), to a complete break and the UK simply becoming a player on the world market (like New Zealand, for example).

If it wishes to retain Single Market access the UK is likely to have to accept the free movement of labour from the EU (i.e. immigration). The EU will want to extract a price for favourable trade terms in order to discourage others from leaving the Union. Norway, for example, has to abide by most EU Single Market legislation and pay into the EU Budget. This may be unacceptable to many of those that backed Brexit.

The UK Parliament has to agree to any new treaty. The majority of MPs are firmly pro-Europe, and many have said they will block any deal that does not allow UK access to the Single Market. Discussions will be difficult and it is conceivable that Brexit could occur without a trade deal in place. The UK would then 'default' to trading with Europe on the same terms as a country such as New Zealand. The table summarises the tariffs that would apply to UK goods being sold to Europe under this scenario. It is also the protection that UK farmers might lose if the UK Government does not implement its own set of trade tariffs.

FARM SUPPORT

The Common Agricultural Policy has provided significant funds for UK farming over the last 40 years. This includes not only the Basic Payment and its predecessors, but Rural Development funds too that pay for things like agri-environmental schemes. Outside the EU there would have to be a British Agricultural Policy. Indeed, with devolution, different parts of the UK are increasingly likely go their own way on farm support.

COMMODITY	**EU TARIFF**	**COMMENTS**
Skim Milk Powder	€1,254/tonne	Tariff-rate quotas (TRQ) are available on some of these commodities offering lower tariffs on limited volumes. It is not clear whether the UK would be allocated any of these quantities.
Butter	€1,896/tonne	
Lamb (fresh/chill)	12.8%+€1.71/kg	
Beef (fresh/chill)	12.8%+€1.77/kg	
Pigmeat	€536/tonne	
Feed Wheat	€95/tonne	
Feed Barley	€93/tonne	

During the referendum campaign the Brexit side promised that direct payments would be kept at current levels. This is a non-binding commitment and only referred to the period up to 2020. It should be remembered that the UK economy is likely to suffer a downturn in the short-term and this will place public finances under pressure.

In our view, upon Brexit there may not be an immediate drop in support - say 20% on current levels. However, over time (e.g. 5 years), subsidies are likely to be eroded and overall spending could end-up at 30-40% of current levels. The targeting of this spending could well change once the UK Government has a 'blank sheet of paper'. Support is likely to be more focused on hill-farming and environmental actions (and perhaps competitiveness). Some sectors, e.g. lowland farming, may get no support at all 'as of right'. *This may well result in a more efficient industry overall, but individual business will have to make significant changes if they are to retain profitability*.

OTHER ISSUES

The Brexit vote has called into question the constitutional arrangements of the UK. There could be a second Scottish independence referendum, and the situation of Northern Ireland is especially complex. Therefore certain parts of UK agriculture may have different, or greater issues to cope with.

Many areas of British farming are heavily dependent on migrant labour from the EU - notably the fruit and vegetable sectors. The future availability of this is unknown. The industry may have to campaign for a Seasonal Workers-type scheme to fill the gap.

The reason that many farmers voted for Brexit was that the burden of red-tape had got too great and it was preventing them from actually farming. Leaving the EU does give the UK a chance to start again with more sensible regulation. This might be particularly relevant in the context of pesticide approvals and even GMOs.

In the short-term, however, the UK government will have a massive amount of work on dealing with Brexit itself. It may well simply roll-over EU legislation into national law until it has time to review it (which may take some years). Furthermore, if the UK wishes to continue to sell farm produce to Europe, we may not be able to depart too far from their production standards (if we are in the Single Market we may have to abide by them in totality). Lastly, the UK government will still be subject to lobbying by pressure groups. It is perhaps naïve to believe that Whitehall is not as capable as producing red-tape as Brussels is.

HELPING YOUR BUSINESS

The UK farming industry may face a period of unprecedented uncertainty and change as a result of the decision to leave the EU. Andersons have been experts in farm policy for over 40 years. We understand what is happening in policy terms, but, importantly, are also able to interpret what the practical implications might be at farm level.

Lastly, it is worth remembering that change also brings opportunity. Our consultants can guide you through any upheaval and help you make the correct strategic decisions to maximise the profitability of your business - whatever the political environment.

Please contact us for a FREE initial visit to discuss any of the issues raised in this brief.

Brexit Brief was written by the Andersons Research Team - please contact us at the Melton Mowbray office.

Through its regional businesses, Andersons are leaders in independent business consultancy in UK agriculture. Please contact one of the offices below for more details on the topics covered in this publication.

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Impact on Farming