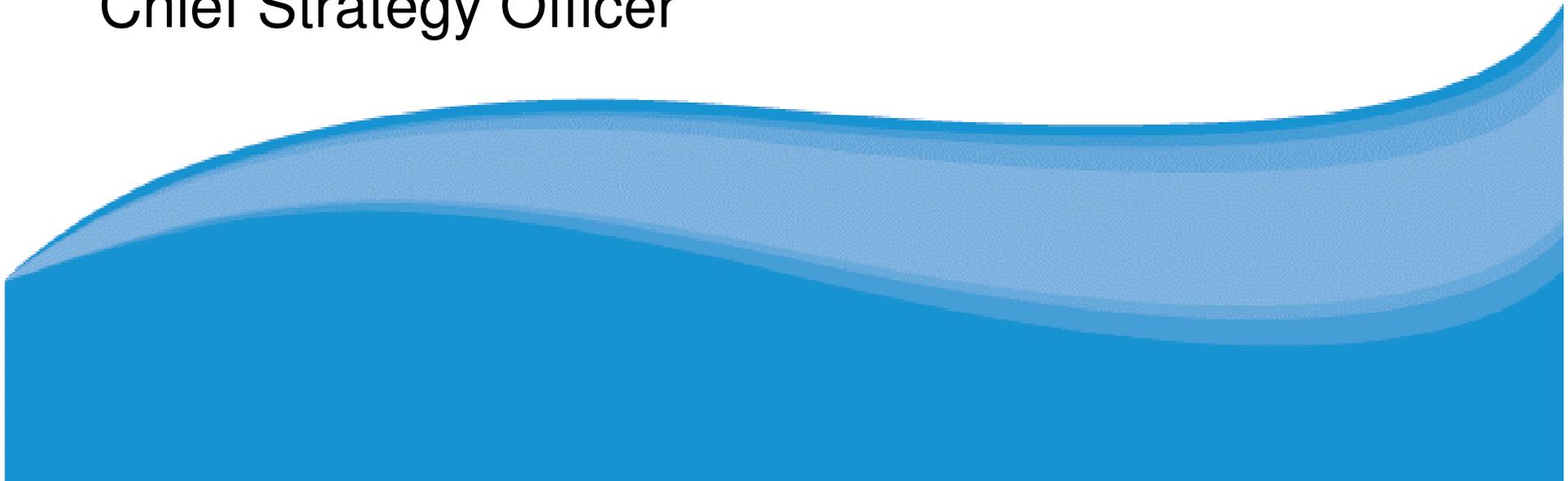


Brexit: potential for change

Tom Hind

Chief Strategy Officer



The image features a vibrant landscape of rolling green hills under a sunset sky. The sun is low on the horizon, casting a warm glow and creating a lens flare effect. The sky is filled with soft, colorful clouds in shades of orange, yellow, and blue. A prominent blue wavy graphic element, resembling a ribbon or a stylized wave, curves across the middle of the image. The overall scene is peaceful and inspiring, representing the agricultural industry.

Inspiring our farmers, growers and industry
to succeed in a rapidly changing world

AHDB Strategy 2017 - 2020
Inspiring Success

Making sense of the issues



<http://www.ahdb.org.uk/news/EUReferendum>

Where are we?

- Initial economic impact less than many predicted
- “Brexit means Brexit”& “We are leaving. We are coming out”
- Until then, UK remains a full EU member
- Many areas of EU funding (including agricultural support) guaranteed by Treasury until 2020
- ‘Article 50’ triggered by end of March
- Great Repeal Bill

Broad, sunlit uplands or
the abyss of a new dark age

UK's 'Finest Hour?'

One thing is certain – it is
uncertain...

Potential for six sets of negotiation*

- Article 50 talks – divorce settlement
- EU/ UK trade agreement
- Interim deal on trade (assuming we don't go for pre-packaged EEA option)
- Accession to WTO
- Agreeing FTAs with third countries (53 between EU & third countries)
- Agreement on foreign & security policy

*Charles Grant, CER, July 2017

Takes two sides to negotiate



Donald Tusk
- President of
the European
Council

Guy Verhofstadt – EU Parliament's
lead negotiator

Jean Claude Juncker – President of the
European Commission



Didier Seeuws— Head of
EU's Brexit taskforce

Michel Barnier —
Négociateur en chef de
la Commission
Européene pour le Brexit



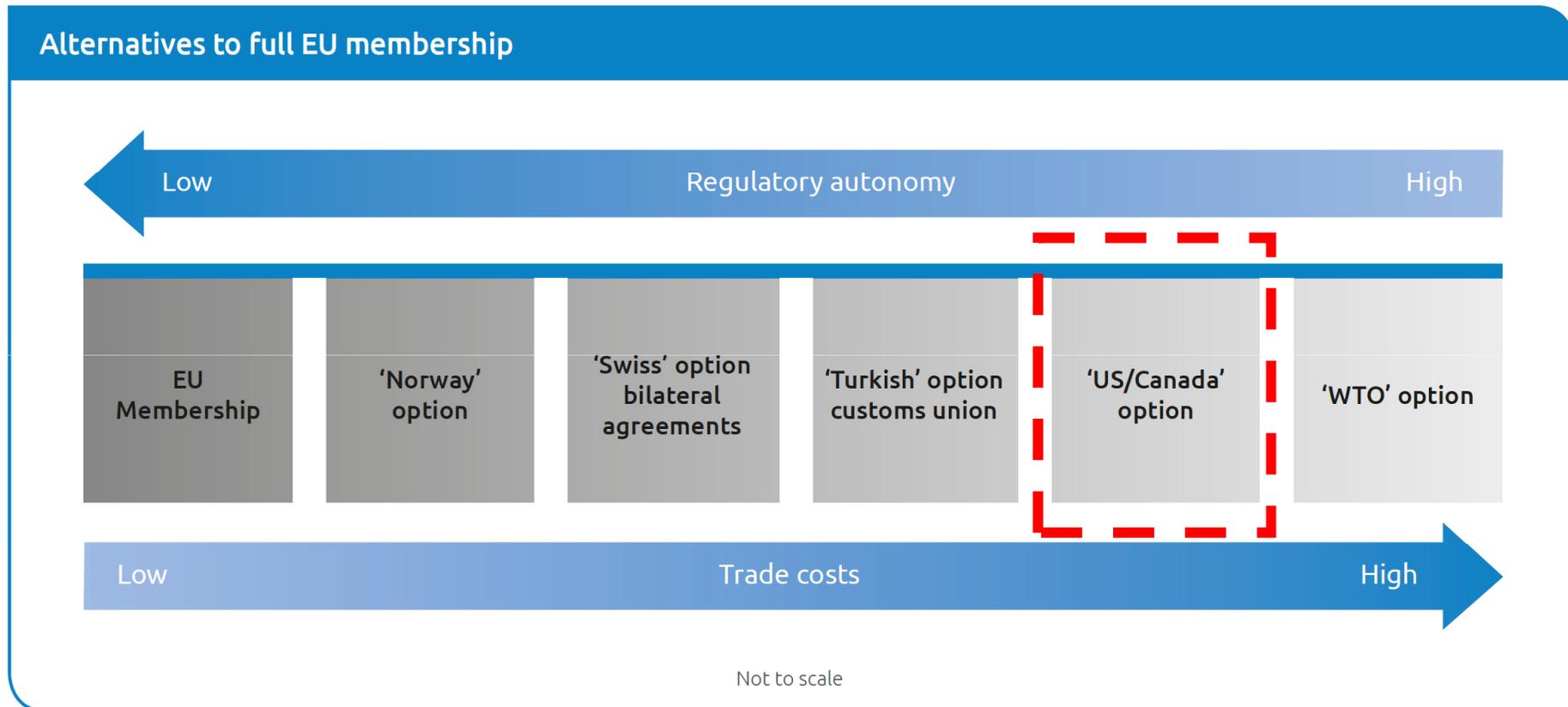
Martin Schulz – President of the European Parliament



Joseph Muscat – Prime Minister of Malta
Current EU President



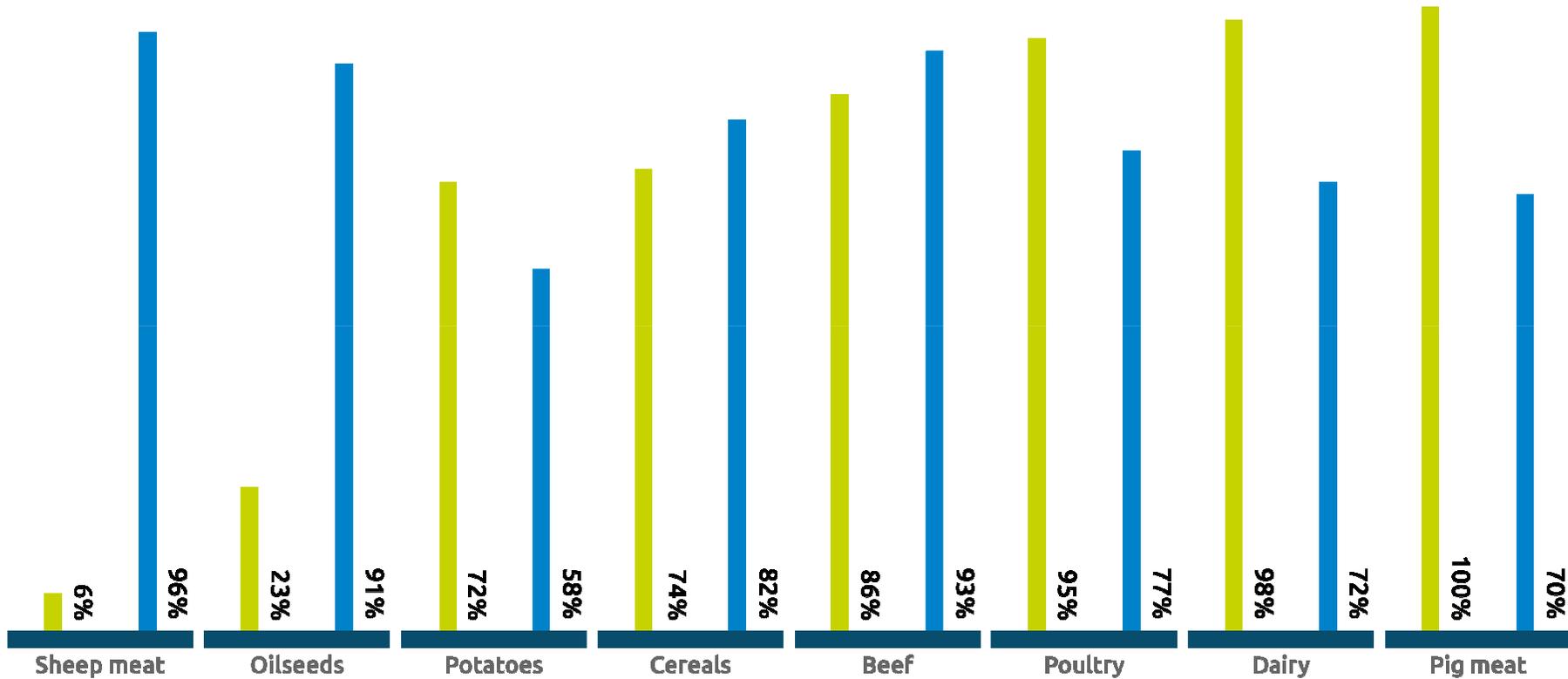
Future UK/ EU Trade relationship: The lynch pin



Is a 'hard' Brexit looking more likely?

The importance of UK/EU trade

UK agricultural trade with the EU



■ Imports from EU as % of total imports
■ Exports to EU as % of total exports

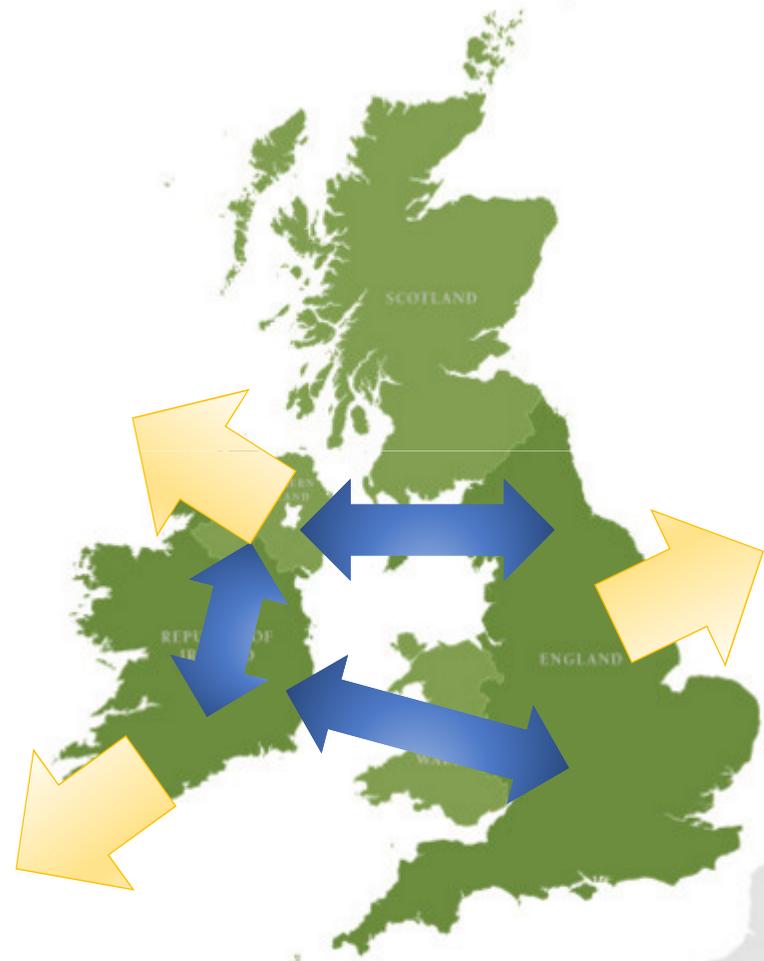
Source: Comtrade

Tariffs insulate EU & UK markets from competition

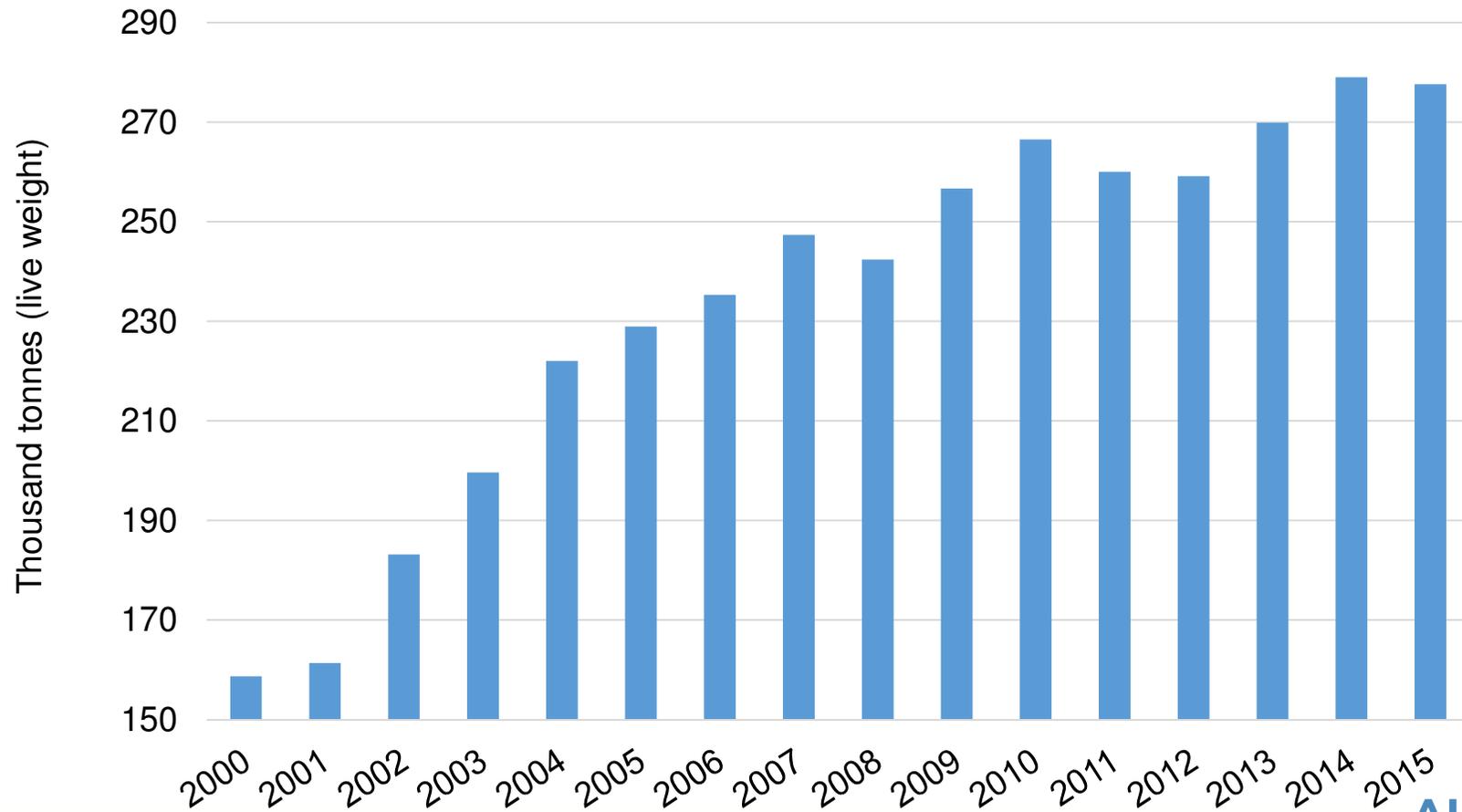
Product	Tariff rate
Fresh/chilled boneless beef cuts	12.8% + €3,034 per tonne
Fresh/chilled lamb carcasses	12.8% + €1,713 per tonne
Fresh/chilled boneless pork cuts	€869 per tonne
Milk/cream (fat content 3-6%)	€218 per tonne
Cheddar	€1,671 per tonne
Fresh cut flowers	8.5% - 12%, depending on season
Fresh/chilled potatoes (excl. new/seed)	11.5%
Wheat (excl. Durum/seed)	€95 per tonne
Barley (excl. seed)	€93 per tonne
Oats (excl. seed)	€89/t
Maize (excl. seed)	€94/t
Rapeseed	Tariff free

Brexit impact on UK/RoI trade

- Significant exposure to Irish market for NI milk, lamb, poultry, flour & bakery sectors.
- Country of origin labelling.
- Currency impact felt in south for Irish beef but favourable for feed costs.

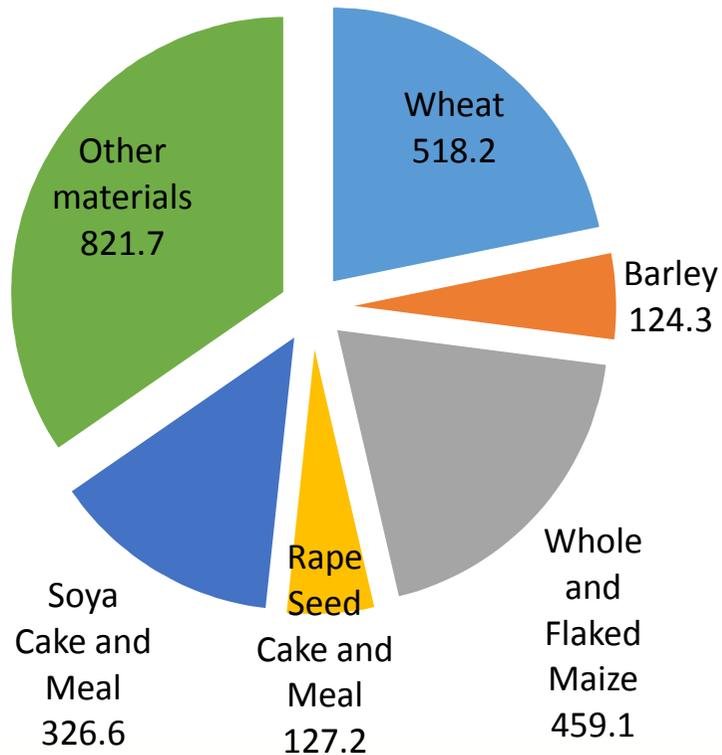


NI Poultry output

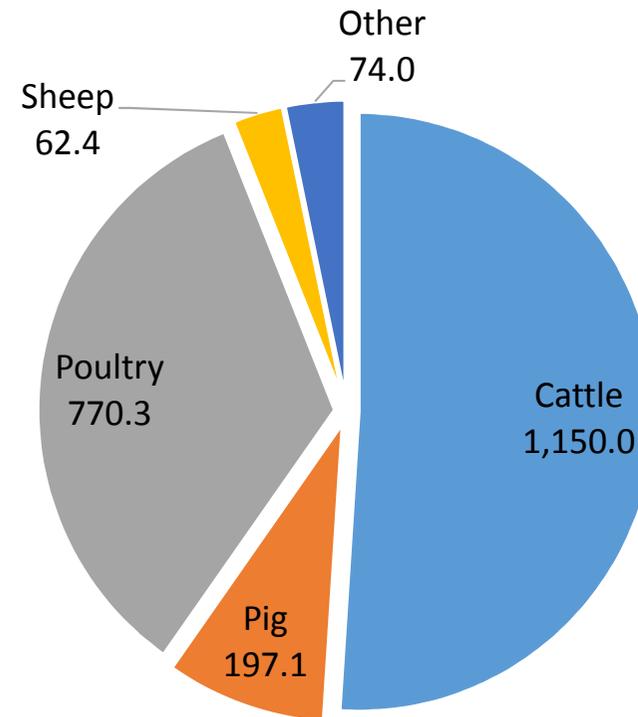


Complexity of NI feed sector relying on both domestic and traded raw materials

NI compound feed raw materials in 2015 (K tonnes)

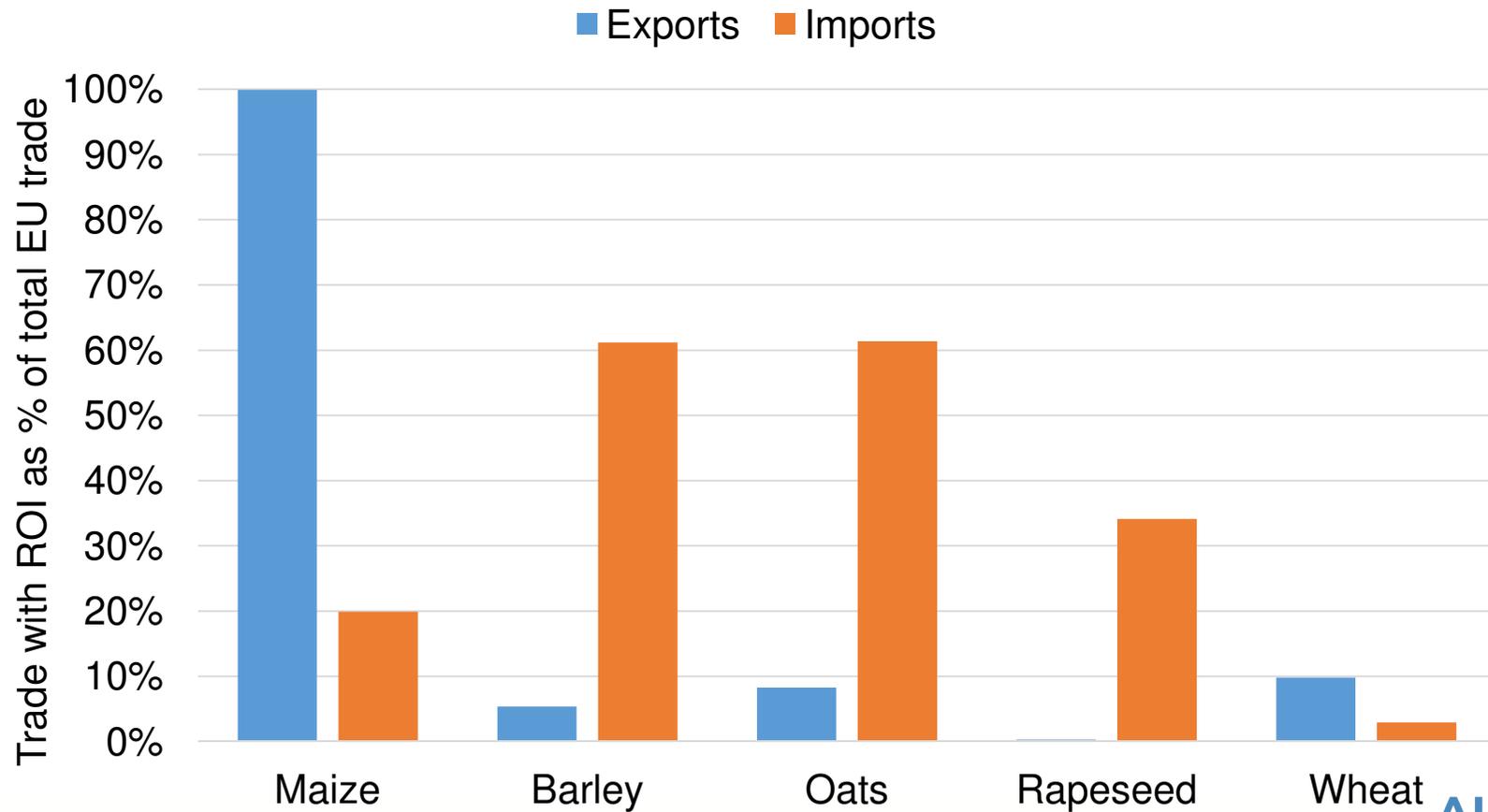


NI 2015 feed deliveries by species (K tonnes)



Ireland key cereals trading market, particularly for maize

UK trade with ROI in Cereals & Oilseeds



Agricultural support options



Crop Insurance – pays out if revenue falls below 85% of historical average



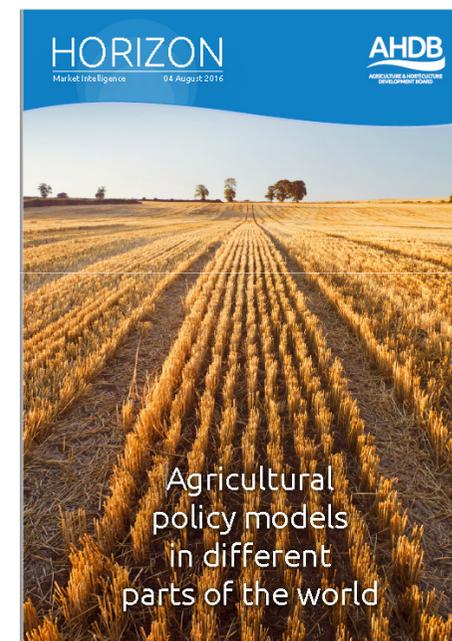
GF2 Framework – mix of US-style insurance, savings scheme, protection from natural hazards and disaster recovery



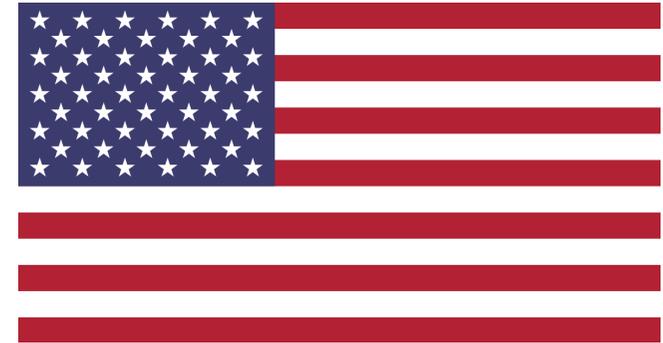
Tax concessions – deposit scheme, tax averaging, incentives for investment



No subsidy – apart from natural disaster or animal disease control



United States



Pros and cons of a US-style policy:

1. Costly & unpredictable in nature
2. Requires accurate and robust data – has taken decades and resources to build
3. Requires strong public-private partnership: publically regulated and underpinned (risk sharing), but delivery very much driven by the private sector.

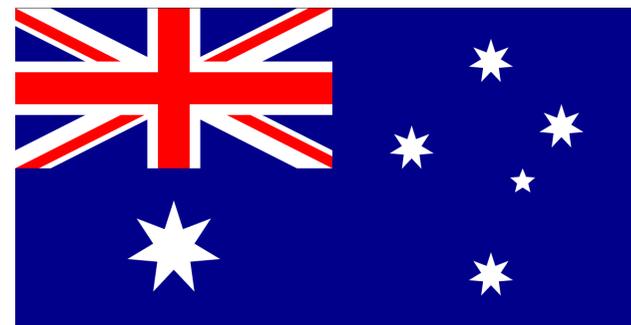
Canada



Pros and cons of Canadian-style policy:

1. \$3 billion has been spent on agriculture over 5 yrs. Two-thirds of this went into stabilization programs to support farm incomes.
2. Canadian programs have modest impacts on production, but that chemical and fertilizer input use may be higher than in the absence of the program.
3. While cross-compliance could be considered in the Canadian context, policies that directly target specific environmental issues in agriculture may have greater impact.
4. Canadian expenditure on environmental initiatives in agriculture, as a share of farm income, more than 10 times smaller than those in the US and the EU
5. Canada remains heavily protected by tariffs – esp in dairy sector

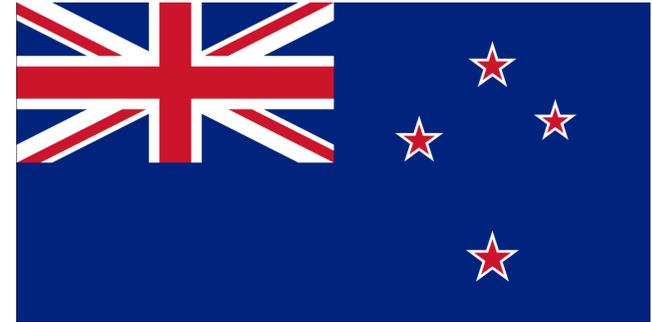
Australia



Benefits of Australian-style policy:

- Simple - using the existing infrastructure of the tax system to help manage variable income
- Low cost – After New Zealand, Australia has the lowest PSE in any of the OECD countries
- Farmers more exposed to market forces & significantly more competitive than EU

New Zealand

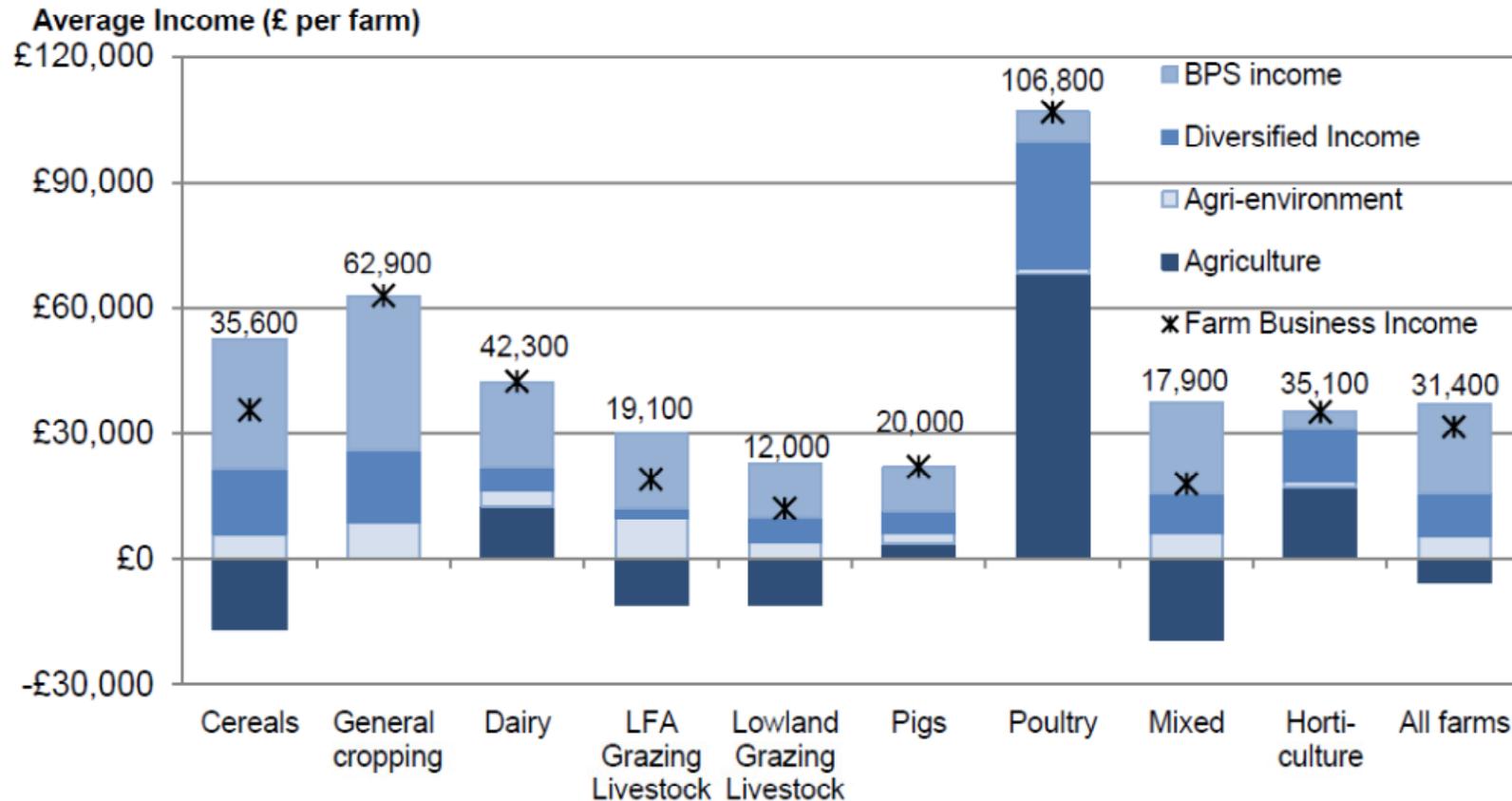


What we can learn for New Zealand's agricultural reform:

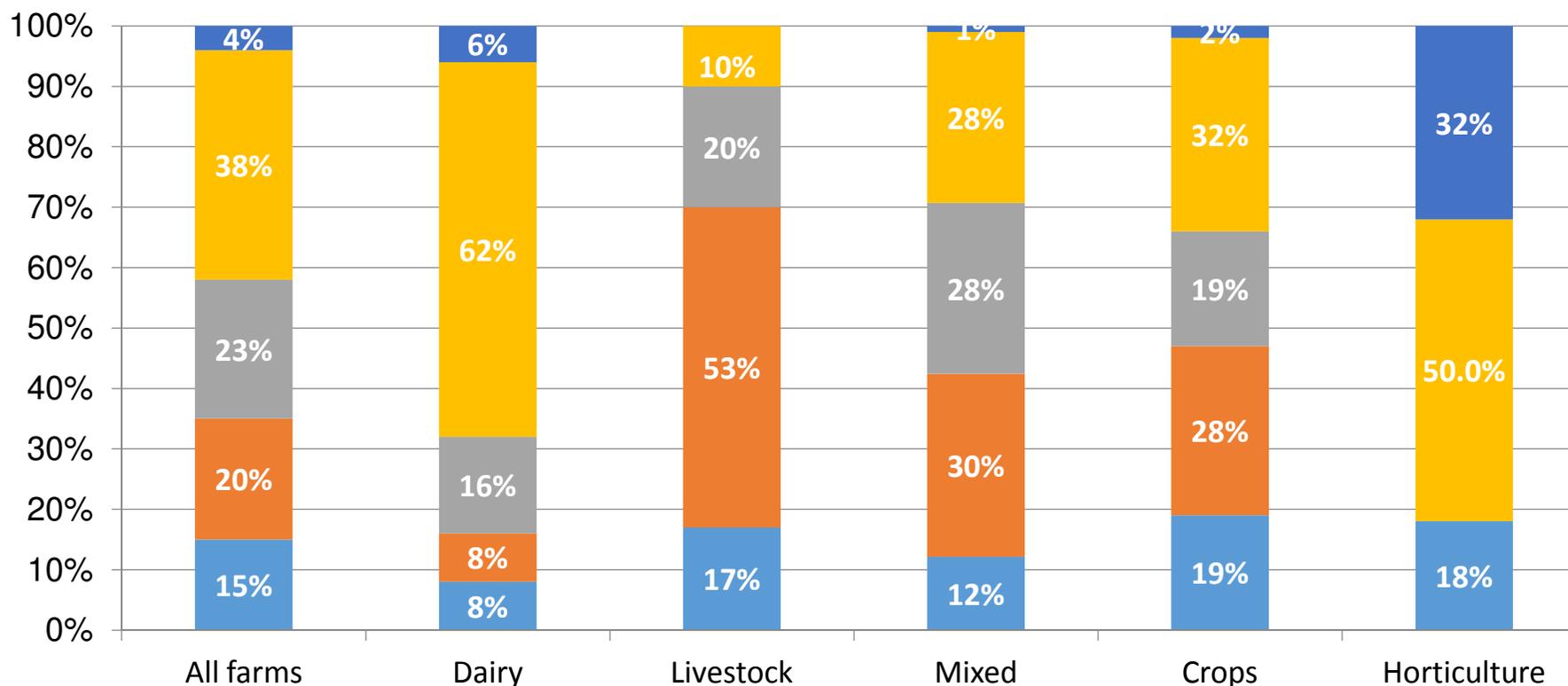
1. Agricultural markets can adjust and that farmers need not bear all the costs of reforms – although ag was (and remains) much bigger part of economy & coincided with devaluation of currency
2. Welfare of farmers reduced after reforms. But, over 7-year period restructuring, enterprise change, productivity growth and capital investment led to rising income by 1988–89
3. Farmers' cooperation in the agricultural reform programme underpinned by removal of tariffs on imported inputs (although lowering of tariffs didn't happen as quickly as the removal of agricultural support)

Importance of CAP support – 87% of net farm income in NI

Figure 3: Farm Business Income by Cost Centre¹ 2015/16

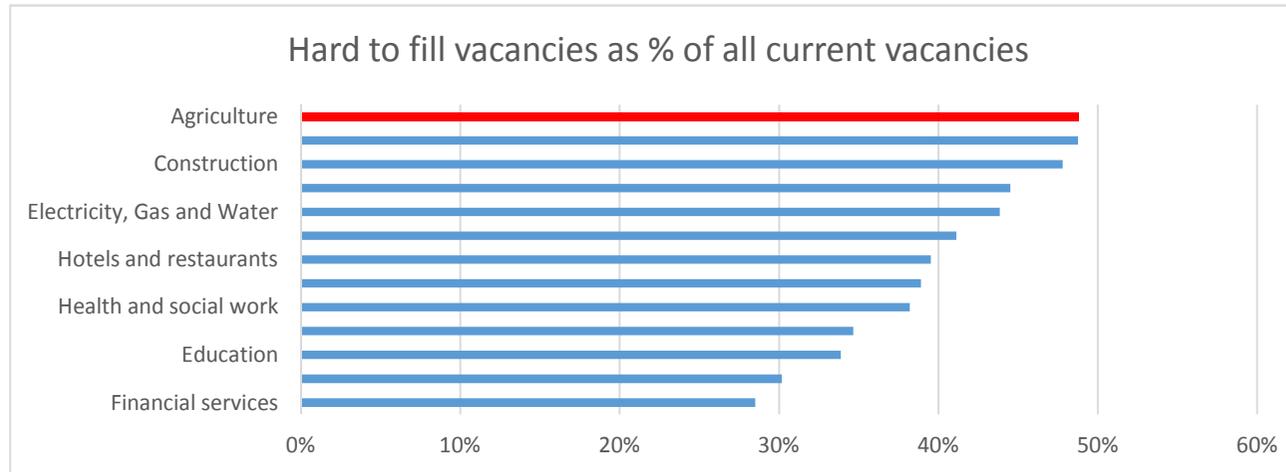


Viability by sector if support were removed



- Farms unable to survive
- Farms able to survive but likely to suffer financial distress
- Income still positive but insufficient to invest+modernise
- Income still positive - farms with good prospects
- Income still above opportunity costs - farms with good prospects

Agricultural workforce



Number of EU nationals employed in agriculture (2011 to 2015)

Sources: ONS, Labour Force Survey 2015

Year	Number of EU-born individuals employed
2015	22,517
2014	22,371
2013	18,784
2012	19,138
2011	15,957

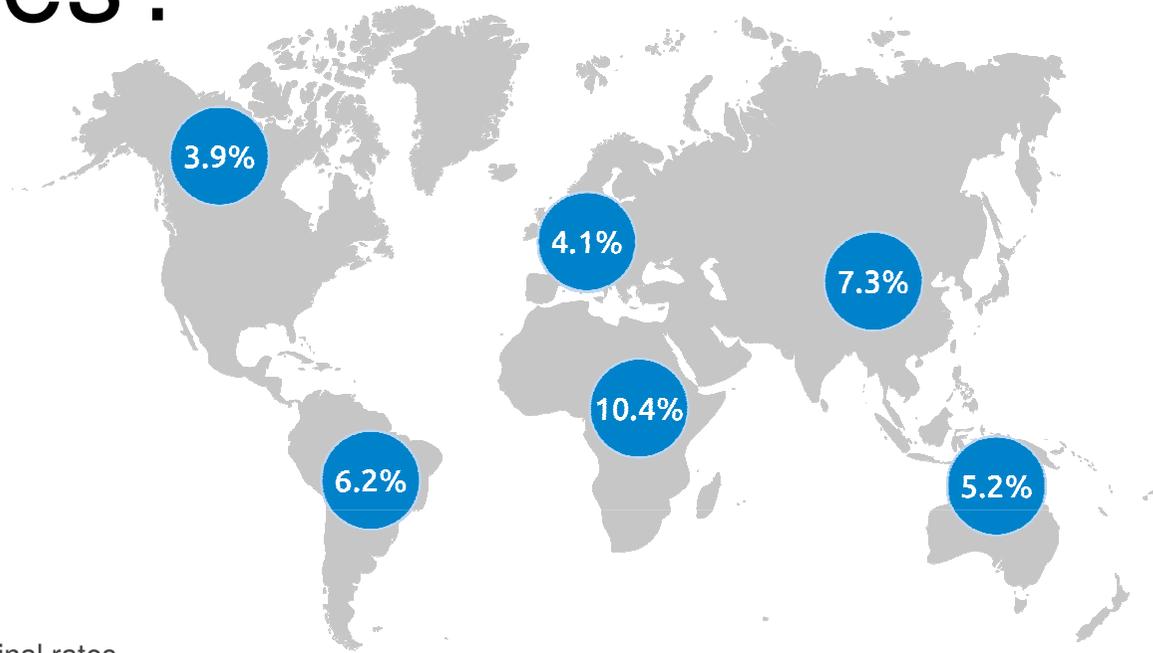
Dependency on migrant labour

Top 6 by workforce share, all migrants	%	Top 6 by workforce share, recent migrants	%
Manufacture of food products	38	Manufacture of food products	14
Domestic personnel	32	Accommodation	11
Manufacture of wearing apparel	29	Domestic personnel	11
Accommodation	27	Food and beverage service activities	6
Food and beverage service activities	27	Manufacture of textiles	6
Scientific research and development	22	Extraction crude petroleum and gas	6

Taking out 'family labour', around 20% of regular agricultural workforce are migrants – not including seasonal/casual labour

Where are the market opportunities?

Grocery market
growth forecast for
Asia, Africa & Middle
East 2015-20



Grocery retail sales

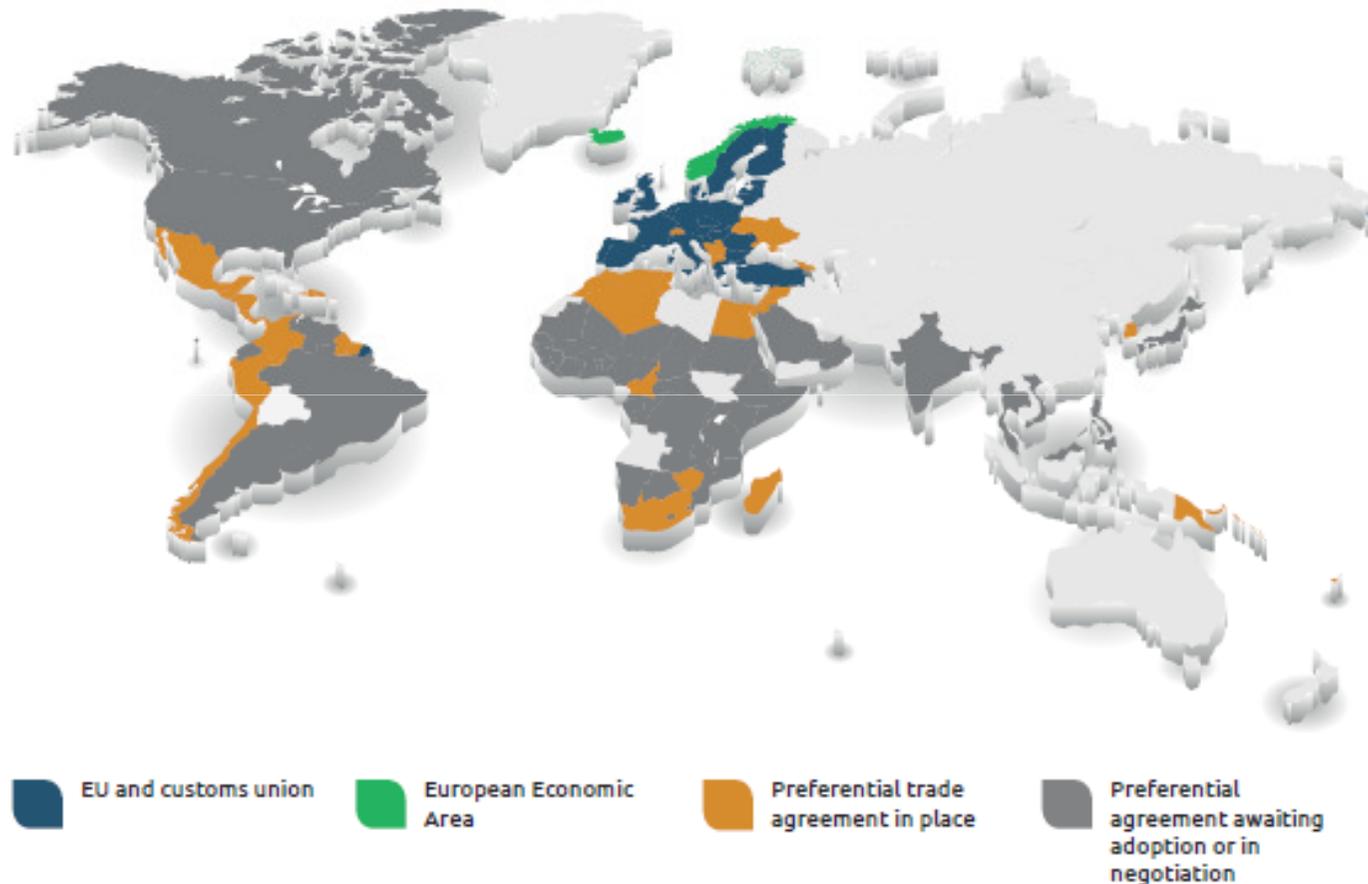
CAGR 2015-20

Source: IGC Research, growth calculated at nominal rates

GROWTH IN GLOBAL MIDDLE CLASSES	2009 No of people (m)	2009 Global Share (%)	2030 No of people (m)	2030 Global share (%)	Middle class growth trend
North America	338	18%	322	7%	Red
Europe	664	36%	680	14%	Red
Central and South America	181	10%	313	6%	Red
Asia-Pacific	525	28%	3228	66%	Green
Sub-Saharan Africa	32	2%	107	2%	Yellow
Middle East and North Africa	105	6%	234	5%	Yellow
World	1845	100%	4884	100%	

Source: The World Bank, Kharas and Gertz, 2010

Current and future EU trade agreements



Trade agreements allow countries to trade on preferential terms.

Without a UK-EU agreement, standard WTO 'Most Favoured Nation' rules would apply, so UK exports would be subject to EU tariffs (and vice versa).

Source: European Commission

Can we harness trade opportunities?

FTA	Time taken to negotiate (not including time to ratification and full implementation)
CETA	7 years
Mexico	4 years
South Africa	4 years (now to be superceded by SADC)
Chile	6 years
South Korea	4 years
Mercosur	20 years + (ongoing)

...and resources

- EU has c.600 trade negotiators
- DBEIS recently advertised for 300 negotiators and trade specialists.
- CETA required a team of 300 negotiators in Canada

Conclusions

1. Future EU/ UK trading relationship is the key issue for agriculture
2. Brexit creates opportunities in policy & trade, but also risks – UK a major net food importer
3. UK agriculture heavily dependent on CAP for income – prepare for a reduction in direct support post-2020
4. Labour is critical esp for supply chain
5. Issues for ROI & N Ireland even more acute – likely to be major factor for negotiations