



# The Future of Farming

## UK agricultural policy after Brexit

A Policy Network Paper

Charlie Cadywould

January 2018

policy network paper



Policy Network  
Second floor  
11 Tufton Street  
London SW1P 3QB  
United Kingdom

t: +44 (0)20 7340 2200  
f: +44 (0)20 7340 2211  
e: [info@policy-network.net](mailto:info@policy-network.net)

[www.policynetwork.org](http://www.policynetwork.org)

## Contents

1.	<b>Executive summary</b>	<b>4</b>
2.	<b>Introduction</b>	<b>7</b>
3.	<b>Background: Agriculture in the UK</b>	<b>9</b>
4.	<b>The reform agenda</b>	<b>18</b>
5.	<b>Options for the future</b>	<b>22</b>
6.	<b>Conclusion</b>	<b>37</b>

### About the Author

**Charlie Cadywould** is a senior researcher at Policy Network, leading its progressive futures programme. He is the author of *Don't Forget the Middle* and *The Broad Church*, which examined the short and long-term challenges for the British centre left. Prior to joining, he was a researcher at Demos, authoring numerous publications in social and economic policy. He holds a BA in social and political sciences from the University of Cambridge and an MSc in public policy from University College London.

### Acknowledgements

I would like to thank Sophia Dietrich and Sam Sigere for their assistance with the research for this report, and Matthew Laza, Patrick Diamond and Barry Colfer for their helpful comments and feedback during the drafting stage. In addition, I would like to thank those farmers, trade experts and environmentalists who provided vital off-the-record thoughts and reactions to ideas, and helped to guide me through various aspects of the detail. Finally, thanks go to Josh Newlove and Alex Porter, who have guided the report through editing, production and dissemination. The conclusions of the report remain the sole responsibility of the author.

Cover photo credit:  
EddieCloud / Shutterstock.com

## About this report

This report sets out how competing visions of Brexit may impact the British agriculture sector in the coming years, and sets out a radical set of alternatives for future policy. It is aimed specifically at a progressive audience for whom farmers, and rural communities more generally, have not historically been considered natural allies or constituents.

The report does not wade into the technicalities of, for example, specific pesticide regulations or the criteria for receiving specific environmental incentives within the EU Common Agricultural Policy (though issues with certain existing incentives are well documented). It does not seek to explore every possible policy option, nor the important questions surrounding the devolution of agriculture policy. Instead, it explores visions of Brexit and policy alternatives in broad terms. The radical options for subsidy reform explored at the end of the report are aimed at sparking creative thinking in this area, rather than a comprehensive blueprint for action.

Chapter one of this paper focuses on the political opportunity for progressives, with the real possibility remaining of the Conservatives – who have traditionally dominated in rural areas – presiding over a ‘botched Brexit’ in which the UK falls off a ‘no deal’ cliff edge. Chapter two gives an overview of agriculture in the UK today, and the policies that impact the sector. Chapter three explains some of the motivations for changing the current system of subsidies, and offers criteria for reform. Chapter four sets out options for the future, including a series of ‘hybrid approaches’ that maintain strong export access to the single market alongside significant reform of farming subsidies.

## 1. Executive summary

For the best part of half a century, UK agricultural policy has been controlled primarily from Brussels. British governments have long expressed a desire to reform the system of farming subsidies that accounts for almost 40 per cent of the total EU budget but lacked the power to do so. Now, with Brexit looming, ministers and parliament must prepare once again to 'take back control' and be held accountable for an issue that has been largely absent from the domestic debate for so long.

The progress on Article 50 negotiations announced in December 2017 gave renewed hope that comprehensive agreements on both the withdrawal of the UK from the EU and the 'future relationship' can be reached. Though hailed as a 'breakthrough' in the pro-Brexit press the morning after, key issues are yet to be resolved, with apparent confusion in the cabinet over whether a crucial clause in the text – that the UK would maintain 'full alignment' with EU rules in the event that no other solution had been negotiated to deal with the Irish border issue – has legal force and would be carried through.<sup>1</sup>

Given these continued uncertainties, we still know little about the shape that Brexit will eventually take, and there remains a very real possibility that the Conservatives will preside over a 'botched Brexit' if these issues are not resolved. Significant political turmoil would ensue should the UK crash out of the EU without securing a meaningful deal and without replicating much of the EU's current spending in the UK.

At the start of 2018 the environment secretary Michael Gove set out his vision for the future of agriculture policy which includes a five-year transition away from the current EU subsidy regime, and revolves around the UK competing globally "at the top of the value chain not trying to win a race to the bottom."<sup>2</sup> Achieving this, however, will depend entirely on how Brexit is implemented. If the government shuns close economic ties with the EU in favour of international trade deals that allow food produced to lower standards to be imported to the UK, British farmers will either have to lower their standards too, or cede large sections of the domestic market to foreign imports. In short, British agriculture's future rests as much in the hands of Liam Fox as Michael Gove.

In the event of a 'botched Brexit' those in the agriculture sector – and rural communities more generally that overwhelmingly voted to leave the EU – would feel the pinch and the sense of disappointment more than most. In that scenario, progressives would face an immediate challenge to present a credible alternative plan for post-Brexit rural Britain, with new opportunities to win back trust in these traditionally Conservative-leaning constituencies.

While this report focuses on agricultural policy, it is recognised that farming is the distinctive, but not dominant, economic activity of rural areas, and that agricultural policy will have to be just one part of the future offer to rural communities. Alongside the ideas in this paper, progressives should begin thinking creatively about rural policy more generally, including ways to improve rural public transport and infrastructure, as well as easing the transition out of agriculture for those whose activity is no longer economically viable.

This paper sets out how competing visions of Brexit may impact the British agriculture sector in the coming years, explaining for a progressive audience the challenges and opportunities that will come about from the repatriation of agricultural policy levers. At the end, it offers a set of radical, progressive alternatives for future policy.

1. The Guardian: David Davis scrambles to salvage EU relations after 'damaging trust', 12 December 2017. <https://www.theguardian.com/politics/2017/dec/12/david-davis-has-damaged-trust-in-the-uk-for-brexit-talks-says-verhofstadt>

2. Gove, M. (2018). Farming for the Next Generation. Speech at the Oxford Farming Conference, 5 January 2018. <https://www.gov.uk/government/speeches/farming-for-the-next-generation>

## Key points:

- Despite at least a century of Conservative dominance and cultural disconnect with the Labour party, Brexit offers opportunities for progressives to win back trust in rural Britain
- Domestic farming provides significant benefits beyond its raw contribution to GDP. A significant contraction of the sector after Brexit would have knock-on effects for the environment, rural communities, and other parts of the economy
- To minimise the damage to the agriculture sector, Brexit must be implemented in a way that retains strong access to the single market. The simplest way of doing so would be to remain a member of the single market and the customs union. If not, at the very least strong access would require continuing to apply the same farming and food standards as the EU and the same rules for imports (e.g. continuing to prohibit chlorine-washed chicken)
  - This would require a closer continuing relationship with the EU even than the 'Norway option', which does not include membership of the customs union
- A no-deal, deregulatory, 'Global Britain' Brexit could be disastrous for the sector and cause a significant contraction in farming activity
- While a 'protectionist Brexit' could help to increase domestic demand for British produce, it would result in higher food prices, inefficiencies and poor value for public money
- Within the framework of a continued close trading relationship with the EU, there could be opportunities to reform the system of agricultural subsidies
  - While the subsidy regime has improved over time, it is seen by many as an inefficient, unfair use of resources that, combined with tax reliefs, artificially inflates land values and fails to protect the environment

The report sets out three 'hybrid approaches' that could retain strong access to the single market for British farmers and food exporters, while at the same time reforming subsidies. These are included not as complete solutions, but to stimulate a 'first principles' debate around the purpose of agricultural subsidies in the UK. Such reforms could be implemented alongside other measures to improve the productivity of the sector, such as funding for R&D and access to finance for capital investment.

## Hybrid approaches

- Supercharged environmentalism – routing all subsidies for farmers through incentives for responsible practices such as undertaking environmental measures (e.g. switching to organic farming), providing other public goods (e.g. managing areas of natural beauty), and responsible business practices (e.g. paying a living wage). Michael Gove has expressed support for a similar approach
- Sales-linked subsidies – providing subsidies to farmers based on revenues from agriculture, thus linking payments to the market and escaping the inefficiencies of area-based payments and 'coupled' subsidies linked to production
- The 'Apple' voucher – replacing all area-based payments to British farmers with a voucher for every household to buy British produce

As with all the options set out in the report, this last option carries various potential drawbacks, uncertainties (including its legality under the World Trade Organisation 'national treatment' principle), and practical difficulties to navigate. However, it also has a lot going for it, with the potential to meet the most desirable criteria for reform and to achieve various policy objectives.

Branded the 'Apple' after our healthy, affordable national fruit, it has a patriotic appeal without being a protectionist move. It would give certainty of demand for the sector as a whole, but would do so without shielding individual farmers from competition through guaranteed payments. It therefore guarantees the continuation of an important sector of the economy without compromising on productivity, market efficiency or value for public money, and without artificially inflating land values, or raising food prices.

It also represents a first step towards the progressive goal of ensuring that every family can afford basic necessities, without the efficiency losses of many other redistributive policies. If the voucher replaced current spending on direct payments (but the level of payments for environmental schemes and rural development was maintained), it would amount to roughly £200 per household, or just over 7 per cent of a typical family's annual shop. Depending on how such a voucher is designed, it would also have the potential to help deliver certain public health goals, such as by limiting the voucher to unprocessed fresh produce.

---

## 2. Introduction

No sector of the British economy faces more Brexit-related uncertainty than agriculture. As a highly regulated and subsidised industry, the fate of our farming – as well as the source, price and quality of the food we eat – has been significantly influenced by EU decision making for the last 45 years.

As March 2019 draws closer, Britain will have to find answers to key questions about its future: what kind of relationship should it have with the rest of the world, and how will its economy have to change in response? Will the UK end up replicating many features of EU membership through membership of the single market? Will it opt for liberalisation, deregulation and open borders to try to attract investment from the rest of the world? Or will it opt for a more economically nationalist and protectionist economic model?

**Given the crucial importance of regulatory convergence, seasonal migration, tariffs and subsidies to British agriculture, the shape and fate of the sector will to a large extent be determined by the flavour of Brexit the UK chooses to adopt.**

The Common Agricultural Policy (CAP) is one of the most controversial elements of the EU budget. Each country and vested interest has its own particular bugbear, but the debate has only occasionally been mainstream in the UK. This can to a large extent be put down to two factors, both of which could reverse with Brexit. First the UK the government has had only limited influence over policy set at the supranational level in those 45 years.

While a transitional deal could see Britain remain subject to CAP beyond 2019, it is likely that by the early 2020s, ministers and parliament will assume control over agricultural policy in the UK. For the first time in half a century, it will be part of the British debate, and domestic politicians will be held accountable for the impact of their decisions.

Second, while agricultural interests have been a powerful lobbying force at the EU level, neither farmers, agricultural workers, nor the rural communities that depend on the sector, have been a particular target for votes at UK general elections. In June 2017, the Conservatives won 83 per cent of the most rural seats in Britain, on average winning more than 50 per cent of the votes in those constituencies.<sup>3</sup> Just six of these constituencies changed hands at the last election, and only 14 have a majority of less than 10 per cent of the total vote.<sup>4</sup>

Of course, it is important not to equate the interests or political preferences of farmers and agricultural workers with those of rural Britain more generally, but with farming being an important presence in many of these communities, in many cases the fate of the wider community is tightly bound to that of farming. For social and cultural as well as economic reasons, the post-Brexit future of British agriculture will be a key issue for rural voters in the coming years. If, when the government ‘takes back control’ of agricultural policy, it does so in a way that visibly harms farmers, rural communities that overwhelmingly backed Brexit will feel betrayed.

### The political opportunity

With Labour failing to make significant inroads among rural voters in recent elections, the leadership commissioned an internal review into ‘Labour’s rural problem’. One passage of that report, conducted by then shadow environment Secretary Maria Eagle, is particularly damning:

3. Warren, I. (2016). 2017 general election: urban-rural differences. [http://election-data.co.uk/wp-content/uploads/2017/07/Rural\\_Urban\\_final.pdf](http://election-data.co.uk/wp-content/uploads/2017/07/Rural_Urban_final.pdf)

4. Policy Network analysis of results using RUC01 classifications

*“The perception problems are huge – not just rural voters’ perception of Labour, but more crucially Labour’s perception of rural voters. This problem goes from the top of the party to the bottom – for too many rurality is synonymous with Conservatism, and engaging with these communities is at best an afterthought, and at worst a complete waste of time.”<sup>5</sup>*

This cultural gap is not inevitable, nor must rural communities always vote Conservative. In the most extreme form of hard Brexit being advocated by some Tory ministers, Britain’s farmers could face a ‘triple whammy’ of 1) regulatory divergence with no deal on mutual recognition of food, crop and animal health standards, making the export of many agricultural exports to the EU (not least at the Irish border) near impossible; 2) the removal of many tariffs and tariff quotas that protect British produce from cheap imports, either through trade deals or a unilateral move; 3) the abolition of subsidies that give British farmers a guaranteed income stream. Such a scenario would at best lead to a highly tumultuous and challenging period for Britain’s farmers, and at worst a severe and sudden contraction of domestic agricultural output and employment.

While it is important not to equate farmers with rural communities – agriculture only makes up a small proportion of output in most rural areas – such a shock could impact rural communities more widely. Unless the Tories are careful, if they take rural voters for granted in the shaping of the Brexit deal, the increasingly volatile electoral behaviour exhibited at recent elections could extend into rural constituencies.

### Competing strands of progressive thought

Within progressive politics, the issue of protection for domestic farmers strikes at a key dividing line between two competing traditions within both Labour and the wider British left and centre. In the reformist, liberal tradition, with its roots in 19th century utilitarian philosophy, what matters is overall prosperity and a fair distribution of national income and wealth. If food can be made at a lower cost abroad (leading to cheaper food at home, including for poor city-dwellers), if agricultural inputs – including labour – can be used more productively elsewhere, and the distributional effect is progressive, it would be just to let the domestic agricultural sector die.

In the social democratic tradition, which values community, belonging and dignity in work, there is a value to avoiding whole geographic areas simply ceasing to exist as places of social interaction and economic activity. In this line of thinking, the rupture of the closure of the pits and much of Britain’s industrial heritage following Thatcher’s reforms cannot easily be justified by long-term economic growth or better aggregate living standards. Communities were destroyed, towns lost their purpose, livelihoods were lost, and skilled but immobile workers were consigned to the dole or shelf-stacking. Those places are now the core ‘left behind’ constituencies that decisively rejected the pleas of much of the political class in June 2016. For social democrats, the possibility of cheaper food thanks to low-cost imports – even for poor urban families – does not automatically justify the destruction of rural communities.

If progressives get this right, if they can set out a post-Brexit vision for Britain that protects the countryside and balances legitimate competing interests, they should be rewarded at the ballot box. With the Conservatives still leaning towards a hard Brexit that could spell disaster for British agriculture, Labour could put many of these rural seats in play for the first time in decades. Even if this proves a stretch too far, there are many marginal seats combining a predominantly Labour-voting town with rural areas outside it. Even a slight decline in the Conservatives’ rural vote could be enough to flip these key seats.

5. New Statesman: Exclusive: Jeremy Corbyn accused of ignoring leaked report on Labour’s ‘rural problem’, 06 August 2016. <https://www.newstatesman.com/politics/uk/2016/08/exclusive-jeremy-corbyn-accused-ignoring-leaked-report-labours-rural-problem>

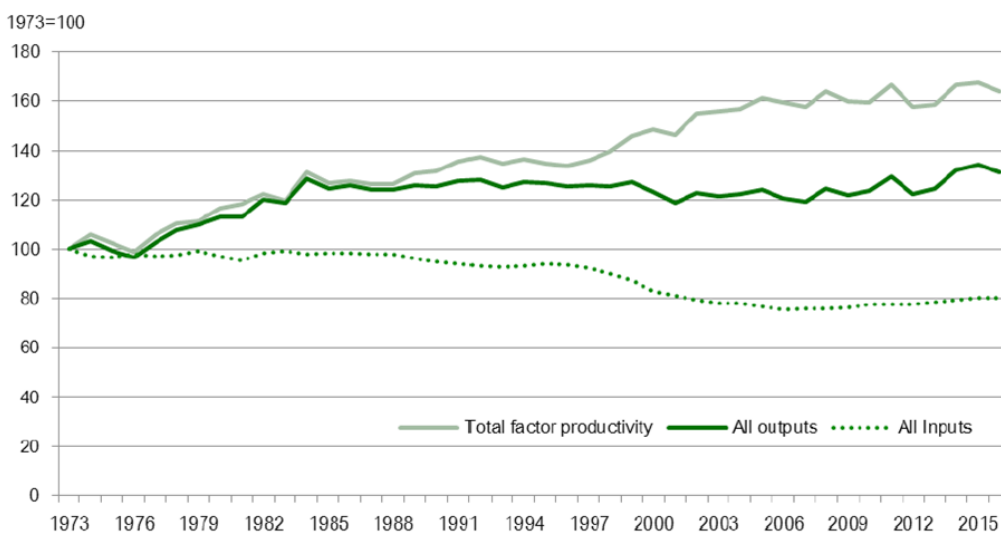


### 3. Background: Agriculture in the UK

#### Output

Farming is a relatively small part of the UK economy, making up just 0.7 per cent of GDP. Output in 2016 was valued at £23bn, with the top products including milk (14 per cent), cattle for meat (12 per cent), cereals (11 per cent) and poultry for meat (10 per cent). Once costs are taken into account, total income from farming was just £3.6bn.<sup>6</sup> Despite productivity gains for the sector since the 1970s thanks to declining inputs, it has flatlined in the last decade, with a 2.3 per cent fall between 2015 and 2016.

Figure 1: total factor productivity, UK agriculture industry<sup>7</sup>



Source: Agriculture in the UK, Defra, 2016.

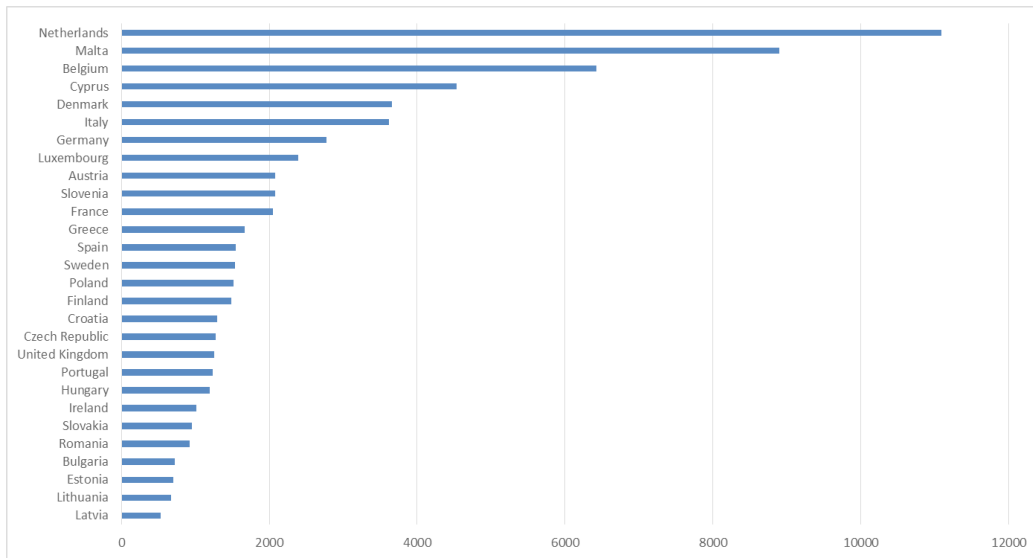
UK farming also lags behind other key countries in productivity terms. In terms of agriculture value added per worker, the UK ranked 20th in the world in 2015, but well behind the likes of France, New Zealand, the US, the Netherlands and the Scandinavian countries.<sup>8</sup> Measured in output per hectare, the UK ranks 19th in the EU-28, producing less than an eighth as much (in terms of value) as the Netherlands for every hectare of land used for agriculture.

6. Defra (2017). Agriculture in the UK 2016. <https://www.gov.uk/government/statistics/agriculture-in-the-united-kingdom-2016>

7. Defra (2017). Agriculture in the UK 2016. <https://www.gov.uk/government/statistics/agriculture-in-the-united-kingdom-2016>

8. World Bank Databank. Agriculture value added per worker, 2015 statistics. <https://data.worldbank.org/indicator/EA.PR.D.AGRI.KD>

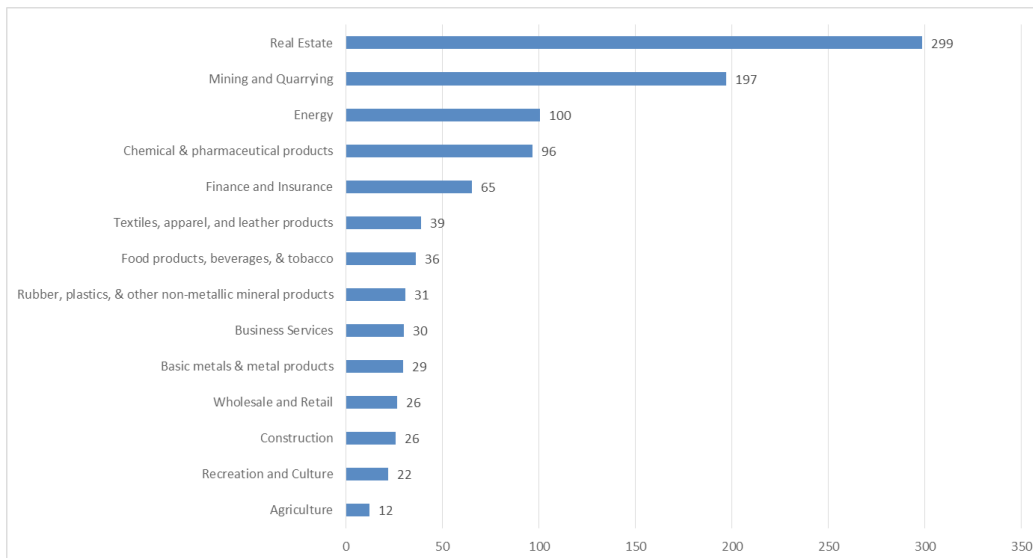
Figure 2: Output (in euros) per hectare of utilised agricultural area (2013)<sup>9</sup>



Source: Eurostat farm indicators (2016)

Agriculture is also the least productive sector of the UK economy, although it is a key input into the food and drink sector, which is slightly more productive than the UK economy as a whole.

Figure 3: Output per hour (£) Q2 2017, selected industries (UK, current prices, seasonally adjusted)<sup>10</sup>



Source: Labour productivity, ONS, 2017

Farming incomes have taken a hit over the last five years, with global food prices falling as supply has expanded faster than demand. While future shocks are not out of the question as a result of new trade restrictions or climate change, the OECD and FAO anticipate further price drops over the next decade.<sup>11</sup> While agriculture is a relatively small part of the UK economy, the food and drink industry it feeds into is much larger, making up 20 per cent of UK manufacturing.<sup>12,13</sup> The overall UK agri-food sector contributes around £109bn (6.6 per cent of national Gross Value Added) to the economy, and employs around 3.8 million people.<sup>14</sup>

9. Eurostat Farm Indicators (2013) (ef\_m\_farmleg). <http://ec.europa.eu/eurostat/web/agriculture/data>

10. ONS (2017). Labour productivity: April to June 2017. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/bulletins/labourproductivity/apriltojune2017>

11. Mitchell, I (2017). The implications of Brexit for UK, EU and global agricultural reform in the next decade. Chatham House. <https://www.chathamhouse.org/publication/implications-brexit-uk-eu-and-global-agricultural-reform-next-decade>

12. Bailey, A, Davidova, S & Hotopp, U (2017). Agriculture in the UK: NIESR general election 2017 – briefing no. 4. National Institute of Economic and Social Research, [https://www.niesr.ac.uk/sites/default/files/publications/NIESR per cent20GE per cent20Briefing per cent20Paper per cent20No. per cent204 per cent20- per cent20Agriculture per cent20in per cent20the per cent20UK\\_0. pdf](https://www.niesr.ac.uk/sites/default/files/publications/NIESR%20per%20GE%20per%20Briefing%20Paper%20No.%204%20per%20Agriculture%20in%20the%20UK_0.pdf)

13. Bailey, A, Davidova, S & Hotopp, U (2017). Agriculture in the UK: NIESR general election 2017 – briefing no. 4. National Institute of Economic and Social Research, [https://www.niesr.ac.uk/sites/default/files/publications/NIESR per cent20GE per cent20Briefing per cent20Paper per cent20No. per cent204 per cent20- per cent20Agriculture per cent20in per cent20the per cent20UK\\_0. pdf](https://www.niesr.ac.uk/sites/default/files/publications/NIESR%20per%20GE%20per%20Briefing%20Paper%20No.%204%20per%20Agriculture%20in%20the%20UK_0.pdf)

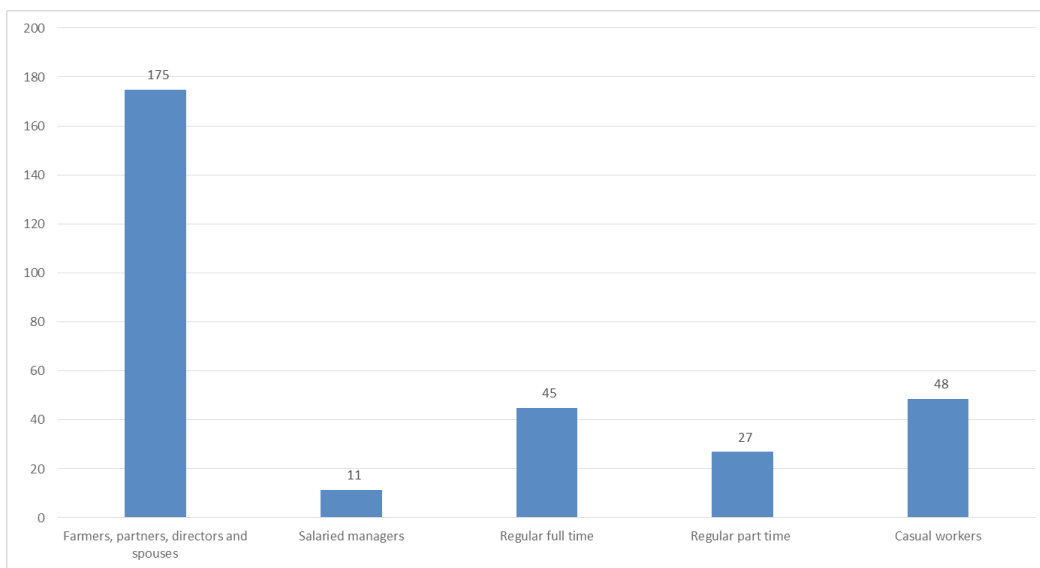
14. Defra (2017). Agriculture in the UK 2016. <https://www.gov.uk/government/statistics/agriculture-in-the-united-kingdom-2016>

## Agricultural labour

The agriculture sector employs just 1.2 per cent of the UK labour force.<sup>15</sup> Just under two thirds (64 per cent) of all agricultural land is farmed by the land owner, with 29 per cent farmed by tenant farmers and the rest under shared or other arrangements.<sup>16</sup>

While UK agriculture is heavily dependent on seasonal labour, much of which is made up of EU migrants, the majority (62 per cent) of the agricultural labour force is management (farmers, business partners, directors and spouses). Of the remainder, 63 per cent are regular employees, with 37 per cent seasonal or casual labour.

Figure 4: Agriculture labour force, June 2017<sup>17</sup>



Source: June survey of agriculture, Defra, 2017

The government estimates that on average across 2016, around eight per cent of the agricultural workforce was made up of EU nationals. However, this is likely to have been considerably higher at certain peak times of year, and the survey used does not cover people living in communal establishments (such as hostels) and is unlikely to cover those in the UK for very short periods of time.<sup>18</sup> Some sub-sectors are particularly reliant on EU migrant labour (40 per cent of staff on egg farms), as is the food manufacturing sector, which employs 116,000 EU nationals (33 per cent of all those employed in the sector).<sup>19</sup>

The 2013 EU Farm Structure Survey also revealed that domestic agriculture is predominantly old and male. In England, 84 per cent of those with agricultural holdings (including tenant farmers) are male, and around a third are over the age of 65. The overwhelming majority of those with agricultural holdings are also the manager (85 per cent).<sup>20</sup>

Agricultural labour is also largely a family affair: 57 per cent of the workforce is a family member of the manager. That many farms are passed down generations of the same family also helps to explain why just 32 per cent of farm managers have any sort of formal agricultural training, with the remainder relying on practical experience only.<sup>21</sup>

15. Bailey, A, Davidova, S & Hotopp, U (2017). Agriculture in the UK: NIESR general election 2017 – briefing no. 4. National Institute of Economic and Social Research, [https://www.niesr.ac.uk/sites/default/files/publications/NIESR per cent20GE per cent20Briefing per cent20Paper per cent20No. per cent204 per cent20-% per cent20Agriculture per cent20in per cent20the per cent20UK\\_0.pdf](https://www.niesr.ac.uk/sites/default/files/publications/NIESR%20GE%20Briefing%20Paper%20No.%204%20-%20Agriculture%20in%20the%20UK_0.pdf)

16. Eurostat Farm Indicators (2013). Type of tenure number of farms and areas by agricultural size of farm (ef\_mptenure). <http://ec.europa.eu/eurostat/web/agriculture/data>

17. Defra (2017). June survey of agriculture. <https://www.gov.uk/government/statistical-data-sets/structure-of-the-agricultural-industry-in-england-and-the-uk-at-june>

18. House of Commons Library (2017). Migrant workers in agriculture. <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7987>

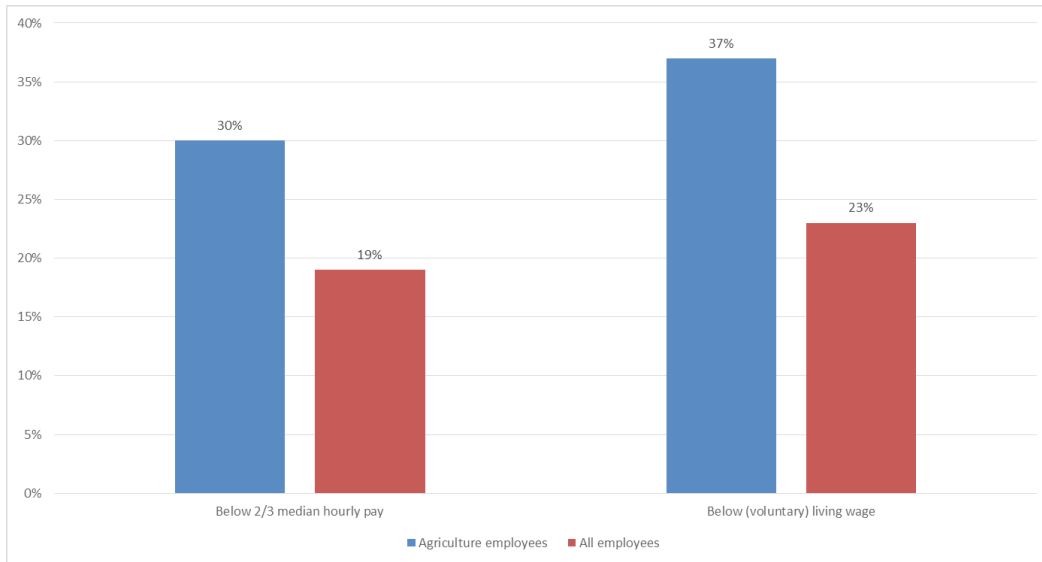
19. House of Commons Library (2017). Migrant workers in agriculture. <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7987>

20. Defra (2013). Farm structure survey 2013: focus on agricultural labour in England and the United Kingdom. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/456532/FSS2013-labour-statsnotice-27aug15.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/456532/FSS2013-labour-statsnotice-27aug15.pdf)

21. Defra (2013). Farm structure survey 2013: focus on agricultural labour in England and the United Kingdom. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/456532/FSS2013-labour-statsnotice-27aug15.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/456532/FSS2013-labour-statsnotice-27aug15.pdf)

Agriculture is a relatively low paid sector for employees. Almost a third (30 per cent) of agricultural workers currently earn less than two thirds of the median hourly wage, compared to 19 per cent of all employees. 37 per cent of agricultural workers earn less than the (voluntary) living wage, compared to 23 per cent for all employees. The proportion expected to be earning near statutory minimum (national minimum wage or national living wage) is expected almost to double between 2016 and 2020 to 21 per cent (compared to a cross-sector average of 14 per cent).<sup>22</sup>

Figure 5: Low pay in agriculture (employees only), 2016



Source: June survey of agriculture, Defra, 2017

## Environment

Despite being a relatively densely populated country, over 70 per cent of the UK is still considered to be used for agriculture. Farmers therefore play an important role in the management of land, and aside from their role in food production, the types, intensity and standards of farming conducted in the UK have an impact on everything from air and water quality, resilience to flooding, the carbon footprint, biodiversity, the aesthetics of the landscape and income from rural tourism.

Overall, agriculture has both positive and negative impacts on the environment. Soil stores carbon, and improved practices such as switching to organic production, can increase the level of carbon stored.<sup>23</sup> Responsible agriculture and land management can promote biodiversity and help to maintain attractive landscapes. On the other hand, agricultural activity currently accounts for around 10 per cent of greenhouse gas emissions in the UK, mainly nitrous oxide (from soil and fertiliser) and methane (from animals and manure). Emissions from each have fallen roughly 15 per cent compared to 1990, compared to a 38 per cent fall in greenhouse gas emissions across the UK as a whole since 1990.<sup>24</sup>

Overall, given the scale of greenhouse gas emissions, the environmental impact of agricultural activity is probably a net negative compared to no activity (though it would of course depend on what else the land was used for). However, it may also be the case that declining agricultural activity would increase the environmental impact of our weekly food shop, both in terms of the environmental impact of transporting produce (though food miles alone are a poor indicator of the environmental footprint of what we eat), and the prospect of lower standards (and therefore

22. D'Arcy, C (2017). Low Pay Britain 2017. Resolution Foundation, <http://www.resolutionfoundation.org/app/uploads/2017/10/Low-Pay-Britain-2017.pdf>

23. Mueller-Linenlauf, M (2009). Organic agriculture and carbon sequestration. Food and Agricultural Organization of the United Nations, [http://www.fao.org/fileadmin/user\\_upload/rome2007/docs/Organic\\_Agriculture\\_and\\_Carbon\\_Sequestration.pdf](http://www.fao.org/fileadmin/user_upload/rome2007/docs/Organic_Agriculture_and_Carbon_Sequestration.pdf)

24. BIS (2015). 2015 UK greenhouse gas emissions. Department for Business, Energy & Industrial Strategy, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/589602/2015\\_Final\\_Emissions\\_Statistics\\_one\\_page\\_summary.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589602/2015_Final_Emissions_Statistics_one_page_summary.pdf)

more negative impact) in other parts of the world. The UK cannot simply export the environmental challenges that agricultural production raises.

### EU subsidies

The CAP is the single biggest expense in the EU budget, accounting for 38 per cent of all spending. Over time, the EU has moved away from ‘coupled’ subsidies, which are designed to incentivise production by linking the amount of subsidy to the amount produced, ultimately leading to the ‘wine lakes’ and ‘butter mountains’ of the 1980s. Almost three quarters of the CAP budget is now spent on area-based ‘direct payments’ for farmers. These are based on the amount of land defined as for agricultural use, rather than linked to production. This means that the more land someone owns or controls, as long as it is kept in accordance with certain basic conditions, the more subsidy they receive, with a third of the money available now subject to more stringent ‘greening’ requirements.<sup>25</sup> There is no requirement to farm in any common-sense understanding of the term. **British farmers received approximately £3bn in direct payments in 2016,**<sup>26</sup> although the UK is a significant net contributor to the programme as a whole.

Earnings growth in the agriculture sector has been particularly strong in recent months while other sectors have seen falls,<sup>27</sup> in large part due to the lower value of the pound meaning the UK’s entitlements (set in euros) are worth more than they were previously. On average, direct payments are worth 25 per cent more in 2017 compared to 2015.<sup>28</sup>

The calculation of net contributions is complicated, in large part due to dramatic shifts in the exchange rate, and the rates, categorisations and account and payment periods used in various EU and UK government documents. Here, the UK’s EU budget contribution (using EU figures) is calculated as a proportion of the total revenue as planned in the 2016 budget, and then this proportion is applied to actual CAP payments.

Figure 6: UK’s EU budget contribution (using EU figures)

	Calculation	2016
Total CAP payments distributed (1) <sup>29</sup>		€57,029m
Total Pillar One payments distributed (2) <sup>30</sup>		€44,084m
Total EU budgeted revenue (3) <sup>31</sup>		€143,885m
Total UK budgeted contribution (4) <sup>32</sup>		€19,803m
UK contribution as a per cent of EU revenue (5)	(5) = (4) / (3)	13.76 per cent
UK implied contribution to CAP (6)	(6) = (5) x (1)	€7,847m
UK CAP receipts (7) <sup>33</sup>		€3,973m
UK net contribution to CAP (8)	(8) = (6) – (7)	€3,874m
UK implied contribution to Pillar One (9)	(9) = (5) x (2)	€6,066m
UK Pillar One receipts (10) <sup>34</sup>		€3,123m
UK net contribution to Pillar One (11)	(11) = (9) – (10)	€2,943m

Source: See references

Other elements of the CAP budget as applied to the UK include the rural development programme (co-financed between the EU and member states) which provides additional incentives for land

25. European Commission (2017). CAP explained: direct payments for farmers 2015-2020. [https://ec.europa.eu/agriculture/sites/agriculture/files/direct-support/direct-payments/docs/direct-payments-schemes\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/direct-support/direct-payments/docs/direct-payments-schemes_en.pdf)

26. The EC, HMT and DEFRA report slightly varying figures

27. Resolution Foundation graph, in The Guardian: UK households ‘at breaking point’ as real wages continue to fall – as it happened. 13 September 2017 (post at 11:31) <https://www.theguardian.com/business/live/2017/sep/13/pound-one-year-high-uk-jobs-report-pay-squeeze-business-live>

28. Defra (2017). Farmers set for increased payments as the Rural Payments Agency confirms BPS 2017 entitlement and greening rates. <https://www.gov.uk/government/news/farmers-set-for-increased-payments-as-the-rural-payments-agency-confirms-bps-2017-entitlement-and-greening-rates>

29. European Commission (2017). Consolidated annual accounts of the European Union and financial statement discussion and analysis. [http://ec.europa.eu/budget/library/biblio/publications/2017/EU\\_Annual\\_Accounts\\_2016\\_en.pdf](http://ec.europa.eu/budget/library/biblio/publications/2017/EU_Annual_Accounts_2016_en.pdf)

30. European Commission (2017). Consolidated annual accounts of the European Union and financial statement discussion and analysis. [http://ec.europa.eu/budget/library/biblio/publications/2017/EU\\_Annual\\_Accounts\\_2016\\_en.pdf](http://ec.europa.eu/budget/library/biblio/publications/2017/EU_Annual_Accounts_2016_en.pdf)

31. European Union (2016). Definitive adoption (EU,Euratom) 2016/150 of the European Union’s general budget for the financial year 2016. Official Journal of the European Union, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ.L:2016:048:FULL&from=EN>

32. European Union (2016). Definitive adoption (EU,Euratom) 2016/150 of the European Union’s general budget for the financial year 2016. Official Journal of the European Union, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ.L:2016:048:FULL&from=EN>

33. European Commission (2017). Statistical factsheet: United Kingdom. [https://ec.europa.eu/agriculture/sites/agriculture/files/statistics/factsheets/pdf/uk\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/statistics/factsheets/pdf/uk_en.pdf)

34. European Commission (2017). Statistical factsheet: United Kingdom. [https://ec.europa.eu/agriculture/sites/agriculture/files/statistics/factsheets/pdf/uk\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/statistics/factsheets/pdf/uk_en.pdf)

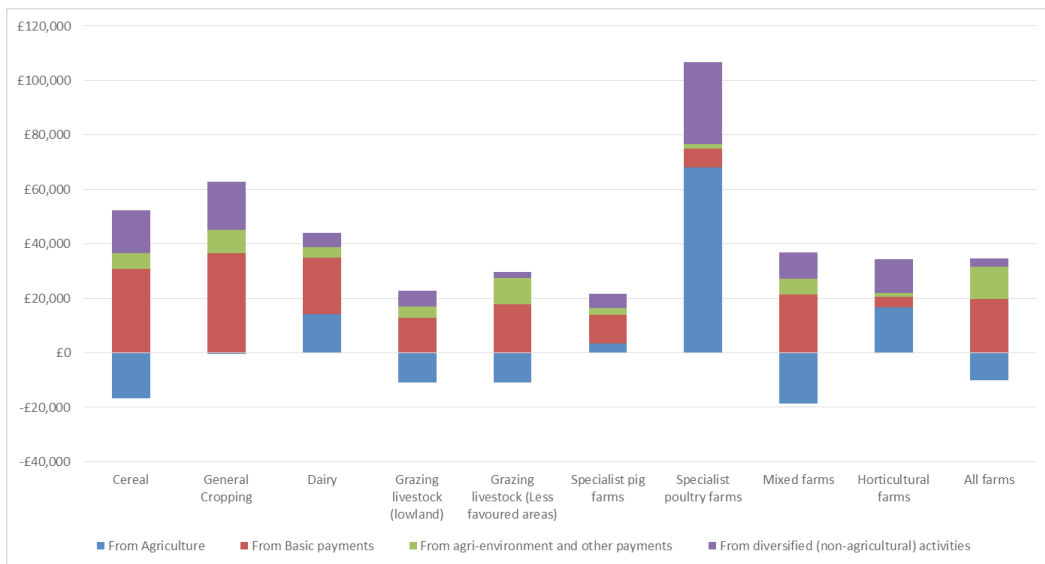
managers to protect the environment amounting to £640m in 2016, and a number of smaller schemes including an additional payment to young farmers, a redistributive payment to help small farmers (applied in Wales only), and small amounts of targeted support for production in sectors experiencing difficulties.<sup>35</sup>

**Why subsidies matter**

For many farms, these subsidies make up a huge proportion of income, and are the difference between making an annual loss and an annual profit. In England, for example, in 2015/16 the average farm made around £31,600 in profit. However, when this is broken down, we can see that from agricultural activity alone, on average farms made a loss of £5,300. This is only reversed when subsidies (£21,100 in direct payments and £5,500 in other payments) are taken into account, along with revenue from non-agricultural sources (£10,200 – e.g. from tourism or energy generation).<sup>36</sup>

Among cereal farms, the imbalance is particularly severe, with losses from agricultural activity amounting to £16,800. Farms were only returned to profit through an average of £36,700 in subsidies.<sup>37</sup>

Figure 7: Farm business income breakdown, 2015/16<sup>38</sup>



Source: Farm accounts in England 2015/16, Defra, 2017

**Tax reliefs**

In addition to EU subsidies, the UK agriculture sector is also subsidised through tax reliefs. Farm land qualifies for up to 100 per cent relief on inheritance tax, while machinery and other property qualifies for business property relief, which can also be up to 100 per cent. In 2014, the treasury estimated annual costs of £370m and £385m for these schemes respectively.<sup>39</sup> Others have pointed to the use of red diesel in agricultural vehicles (regular diesel with red dye added to mark it out for non-road use) which is taxed at less than a fifth of the normal rate, as another form of subsidy for the sector.<sup>40</sup>

In short, the UK agriculture sector is extremely reliant on taxpayer subsidies in various forms. With the government having to make hard, often controversial choices to reduce the deficit, it is likely that

35. Defra (2017). Agriculture in the UK 2016. <https://www.gov.uk/government/statistics/agriculture-in-the-united-kingdom-2016>

36. Defra (2017). Farm Accounts in England 2015/16 – dataset. table 5.23, <https://www.gov.uk/government/statistics/farm-accounts-in-england>

37. Defra (2017). Farm Accounts in England 2015/16 – dataset. table 5.1, <https://www.gov.uk/government/statistics/farm-accounts-in-england>

38. Defra (2017). Farm Accounts in England 2015/16 – dataset. <https://www.gov.uk/government/statistics/farm-accounts-in-england>

39. House of Commons Library (2016). Tenant farming. <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CDP-2016-0106>

40. BBC News: Government adviser urges review of farmers' tax-breaks. 29 July 2017, <http://www.bbc.co.uk/news/uk-politics-40760114>

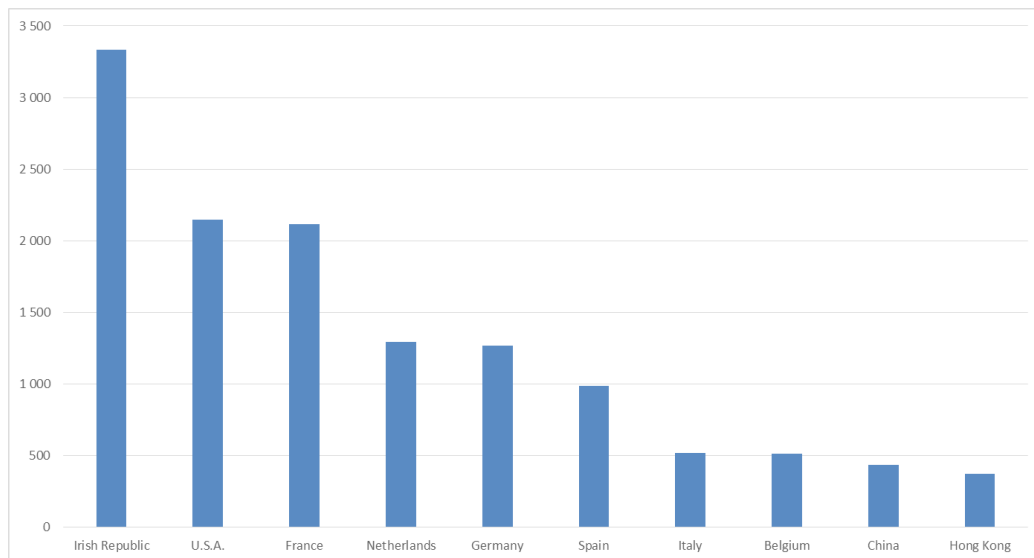
this significant annual bill will be subject to greater scrutiny once under the control of parliament and the UK government.

**Trade and tariffs**

Around 40 per cent of everything we eat and drink in the UK is imported from outside the country which is a significant contributor to the UK’s trade deficit: in 2015, the last full year before the referendum and subsequent fall in the value of sterling, the trade deficit in food (£20.4bn) was more than half the size of the total current account deficit (£38.6bn).<sup>41, 42</sup>

While still a member state of the EU, UK exporters have tariff-access to EU markets in agriculture, food and drink, as with other goods. Similarly, EU exporters have tariff-free access to UK markets. In total, 60 per cent of UK food, feed and drink exports went to other EU countries in 2016, while 70 per cent of respective imports came from EU countries. The UK’s biggest single export market for agricultural products is Ireland, followed by the US and France (see figure 8), while the largest proportion of imports are from the Netherlands, followed by Ireland and France (see figure 9).

Figure 8: Exports of food, feed and drink by country of destination, 2016 (£ million)<sup>43</sup>



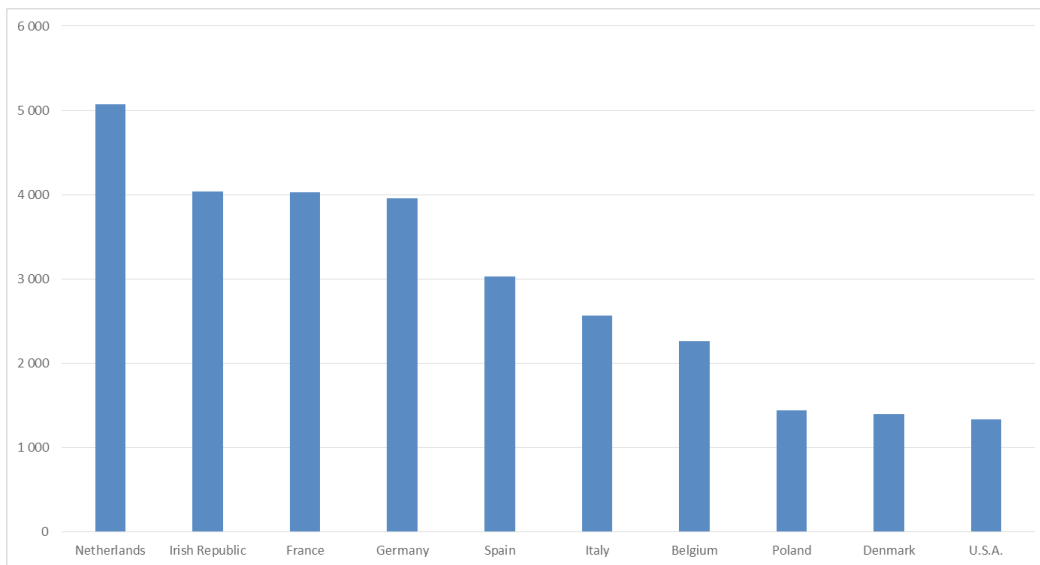
Source: Agriculture in the UK 2017 , Defra, 2017

41. In calorie terms – based on the farm-gate value of raw food, more than half of everything consumed in the UK is imported. Taken from: Bailey et al (2017) Agriculture in the UK; Defra (2017) Agriculture in the UK 2016

42. ONS (2017). 01 Summary of balance of payments, the pink book. <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/1summaryofbalanceofpayments> thepinkbook2016; ONS (2017). 02 Trade in goods, the pink book. <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/2tradeingoodsthepinkbook2016>

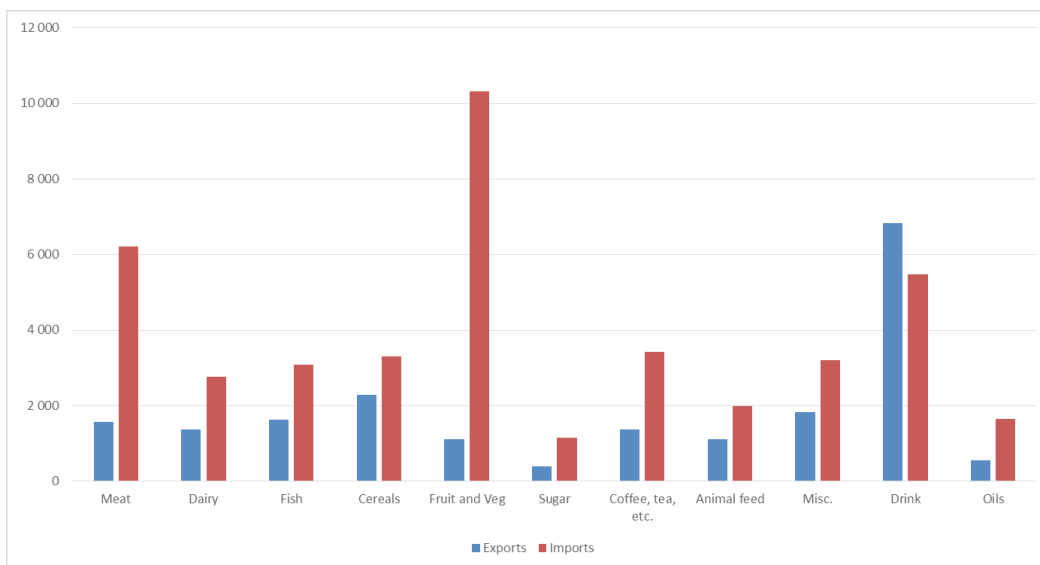
43. Defra (2017). Agriculture in the UK 2016. <https://www.gov.uk/government/statistics/agriculture-in-the-united-kingdom-2016>

Figure 9: Imports of food, feed and drink by country of despatch, 2016 (£ million)<sup>44</sup>



Source: Agriculture in the UK 2016, Defra, 2017

Figure 10: UK trade in food, drink and animal feed, 2016 (£ million)



Source: Agriculture in the UK 2016, Defra, 2017

The UK's most important food and drink export by far is whisky, of which exports are worth more (£4.1bn) than all cereals (£2.3bn) and meat (£1.6bn) put together.<sup>45</sup> Unlike the UK's other major 'agri-food' exports, the majority of whisky exports go to countries outside the EU. While whisky producers are likely to be fairly resilient to any adverse changes in the UK's trading relationship with the EU, other major exporters could suffer significant disruption. **For example 82 per cent of all meat exports are to the EU, as are 74 per cent of cereal exports.**<sup>46</sup>

In addition to tariff-free access to the EU, exporters enjoy preferential treatment in over 50 'third countries' (that is, non-EU countries) as a result of EU trade deals. Some, but not all, cover agriculture, food and drink. Whether the UK will be able to replicate these deals to be in force immediately after it leaves the EU is a subject of debate.

44. Defra (2017). Agriculture in the UK 2016. <https://www.gov.uk/government/statistics/agriculture-in-the-united-kingdom-2016>

45. Defra (2017). Agriculture in the UK 2016. <https://www.gov.uk/government/statistics/agriculture-in-the-united-kingdom-2016>

46. Van Berkum et al. (2016). Implications of a UK exit from the EU for British Agriculture. National Farmers' Union, <https://www.nfuonline.com/assets/61142>



For those countries which do not have a trade deal with the EU, the World Trade Organisation's (WTO) 'most favoured nation' principle applies. This means that whatever tariff or other terms of trade a country (or bloc) applies to a product, it must apply to all other WTO members equally. If a country reduces tariffs for one country, it must apply the new tariff for everyone. The EU's common external tariffs protect EU farmers, but also keep food prices higher than they would be with global free trade.

In the event of a 'no-deal' Brexit, the EU would have to apply its common external tariffs to the UK, while the UK would have to set the same level of tariffs to the EU as it did to the rest of the world. The EU's average tariff for agricultural products was 10.7 per cent in 2015 (compared to 4.2 per cent for non-agricultural products). Tariffs are as high as 33.5 per cent for dairy products and 15 per cent for animal products.<sup>47</sup>

Last year, the National Farmers' Union commissioned a study examining the implications of Brexit for the sector. The report includes estimates of the impacts of various post-Brexit scenarios, with varying trading terms and subsidies.<sup>48</sup> In a scenario where the UK defaulted to WTO terms, the study found that prices would increase significantly (around 7-10 per cent), and that while domestic production would also increase, it would do so less than proportionally to the price rises, because agricultural supply is typically inelastic to price changes. It showed that the vast majority of farms would lose money if Brexit were to be combined with a reduction in direct payments. However, it estimated that, on average, most farms would gain slightly if the level of direct payment subsidies were maintained and the UK reverted to either a Free Trade Agreement (FTA) or WTO terms as the cost of food imports would rise.

In a scenario where Britain unilaterally lowered its tariffs (as described in the 'Global Britain' Brexit below), the vast majority of farmers would lose out even if direct payments were retained. The authors estimate that if the UK were to lower its border tariffs by 50 per cent, the price of beef would fall by 18 per cent, sheep meat by 19 per cent, sugar by 17 per cent and poultry by 15 per cent.<sup>49</sup> This would be good news for consumers, but disastrous for British farmers.

Figure 10: NFU estimated price falls for agricultural products in the event of a 50 per cent border tariff reduction (euros per tonne)<sup>50</sup>

	Soft wheat	Barley	Rapeseeds	Sugar	Beef	Pork	Poultry	Sheep meat	Milk	Butter	Cheese	SMP	WMP
EU price	188	172	367	512	3,749	1,668	1,972	5,070	347	3,611	3,662	2,871	3,292
World price	184	162	357	344	2,223	1,226	1,496	3,172	292 a)	2,923	3,334	3,067	3,186
Difference between EU and World price	4	10	10	168	1526	442	476	1,898	55	688	328	-196	106
Half of the EU-World price difference	2	5	5	84	763	221	238	949	27	344	164	-98	53
Half the price difference as % of EU price	1	3	1	17	18	11	15	19	7	9	4	0	2

a) World market price = New Zealand Fonterra price reported at [www.milkprices.nl](http://www.milkprices.nl); no tariff changes for eggs assumed.

47. UNCTAD (2016). World tariff profiles 2016. United Nations Conference on Trade and Development, [http://unctad.org/en/PublicationsLibrary/wto2016\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wto2016_en.pdf)

48. Van Berkum et al. (2016). Implications of a UK exit from the EU for British Agriculture. National Farmers' Union, <https://www.nfuonline.com/assets/61142>

49. Van Berkum et al. (2016). Implications of a UK exit from the EU for British Agriculture. National Farmers' Union, <https://www.nfuonline.com/assets/61142>

50. Van Berkum et al. (2016). Implications of a UK exit from the EU for British Agriculture. National Farmers' Union, <https://www.nfuonline.com/assets/61142>

Source: Implications of a UK exit from the EU for British Agriculture. National Farmers' Union, 2016

## 4. The reform agenda

### Why reform subsidies?

CAP subsidies receive criticism from across the political spectrum. From the free-market right there is an ideological scepticism of state subsidies, which are seen as an inefficient use of resources and as shielding recipients from competition and the drive to improve productivity. There is a belief that, following the New Zealand model (discussed below) of liberalisation, UK farmers would innovate and improve their practices. Sam Bowman of the Adam Smith Institute, for example, has called for the end of all Pillar One (area-based) direct payments with a ten-year transition period, and a carrot and stick approach to address environmental impacts.<sup>51</sup>

While EU subsidies cannot be the cause of the low and stagnating productivity of British agriculture relative to the rest of Europe, new opportunities to adapt its subsidy regime as Britain leaves the EU, alongside other measures, could help the sector to reform itself and improve productivity. While light on detail at this stage, the government's 2017 industrial strategy white paper promises to "put the UK at the forefront of the global move to high-efficiency agriculture", and of "advanced sustainable agriculture". Here, and elsewhere, the government has stated that it intends to ramp up incentives for investment in sustainable agriculture practices through reform of the subsidy regime. Beyond subsidies, the government has also highlighted agriculture as one of six target sectors for a new government Office for Artificial Intelligence.<sup>53</sup>

There are also calls to end the system of area-based direct payments from the left. This is because in many cases these subsidies go to some of Britain's richest people and largest landowners. Many recipients are not 'farmers' in any sense but the legal definition required to be eligible for subsidy. Analysis by Greenpeace showed that 16 of the largest 100 payments in 2015 went to organisations owned or run by people featured in the Sunday Times Rich List, including billionaires like Sir James Dyson and the Duke of Westminster, as well as wealthy foreigners such as Prince Khalid Abdullah of Saudi Arabia.<sup>54</sup> If the aim of direct payments is to help poor farmers struggling to break even and survive, they are an extremely inefficient way of achieving this. The smallest farms – those with less than 5 hectares of land – receive no payments at all. In the UK, only the Welsh government has implemented the redistributive scheme available to member states, which provides a booster payment for the first hectares of eligible land.<sup>55</sup>

In addition, these payments seem particularly unfair in the context of agriculture being a low paid, low security employment sector. A system whereby rich, aristocratic landowners receive taxpayer subsidies, while those working the land struggle to get by, is hard for those of a social democratic persuasion to swallow.

Others criticise agricultural subsidies for artificially raising land prices, which in turn presents a barrier to entry for new farmers, and could inflate rents for tenant farmers. On the other hand, by artificially inflating the value of land for agriculture, direct payments may help to prevent land for agricultural use being bought up for development. Whether this is a good or a bad thing depends on political priorities, such as building homes versus maintaining green space and domestic food production. Ideally agricultural policy, and any subsidy regime within it, would retain incentives to keep agricultural land for agriculture where it serves a purpose, without creating an artificial block on development where it is needed.

In practice, the combination of subsidies, both in the form of payments and tax relief, with a rigid planning system, has in some cases created strange market incentives with adverse consequences.

51. Bowman, S (2017). What should we do after the Common Agricultural Policy? Adam Smith Institute, <https://www.adamsmith.org/blog/what-should-we-do-after-the-common-agricultural-policy>

52. HM Government (2017). Industrial Strategy: building a Britain fit for the future. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/662508/industrial-strategy-white-paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/662508/industrial-strategy-white-paper.pdf)

53. NFU (2017). Government's industrial strategy recognises importance of UK food production. <https://www.nfuonline.com/news/latest-news/governments-industrial-strategy-recognises-importance-of-uk-food-production/>

54. Greenpeace (2016). Common Agricultural Policy: Rich List receive millions in EU subsidies. <http://energydesk.greenpeace.org/2016/09/29/common-agricultural-policy-millions-eu-subsidies-go-richest-landowners/>

55. European Commission (2017). CAP explained: direct payments for farmers 2015-2020. [https://ec.europa.eu/agriculture/sites/agriculture/files/direct-support/direct-payments/docs/direct-payments-schemes\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/direct-support/direct-payments/docs/direct-payments-schemes_en.pdf)

The value of agricultural land can soar if it gains planning permission to develop, which leads to high levels of land trading, with non-developers speculating rather than building, buying up land, gaining planning permission to raise the value but not building in order to continue to receive subsidies and shield their money from inheritance tax.<sup>56</sup>

Environmental interests have also been sharply critical of CAP, arguing that the ‘greening’ requirements on farmers to receive full direct payments have been too easy to fulfil. Renaud Thillaye argues that “the options available to member states have led a vast number of farmers to implement measures with low returns on biodiversity”, while the Institute for European Environment Policy argues that “farmers who are not exempt from greening will be able to meet the requirements with very few changes in established management.”<sup>57</sup>

In addition, the environmental journalist George Monbiot has consistently blamed CAP subsidies for increasing the risk of flooding in the south of England. For example, Monbiot argues that the planting of trees which help to drain fields of water has been discouraged by CAP payments which dictated that land had to be free from ‘unwanted vegetation’.<sup>58</sup> These claims are disputed by the European Commission, however, and indeed in the UK subsidy rules, trees on agricultural land do count towards eligibility for area-based subsidies (though woodland does not).<sup>59, 60</sup>

### Why retain a strong agricultural sector?

As discussed in more detail below, some of the options for reform would likely result in a significant contraction of the UK agriculture sector. For some, this might not be such a bad thing: agricultural activity has significant environmental impacts, and takes up a lot of physical space that could be used for other things. If the benefit is cheaper food (from foreign imports), cheaper land (due to falling demand from the removal of land-based subsidies), a cleaner environment and a more efficient allocation of economic resources, why not go down that route?

First, to reduce agricultural activity for the environmental benefits would be to simply export the problem. The damage inflicted in Britain would fall, but the impact of UK consumption would not improve. Arguably, it would worsen as the UK has higher environmental standards than many other countries, and the transportation of agricultural products also carries a negative environmental impact (more imported produce means more long distances covered). Yes, some environmental impacts are local, so in a zero-sum game it might be in Britain’s narrow self-interest to export them, but others, such as climate change resulting from greenhouse gas emissions, are global.

The same applies for animal welfare concerns. Reducing the domestic supply of meat won’t impact demand, and if a reduction in domestic production were caused by cheaper imports, the fall in prices could well increase demand for meat, much of which could come from places with lower animal welfare standards. With British animal welfare standards higher than much of the rest of the world, retaining domestic supply is probably better from an animal welfare point of view, even if the ultimate goal for those concerned with animal welfare (and indeed the environment) is a reduction in demand for animal products.

Second, farmers currently manage around 70 per cent of UK land. Some of this is iconic landscape that many people would feel there is a value to retaining in itself. This land also provides an economic benefit through non-agricultural activities such as tourism. Some would like to see much of this agricultural land rewilded,<sup>61</sup> but this may be unrealistic when there is money to be made from human activity, including development for housing or other infrastructure.

Farmers currently bear much of the cost of keeping the British landscape green. While it may not be precisely in the state that we would otherwise choose depending on our personal preferences,

56. Hetherington, P (2015). Britain’s farmland has become a tax haven. Who dares reform it? The Guardian, <https://www.theguardian.com/society/2015/sep/02/britain-farmland-tax-haven-reform>

57. Thillaye, R (2016). Can the EU spend more green? Policy Network, <http://policynetwork.org/publication/can-the-eu-spend-more-green/>

58. Monbiot, G. (2014). Drowning in money: the untold story of the crazy public spending that makes flooding inevitable. The Guardian, <https://www.theguardian.com/commentisfree/2014/jan/13/flooding-public-spending-britain-europe-policies-homes>

59. European Commission blogs (2016). Suggesting that the EU is to blame for floods is completely without foundation. <https://blogs.ec.europa.eu/ECintheUK/suggesting-that-the-eu-is-to-blame-for-floods-is-completely-without-foundation/>

60. Rural Payments Agency (2017). Basic payment scheme: rules for 2017. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/645304/BPS\\_2017\\_scheme\\_rules.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/645304/BPS_2017_scheme_rules.pdf)

61. Monbiot, G (2013). Why Britain’s barren uplands have farming subsidies to blame. The Guardian, <https://www.theguardian.com/environment/georgemonbiot/2013/may/22/britain-uplands-farming-subsidies>

having those who keep Britain green able to receive an income from the land through farming – even if it is not enough on its own to make a living, makes this a cheaper option than, for example, the taxpayer taking on the full cost of preserving the landscape.

Third, there is a question over the knock-on impact of such a reduction in agricultural output on other parts of the economy. While agriculture is a relatively small, unproductive sector of the UK economy, the food and drink sector it supplies is much larger and is more productive than average, accounting for 16 per cent of total manufacturing turnover in the UK.<sup>62</sup> This makes it the largest sector within the umbrella of manufacturing, contributing £21.9bn to the UK economy, exporting products worth £12.8bn and employing around 400,000 people.<sup>63</sup>

A reduction in domestic supply is not necessarily bad for the food and drink industry: if cheaper raw agricultural products can be sourced more cheaply elsewhere, this would cut the sector's costs and help it to grow. However, if these cheaper imports came at the cost of access to EU markets (which account for 60 per cent of UK food and drink exports), the sector could lose out overall. In addition, the added complication of needing produce to be fresh in many circumstances means that in many cases it is more practical, and cheaper, to process or package food near to where it is grown or reared. 54 per cent of the UK food sector's raw materials are currently sourced domestically.<sup>64</sup>

Similarly, limited labour mobility and opportunities for re-skilling could lead to skilled farmers leaving the agriculture sector into even less productive activity, or no activity at all. A transition from subsidised agricultural activity to reliance on the welfare state would, of course, be far from beneficial to the UK economy as a whole.

Fourth, policymakers might also want to consider food security. While this concern is mocked in some free market circles<sup>65</sup> – and it is true that Britain is unlikely to face a blockade any time soon – we should not dismiss it entirely. Once a country loses its domestic agriculture sector, it is very difficult to get it back if the land has been developed for other uses. This is not the case for other parts of the economy. We might predict with some confidence that Britain will not be subject to significant political or other shocks that disrupt food imports within the next ten or twenty years, but what about the next thirty or forty? Can we reliably make any predictions so far into the future?

Finally, those with a broadly social democratic outlook ought to place a particular value on retaining rural economies, with jobs and a sense of community. Even if policies that destroy those communities would make others better off, social democrats should think beyond the net impact on GDP or other narrow utilitarian calculations, and recognise the value that rural communities place on their way of life. Many have chosen to move to or stay in rural areas, or specifically in farming, when cities and towns might have offered more economic opportunities.

The experience of de-industrialisation in the 1980s demonstrates the negative social consequences of the removal of a community's main source of income and allowing whole areas to go into decline. For social democrats, opposition to the way de-industrialisation was handled was easy because the people worst affected were seen as 'our people' – the manual, unionised, urban working class. Saving farming and rural communities is different because, as Maria Eagle's review demonstrated (see above), these are often seen as 'their people' – naturally Conservative voters. The principle, though, is the same.

62. ONS (2017). Labour productivity: April to June 2017. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/bulletins/labourproductivity/apriltojune2017>

63. FDF (2016). A new UK-EU relationship: priorities for the food and drink manufacturing industry. Food and Drink Federation, [https://www.fdf.org.uk/corporate\\_pubs/FDF-Manifesto-A-New-UK-EU-Relationship.pdf](https://www.fdf.org.uk/corporate_pubs/FDF-Manifesto-A-New-UK-EU-Relationship.pdf)

64. Grant Thornton (2017). FDF economic contribution and growth opportunities. <https://www.fdf.org.uk/publicgeneral/FDF-Economic-contribution-Full-report.pdf>

65. Bowman, S (2017). What should we do after the Common Agricultural Policy? Adam Smith Institute, <https://www.adamsmith.org/blog/what-should-we-do-after-the-common-agricultural-policy>

## Criteria for reform

On the other hand, there is clearly a balance to be struck between competing interests. A policy that raised prices, for example, would benefit farmers at the expense of consumers, and be particularly harmful for the most deprived households (which tend to be clustered in urban areas) that spend a higher proportion of their total outgoings on food.<sup>66</sup>

Similarly, concern for retaining a strong rural heritage, rural communities and jobs should not mean that we forget about productivity. Long-term food security clearly requires a reliable supply of imported food products, as well as domestic supply.

Criteria for any reform of agricultural policy should include the following considerations:

- Access to affordable food
- Productivity of the agriculture sector
- Impact on the food production industry
- Long-term food security
- Retention or improvement of access to export markets
- Value for money for the taxpayer
- Protection of the environment
- Promotion of animal welfare
- Protection of Britain's rural heritage and natural beauty
- Protection of rural communities and jobs
- A fair deal for tenant farmers and farm workers, not just landowners
- Minimisation of bureaucracy/administration costs

66. ONS (2017). Family spending in the UK: financial year ending March 2016. <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/bulletins/familyspendingintheuk/financialyearendingmarch2016>

## 5. Options for the future

Despite months of statements, policy papers and negotiations, there is still significant uncertainty over the precise direction the government wants Brexit to take. In her Lancaster House speech, Theresa May confirmed that she wanted Britain out of the single market and out of the customs union.<sup>67</sup> By September 2017, she clarified that she wanted to continue trading on current terms during a two-year implementation period after the 2019 withdrawal.<sup>68</sup> Two months later, the Brexit Secretary David Davis said he was aiming for a ‘Canada plus plus plus’ deal with the EU, meaning tariff-free trade and a deal that covers financial and other services.<sup>69</sup>

However, these statements are incompatible with the commitment to there being ‘no hard border’ between Northern Ireland and the Republic, and the opposition to any substantive change to the relationship between Northern Ireland and the rest of the UK. The agreement that in the absence of any other solution, the UK will maintain ‘full alignment’ with the relevant rules of the internal market and the customs union makes it unlikely the UK could, for example, sign its own trade deal with a non-EU country that allows goods to enter the UK that would not be allowed under single market rules, or under different terms to the customs union.

As the difficulties over the Irish border question show, there are important trade-offs and dividing lines that are yet to be resolved. More often than not, ministers sound like they are trying to have their cake and eat it, securing the benefits of freedom from EU regulation and the ability to strike trade deals with other countries, while at the same time retaining all the benefits of the single market. Real progress cannot be made until ministers recognise they cannot have uninhibited trade with the EU while also ending free movement, pursuing international trade deals and cutting European regulations.

The continued ‘fudging’ on many of these issues, and the political uncertainty that follows the surprise result in the June 2017 election and the Conservatives’ lack of a majority, means that Brexit could still go more or less in any direction, each with different implications for the agriculture sector.

To help clarify thinking on Britain’s post-Brexit economic future, the political economist Andrew Gamble has set out three broad directions that Brexit could take:<sup>70</sup>

- a continued close relationship with Europe, accepting many existing EU rules and demands in exchange for **strong access to the single market**;
- a clean-break, deregulatory **‘Global Britain’ Brexit** in which the UK cuts red tape to attract investment and unilaterally removes barriers to trade;
- a more economically nationalist, ‘closed’, **protectionist Brexit** that erects new barriers to trade and flows of capital and people, and that prioritises the promotion and protection of domestic industries.<sup>71</sup>

Of course, these three options are broad-brush illustrations of possible Brexits, and the real outcome may well end up being some form of compromise between competing visions – most debates within government and the Conservative party have focused on ‘Global Britain’ versus ‘Strong Access’. However, as with the Irish border question, in the case of agriculture and food which is heavily regulated by harmonised EU regulations at every stage of the production process, it is difficult to see a workable ‘fudge’ between these first two options. As I set out below, many of the benefits of ‘Strong Access’ preclude the benefits of ‘Global Britain’ and vice versa. The protectionist

67. May, T. (2017) The government’s negotiating objectives for exiting the EU. Speech at Lancaster House, 17 January 2017. <https://www.gov.uk/government/speeches/the-governments-negotiating-objectives-for-exiting-the-eu-speech>

68. May, T. (2017) A new era of cooperation and partnership between the UK and the EU. Speech in Florence, 22 September 2017. <https://www.gov.uk/government/speeches/pms-florence-speech-a-new-era-of-cooperation-and-partnership-between-the-uk-and-the-eu>

69. BBC News: Brexit: David Davis wants ‘Canada plus plus plus’ trade deal, 10 December 2017. <http://www.bbc.co.uk/news/uk-politics-42298971>

70. SPERI (2017). ‘Brexit Britain’: where does the UK growth model go from here? <http://speri.dept.shef.ac.uk/2017/03/30/brexit-britain-where-does-the-uk-growth-model-go-from-here-new-policy-brief-published-by-speri-feps-and-policy-network/>

71. SPERI (2017). ‘Brexit Britain’: where does the UK growth model go from here? <http://speri.dept.shef.ac.uk/2017/03/30/brexit-britain-where-does-the-uk-growth-model-go-from-here-new-policy-brief-published-by-speri-feps-and-policy-network/>

Brexit option has received less attention, but there may be aspects that appeal to elements of the Labour left.

In this section, I take each of Gamble's three possible approaches, and consider how it might be applied in the context of agriculture and what the likely impact of each vision might be.

### 'Strong access' to the single market

Of Gamble's three options, one that enables a continued close relationship with the EU would be the least disruptive for the British agricultural sector. Alongside subsidies, UK farmers currently benefit from barrier-free exports to the EU (which currently make up 60 per cent of UK food, feed and drink exports), common external tariffs which block competition from cheap imports outside of the EU, and a supply of seasonal labour that is essential to matching the peaks and troughs of activity required in the food production process.

The relationship set out here differs from membership of the European Economic Area (EEA), otherwise known as the 'Norway option', because the EEA agreement does not cover agriculture. Norway is not subject to the CAP, nor is it part of the customs union.

Membership of the European single market and customs union allows the UK to maintain environmental and animal welfare standards without compromising on its ability to export to its nearest neighbours, and knowing that agri-food imports have to compete on a broadly level playing field with its own producers. As part of a larger economic entity, the UK has more bargaining power to impose those same standards in any trade deals with the rest of the world, than it would likely have on its own. As a member of the club, the UK has been able to exert its influence on the rules governing the functioning of the single market, including regulations and standards. At key points, most notably following the BSE crisis, EU institutions have found in favour of British interests, helping farmers to continue to export to EU markets in the face of other member states attempting to use regulation to protect their own producers against Britain's.<sup>72</sup>

Ministers hope to negotiate a trade deal with the EU that removes or reduces potential tariff barriers that would otherwise be imposed after Brexit. Avoiding non-tariff barriers, however, is far more complicated. 'Strong access' to the single market would effectively mean continuing to apply EU regulations to farming in the UK.

To retain broadly uninhibited export access to European markets, the UK would have to apply the same food and plant standards as the EU – known as sanitary and phyto-sanitary measures (SPS) – and come to some agreement with the EU on mutual recognition for inspection and verification that those standards are being adhered to both on UK goods and imports from third countries. Unless the integrity of EU SPS measures are retained in full on products imported from third countries, additional checks at EU-UK borders (including the Irish border) would likely need to be imposed in order to ensure the UK was not being used as a back door into the EU for products that did not meet EU standards. In other words, if the UK were to strike a deal with the US that would allow the importing of chlorine chicken, this could result in new barriers to British beef exports to the EU. Norway and Switzerland implement the EU SPS regime.

This would also apply to regulation of farming activity in the UK – British farmers' main complaint against the EU. Restriction on the use of pesticides and fertilizers, for example, have been a particular bone of contention, as has uneven compliance with regulations across other member states. Many hope that when the UK leaves the EU, the UK will be able to set its own environmental and animal welfare standards which are less burdensome and more specifically suited to UK farmers.

72. The Guardian (2001). French ban on British beef ruled illegal. 13 December 2001, <https://www.theguardian.com/uk/2001/dec/13/bse>

While the sector generally appears to accept that significant divergence from EU regulation will be difficult to achieve, the point here is that full harmonisation is required for barrier-free access to EU markets. Divergence of any kind – unless approved by the EU, essentially bringing that change within the EU’s SPS framework – would probably be enough to cause the imposition of checks. After that, the additional regulatory barriers arising from further divergence would only apply to products the UK actually wished to export to the EU, and so once that first step was taken, selective application would be possible with minimal additional burden. The question is whether the first diverging step is too costly.

For the Irish border, where production often straddles both sides and produce sometimes crosses more than once, the prospect of checks is worrying, particularly for producers of perishable goods with a short shelf life, such as milk. Given the influence UK representatives currently have in EU decision-making, as well as the uneven application of SPS measures within the single market, if Britain wishes to avoid costly border checks and delays, it probably has as much, if not more leeway on regulation by staying within the EU as leaving it.

For the Irish border, where production often straddles both sides and produce sometimes crosses more than once, the prospect of checks is worrying, particularly for producers of perishable goods with a short shelf life, such as milk. Given the power UK representatives currently have in EU decision-making, as well as the uneven application of SPS measures within the single market, if Britain wishes to avoid costly border checks, it probably has as much, if not more leeway on regulation by staying within the EU as leaving it.

On top of the substance of these regulations, even if the government decides that the loss of strong single market access is too high a price to pay for more regulatory freedom, there would also need to be agreement on dispute resolution. With the UK government apparently unwilling to compromise on sovereignty concerns to remain subject to EU court rulings, this complicates the route to strong single market access still further.

Customs checks present a similar dilemma: unless Britain remains within the customs union, thus applying rules of origin checks and EU common external tariffs to imported goods from the rest of the world, exporters hoping to take advantage of any EU-UK trade agreement would be required to demonstrate that their products fulfilled the agreement’s local content requirements, which can be an arduous and costly process.

### Rules of origin<sup>73</sup>

Rules of origin are contained in trade agreements, including those forming the European customs union, and define what percentage of an object’s weight, value or construction must have taken place in a given country for that country to count as its place of origin. These exist to stop, for example, Chinese exporters from gaining barrier-free access to French markets by moving goods to Germany, making superficial changes (e.g. packaging) and then selling into French markets with the privileges enjoyed by German producers. These rules are not standardised across all trade agreements, which can add significant complexity for producers looking to export. Of the eleven ‘FTA hubs’ that have many trade deals, only the EU, India, Japan, Mexico and Switzerland (not the US or China) have homogenous rules of origin across all their agreements.

Again, there is no middle way here – either Britain agrees to replicate the EU’s common external tariff in full, making UK trade deals with third countries impossible, or costly border checks (expensive checking of SPS delays affecting freshness of produce, and administration/form-filling regarding rules of origin etc) will be necessary.

73. Lindsell, J (2015). Lessons from Switzerland: how might Britain go about business outside the EU? Civitas, <http://www.civitas.org.uk/content/files/lessonsfromswitzerland.pdf>



There is a political question over whether such a relationship with the EU, one that would leave Britain with strong access to the single market, would sufficiently respect the result of the referendum. The problem is that with agriculture at least, there is very little room for a compromise between two extremes. Such is the determination of the EU to retain the integrity of the single market, the scope for divergence or exceptions is limited.

### **Option 1: 'Strong access' to the single market**

- Retain EU agriculture and food regulations and agree mutual recognition
- Seek customs union agreement covering agriculture
- Continue to pay into and implement CAP subsidy regime

#### Benefits:

- Stability and certainty for UK farmers
- Protection of rural communities dependent on agricultural income
- Long-term food security through domestic supply and complex interdependence with EU
- Stable food prices
- Retention of high food standards
- Relatively high animal welfare standards
- Efficiency gains from trade

#### Drawbacks:

- Perceived/real subversion of the referendum mandate
- Environmental damage will continue without substantial reform
- Farmers continue to resent regulatory burden imposed from Brussels
- No reform of subsidy system
- Continued large payments to EU budget
- Area-based payments are an inefficient way to target support – poor value for money
- Area-based payments are regressive in that they subsidise some of Britain's richest landowners
- Continued artificial inflation of agricultural land values

On the other hand, reform of the subsidy regime is something that, at least formally, could be achieved without a significant impact on trade with the EU. In practice, of course, EU member states might be unwilling to sign a free trade agreement covering agriculture with a country that subsidises its farmers significantly more than the EU, but assuming the new regime did not significantly distort trade, different decisions – and thus divergence – on how to spend subsidy money might be possible. A large increase in the total amount of subsidy spent on UK farmers might, in practice, make EU members less willing to agree a trade deal that includes agriculture. However, when it leaves the EU and thus the jurisdiction of the CAP, the UK could feasibly alter the way farmers currently receive subsidies, without necessarily losing strong access to the single market.

For example, one option might be to have a customs union agreement with the EU, similar to Turkey's but covering agriculture too alongside a mutual recognition agreement on SPS, but at the same time adopting a new subsidy system which, within certain bounds of support, is more suited to UK priorities. In order to achieve this in practice, the new regime would probably have to avoid any unfair adverse effects on EU agri-food exports to the UK, relative to the status quo.

Such options are explored in greater detail under the 'hybrid approaches' section.

## 'Global Britain' Brexit

The case for reform of the UK's agricultural policy once it leaves the EU comes from many directions. There are calls from the free-market right to reduce red tape, remove subsidies and lower or remove external tariffs, either through trade deals or unilaterally. Here, the supposed model of success is New Zealand, where subsidies were removed and the domestic farmers exposed to the world market in the 1980s. Rather than the sector collapsing or shrinking under the pressure of global competition, following a period of turbulence it was ultimately able to survive through adopting more efficient methods, and changing what it produced to match global demand.

Moreover, proponents of a laissez-faire approach argue that protection from the global market artificially raises food prices; the IEA estimates that food is 17 per cent more expensive because of the distorting effects of CAP.<sup>74</sup> Others feel CAP has stopped Britain making beneficial trade deals with the rest of the world, and complain that Britain puts far more into the scheme than it receives.

### Could Britain experience a 'New Zealand effect'?<sup>75</sup>

In the mid-1980s, New Zealand removed almost all state support to its agriculture sector. Supports, largely introduced in the 1970s, had included payments per unit of livestock, input subsidies, and price support in the form of subsidies to top up incomes when market prices dropped below an acceptable level. In addition, food prices had been protected by import licensing and tariffs. In the long term, the sector was able to maintain its level of economic activity despite the withdrawal of state support. On the other hand, the environmental impact of the New Zealand agriculture sector has increased sharply (a 24 per cent rise in greenhouse gas emissions between 1990 and 2015), now responsible for almost half of the country's emissions,<sup>76</sup> with the highest methane emissions in the world on a per capita basis.<sup>77</sup>

Proponents of liberalisation cite New Zealand as a model for the others to follow. Critics point to developing countries that were pushed into liberalisation as a condition of receiving structural adjustment funds from the IMF, and are broadly thought to have stunted development.

New Zealand, as a rich country with a more similar climate, might seem a useful comparison to the UK. However, its pre-reform subsidy regime is very different to CAP today, and the political and economic context, particularly the role of the EU as a key market, is very different.

While studies have shown that coupled subsidies, such as the Livestock Incentive Scheme in New Zealand and in the pre-2003 CAP have a negative effect on productivity, the evidence on decoupled subsidies – the predominant regime since the 2003 CAP reform – is less clear, with some limited evidence that it increases productivity.

Theoretically, subsidies might reduce productivity if they lead to allocative inefficiency. This would occur if farms invest in subsidy-seeking activities that are relatively less productive than other spending, if subsidies artificially incentivise the use of certain inputs over others, or simply if they lead to slack, a lack of effort or a disinclination to seek cost-improving methods. On the other hand, subsidies may cause investment-induced productivity gains by providing an extra source of financing for productive investments.<sup>78</sup>

74. Niemitz, K (2013). Abolish the CAP, let food prices tumble. Institute of Economic Affairs, <https://iea.org.uk/blog/abolish-the-cap-let-food-prices-tumble>

75. Gouin, D.M. et al. (1994). New Zealand agricultural policy reform and impacts on the farm sector. Agribusiness & Economics Research Unit, research report no. 230, [https://researcharchive.lincoln.ac.nz/bitstream/handle/10182/1699/aeru\\_rr\\_230.pdf?sequence=1](https://researcharchive.lincoln.ac.nz/bitstream/handle/10182/1699/aeru_rr_230.pdf?sequence=1); Vitalis, V (2007). Agricultural subsidy reform and its implications for sustainable development: the New Zealand experience. *Environmental Sciences*, 4:1, pp 21-40, <http://www.tandfonline.com/doi/pdf/10.1080/15693430601108086>

76. MFE (2017). New Zealand's greenhouse gas inventory. Ministry for the Environment, <http://www.mfe.govt.nz/climate-change/state-of-our-atmosphere-and-climate/new-zealands-greenhouse-gas-inventory>

77. Landcare research (2017). Methane emissions. <https://www.landcareresearch.co.nz/science/greenhouse-gases/agricultural-greenhouse-gases/methane-emissions>

78. Rizov, M et al. (2013). CAP subsidies and the productivity of EU farms. Centre for European Policy Studies, [https://www.ceps.eu/system/files/FM\\_WP37\\_per cent20by per cent20Rizov per cent20et per cent20al per cent20per cent20final.pdf](https://www.ceps.eu/system/files/FM_WP37_per cent20by per cent20Rizov per cent20et per cent20al per cent20per cent20final.pdf)

In the current CAP, subsidy-seeking activities should be limited to the provision of public goods or mitigation of negative externalities, and there are minimal input subsidies in the UK (red diesel's tax status is a rare example). On the other hand, the incentive to improve practices is probably weakened by subsidies. When, as in England in 2015/16, subsidies make up 84 per cent of all farming income, a productive improvement in agricultural practice is much smaller as a percentage of total income than if all income were limited to agricultural activities.<sup>79</sup>

Also unknown is the relative impact of the removal of subsidies in New Zealand as opposed to the reduction of import barriers and exposure to world markets. If the latter (such as a 40 per cent tariff on wine, now down to zero) is more important, Britain will struggle to achieve a 'New Zealand effect', as Britain already has a zero-tariff arrangement with its nearest neighbours, and is unable to lower tariffs for the rest of the world without the imposition of additional non-tariff barriers for exports to the EU.

### The problem with 'Global Britain'

For these reasons, the New Zealand model is simply not applicable to the British case. Of the broad Brexit paths set out by Gamble, the deregulatory, laissez-faire, 'Global Britain' Brexit – despite being attractive to some due to the possibility of cheaper imported food – is potentially the most damaging for the domestic agriculture sector and for the environment.

While as explained above, subsidies can reduce incentives to improve productivity and thus we might expect their removal to result in efficiency gains, the change in trade arrangements (in terms of tariffs, regulatory divergence with partner countries and reduced access to the single market) from a 'Global Britain' Brexit would be particularly damaging for British farmers.

If the UK were to lower tariffs on imports and reduce basic standards for food and farming practices, a wave of cheap imports could flood the UK market. UK farmers would lobby to be able to relax domestic regulations, but would still struggle to compete with farmers in other countries, not least because so many other countries, including the EU-27, subsidise and protect their own domestic producers. In such a scenario, while compromising on food safety and quality, British consumers would enjoy cheap food, subsidised by foreign taxpayers. Forced to compete on an unlevel playing field, many farmers would go out of business, and Britain's trade balance on food would likely worsen.

Like many other industries, farming activity has wider social impacts (externalities). It affects the availability of public goods such as clean air and water, a temperate climate, biodiversity and flood protection. While not justifying it alone, this gives a theoretical basis for considering market intervention.

In the 'Global Britain' Brexit scenario, there are three potential sources of environmental threats. These may be mitigated by a sharp contraction in UK farming, but as discussed earlier, this would likely just export the problem.

First, if farming subsidies were to be abolished, this would include the incentives to move towards more environmentally-friendly farming practices currently contained within the CAP. Second, lowering barriers to imports from countries with lower environmental standards could trigger a

79. Defra (2017). Farm Accounts in England 2015/16 – dataset. <https://www.gov.uk/government/statistics/farm-accounts-in-england>

'race to the bottom' with the government put under pressure from farmers to lower UK standards to allow it to compete internationally.

Third, the removal of area-based payments would likely necessitate a drive towards larger, more intensive, productive forms of farming. Those that employ the most intensive farming methods, or expanded and made a successful transition to more intensive methods, would be most likely to survive. In many cases, these are also the most environmentally damaging and arouse the most concern about animal welfare.

### Option 2: 'Global Britain' Brexit

- Leave the single market and the customs union
- Abolish all agricultural subsidies
- Reduce or abolish tariffs on food and agricultural products
- Relax regulations on farmers and food production

#### Benefits:

- Cheaper food
- Could exchange lowering of tariffs on food for new export markets for other key sectors of UK economy
- Potential 'New Zealand effect' – promoting productivity in the sector through increased competition
- Inefficient parts of the sector potentially pushed into more productive (agricultural or non-agricultural) activity
- Frees up public funds for tax cuts/spending elsewhere – e.g. for retraining/transition of those leaving agriculture sector
- Downward pressure on agricultural land values, lowering barriers to entry

#### Drawbacks:

- UK farmers face unfair competition from subsidised imports
- Imposition of SPS and customs checks at UK-EU border – UK exports to EU across all sectors severely constrained
- Potential for sharp contraction of UK farming activity leading to collapse of rural communities and way of life
- Limited labour mobility and opportunities for re-skilling might push less efficient farmers onto welfare state or into unskilled, low-paid work
- Environmental damage from lowering of regulations
- Compromised food quality and animal welfare from lowering of regulations
- Long-term food security compromised

### Protectionist approaches: Protection through regulation

To get around the environmental damage and contraction of the farming sector that would result from the 'Global Britain' Brexit outlined above, the government could try to level the playing field up, rather than down, by imposing the highest possible standards on imports into the UK. This would include imports from the EU where, from the UK's point of view, member states have failed to fully comply fully with EU standards (e.g. MPs have previously criticised the Commission for failing to enforce a ban on sow stalls), or where UK regulations go over and above the minimum requirements of the EU.<sup>80</sup>

80. The Telegraph: UK pig farmers losing out as EU fails to enforce welfare rules. 28 October 2015, <http://www.telegraph.co.uk/news/earth/agriculture/farming/11961682/UK-pig-farmers-losing-out-as-EU-fails-to-enforce-welfare-rules.html>

But Britain alone, unlike the EU, does not have the economic power to demand higher standards of its trading partners. The prospect of access to the UK market alone is unlikely to be sufficient for other countries to change their own regulations. The imposition of higher standards than the EU already applies could block a free trade agreement with the EU, and result in the imposition of tariffs and a sharp reduction in agricultural exports. It would result in higher prices for consumers, but greater demand for UK produce as imports declined due to the higher standards imposed.

### Option 3: Protection through regulation

- Leave the single market and the customs union
- Abolish all agricultural subsidies
- Reduce or abolish tariffs on food and agricultural products
- Impose extremely high standards on farming and food

#### Benefits:

- Protects environment, food quality and animal welfare standards
- Certainty and increased domestic demand for British products
- Downward pressure on agricultural land values, lowering barriers to entry

#### Drawbacks:

- Higher food prices
- Increased regulatory burden on British farmers
- Lost efficiency gains from trade – tariffs on British exports
- Reduced access to export markets for British produce

#### Uncertainties:

- Uncertain consequences for long-term food security – relies on imports as well as domestic production
- Uncertainty of productivity gains – loss of direct payment ‘safety net’ versus reduced international competition

### Protectionist approaches: 'Traditional' protectionism

Protectionism using traditional methods such as tariffs, domestic subsidies and regulatory divergence probably has more benefits, but runs up against age-old arguments from classical economics. Ultimately, critics argue it privileges producer interests (in this case a very small proportion of the population) against consumer interests, and results in deadweight losses to the economy. These losses, however, might be justified in the interests of social justice or the promises of future gains (e.g. protecting nascent industries with potential or avoiding the loss of key ‘foundation’ industries). A protectionist regime could seek to counter the loss of efficiency gains from trade by using policy levers to promote productivity. Supply side measures might include additional funds for training farmers, research and development funding for the sector, low or zero-interest loans for capital investments such as machinery, or additional incentives for young farmers or other new market entrants.

#### Option 4: Traditional protectionism

- Leave the single market and the customs union
- Retain direct payments to farmers, distributed by UK government
- Raise tariffs on foreign agri-food imports
- Base standards/regulatory burden solely on UK priorities, and apply to imports
- Additional supply side measures (training, R&D, financing for capital investment, incentives for new market entrants)

##### Benefits:

- Certainty and increased domestic demand for British products
- Democratic control over environmental and animal welfare standards
- Possible productivity boost from additional supply side measures, mitigating efficiency losses

##### Drawbacks:

- Loss of export access for UK producers
- Loss of efficiency gains from trade
- Higher food prices – unless directly subsidised/controlled by government (resulting in further deadweight losses)
- Subsidies represent poor value for money
- No 'New Zealand effect'
- Agricultural land values remain artificially inflated

#### Hybrid approaches: Supercharged environmentalism

A more balanced solution might be to retain existing regulatory standards, but concentrate all subsidies on incentives for investment in environmental goods and sustainable practices. The government, through Gove's January 2018 speech to the Oxford farming conference as well as other speeches and the industrial strategy white paper, has indicated its intention to move in this direction.

It could also include supply side measures to promote productivity (e.g. funding for training, R&D, finance for capital investment, and incentives for market entry), and to incentivise responsible business practices (e.g. those that pay a living wage). It could even be extended to cover other public goods or positive externalities, such as measures that enhance Britain's natural beauty, benefiting local residents, visitors, and the tourism sector. These subsidies could be based on a combination of local and national priorities. This then leaves a question over the level of incentive.

The standard formula for such measures, set by the WTO to qualify as having no or minimal trade-distorting effects (the so-called 'green box' – see text box below), is that they are limited to the extra costs or loss of income involved.<sup>81</sup> In this scenario, though, farmers would not actually have any more in their pockets than if subsidies were abolished, and would therefore face the same non-level playing field as in the 'global Britain' scenario.

A plausible, potentially desirable alternative, would be to over-pay farmers for such measures. This would probably increase take-up, but essentially act as a back-door subsidy for the sector, but would also reward the most environmentally friendly farmers. Subsidies paid over the 'green box' formula for such incentives would probably count as 'amber box', and are thus limited in WTO agreements.

81. World Trade Organization (1994). Agreement on Agriculture. [https://www.wto.org/english/docs\\_e/legal\\_e/14-ag\\_02\\_e.htm](https://www.wto.org/english/docs_e/legal_e/14-ag_02_e.htm)

Using overheated environmental payments as a backdoor to subsidising agriculture is unlikely to be efficient or to provide value for public money. One way of improving the efficiency of the system might be to try to ascribe a value to these and other public goods, and to pay farmers proportionally to those benefits. For example, farmers might be paid more for every unit of carbon stored in soil on their land. But that would surely then have to be balanced out by emissions, which would likely preclude any subsidy for livestock farming, given the accompanying greenhouse gases. Given that farming activity overall tends to have an environmental impact that needs to be mitigated, in many cases the most environmentally positive activities will not be directly related to farming.

Ultimately, if we want to protect the agriculture sector we will have to do so in a more-or-less direct way, or engage in a 'fudge' that subsidises by the backdoor. These are some of the issues DEFRA will have to grapple with if it presses ahead with the vision set out by Michael Gove in his January 2018 speech.<sup>82</sup>

### WTO boxes<sup>83</sup>

**Amber box** – covers domestic support measures that distort production and trade. In the WTO Agriculture Agreement these are limited to 5 per cent of agricultural production for developed countries.

**Blue box** – covers domestic support measures that would normally be in the amber box, but are specifically designed to reduce distortion. This includes coupled subsidies subject to strict limits or quotas. There are currently no limits on blue box subsidies, though some WTO members have called for blue box reductions.

**Green box** – covers subsidies that do not distort trade (or cause minimal distortion) such as environmental incentives that cover costs or income foregone, or direct payments for farming that are not related to production levels or prices.

82. Gove, M. (2018). Farming for the Next Generation. Speech at the Oxford Farming Conference, 5 January 2018. <https://www.gov.uk/government/speeches/farming-for-the-next-generation>

83. World Trade Organization. Domestic support in agriculture: the boxes. Accessed 07 December 2017 [https://www.wto.org/english/tratop\\_e/agric\\_e/agboxes\\_e.htm](https://www.wto.org/english/tratop_e/agric_e/agboxes_e.htm)

### Option 5: Supercharged environmental incentives

- Retain EU agriculture and food regulations and agree mutual recognition
- Seek customs union agreement covering agriculture
- Replace direct payments with incentives for environmental measures (and other public goods/ positive externalities) at rates significantly beyond costs/income foregone
- Additional supply side measures (investment/training)

#### Benefits:

- Protects the environment, animal welfare and food quality standards
- Protection of rural communities dependent on agricultural income
- Helps to retain a domestic source of food supply and thus long-term food security
- Retains access to export markets
- Efficiency gains from trade
- Safeguards rural communities reliant on income from agriculture
- Downward pressure on agricultural land values, lowering barriers to entry

#### Drawbacks:

- No 'New Zealand effect'
- Unlikely to provide value for public money
- Farmers continue to resent regulatory burden imposed from Brussels

#### Uncertainties:

- In practice requires agreement from rest of EU to ensure strong single market access

### Hybrid approaches: Sales-linked subsidies

Another option, that gets around problems with the current CAP regime is to move towards subsidies based on sales, rather than either area-based payments, which are inefficient and regressive, or production-linked payments, which dampen productivity and can end in the 'butter mountains' and 'wine lakes' of the 1980s. Alongside environmental and broader public good incentives and supply side measures, farmers could receive a per centage of their revenues back from their tax contribution. This could be calculated from tax returns, minimising the bureaucratic burden, likely reducing it given the complexity of the direct payments regime.

The appeal of such a system is that unlike direct payments, which shield producers from the drive for greater productivity that comes from the market mechanism, it provides an incentive to produce food that people want to buy at the lowest possible cost. It provides subsidy, and thus some certainty, to the agricultural sector as a whole, but individual farmers would still face uninhibited competition from domestic rivals. The extent of any 'New Zealand effect' of increased productivity from such a reform is uncertain, because of – as explained above – the different geographical, economic and policy contexts, and the different policy status quo. To protect smaller-scale farming within this model, an element of progressivity could be introduced, with subsidies tapering off at the higher end. However, this would create an incentive to keep farms small, which would inhibit the achievement of economies of scale and greater productivity. It might also encourage landowners to try to game the system by breaking holdings up into smaller units.



### Option 6: Sales-linked subsidies and environmental incentives

- Retain EU agriculture and food regulations and agree mutual recognition
- Seek customs union agreement covering agriculture
- Abolish area-based payments
- Introduce a regime of sales-based subsidies through tax returns
- Retain and improve incentives for environmental measures (and other public goods/positive externalities) in line with WTO 'Green Box' rules
- Improve investment/training incentives

#### Benefits:

- Protects the environment, animal welfare and food quality standards
- Safeguards rural communities reliant on income from agriculture
- Helps to retain a domestic source of food supply and thus long-term food security
- Potential for a 'New Zealand effect' of increased productivity
- Downward pressure on agricultural land values, lowering barriers to entry

#### Drawbacks:

- Unless subsidies taper, regime gives most to the largest producers, often already benefiting from economies of scale and less likely to be in need
- Might raise barriers to entry/tend towards oligopoly
- Would qualify as trade-distorting ('amber box') in WTO terms – permitted but limited, with countries committed to reduction
- Farmers continue to resent regulatory burden imposed from Brussels

#### Uncertainties:

- In practice requires agreement from rest of EU to ensure strong single market access

### Hybrid approaches: The 'Apple' voucher

There is one more radical, and potentially transformative, option available for the agriculture sector after Brexit. While retaining the environmental/public good/supply side incentives set out above, instead of subsidising farmers directly to produce or simply for owning or controlling land, the government could put those resources into the hands of consumers instead. It could give every household a voucher to buy British produce. This would give certainty to the domestic agriculture or food sector as a whole, but would still leave the potential for a partial 'New Zealand effect' by removing the individual guarantee of government subsidy for farmers. It guarantees the continuation of the sector, the survival of rural communities dependent on agriculture, and long-term food security, without compromising on productivity, artificially inflating land values, or raising food prices.

In fact, it goes one better. It is a first step towards the progressive goal of ensuring that every family is able to afford basic necessities, and it does so without the efficiency losses or additional administrative burden of many other redistributive policies. In fact, given the complexities of the current direct payment system, it probably reduces the bureaucratic burden.

The value of the voucher would of course be a matter for discussion and regular review. But in the immediate post-Brexit context, thinking about this policy as a replacement for direct payments,

for each household, the value of the voucher could be in the region of £200 per year if it replaced the amount the UK currently contributes to EU direct payments. Vouchers could obviously differ depending on the size of the household.

This is only around 7 per cent of average household annual spending on food (£2,714).<sup>84</sup> The amount could rise over time (and could start higher if take-up is expected to be less than 100 per cent), but the aim is not to give everyone their food for free, nor is it to discourage the consumption of imported food. It is to give the UK agriculture sector a basic degree of certainty that there will be demand for its produce. Crucially, to feel the benefit of the voucher, farmers have to produce food for which there is a demand at a competitive price. Farmers will also have to use the certainty provided to strive for greater productivity to be able to compete with imported produce over the value of the voucher.

This does, of course, mean that some less productive farmers will go out of business if they are unable to compete without the cushion of subsidies. Environmental and public good incentives will need to be sufficient to help valued low-intensity farms (one example might be hill farming that is part of the heritage of many national parks). Some insurance systems may also be required to protect against bad harvests or disease. Resources will also be needed to ease the transition out of agriculture for some people (e.g. retraining, finance to help move into other sectors such as tourism).

The Apple – named after our healthy, affordable, national fruit – is patriotic, but not a protectionist move relative to the status quo. It's a market-oriented solution, but progressive. It can promote productivity, but if combined with strong environmental incentives and responsible land management (see below), need not compromise on sustainability, and helping farming activity that we value, but which could not compete in an open market. Most of all, it protects the agriculture sector and Britain's rural heritage, while helping poor urban families with their weekly shop too.

### Issues to consider

As with the debate over means-tested benefits and the universal basic income (UBI) idea, the principle of universality comes up against progressivity. Under a universal system, vouchers would be going to the very richest as well as the very poorest, and there is an argument that any additional support should be targeted at those who need it most. On the other hand, universal benefits tend to fare better at maintaining long-term support, and avoid high administration costs. In this instance, given the potential for huge complexity with a new voucher system, it may be preferable to ensure fairness by combining such a move with a progressive move within the tax system (e.g. with the richest households being subject to a tax increase similar to the value of the voucher).

Second, defining which products qualify will be a challenge; the policy is unlikely to get off the ground if the voucher can be spent on alcohol. Defining 'British' according to existing rules of origin requirements would be simplest, but would include many prepared products processed in the UK, but using many ingredients from abroad, and this would hardly help British farmers. If the source of raw ingredients were the key criterion, the system would get very complicated very quickly. For example, what percentage of a ready-made pie would need to be British in order to qualify?

An easier option, and one that might also provide public health benefits (as has been achieved with moderate success in the Healthy Start scheme which provides vouchers to pregnant women and parents of infants and toddlers to spend on fruit, vegetables, milk and formula),<sup>85</sup> would be to limit the voucher to fresh, unprocessed food. But this would exclude a lot of staple products, such as bread. Setting the parameters in a fair way that does not add a new layer of complex bureaucracy here will be challenging, but should not be impossible to achieve.

84. ONS (2017). Family spending in the UK: financial year ending March 2016. <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/bulletins/familyspendingintheuk/financial>

85. Szpakowicz, D (2016). Evaluation of the healthy start scheme: an evidence review. Scottish government social research, <http://www.gov.scot/Publications/2016/03/7301earendmarch2016>

There is also an issue around the market power of supermarkets and the food industry, as there would need to be assurances that gains they receive from the introduction of the voucher are passed down the supply chain to farmers. Such a policy would need careful modelling, design and piloting to understand the distribution of benefits between consumers, supermarkets, food producers and farmers.

Finally, the impact on Britain's trading relations would need to be considered. Given that the voucher only amounts to a small proportion of typical household spending, it need not adversely impact other countries' ability to export to the UK. Indeed, above the value of the voucher, subsidised EU farmers would have an advantage over UK farmers. It amounts to continued protection for the sector, but it is not a protectionist move compared to the status quo.

However, such a voucher scheme would run the risk of violating the WTO's national treatment principle, which requires that imports be treated no less favourably than the same or similar domestically-produced goods once they have passed customs.<sup>86</sup> On the other hand, this rule has long been marked by legal indeterminacy.<sup>87</sup> Further, rules are only enforceable through challenge by another member and resolution of the dispute, so if other members accepted such a policy, there would be no problem. Given that other members would have an advantage, relative to the status quo (due to the abolition of direct payments), of selling food to British consumers once they had surpassed the value of the voucher, overall treatment may count as 'no less favourable', and other parties may not have cause for complaint. The GATT panel in US – Section 337 Tariff Act (1989) determined that 'treatment no less favourable' does not require identical treatment, but effective equality of competitive conditions.<sup>88</sup>

The single exception to the WTO national treatment principle is government procurement – governments can buy solely domestic-sourced products without violating the national treatment principle. While it would go against the spirit of the law, and could still be subject to challenge if a WTO member objected, the government could consider routing the benefit of the voucher through procurement, acting as an intermediary between supermarket and customer. If the product in question is bought by the government, it can then be provided to consumers at no cost (as in the provision of free transport or food stamps).

The point here is not to state with certainty that such a voucher scheme would be compatible under WTO rules, but simply that the legal issues, as well as the practicalities and likely impacts of such a policy, are worth exploring further.

86. General Agreement on Tariffs and Trade (GATT 1947), Article III [https://www.wto.org/english/docs\\_e/legal\\_e/gatt47\\_01\\_e.htm#articleiii](https://www.wto.org/english/docs_e/legal_e/gatt47_01_e.htm#articleiii)

87. Du, M (2016). 'Treatment no less favourable' and the future of national treatment obligation in GATT article III:4 after EC – Seal products' World Trade Review Volume 15: 1, pp 139-163. [http://eprints.lancs.ac.uk/73656/1/National\\_Treatment\\_in\\_GATT\\_Article\\_III.pdf](http://eprints.lancs.ac.uk/73656/1/National_Treatment_in_GATT_Article_III.pdf)

88. Du, M (2016). 'Treatment no less favourable' and the future of national treatment obligation in GATT article III:4 after EC – Seal products' World Trade Review Volume 15: 1, pp 139-163. [http://eprints.lancs.ac.uk/73656/1/National\\_Treatment\\_in\\_GATT\\_Article\\_III.pdf](http://eprints.lancs.ac.uk/73656/1/National_Treatment_in_GATT_Article_III.pdf)

### Option 7: The 'Apple' voucher and environmental incentives

- Retain EU agriculture and food regulations and standards
- Seek customs union agreement covering agriculture
- Abolish area-based payments
- Retain and improve incentives for environmental measures (and other public goods/ positive externalities) in line with WTO 'Green Box' rules
- Use the money saved from area-based payments to provide a voucher for every household to buy British produce
- Improve investment/training incentives

#### Benefits:

- Protects the environment, animal welfare and food quality standards
- Gives certainty to the sector without shielding individual farmers from full competition
- Safeguards rural communities reliant on income from agriculture
- Helps to retain a domestic source of food supply and thus long-term food security
- Minimal market distortion
- Potential for a 'New Zealand effect' of increased productivity
- Downward pressure on agricultural land values, lowering barriers to entry
- A first step towards ensuring no family is unable to afford basic necessities
- Access to cheap/affordable food through the voucher and retention of similar levels of imports – imports can still compete on food consumed beyond the value of the voucher
- Reduced administrative complexity compared to current direct payments regime
- Value for public money – universal 'handouts' are generally more efficient than provision of services or market-distorting subsidies

#### Drawbacks:

- Farmers continue to resent regulatory burden from Brussels

#### Uncertainties:

- May invite action at WTO over 'national treatment' rules
- In practice requires agreement from rest of EU to ensure strong single market access
- Unclear much of the value would reach farmers
- Complexities of defining British produce
- Risk that British producers will struggle to compete beyond the value of the voucher

## 6. Conclusion

With powers over agricultural policy due to return to ministers and for the first time in half a century, there is an opportunity for radical new thinking. At the same time, there are serious risks to the domestic agriculture sector contained within the kind of deregulatory, liberalising 'Global Britain' Brexit apparently preferred by some of the more ardent Leavers in the Cabinet.

The possibility of a botched Brexit remains as long as the government continues to dodge the tough decisions. This provides opportunities for progressives to think about what kind of agriculture policy reforms would be desirable, and the kind of policy platform that might entice rural voters away from a Conservative party that could appear to be taking them for granted. Alongside the ideas for agricultural policy outlined in this paper, progressives should begin thinking creatively about rural policy more generally, including ways to improve rural public transport and infrastructure, as well as easing the transition out of agriculture for those whose activity is no longer economically viable.

This paper has argued that the domestic agriculture sector would fare best if the government can retain strong access to the single market, seeking a post-Brexit agreement that goes beyond the 'Norway option' by remaining in the customs union. However, this should not preclude 'taking back control' of certain aspects of agricultural policy. In particular, the system of subsidies that successive British governments have argued is in need of significant reform, could be tailored more specifically to British needs and progressive policy objectives.

The hybrid approaches outlined in the final section of the report are radical offerings that attempt to get around some of the problems with the existing subsidy regime and contribute to other policy objectives, without reverting to the old problems of previous incarnations of the CAP. In setting out more radical departures from the existing system, it has been the aim of this paper to stimulate a debate, and to spark new, creative thinking in this area that has been dominated by bureaucracy and vested interests for so long.