

## **What's the likelihood of cheaper food prices post-Brexit?**

Further to Nigel Farage's comments on the Andrew Marr show about lamb imports from New Zealand post-brexit, below is a paper produced by my team on the subject of agricultural trade in general. I would like to highlight relevant points from this below as well as a few other relevant comments.

New Zealand has not used its full tariff free quota for sales of lamb to the EU since 2009.

Currency exchange rates can play a decisive role in the decision to import agricultural products. These rates notoriously fluctuate.

The paper also highlights the quid pro quo trade of Italian and French wine sold to the UK, and the British lamb sold to Italy and France. These two countries are the net losers in a tariff war.

The US has finally lifted its ban on imports of British lamb in force for nearly 20 years. This gives our producers another outlet.

The rapidly rising Muslim population of the UK favour lamb above beef, and of course they will not eat pork.

British lamb is seasonal.(Mid-summer to mid-winter) after that it becomes expensive to produce and struggles to compete with other red meat. Imports of NZ lamb help keep the product on the shelf in the other part of the year, which is of course their lamb season.

Finally British politicians of all colours are stating support for agriculture, particularly hill farming where so much of our lamb is produced

# What's the likelihood of cheaper food prices post-Brexit?

## *The case for a Progressive and Protective UK Agriculture Policy*

---

By Stuart Agnew MEP

The NFU in April 2016 published a report analysing the impact of three possible post-Brexit trade scenarios<sup>1</sup>. The report presented a relatively favourable outcome for UK farmers under two of these potential trade models, with the third trade liberalisation model offering a more mixed outcome, particularly for farmers in sectors highly dependent on subsidies, such as upland hill farmers. However, the publicity surrounding the report largely focussed on the potential negative outcomes for consumers in terms of food price rises as a result of the imposition of import transaction costs.

In late September 2016, former UKIP leader Nigel Farage spoke out about the possibility for cheaper food imports following Brexit, recalling the era of cheap butter and lamb imports from New Zealand that existed before the UK's entry into the European Community: "We will open ourselves up to the world – we can get rid of the common external tariff – and buy cheaper food." The foreseen possibility for cheaper food relies on the UK becoming free of the protection offered to key EU agricultural sectors by the Common Customs Tariff (CCT), which is applied to certain categories of imports by the EU.

The issue for the UK farming sector is that cheaper food prices for consumers inevitably means a squeeze on farm gate prices, as supply chains adjust and higher cost UK producers are pushed out by imports. This paper examines the apparent contradiction in these two positions in

---

<sup>1</sup> "Implications of a UK exit from the EU for British agriculture" (2016) <http://www.nfuonline.com/assets/61142>

order to try and determine what impact Brexit could actually have on food prices, UK farm viability and hence the future policy for agriculture in the UK. It pays particular attention to the two categories mentioned by Nigel Farage, namely dairy products and lamb, both of which are particularly sensitive to changes in export/import ratios.

## **The case for food price increases**

Any trade agreement other than a so-called single market imposes import transaction costs. This is because there has to be an import process at the border to check that the produce complies with the trade agreement. The EU's Internal Market is based on the regulatory assumption that produce marketed in compliance with EU rules in one Member State is de facto ok for sale in any other Member State without additional checks. This is why the Internal Market model is so attractive, because the costs of trade are limited to compliance costs at the point of origin.

If a hypothetical new trade agreement does not provide for production compliance or "equivalence" (i.e. what's ok in your country is ok in ours), then additional checks need to be made at the point of import. The NFU Wageningen report estimated these costs to be at about 5% on average. If we left the EU without a trading relationship providing for a system of recognition for EU produce, all fresh produce imported into the UK from the EU would be subject to a 5% price increase to the customer. As the NFU's report points out, this will very likely have the consequential effect of raising UK farm gate prices for the same produce by the same amount.

The UK is a net importer in nearly all agri-food sectors, and particularly so in fresh fruit and vegetable categories<sup>2</sup>, so the additional import cost could have a beneficial effect on farm incomes across the board. This could have multiple effects, including a renaissance in domestic production of these products on the one hand, or a reduction in demand as consumers switch from one product to another on the other. The impact of this on a society already partially reliant on food banks, and on the broader economy, which measures food price inflation as a component of economic success, is potentially very serious.

---

<sup>2</sup> 12% for fruit and 58% for vegetables:

<http://www.publications.parliament.uk/pa/cm201415/cmselect/cmenvfru/243/243.pdf>

## The cost of cheap food

The argument that food price rises are necessarily a bad thing must be approached with caution though. British consumers have never paid so little for their food: in 1946 food accounted for 34% of average household expenditure while by 2013 the figure was under 10%<sup>3</sup>. Yet there is an ongoing stream of criticism in environmental and health circles in particular that food is too cheap. Cheap food encourages over-consumption and wastage<sup>4</sup>.

Furthermore, farmers are suffering from an unequal trading relationship with food retailers, fuelled by competition law rules that only act in the purchasing interests of the consumer. The unequal extraction of value from the system results in a poorly remunerated and consequently unattractive farming profession, which then struggles to recruit the calibre of new entrants needed to drive a progressive and economically beneficial industry. Farm gate price rises may bring multiple positives.

Despite the evidence that food prices have never been so cheap as a proportion of income, there is a steady stream of criticism that the EU's Common Agricultural Policy, including its system of import tariffs and controls, is keeping food prices artificially high<sup>5</sup>. The evidence for this is the difference between world market prices and European prices, as highlighted by the following figures from the NFU's Wageningen report:

Table 1: selected EU and world market prices, 2013/2014

Product	EU price (euro/tn)	World price (euro/tn)
Sheep meat	5070	3172
Beef	3749	2223
Sugar	512	344
Milk	347	292
Butter	3611	2923

<sup>3</sup> 'Food, the UK and the EU: Brexit or Bremain?' (2016), Schoen and Lang, <http://foodresearch.org.uk/wp-content/uploads/2016/03/Food-and-Brexit-briefing-paper-2.pdf>

<sup>4</sup> Food wastage costs the average UK household £60 a month: <http://www.lovefoodhatewaste.com/node/2472>

<sup>5</sup> <https://iea.org.uk/blog/abolish-the-cap-let-food-prices-tumble>

Skimmed milk powder	2871	3067
Whole milk powder	3292	3186

Note that for most items, world market prices are lower, but for some (whole milk powder and skim milk powder), EU prices are comparable or lower.

## The Common Customs Tariff

The way that EU prices are kept high is through the CCT, a system of tariffs protecting key industries from imports from third countries. The European Commission justifies this tariff because “*domestic producers should be able to compete fairly and equally on the internal market with manufacturers exporting from other countries*”<sup>6</sup>. The result is that prices for key commodities and products are kept higher than world market prices within the EU’s Internal Market, as more competitive (or subsidised) imports are priced out by punitive tariffs.

Equivalents of the CCT system are used worldwide by agricultural nations to protect sensitive farming sectors from import pressures. In order to allow an element of freer trade, customs tariffs often grant an annual tonnage quota to exporting countries, to meet local demand or ensure year round availability of produce. These quotas are normally zero rated and are allocated by country. To give an example, New Zealand has an annual quota for tariff free importation of lamb into the EU of 228,000t per year<sup>7</sup>. The out-of-quota tariff rate on lamb is around 40%, and on beef it is 70%<sup>8</sup>. For the importation to the EU of out-of-quota dairy products, the average tariff is 42%. These quotas effectively mean that prices have to rise substantially in the EU before importation over the given quota limit becomes viable, thus reinforcing a level of domestic production.

<sup>6</sup> [https://ec.europa.eu/taxation\\_customs/business/calculation-customs-duties/what-is-common-customs-tariff\\_en](https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/what-is-common-customs-tariff_en)

<sup>7</sup> <http://www.beeflambnz.com/Documents/Market/Sheepmeat%20tariffs.pdf>

<sup>8</sup> Figures from <http://www.nfuonline.com/assets/61142>, will vary based on cuts

## Free trade future?

The UK as a nation has demonstrated a long standing support of trade liberalisation<sup>9</sup>. As a trading nation, the UK has founded its wealth on trade and so it has pursued this agenda within the EU as well. The presupposition is that leaving the EU will take the UK outside the CCT. This dictates both that a new trading relationship with the EU will be required, and that trading relationships with non-EU countries will be affected by the removal of the CCT as regards their imports to the UK.

In order to meet the concerns of the voters who asked to Leave, it is likely that a trade off between Internal Market access on the one hand, and freedom from budgetary contributions and EU derived regulations in products, services, and social and employment areas on the other, will be found. Commentators suggest that this level of compromise means that a Free Trade Agreement is more likely than membership of the European Economic Area, for example<sup>10</sup>.

The terms of any free trade agreement are for the parties to negotiate. Starting from a blank piece of paper (and some would argue that this is exactly what a free trade agreement should be), the EU would still have the CCT and the UK would not. Enforcing the CCT barrier between the UK and the EU under these circumstances would have substantial impacts on both the UK and the remaining EU27. For example, take the 42% average tariff on dairy produce imports. If this is imposed in full on the UK without a TRQ allocation, it would have the effect of making the EU an uncompetitive exporter to the UK, as EU prices for dairy products would be on average 42% higher than that available on the world market. This would have a particularly adverse impact on Ireland, which heavily relies on exporting milk products to the UK<sup>11</sup>. On the flip side though, the UK relies on the EU (and particularly Ireland again) for its agri-food exports - 70% by value goes to the EU27 and Ireland accounts for a full 20% of our

---

<sup>9</sup> For example see <http://www.parliament.uk/business/news/2008/12/trade-liberalisation-through-the-eu/>

<sup>10</sup> <http://capreform.eu/agricultural-implications-of-british-eu-withdrawal-for-rest-of-the-eu/> Note also George Eustice to this effect at CRAG conference, Birmingham, October 3rd 2016.

<sup>11</sup> <http://www.bordbia.ie/industry/buyers/industryinfo/agri/pages/default.aspx>

food exports<sup>12</sup>. Our UK branded food products, ubiquitous in Ireland, could suddenly become a lot more expensive.

At this stage, despite considerable speculation, it is still unknown what form the UK's trading relationship with the EU could take. There can, however, be little social or economic justification for disrupting these essential existing trade relationships, particularly for the highly integrated food industries in the UK and Ireland. Short of Irish independence from the EU, the best alternative would be a free-trade agreement with the EU that had full tariff liberalisation at its core, or at the very least substantial TRQs in place to cover the key import and export relationships that already exist. Such an agreement should be relatively easily arranged, given our existing economic interdependency and the obvious deals that could be done (such as UK lamb to France/EU in exchange for French wine to the UK, and similar for beef and fruit with Spain/EU). Furthermore, given the enormous extent to which our control systems are already compliant with EU law, regulatory convergence should not pose any barrier.

### **A brave new dawn...**

However, one major advantage of Brexit would be that the EU would no longer have competence over our trading relationships with non-EU countries. We would be free to pursue our historical relationships with Commonwealth trading partners once more and adopt a less protectionist and more responsible attitude to global trade once again.

The UK may be able to inherit pre-existing EU trade deals with third countries, such as Switzerland and Iceland, and any that could be signed before Brexit, such as CETA with Canada, having signed them in its sovereign capacity, despite them having been negotiated by the EU. There will be multiple issues to resolve with splitting existing EU granted TRQs on Brexit, particularly with regards to the New Zealand lamb quota, where 50% of imports are destined for the UK<sup>13</sup>.

---

<sup>12</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/515048/food-farming-stats-release-07apr16.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/515048/food-farming-stats-release-07apr16.pdf)

<sup>13</sup> <http://beefandlamb.ahdb.org.uk/market-intelligence-news/new-zealand-sheep-meat-quota-usage-falls/>



Ironically though, it may actually be easier for the UK to agree free trade deals with the US or Mercosur group on its own than as part of a disparate and generally anti-capitalist group of 28, particularly when the regulatory differences in animal production systems and citizens approach to the use of science are so polarised<sup>14</sup>. Within the EU, an ongoing Luddite approach to essential agro-technology and precision plant breeding is prevalent, as the application of the 'precautionary principle' which shackles the agricultural industry to the paranoia of the few.

It is generally felt that the UK is less adverse to trade, innovation and science than our European continental neighbours, and so despite President Obama's statement that we are "back of the queue", a fast track lane, potentially piggy-backing on the TTIP deal itself, is well within the scope of possibilities<sup>15</sup>. In the absence of a global trade reform agenda as a result of the stalled Doha Round of WTO negotiations, UK pressure in a free trade agreement between the EU and the US may be the only driver for global agricultural policy reform<sup>16</sup>.

An independent UK would not, however, be wise to pursue a global policy of complete free trade, as WTO rules would require us to grant these privileges to all countries under the Most Favoured Nation rules. This would disrupt the many existing trade flows we have with our historical trading partners (notwithstanding what was noted above about the potential difficulties in splitting these deals out from EU trade)<sup>17</sup>. A policy of adopting multiple free trade agreements with trading partners seems logical for the future, but this would suggest we would have no external tariff and preferential access for key partners. Food prices in key areas could, therefore, fall closer to world market levels, unless quotas were set at levels to protect domestic production.

---

<sup>14</sup> Progress on TTIP may now be unlikely until 2017:

<https://www.theguardian.com/business/2016/sep/30/ttip-eu-and-us-trade-negotiators-seek-to-get-talks-back-on-track>

<sup>15</sup> <https://www.chathamhouse.org/expert/comment/us-trade-deal-uk-should-secure-its-spot-ttip-after-brexit>

<sup>16</sup>

[http://www.europarl.europa.eu/RegData/etudes/STUD/2016/585879/IPOL\\_STU\(2016\)585879\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2016/585879/IPOL_STU(2016)585879_EN.pdf)

<sup>17</sup> <http://capreform.eu/agricultural-implications-of-british-eu-withdrawal-for-rest-of-the-eu/>



## **A special case for agriculture?**

Should agriculture be a special case in global trade deals? On many other counts, such as wage protection<sup>18</sup>, agriculture has argued it should not be subject to a specific separate legislative agenda. The issue that Nigel Farage's comments have highlighted is that if we pursue a free-trade agenda with third countries after Brexit, the distorting impact of the CCT can be avoided and food prices should fall.

There are three important points to make about this. First, as noted above, regardless of the final nature of the agreement between the UK and the EU, neither party is unlikely to want to have a substantial (or any) tariff barrier for cross-border trade, for many reasons including the disproportionate impact this would have on consumer prices in Ireland. Trade with the EU in agri-food products is more significant for the UK agri-food sector than vice versa, but these averages mask significant exposures for key sectors. Some form of exception to the CCT would, therefore, be logical, pragmatic and beneficial. Of crucial importance here also is the role that exchange rates will play in Britain's trading future. A weaker Pound stimulates domestic production more than any trade barriers and protectionist measures could<sup>19</sup>. Such a fiscal policy would be advantageous on multiple levels going forward.

Second, the likelihood of our historical trading partners wishing to enthusiastically export their produce to the UK ignores global trends in production and consumption patterns over the 40 years since we last had a direct trade agreement with them. Central to this is the Australasian proximity to numerous Asian tiger economies, notably China. Data from the AHDB shows that New Zealand has in fact not used its full EU tariff free quota for lamb since 2009<sup>20</sup>. The previously noted issues over splitting existing EU TRQs on Brexit could in fact present an opportunity for UK producers to meet more domestic demand, if the TRQ stayed with the EU

---

<sup>18</sup> The Agricultural Wages Board was dissolved in 2013, with the NFU's support, as agricultural workers rights came under general workers rights legislation and the new minimum wage: <https://www.gov.uk/agricultural-workers-rights/overview>

<sup>19</sup> *The Real Sterling Crisis*, Bootle and Mills (2016) <http://online.fliphtml5.com/nwmb/vtsb/#p=1>

<sup>20</sup> <http://beefandlamb.ahdb.org.uk/market-intelligence-news/eu-sheep-meat-imports-buoyed-by-volumes-from-new-zealand/>

and the New Zealand looked to fulfil EU markets that the UK had previously supplied<sup>21</sup>.

Similarly in dairy markets, the IFCN Long Term Dairy Forecast published in September 2016 is predicting large scale consolidation in Asian dairy production, which bearing in mind that average global herd size is only 2.9 cows per farm and yield is 2.1t milk/cow/yr, is long overdue<sup>22</sup>. According to IFCN, global demand for dairy produce is predicted to keep increasing - provided consumers perceptions and policy remains favourable, average demand is predicted to increase by 2.3% per year, or 25% over 10 years, equivalent to 8.5 times the current output of New Zealand. However, the vast majority of this will be in Asia, for Asia. Against these global forces of supply and demand, against which the world market price will be set, the terms of individual free trade agreements covering an amount of New Zealand butter to the UK per year could be inconsequential.

The UK dairy market remains competitive, yet protected by the British love of fresh liquid milk. The prerogative will be on the UK dairy industry to keep innovating and educating to ensure that domestic and export markets remain profitable. Note that there will be an enhanced role for labelling, which will newly be under UK control post Brexit, to ensure that elements of food fraud facilitated by Internal Market rules in dairy in particular (third country milk processed into UK cheddar, for example) will be eliminated.

## **Progressive AND protective agriculture**

The third and final reason to note in relation to possible food price declines post-Brexit is that we would argue agriculture is a special case, deserving of taxpayers support and protection from the full effects of global trade liberalisation. These arguments include national food security, the failure to account for the full natural capital cost of food production in retail pricing, and maintaining and enhancing rural vibrancy. It is essential that we utilise fully our regained entitlement of WTO producer support value to develop non-market distorting financial measures to enhance the progressive nature of UK farming and ensure recognition for the protective role it plays in meeting the expectations of British citizens as to the quality

---

<sup>21</sup> <http://www.radionz.co.nz/news/business/307229/brexit-nz-beef-up,-or-sacrificial-lamb>

<sup>22</sup> [http://www.ifcndairy.org/media/downloads/20160928\\_IFCN-Article\\_Long-term-Dairy-Outlook.pdf](http://www.ifcndairy.org/media/downloads/20160928_IFCN-Article_Long-term-Dairy-Outlook.pdf)

of landscape, air, soil, water and biodiversity. Such a policy will help businesses to adjust to the altered trade landscape and so secure the long-term viability of the UK farming industry.

Undoubtedly, not all farming businesses in the UK operate on a level playing field, or even a level field. Those facing natural production constraints as a result of altitude, distance or topography could never expect to be as financially productive as an intensive lowland arable enterprise. The role of Government should be to create a policy environment where all businesses have equal chance of survival, and for numerous social and environmental reasons it is essential that our more vulnerable producers are protected.

Interestingly, under all three post-Brexit trade scenarios discussed in the NFU Wageningen report, the traditionally unsupported sector of horticulture thrives. This sector has never received generous production subsidies like grain, dairy and beef producers, and only with the move to decoupled support in the 2003 CAP reform would any land-based payment be given to horticultural businesses (and even then these would generally roll up to landowners in land rental payments). It is a viable and dynamic sector, but not without its own challenges. These include supermarket price pressure, the attitude of the EU to pesticide regulation particularly with regards to recovery of investment costs for use on minor crops, and minimum wage issues. Nonetheless, it is very capable of standing on its own two feet. Is this a model that other sectors could and should aspire to?

Arguably yes, but over time and subject to safeguards. Adequate protections for an integrated productive and efficient, yet socially and environmentally beneficial agriculture should be a prerequisite in a future farming policy. We must not become guilty of a neo-Imperialistic attitude to food production, exploiting the natural capital resources of our global trading partners, whilst spending millions of taxpayers money trying to preserve our own “natural” environment in a socio-environmental time warp. The Government of a crowded island of 70 million people is running an irresponsible risk if it believes that all food should be imported if the price is right. The vulnerability of such a policy to terrorist acts at ports of entry is not far-fetched in the age we live in. Ensuring a thriving home

production base that can be rapidly expanded if required is a fundamental duty of any Government to those it governs and those with whom it trades.

## **Conclusion**

An adjustment to world market prices would be valuable for UK consumers in the short term and could be achieved by stepping outside the CCT, but adopting this policy would have a detrimental and severe impact on our closest and most valuable trading partners and their citizens. Equally, global demand for food is increasing and our traditional Australasian suppliers are unreliable in this changed global food landscape. The UK would be irresponsible to pursue a unilateral policy of global food liberalisation: market access has to reflect supply and demand capabilities, consumer preferences, and the multifunctional character of our integrated land use.

Uncertainty in the post-Brexit food world can be countered by a clear objective to achieve a responsible trade policy with all trading partners based on need and existing trade flows, whilst taking the opportunity to incentivise progressive and protective domestic production and recognising our position in a consumer focused global food market. There are a vast array of uncertainties regarding post-Brexit trade relationships and farm gate returns, but fiscal policy and labelling both offer opportunities for UK producers to pick up domestic demand and to exploit export potential. Focussing on business resilience at farm and policy level, with a keen eye on the bigger global picture, will serve us well.

Ends

*The author is a farmer by trade and the UK Independence Party's spokesman on agriculture and its Parliamentary Whip. He is a member of the European Parliament's Agriculture and Rural Development Committee.*