PAPER: Food, Drink and Brexit

In his third Brexit challenge paper, Nick Clegg lays out the potential challenges facing the UK's food and drink industry after Brexit.

By Nick Clegg, 17/10/2016

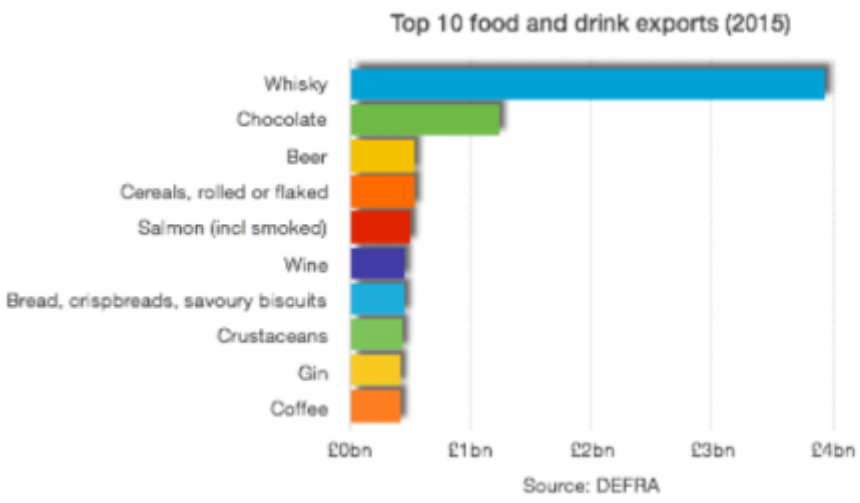
The food and drink industry encompasses farming, fisheries, and a wide array of food and drink manufacturing. It is central to our lives (each of us spends on average £42 on food and drink every week), just as it is central to the wider British economy.

UK membership of the EU affects almost every aspect of the food chain, from the pesticides that can be used on our crops, to the profitability of our farms, to the labelling of products in our shops; from the employment conditions of agricultural workers to hygiene standards in factories; and from the subsidies paid to farmers to the quantity of fish that can be caught. The impacts of Brexit will be felt by everyone.
While some manufacturers will hope that Brexit leads to the opening of new markets, the reality is that exporting will become more complicated and difficult in the short term. The food and drink industry will have to adapt quickly to disruption of their access to established markets and to uncertainty about the entire regulatory framework. Consumers will have to get used to higher prices even beyond the impact of the falling value of the pound.

Due to its size and the way it is structured, the food and drink sector is a bellwether for the government’s entire Brexit strategy. If Ministers cannot navigate to a successful outcome in this area, they will inevitably fare badly in other parts of the economy.

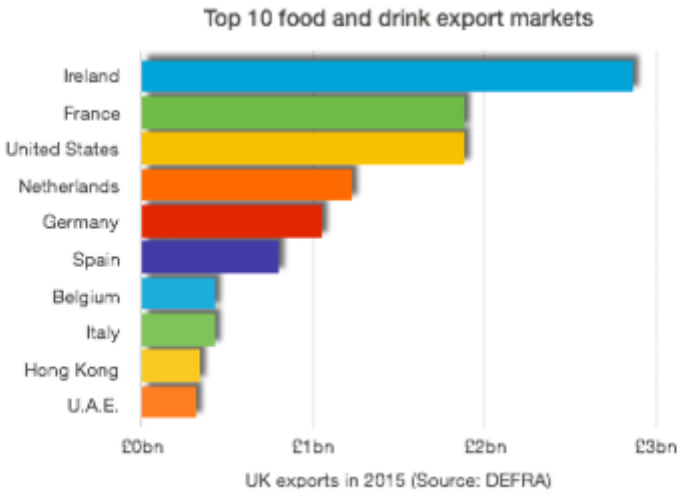
The importance of the food and drink sector

The food and drink sector contributes £26.9bn to the UK economy, more than car and aerospace manufacturing combined. Farming, fishing and food and drink manufacturing employ 850,000 people in the UK, and the wider wholesale, retail and catering sectors account for a further 3 million jobs).



Food and drink is not only a vital part of our national fabric - it is a British exporting success story. Exports of food and non-alcoholic drinks have doubled over the last 10 years, and total exports to the rest of the world (including alcohol) reached £18bn in 2015.

The EU takes more than two-thirds of these exports. Even our access to non-EU markets is heavily dependent on trading relationships which are mediated through the EU. The Food and Drink Federation calculates that once Free Trade Agreements (FTAs) are taken into account, 94% of exports and 97% of imports of food and non-alcoholic drink are with the EU or with countries with which the EU has signed or is negotiating a trade deal.



The UK is home to a number of large food and drink multinationals, including Diageo, Cadbury, Associated British Foods, Tate & Lyle, Booker, and Unilever. Access to the Single Market has been a key motivation for these companies when deciding to base their headquarters in the UK.

Food imports

Despite the exporting success of the food and drink industry, we still consume far more than we produce. The UK is 76% self-sufficient in food production, but many key products are either not produced here or not in the quantities we need. In 2015 we imported £3bn of fresh fruit and £2bn of fresh vegetables.

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Imports are also needed to complement use of British raw ingredients in the production of 'value added' foods. Makers of cereal bars, for example, need to import sugar, dried fruit and nuts.

70% of these food and drink imports come from the EU. The UK is far more dependent on EU markets than the EU is on the UK: we have a deficit in food trade with the EU of €23.2bn. The most important sources of imports into the UK are the Netherlands (12%), Irish Republic (10%), France (10%), Germany (9.2%) and Spain (6.8%).

Food is rightly considered to be part of the UK's Critical National Infrastructure. Given that we are never likely to be 100% self-sufficient in food production, safeguarding the continuity of imports is a vital part of any Brexit deal; as is ensuing decent prospects for domestic agriculture.

The impact of Brexit-related currency fluctuations on the food and drink industry

Uncertainty around the form which Brexit will take is having a negative impact on investment and recruitment across many sectors, food and drink included. But the fall in the value of the pound has been particularly problematic for manufacturers who rely on imported raw ingredients.

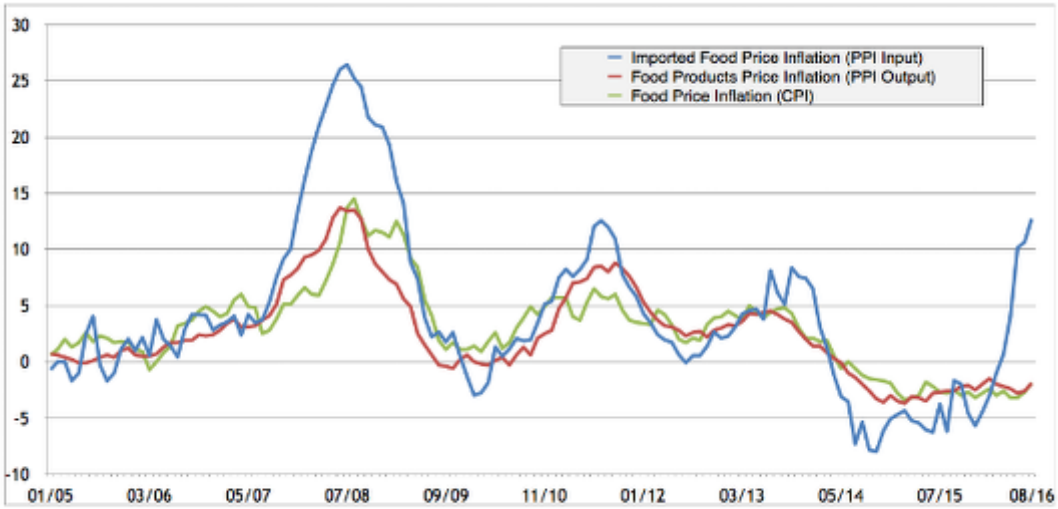
Businesses – and SMEs in particular – have already seen the cost of key imported raw materials rise by around 20% this year. One Scottish shortbread maker, Bill Dean, recently warned that he would have to raise prices or lay off workers due to a 75% increase in the cost of butter since the referendum - a combination of the drop in the currency and fluctuations in commodity markets.

Some larger producers hedge against currency fluctuations to cushion against unexpected shocks in the cost of raw ingredients, but will be fully exposed to the new exchange rates when those hedges expire in early 2017. At the same time, many are locked into sales agreements with supermarkets until later in 2017.

This is resulting in rapidly falling margins. While this dynamic may have resulted in Tesco removing Marmite and other Unilever products from the shelves briefly

in October, it represents a fundamental threat to many small businesses who are trapped between rising production costs and fixed shelf prices.

Consumer food prices track the cost of imported food reasonably closely. As can be seen from the graph below, the recent sharp increase in the former has yet to feed through to the high street, but can be expected to do so imminently:



Source: Bloomberg / ONS

The other major impact is on the workforce. Many producers rely on EU workers, either for seasonal agricultural work (e.g. fruit picking) or for factory-based processing work. It may be harder to recruit such labour in future, both because of expected new restrictions on migration, and falling wages (as a consequence of the collapse of the pound).

The Food and Drink Federation recently surveyed companies employing EU staff and found a large majority (71%) reporting that their EU employees had expressed concerns about the referendum outcome, with around one in 12 (8.7%) reporting that EU employees intended to leave the UK.

What conditions are likely to pertain at the end of the Article 50 process?

In our view, the best outcome for the UK (short of continued EU membership or becoming a full member of EFTA) would be an interim or transitional deal modelled on Norway's relationship with the EU, which combines membership of the Single Market with the freedom to strike our own trade deals with the rest of the world.

Recent Ministerial statements about immigration, budgetary payments and EU jurisdiction, however, suggest that the government is unlikely to seek such a deal, even were the EU27 open to the negotiation of one. In any case, agriculture falls outside Norway's conditional Single market membership.

The most likely course of action, then, as discussed in Brexit Challenge paper #2, is that the UK will seek some form of FTA with the EU, but with membership

of the Single Market and Customs Union falling away at the end of the Article 50 process before alternative trading arrangements can be put in place. In the case of such a "hard Brexit" the UK will be obliged to impose tariffs on imports, while the EU and the rest of the world will be obliged to impose tariffs on our exports.

What does 'hard Brexit' mean for the food and drink industry?

1. Imposition of tariffs on UK exports

As soon as the UK leaves the EU Customs Union, trade will be subject to tariffs. This is not a matter of choice, as some pro-Leave advocates have claimed. WTO rules require that the minimum "Most Favoured Nation" tariff is applied to everyone unless there is an FTA in place.

For non-agricultural goods, the average tariff imposed will be relatively small, at 2.3%. For agricultural goods, however, the tariffs are far higher, averaging 22.3%.

Our top 10 food and drink exports would have to pay the following charges in order to gain access to the European market:

	Product category	E.g.	Ad valorem equivalent tariff
1	Whisky	Johnnie Walker	0%
2	Chocolate	Cadbury's, Mars, Nestle UK	38%
3	Beer	Newcastle Brown, Cobra	0%
4	Cereals, rolled or flaked	Kellogg's, Jordan's, Weetabix	11.3%
5	Salmon	Saucy Fish Co	13%
6	Wine	Hardy's, Lindeman's, Chapel Down	14%
7	Bread, crispbreads etc	Jacob's, Ryvita	10-40%
8	Crustaceans	Loch Fyne	20%
9	Gin	Gordon's, Bombay Saphire	0%
10	Coffee	Nescafé	11.5%

UK farming will be particularly badly hit by tariffs, which are generally higher for agricultural produce that they are for other types of goods. Most farms are small businesses operating on tight margins and some – especially in the livestock sector – are dependent on exports. Tariffs will include 47% on milk, 40% on cheese, 59% on beef, and 40% on lamb. Arable producers face levies of 40% on unmilled wheat, and around 10% on fruit and vegetables.

Liam Fox made it clear in his speech to the WTO on 27th September 2016 that the UK will inherit the EU MFN tariff. This means that the charges listed in the table above will not only be applied by the EU to our exports - they will also be applied by the UK to imports from the EU and the rest of the world.

Calculating the precise tariff that applies to any given product can be remarkably complex. For example, as former WTO official Peter Ungphakorn has noted, the EU charges different tariffs on baked goods and confectionary depending on the proportions of milk fat, milk proteins, starch or glucose, and various forms of sugar. There are 504 different combinations of those ingredients, and 27 recognised products, giving a total of 13,608 categories of bread, biscuits, confectionary etc, each potentially charged a different tariff rate.

UK exporters who have enjoyed tariff-free access to European markets for decades will have to grapple with this complexity, and find the money to pay the relevant import levies, if they want to continue to sell into the EU.

2. Customs checks

At present, UK food and drink products are traded across borders with no forms or checks. Once we leave the EU, products will have to go through customs checks at the EU border.

For example, exporters of products of animal origin (not only meat but also eggs, milk, honey, and gelatine products) will need to go through the following steps:

i. Register with the EU as a 3rd country company that is authorised to export animal products to the EU;
ii. Apply for relevant import licences along with documentary proof of the product's country of origin;
iii. Apply and pay for for costly export health certificates to show that the product meets EU public health standards;
iv. When the shipment is ready, notify the relevant EU Border Inspection Post in advance of the arrival of the goods;
v. When the goods arrive, submit them for veterinary inspection.

Only at this point, and after payment for the relevant checks, will the UK exporter receive an import certificate. If the consignment fails the checks, it is either returned or destroyed.

Some food manufacturers have highly integrated supply chains, sourcing raw materials in one member state, processing them in another, and then selling them in the UK. Companies in this situation will face very significant tariffs each time they cross the border and may also need a costly Animal Health Certificates at each crossing. They would also incur delays and additional costs of customs checks that would impact on their ability to provide just-in-time delivery to their customers.

3. Non-tariff barriers

Unless the UK becomes a pure rule-taker, simply adopting changes in EU regulation over which it no longer has a say, the UK's body of regulations will inevitably come to diverge from the EU's over time.

This will create new non-tariff barriers. For example, if UK animal welfare, food hygiene or labelling requirements end up differing from those on the continent, exporters will have to pay to demonstrate that their products are in conformity with minimum EU standards. In the Single Market, these rules are harmonised across the member states in order to smooth over regulatory differences and facilitate seamless trade.

Given the importance of European markets to British farmers and food manufacturers, it is highly likely that the UK will choose to mirror EU regulation. This makes a mockery of the idea that Brexit is about "taking back control". On the contrary, it would represent a substantial loss of control.

It is also possible that – without the UK at the table to protect its interests – the EU will shape new rules to our disadvantage. Trade in livestock and livestock products can be particularly susceptible to protectionist-inspired animal health or food safety rules.

Alternatively, confectionary producers on the continent may decide to reopen the long-running battle with the UK over the definition of chocolate. For many years, EU rules prevented products like Cadbury's Dairy Milk (which is high in milk solids, but low in cocoa fats) from being marketed as 'chocolate'. After 30 years of wrangling, the UK secured rules in 2000 that ensured UK chocolate had the same status as the continental version. Once we leave the EU, it is entirely possible that pressure will mount to revert to the previous approach, thereby putting British manufacturers like Cadbury's at a competitive disadvantage.

Some exporters may be able to absorb such additional trading costs, especially if the pound continues to trade poorly against the Euro. But others will be forced to pass costs on to the consumer, raising prices and undermining their competitiveness compared to their European rivals.

Ultimately, many food and drink exporters are constrained from finding major new overseas markets by geography, limited shelf life and established patterns of consumption. Europe is and will always remain the key export market for many companies.

4. Loss of preferential trading terms with the rest of the world

As a member of the EU, the UK participates in FTAs that allow us to trade at low or zero tariffs with over 50 non-EU countries. As well as helping our exporters, these FTAs ensure a supply of cheap food imports to the UK which

benefit consumers and provide raw ingredients for manufacturers of processed foods. Once we leave, we will lose these arrangements.

Scotch whisky is the biggest UK agri-food export by far, accounting for 25% of our food and drink exports with sales of £4bn in 2015, around a third of which go to the EU. France is the second biggest export market for scotch whisky, importing 176m bottles in 2015. The risk posed by Brexit to the whisky industry is not from the imposition of EU tariffs (which the EU has set at zero for all markets), but rather the imposition of tariffs by third countries when the UK loses access to the EU's FTAs. The Scotch Whisky Association (SWA) has warned that the loss of FTAs with key markets like South Korea, South Africa, Colombia and Peru could result in tariffs rising from zero to 20%, pushing up costs and reducing sales.

Existing FTAs can be re-negotiated of course, but the process is likely to be slow and highly politicised, as set out in our second paper. The idea that existing deals can simply be 'grandfathered' into the Brexit agreement without any changes is legally and politically flawed, and has been rejected by the European Council's negotiators.

In contrast to the EU's tariff-free treatment of whisky, tariffs on agricultural produce tend to be among the highest internationally, and hard fought over in trade talks. The EU in particular has historically been reluctant to allow cheap food imports, believing that competition would disadvantage European farmers.

In order to allow some agricultural imports to enter their markets, the EU and other countries generally agree a two-tier tariff structure for sensitive products, in which duties are substantially lowered or entirely waived on fixed quantities (by weight) of agricultural products. Anything above these quotas is charged at the normal tariff rate. These 'Tariff Rate Quotas' (TRQs) are often designed to allow seasonal products into the EU at points in the year when domestic production is slow or absent, while raising tariffs to prohibitive levels when European farmers have products ready for market so that prices are kept high.

The UK benefits greatly from the TRQs that the EU has negotiated with the rest of the world, particularly in relation to butter, cheese and sheep meat from New Zealand, where the fact that our winter coincides with their summer means products can be supplied to UK customers all year round. As the International Meat Trade Association points out, the EU duties that are imposed on imports that fall outside these concessionary quotas are generally so high that very little is imported above these ceilings.

Once outside the EU, the UK will lose these cheap imports, and the effects will be felt throughout the food chain. Tariff quotas will need to be renegotiated and this will take time, as it is not clear how the UK's 'share' of the TRQs would be

decided. Other EU countries are likely to resist having to give up part of their quota allowances to the UK. Countries like New Zealand are unlikely to welcome the division of one TRQ for the whole European market into two small chunks, as this reduces the flexibility they currently enjoy to shift exports between member states depending on patterns of demand.

The same considerations apply to British exporters who currently benefit from TRQs in key non-EU markets. In their absence, all of our exports will be charged at the recipient country's default MFN rate, which may be prohibitively high.

5. Disruption to trade with the Republic of Ireland

Cutting across all of this, there are very specific concerns about the implications of Brexit for trade with Ireland. The working assumption has to be that a hard border will be required at the Irish (EU Customs Union) border with the UK in order to check goods as they cross it in either direction.

Ireland is by far the largest export market for British food and drink products, and also home to many highly integrated cross-border agri-food businesses. For example, all of the wheat that is grown in the Republic of Ireland is sent to Northern Ireland for milling, then re-imported. The imposition of tariffs (at 30% for the re-import of milled flour), customs checks and associated paperwork would hugely increase costs, with price and competitiveness repercussions further up the food chain.

There are similar concerns in the beef and dairy sectors, which are critical to the Irish economy as well as being a key source for UK manufacturers and retailers.

6. Loss of the European workforce

The food and drink industry is more reliant on EU workers than any other sector of the UK economy. Around 29 per cent of the UK's food and drink manufacturing workforce are non-British EU nationals (almost 120,000 workers). 70-80,000 work in horticulture alone. And over 90% of the vets working in the meat hygiene sector are EU citizens.

Even without the challenge of Brexit, the Food and Drink Federation estimates that the industry needs to recruit a further 130,000 workers over the next 10 years due to an ageing workforce.

At the moment the government has neither guaranteed the right of existing EU workers to remain in the UK, nor set out how a post-Brexit system of work permits might operate. However, if the current rules for non-EU immigration were applied to EU citizens, only 12% of the 1.6 million EU workers currently resident in the UK would be eligible.

The fall in the value of the pound is already causing some EU workers to consider leaving the UK. Failure to provide certainty around post-Brexit immigration rules could trigger a rapid decline in EU workers which would cause major disruption to the food and drink sector.

7. Loss of farm subsidies and uncertainty around the ability to compete with foreign producers

UK farmers are particularly reliant on smooth access for their products to the Single Market. 82% of our meat exports went to the EU in 2014, as did 75% of our dairy exports and 74% of our cereals (source: NFU).

UK farming currently enjoys free and open borders with the rest of the EU, protection against cheap exports from third countries via the Common External Tariff, and direct subsidy payments through the EU's Common Agricultural Policy (currently worth just over £3bn a year). Brexit could mean losing any or all of these, depending on decisions to be taken by Ministers.

For an industry with notoriously low margins (DEFRA reported that 70% of mixed and grazing livestock farms generated incomes below £25,000 in 2014/15), any rapid reduction to agricultural support would have an adverse impact on many farmers' ability to survive.

A rapid loss of subsidies would also some threaten farmers' security by undermining land prices. Research by DEFRA and the European Commission has found that guaranteed CAP subsidies are 'priced in' to the value of farmland, and that complete removal would lead to a 30% reduction in land values across Europe (source: AGRA). Given that many farmers have borrowed against the value of their property, a reduction in land values could lead to defaults and bankruptcies.

The government has promised to guarantee CAP spending at current levels until 2020, but has said nothing about what will happen thereafter. Given the criticism that has been levelled at the scale and poor targeting of the EU's subsidy regime, not least by DEFRA Ministers Andrea Leadsom and George Eustice who both signed the Fresh Start manifesto calling for direct payments to be phased out, it seems unlikely that subsidies will be maintained at the same level indefinitely. Yet any unilateral removal of subsidies would have to take into account the fact that European farmers would still receive generous state support, thereby giving them a competitive advantage.

Successive CAP reforms had already started to shift support away from production subsidies towards supporting public goods like protecting biodiversity. There may be a case for going further. But the process of debating and agreeing a new approach with farmers and the wider public has barely even begun. In the shorter term, Brexit will have an impact on competitiveness well

before 2020 through the imposition of tariffs and other restrictions on EU trade, and the loss of the TRQ concessions that govern access to key non-EU markets.

Once the UK is able to get to a position where it can negotiate new trading arrangements with the EU and the other members of the WTO, this situation may improve. But at this point other considerations step in. At the moment, the UK beef industry benefits from protection against cheap foreign imports by high EU tariffs on countries like Argentina and Brazil, and strict rules for example around the use of growth hormones. If we are to sign FTAs with other beef-exporting countries, those tariffs and rules will inevitably be in the mix. The viability of sheep farming, by contrast, depends heavily on exports to the rest of the EU, so will be especially vulnerable to the high tariff levels which currently apply under the Common External Tariff, and which Liam Fox has said we will inherit after Brexit.

Finally, the UK has 73 products with EU Protected Geographical Status, representing all regions of the country (including Cornish pasties, Jersey Royal potatoes, Welsh lamb, Melton Mowbray pork pies, Stilton cheese, Cumberland sausages, Scottish wild salmon, Shetland lamb, and Scotch whisky). There is no guarantee that the EU will maintain the protections awarded to these products post-Brexit, given that enforcement is in the hands of the Commission and the European Court of Justice over which we will have no influence.

8. Increased food prices for consumers

Hard Brexit poses a major threat to consumer food prices. This comes from four sources:

- adoption of the EU's Common External Tariff as our own WTO schedule of commitments, which includes significant levies on imports of food, drink and agricultural products
- increased transaction costs on imports (e.g. customs checks)
- loss of in-quota zero-tariff imports, particularly for sheepmeat, butter and poultry products
- further falls in the value of the pound.

Most, if not all food manufacturers therefore face substantial cost increases. While some may be able to absorb some additional costs within their margins, many others will be forced to pass the price on to consumers. A study conducted by LEI for the NFU in April 2016 (here, table 5.3) estimated that the combination of the impacts listed above would lead to average food price

increase of around 8% by 2025. These costs will come on top of the effects of the weak pound on the price of imports.

What are the longer-term challenges posed by Brexit?

A. Negotiation of FTAs with the EU and third countries

The priority for the government will be moving as quickly as possible to secure new FTAs with the EU, with current EU FTA signatories, and with new markets.

Comprehensive FTAs take time to negotiate. Agriculture is also likely to be one of the trickiest areas as can engage fierce protectionist instincts. It is possible for example that some EU countries may try to block our agricultural products in or order to boost their own production. The UK government may fight hard to resist, but they face simultaneous negotiations on other portfolios (e.g. financial services) which may be viewed as higher priority. Nor do we know to what extent the UK government might to open the door to cheap competition in order to achieve quick FTAs with countries like Australia and New Zealand.

B. Designing a new comprehensive UK agricultural policy

An entirely new UK agricultural policy is now required, which will need to be designed well in advance of 2020 when guaranteed CAP payments will expire. The government currently lacks the capacity to deliver this, having been dependent on the EU for agricultural policy making for the past 40 years.

C. Whether to copy, strengthen, or water down EU standards

Brexit in theory provides an opportunity to revisit rules which have been seen in some quarters as onerous. In the food sector, many of these are designed to provide consumer information or to safeguard public health. The British electorate are likely to take it for granted that the UK has high standards of food safety and animal welfare, and will want these to be maintained. Failure to do so could quickly undermine consumer confidence. But it would also be difficult to water down the rules without creating non-tariff barriers where British produce could be locked out of the European market for being produced to lower standards.

For example, the requirement for food labels to include the country of origin of the ‘main ingredient’ in a product has been controversial in the industry. Untested health claims are another recent target for the Commission. In practice, we are likely to have to continue to all the information that EU consumers expect to see on the label as the price for trading into the Single Market.

The rules around the use of pesticides and herbicides have been controversial among farmers, as has the requirement for larger farms to grow a minimum of

three different crops (the “three-crop rule”). While these regulations are likely to still apply to exporters as a condition of trading into the EU, farmers who only serve the domestic market may be able to persuade the government to loosen these requirements.

A major function of the EU is providing reassurance to consumers, ensuring that methods of production, transport and sale don’t endanger public health, and preventing the spread of disease in animals and plants. For example, the system of phytosanitary certificate - verifying that plants, cut flowers, fruit and vegetables are free from pests and diseases as they move across borders - will almost certainly have to be replicated in its entirety in order to prevent costly hold-ups at customs.

EU animal welfare rules are likely to stay. There are specific laws for laying hens, veal calves, meat chickens and pigs; legislation covering consumer information, such as mandatory labelling of the provenance of eggs and beef, the labelling of some poultry meats, and country of origin legislation regarding where certain meats and animal products have been produced; rules on the live transport of animals; and on how animals must be slaughtered. Certain veterinary products are prohibited, with bans on the use of hormones in cattle, including BST, which can have a negative impact on the welfare of the animals.

However, the government may be subject to pressure from the industry to lighten the regulatory load, and recently attempted to introduce industry self-regulation around welfare standards in chicken farming. At the same time there will be calls to take the opportunity to exceed EU animal welfare standards, for example by mandating the use of CCTV in slaughterhouses or tightening rules on the conditions of transport of farm animals. The industry may resist if it feels it is being asked to move faster that its continental competitors.

Intra-EU trade in animals and animal products is dependent on common veterinary rules and mutual recognition of veterinary certificates. Again, any divergence from EU law could be used as a pretext for blocking British animal products from entry to continental markets.

D. UK fisheries

Rules that allow other EU countries to fish in UK waters or which require British farmers to adopt continental farming practices have long been a source of resentment.

In 2014, the UK had around 12,000 fishermen, contributing £426 million to GDP.

In addition to fish farming, there are two broad types of fisheries in the UK:

Inshore fisheries, predominantly fishing shellfish. These fisheries are conducted by a large number of small national vessels, within 12 nautical miles of the coast. 79% of the fishing vessels in the UK serve these waters, which have always been under exclusive national control. These fisheries are not irrelevant to Brexit however, as a large market exists in continental Europe for British shellfish which will inevitably play a part in negotiations on other fisheries matters.

The fisheries subject to international management, which are managed under the EU Common Fisheries Policy (CFP) and by bilateral arrangements with other coastal states. These are conducted by a smaller number of larger vessels. All EU member states vessels have access in principle to EU waters beyond 12 miles of each state (some have specific arrangements to fish between 6 and 12 miles).

In the North East Atlantic, the CFP uses a combination of input controls (e.g. fishing licences, effort limits, and technical measures such as minimum mesh sizes in nets) and output controls (e.g. national quotas). Total allowable catch (TAC) limits are set annually for individual fish stocks, limiting the weight of fish landed. The TAC is distributed as quotas to EU Member States using the principle of 'Relative Stability', based on each EU Member State's catching record, primarily during the reference period 1973-78.

After successive reforms, the CFP is beginning to succeed in the North East Atlantic. In 2011, for the first time, the majority of fish stocks were fished in accordance with high long term fishing yields. Further radical reforms were adopted in 2013, with strong British support.

After Brexit, many in the industry hope for increased catches based on reallocations from the TAC to increase UK quotas, at the expense of EU fleets operating in UK waters. However, this could only be achieved by re-opening the deeply embedded principle of Relative Stability and persuading other member states to give up some of their share. This is extremely unlikely to happen, even though the UK could in theory use its right to deny their vessels access to its waters as a bargaining counter.

Most importantly, the UK's other international obligations effectively mean that we will still have to negotiate and share responsibilities for conserving fish stocks with our neighbours in the waters around the UK, and on the high seas, regardless of Brexit. The UK will still be subject to the UN Convention on the Law of the Sea (UNCLOS) which defines the rights and responsibilities of nations with respect to their use of the world's oceans. Under UNCLOS a coastal nation has sole exploitation rights over all natural resources out to 200 nautical miles (the Exclusive Economic Zone, EEZ). UK fishermen may think that

all fish there could be allocated to them. However, UNCLOS also recognises historical fishing rights of foreign fleets and this, along with the uncertainties in allocating catch shares of stocks, most of which straddle multiple EEZs at different stages in their life cycle, makes significant changes unlikely. Simply setting higher unilateral quotas would be likely to lead to punitive action from the EU and result in overfishing of the stocks.

E. Impact on the environment

Given that farming uses around 70% of all UK land, Brexit will have the capacity to change production patterns and deliver huge environmental impacts.

The rural environment is potentially threatened by Brexit in two ways: through the loss of EU funding for agri-environment schemes under Pillar 2 of the CAP; and the loss of farmers' capability to promote environmental measures if their viability is under threat and/or large scale farm consolidation follows the cuts in support.

The decisions that are taken around a replacement for the CAP may mean that farmers get more support to manage natural resources (soil, clean water, biodiversity, etc) as well as producing food. Or the CAP replacement could be much more limited, focusing on government-backed insurance schemes or other stabilising mechanisms to cushion UK farming against volatile markets and other Brexit-related shocks.

A failure to - at the very least - replicate existing level of environmental protection could have far-reaching consequences for the environment. The recent 2016 State of Nature report highlighted that we are amongst the most nature-depleted countries in the world and identified agricultural policy as the most significant driver of decline in our wildlife and our biodiversity.

F. Devolution issues

Agriculture policy is entirely devolved to Scotland, Wales and Northern Ireland. So in principle, each part of the UK is free to pursue whatever policy it chooses. However, trade policy is reserved to Westminster and, as noted above, tariffs and access are an important element of agriculture policy. Funding of subsidies will depend on each administration determining its priorities from its own funding settlement.

There is a potentially significant risk that competition will be distorted between the four countries of the UK as they pursue markedly different policies. For example, if re-nationalisation of agricultural policy results in variations in standards of implementation or differently targeted subsidies within the UK, it will mean producers are not operating on a level playing field. This could potentially impact on the production and trade in raw materials within the UK.

In addition, the three devolved Governments will be deeply concerned about the trade arrangements for beef and sheep. Livestock production is dominant in all three countries. Their priorities are likely to be very different from those in London. Northern Ireland will feel especially vulnerable to competition from the South and will almost certainly want to give equivalent support to that received by southern Irish farmers.

Conclusion

It is clear from this analysis that Brexit could have far-reaching negative effects on the British food and farming industries. Some parts of the sector are already experiencing financial pain due to currency fluctuations arising from deep uncertainty about the future regulatory framework.

Other parts of the sector appear to be vulnerable to a series of shocks which will inevitably follow from a 'Hard Brexit': workforce shortages; the loss of preferential access to key markets in Europe and further afield; tariff barriers; customs checks; and worries about competitiveness arising from the loss of subsidies and tariff protections. Given the interdependence of the UK and European markets, British consumers will face further price rises in the run-up to Brexit and in its immediate aftermath.

The questions that need to be answered

1. How do Ministers intend to bridge the gap between the end of the Article 50 process and the signing of Free Trade Agreement with the EU? Do they accept that a transitional deal is essential?
2. Given the need for a smooth transition for farm businesses, how and when will the government consult on the design of a comprehensive UK agricultural policy?
3. Will the government guarantee the right of EU workers, who are essential to the production of food in the UK, to stay after the UK leaves the EU?
4. How will the UK seek to determine its share of the Tariff Rate Quotas that currently guarantee low-cost imports of key food products?
5. How will the UK's international obligations under the UN Convention on the Law of the Sea affect its ability to renegotiate fishing quotas?
6. Will the UK limit access to its waters for foreign fleets? Will fishing rights be traded for other benefits?
7. Will government undertake to protect UK farmers from cheap food imports produced to lower standards?
8. Will existing EU food and drink regulations be copied in their entirety into UK law? What role will parliament have in scrutinising this process?
9. Will new EU food and drink regulations be automatically incorporated into UK law? If so, how does this constitute 'taking back control?' If not, how

will the government prevent the development of non-tariff barriers to trade?

10. What will happen to CAP payments after 2020? How will the government ensure that UK farming retains its competitive position vis-à-vis highly subsidised EU producers?
11. Will a future system of farming subsidies be fully devolved to Scotland, Wales and Northern Ireland? If so, how will Ministers ensure a level playing field between the nations of the UK?
12. How is it possible for Ireland to fulfil its legal obligations under the EU Customs Union without establishing a hard border between North and South? How will the government protect integrated businesses operating on both sides of the Irish border?

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