BREXIT AND ITS CONSEQUENCES FOR THE CAP

Presentation to Journée internationale
'The future of the CAP – L'avenir de la PAC'
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Outline

- State of play of negotiations
- Budget consequences
- Market consequences
- UK agricultural policy
- The Irish border issue

Article 50 TEU – a reminder

- "…the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union"
- Approval by qualified majority of Council with consent of European Parliament
- Two year deadline following notification
- Process triggered 29 March 2017, UK leaves the EU 29 March 2019

Two options to extend the deadline

- Option 1. Extend Brexit date within withdrawal agreement (qualified Council majority + EP consent)
- Option 2. Extend period for negotiations beyond two years (Council + UK unanimity)

Brexit – the UK letter 29 March 2017

- UK does not wish to be a member of the Single Market
- UK does not want to be part of the EU's Common Commercial Policy or be bound by the EU Common External Tariff, but does want a customs agreement with the EU
- End the jurisdiction of the European Court of Justice
- End budget contributions to the EU apart from specific programmes
- Seeks ambitious free trade agreement with the EU

The negotiation process to date – EU

- European Council (Art.50) guidelines / Commission draft and General Council (Art. 50) negotiating directives
  - May 2017 'Divorce agreement'
  - Dec 2017/Jan 2018 Transition agreement
  - Mar 2018 Future trade relationship
- European Parliament Brexit Steering Group
  - European Parliament resolutions April 2016, June 2017, Dec 2017 and March 2018
- Joint reports of the negotiators Dec 2017 and June 2018
- Commission draft Withdrawal Agreement Feb 2018
  - Incomplete draft welcomed by European Council as basis for further negotiations with the UK

The negotiation process to date – UK

- PM May Lancaster House, Florence and Mansion House speeches
- HM Government White Papers, position papers, future partnership papers, technical papers on DExEU website
- Updates on negotiations to the House of Commons

- Has passed the European Union (Withdrawal) Bill
- Various sectoral bills to implement post-Brexit policies (trade, agriculture, etc) to be presented
- White Paper on future relations with EU delayed and will now be published after EU summit next week

Current UK negotiating position

- Free trade agreement to avoid tariffs
- As frictionless trade with EU as possible through a customs arrangement
  - A new customs partnership
  - Maximum facilitation (‘max fac’)
- ‘Three baskets’ approach to regulatory alignment
  - Some areas with fully aligned (the same) rules
  - Some areas with similar regulatory objectives but different rules
  - Some areas with divergent objectives and rules (usually associated with new technologies)
- Rules out role for European Court of Justice
- Commitment to no hard border on the island of Ireland but also no new checks between Northern Ireland and Great Britain

Possible Brexit outcomes

<table>
<tr><td>March 2019</td><td>UK becomes third country</td><td></td></tr>
<tr><td colspan="2">Withdrawal Agreement
- citizens’ rights, financial settlement</td><td>No-deal</td></tr>
<tr><td>March 2019 – Dec 2020</td><td>Transition period – UK treated de facto as a Member State but outside decision-making</td><td rowspan="4">Disorderly Brexit

Either because a deal cannot be agreed with EU or it is voted down by UK Parliament

Trade on WTO terms</td></tr>
<tr><td>After 2020 –</td><td>Backstop arrangement to avoid Irish border inc. ‘temporary customs arrangement’ ?</td></tr>
<tr><td>Soft Brexit</td><td>Hard Brexit</td></tr>
<tr><td>Customs union plus regulatory alignment a la EEA</td><td>CETA-style FTA</td></tr>
</table>

Commission's MFF proposal May 2018

- Loss of UK net contribution €12-13 billion (50:50)
- New priorities (€12.5 billion) (20:80)
- Significant buoyancy in EU own resources due to EU growth..
- … but proposed increase in gross contributions of 11%
- All rebates ended
- UK departure implies pro rata cut in CAP budget of 8.9% or 10% in direct payments (COM Impact Assessment)

Comparing CAP budgets

- Current or constant prices
- Deflator to use to convert to constant prices
- Before or after Member States' use of flexibilities to move funds between Pillars
- Total resources available in programming periods or end years?
- Taking account of Brexit
- Commitment or payment appropriations
- What is assumed about the baseline?

The CAP budget in current prices

	EU28 2014-2020	EU27 7*2020	EU27 2014-2020	2021-2027	% change vs EU27 2020*7	% change vs EU27 2014-2020
EAGF	317.790	287.437	295.507	286.195	0%	-3%
EAFRD	85.552	95.04	80.357	78.811	-17%	-2%
CAP	403.342	382.477	375.864	365.006	-5%	-3%

Source: EU Commission

Comparison of CAP budget, 2020 and 2027

(in € million 2018 constant prices)

	2020 EU27 MFF ceilings	2027 EU27 MFF ceilings	Change in MFF ceilings
	Updated using Commission figures		
EAGF	39,468	34,606	-12.3%
EAFRD	13,050	9,421	-27.8%
Total CAP	52,518	44,027	-16.2%

Source: Alan Matthews, capreform.eu

The French position on the CAP budget

- Assumptions
  - UK no longer a Member State
  - Increased budget only for CAP spending
- France would gain only if ALL additional CAP money was used to increase Pillar 1 ceilings, and can use its own money to top up Pillar 2 spending

	Share in total CAP pre-allocation budget	Share in P1 direct payments ceilings	Share in P2 rural development budget	Share of EU27 GNI 2017
France	17.09%	18.98%	10.77%	18.10%

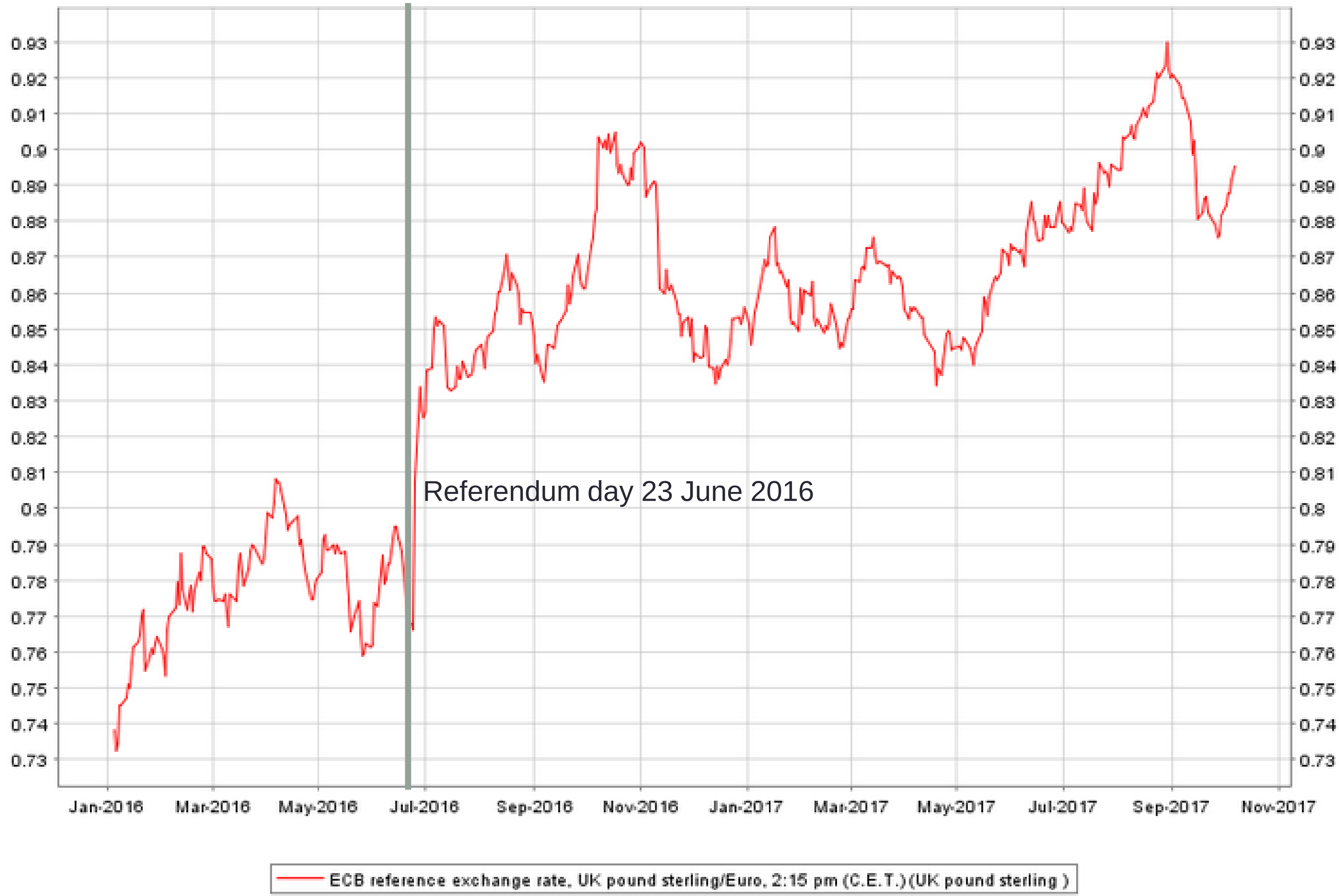
Impacts on EU internal market and trade

- Even with free trade agreement, UK exit from the Customs Union will make UK market less attractive to EU exporters
  - Lower UK price level due to lower applied protection and ambitious free trade agreements covering agrifood liberalisation
  - Higher trade costs due to customs and regulatory requirements
  - Further exacerbated if no FTA or agri-food only partially covered
- In a Vinerian framework, Brexit leads to trade destruction (between UK and EU27) and trade diversion (in favour of third countries)

Implications of Brexit for agrifood trade flows

- Some EU exports currently destined for UK will be diverted to other EU markets, with downward pressure on EU farm prices

- Other issues
  - Trade flows can, in addition, be influenced by future changes in UK agricultural trade policy and UK/EU agricultural policies as well as by macroeconomic effects (changes in expected future GDP levels, exchange rates)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Referendum day 23 June 2016
Jan-2016
Mar-2016
May-2016
Jul-2016
Sep-2016
Nov-2016
Jan-2017
Mar-2017
May-2017
Jul-2017
Sep-2017
Nov-2017
ECB reference exchange rate, UK pound sterling/Euro, 2:15 pm (C.E.T.) (UK pound sterling)

Implications of Brexit for agrifood trade flows

- Studies to date
  - LEI Wageningen UR for UK National Farmer’s Union (van Berkum et al. 2016) – UK only (MAGNET CGE model)
  - Donnellan and Hanrahan, 2016 – IE impacts, ad hoc modelling
  - Davis et al. 2017 – UK only, FAPRI-UK PE model
  - Bellora et al. 2017 – EU impacts, CEPII MIRAGE CGE model
  - Yu et al 2017 – UK and DK impacts, GTAP CGE model
  - Freund et al, 2017 – DE impacts, GTAP CGE model (incomplete)
  - Copenhagen Economics, 2017 – IE impacts, CGE model
  - Van Berkum et al, 2018 – UK and NL impacts, AGMEMOD PE model

Challenges facing empirical work

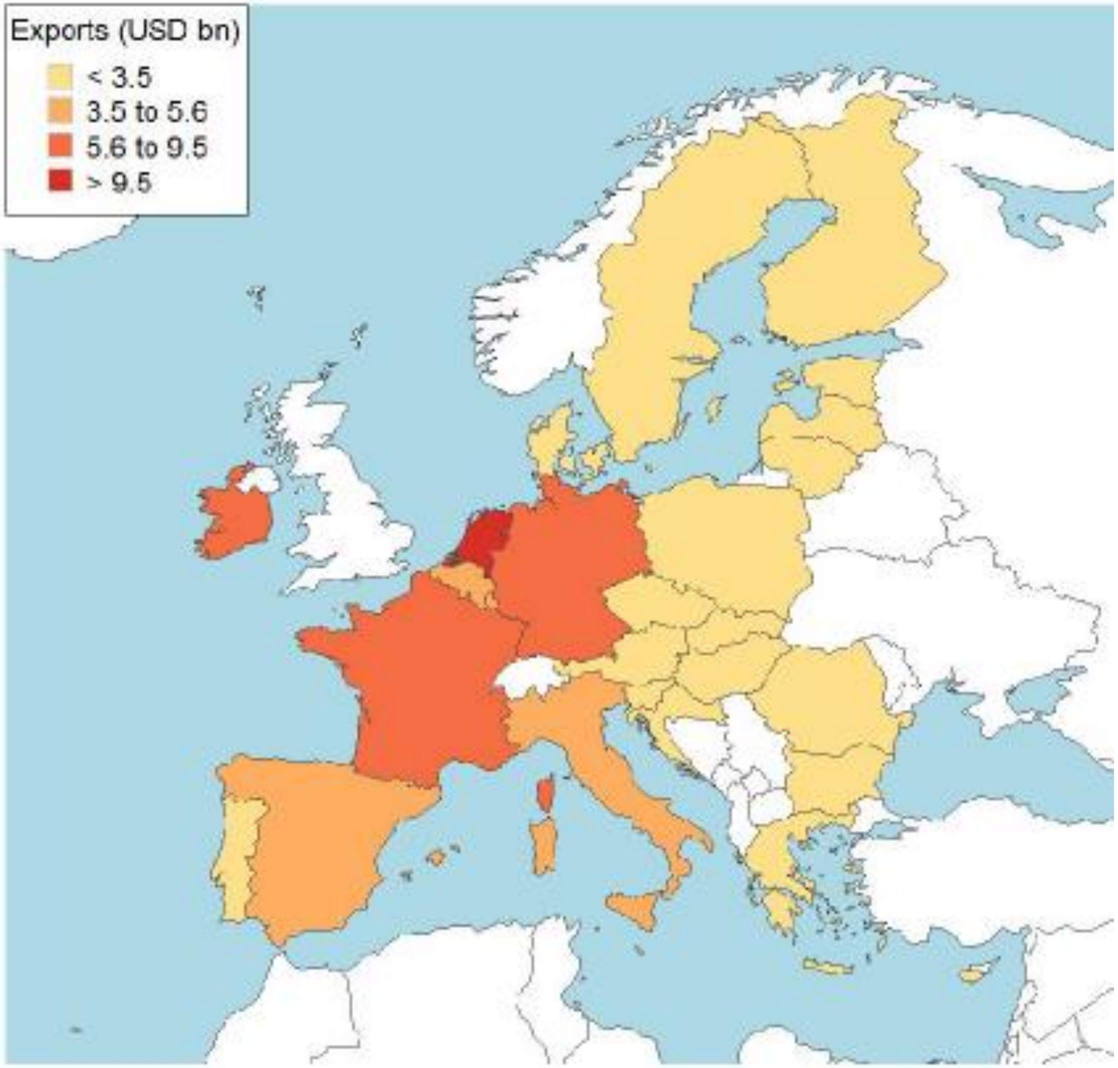
- Specifying default tariff scenarios, including TRQs
- Calibrating likely size of non-tariff barriers
- Goods assumed homogeneous at the tariff/product level
- Difficulties in taking account of rules of origin constraints which may nullify tariff preferences

- Results
  - Greater protection for import-competing sectors, loss of competitiveness for exporting sectors, increase in UK farm value added, small decrease in EU farm value added
  - Ireland the EU country most adversely affected

Main exporters – Agriculture (2013 – 2015)

COUNTRY	TRADE		
	TRADE VALUE (USD mn)	% of EU TRADE	% of total agri. exports of the country
Netherlands	9,519	20.12	1.89
France	6,971	14.74	1.23
Ireland	6,903	14.59	**4.58**
Germany	5,860	12.39	0.43
Spain	4,051	8.56	1.35
Italy	3,807	8.05	0.77
Belgium	3,602	7.62	0.95
Denmark	1,843	3.90	1.85
Poland	1,801	3.81	0.89
Portugal	437	0.92	0.69

Source: BACI (2013 – 2015), Authors' calculations



Source: Bellora et al, European Parliament report, 2017

Potential impacts – A simple indicator

A simple indicator for **trade** impacts: trade flows (exports) weighted by faced protection

SECTOR (GTAP)	GTAP code	TRADE		PROTECTION			
		TRADE VALUE (USD mn)	% of EU TRADE	NTMs (%, pre Brexit)	MFN (%)	NTMs (%, post Brexit)	PROT. REV. (USD mn)
Food products nec	ofd	16,917	9.76	35.32	13.64	61.87	12,773
Dairy products	**mil**	**4,095**	**7.59**	**42.32**	**41.05**	**74.14**	**4,717**
Meat products nec	**omt**	**5,849**	**12.92**	**24.61**	**22**	**43.1**	**3,808**
Beverages and tobacco products	b_t	7,186	9.18	14.28	13.24	25.02	2,749
Vegetables fruit nuts	v_f	5,147	11.03	18.13	11.81	31.76	2,243
Bovine meat products	**cmt**	**1,520**	**8.64**	**24.09**	**55.76**	**42.2**	**1,489**
Vegetable oils and fats	vol	1,688	5.85	21.68	15.23	37.98	898
Crops nec	ocr	1,933	8.41	16.58	6	29.05	678

Sources: BACI (2013 – 2015), MAcMap-HS6 and Kee et al. (2009), Authors' calculations

→ Countries potentially most impacted: **Netherlands, Ireland** (i.e. main exporters of most impacted sectors)

Source: Bellora et al, European Parliament report, 2017

Consumer and producer prices variation (%), 2030

REGION	CONSUMPTION		PRODUCTION	
	AGRI-FOOD	TOTAL	AGRI-FOOD	TOTAL
Ireland	+ 5.4	-0.4	+ 2.0	-0.4
Sweden	+ 0.0	-0.3	-0.4	-0.3
France	+ 0.0	-0.2	-0.2	-0.3
Portugal	+ 0.0	-0.2	-0.2	-0.2
Belgium and Luxembourg	+ 0.0	-0.4	-0.4	-0.5
Netherlands	+ 0.0	-0.5	-0.4	-0.5
Spain	+ 0.0	-0.3	-0.2	-0.3
Rest of EU27	-0.1	-0.1	-0.2	-0.2
Germany	-0.1	-0.2	-0.2	-0.2
Italy	-0.1	-0.2	-0.2	-0.2
Poland	-0.2	-0.2	-0.3	-0.3
UK	+ 4.0	-0.9	+ 0.2	-1.6

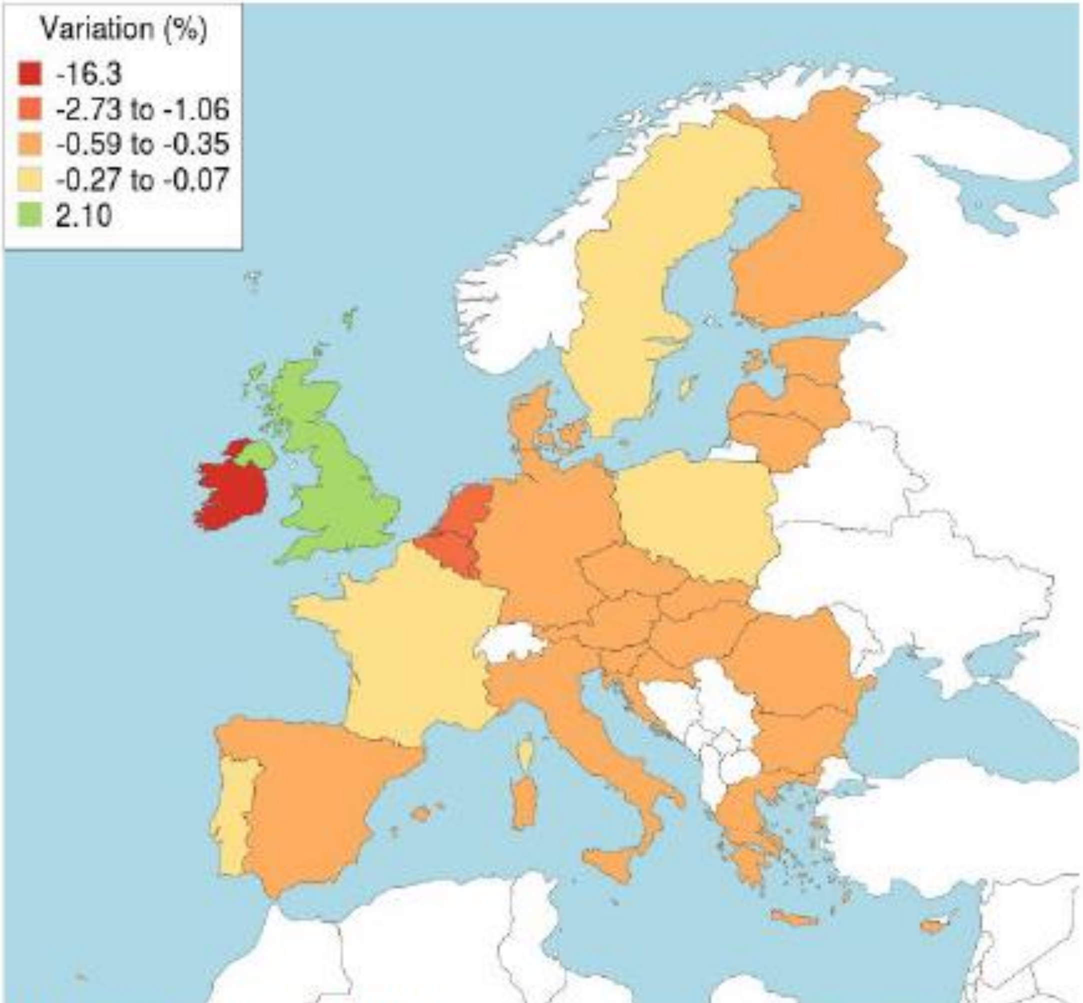
Production prices: two opposite effects
- More expansive intermediates (+)
- Market effect / decrease in demand (-)

Consumption prices: two opposite effects
- Tariffs, NTMs (+)
- Market effect / decrease in demand (-)

Source: Authors' calculations using MIRAGE-e

Source: Bellora et al, European Parliament report, 2017

Value-added: most impacted countries

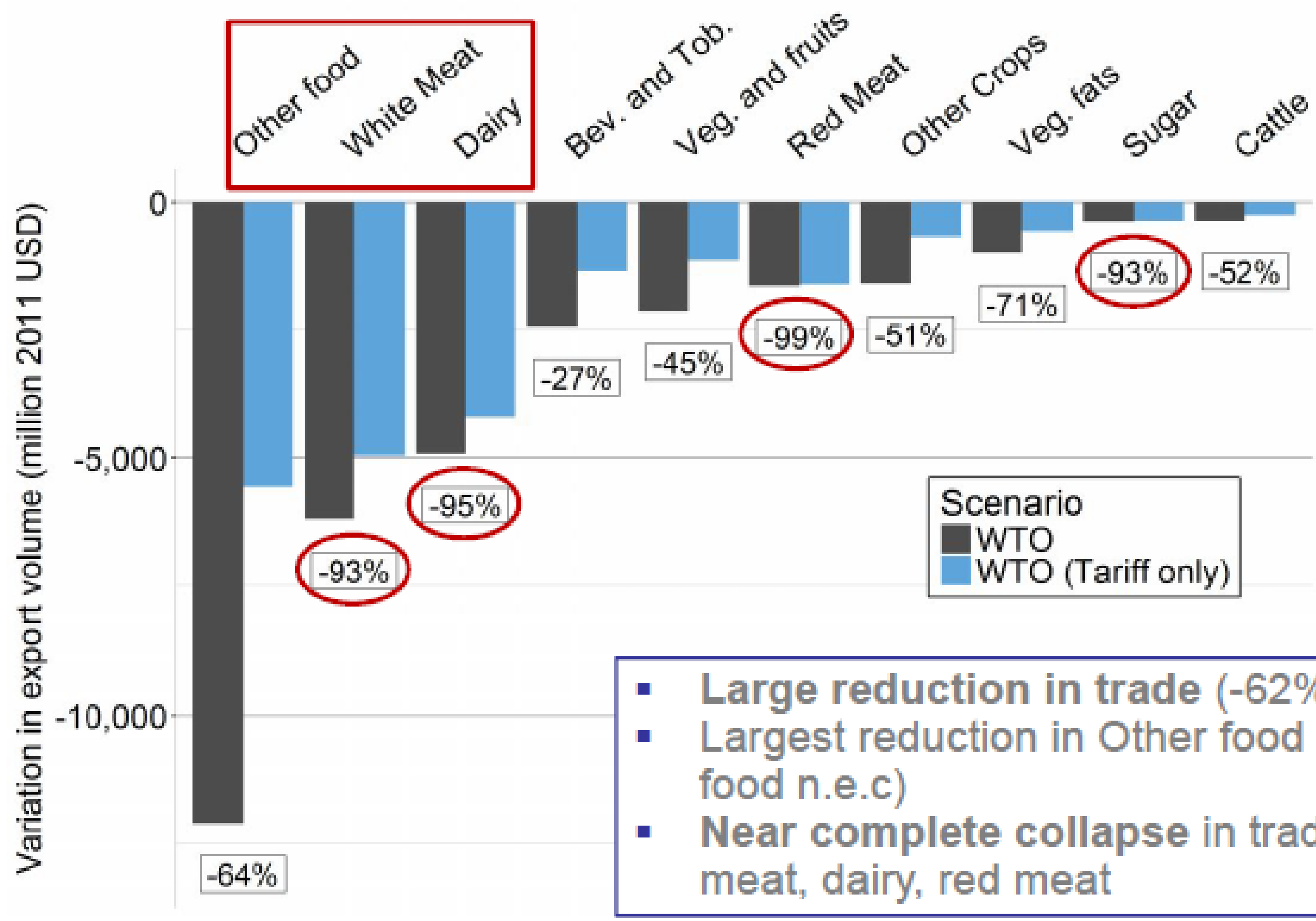


Source: Authors' calculations using MIRAGE-e

- **Ireland** is the **most impacted** country
- **Belgium-Luxembourg and the Netherlands** agri-food VA decrease **significantly**
- Otherwise, **impacts remain small** in relative terms
- The **UK** experiences an **increase in agri-food VA**

Source: Bellora et al, European Parliament report, 2017

EU27 agri-food exports: most impacted sectors

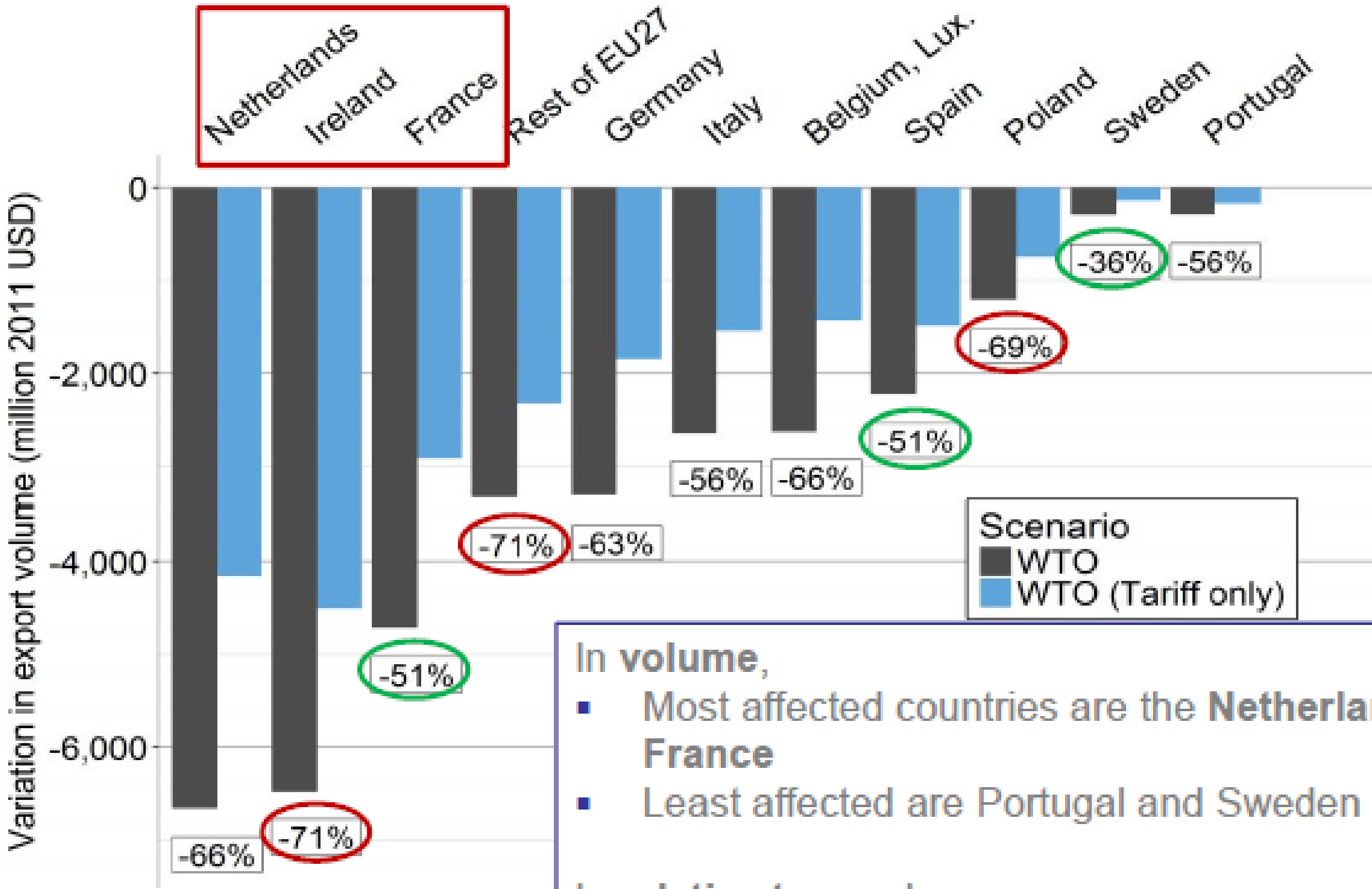


- **Large reduction in trade** (-62% on average)
- Largest reduction in Other food (processed food n.e.c)
- **Near complete collapse** in trade for White meat, dairy, red meat

Source: Authors' calculations using MIRAGE-e

Source: Bellora et al, European Parliament report, 2017

EU27 agri-food exports: most impacted regions



Source: Authors' calculations using MIRAGE-e

In **volume**,

- Most affected countries are the **Netherlands, Ireland and France**
- Least affected are Portugal and Sweden

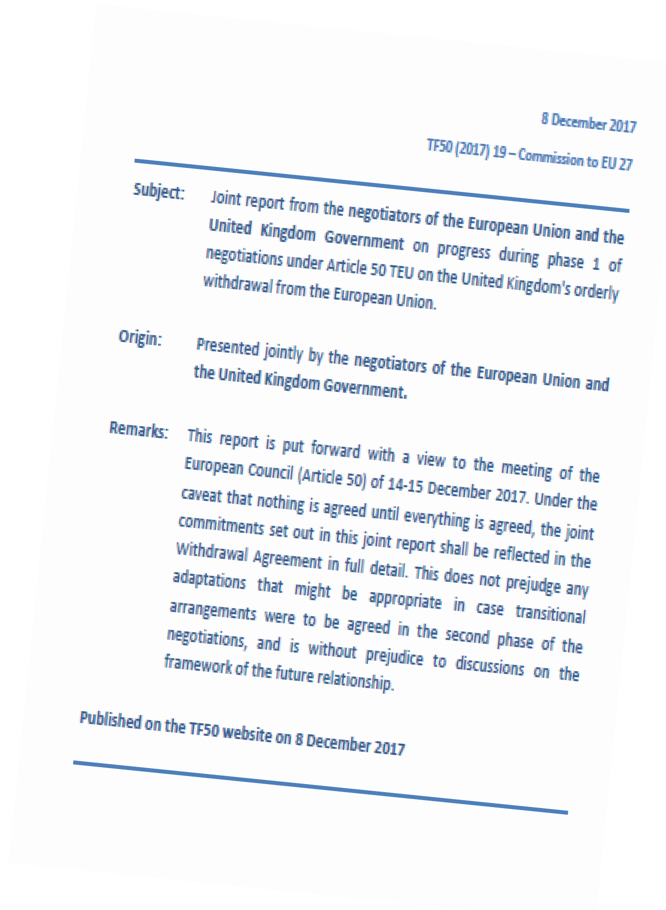
In **relative terms**, however

- **Ireland, Rest of EU27 and Poland** are the most impacted
- **Sweden, France and Spain** are less affected

Source: Bellora et al, European Parliament report, 2017

Post-Brexit agricultural policy: what to expect

- What the draft Withdrawal Agreement says on **transition**
  - UK remains part of customs union/single market until 2020
  - Can start to diverge on Pillar 1 payments from 2019 calendar year
  - Presumption that UK can roll over EU FTAs with third countries



8 December 2017

TF50 (2017) 19 – Commission to EU 27

Subject: Joint report from the negotiators of the European Union and the United Kingdom Government on progress during phase 1 of negotiations under Article 50 TEU on the United Kingdom's orderly withdrawal from the European Union.

Origin: Presented jointly by the negotiators of the European Union and the United Kingdom Government.

Remarks: This report is put forward with a view to the meeting of the European Council (Article 50) of 14-15 December 2017. Under the caveat that nothing is agreed until everything is agreed, the joint commitments set out in this joint report shall be reflected in the Withdrawal Agreement in full detail. This does not prejudge any adaptations that might be appropriate in case transitional arrangements were to be agreed in the second phase of the negotiations, and is without prejudice to discussions on the framework of the future relationship.

Published on the TF50 website on 8 December 2017

Post-Brexit agricultural policy: what to expect


Department for Environment Food & Rural Affairs

Health and Harmony: the future for food, farming and the environment in a Green Brexit

February 2018

Cm 9577

1

- What to expect in **domestic agricultural policy**?
- Treasury committed to continue CAP budget to 2022 for each UK nation
- Government committed to restoring EU agricultural powers to the nations
  - Subject to a common framework to minimise divergence
- White Paper proposes
  - ‘agricultural transition’ away from direct payments to paying for public goods
  - Greater focus on improving productivity
  - Cornerstone of agricultural policy **in England** will be a new environmental land management system

Dependence on direct payments – share in agricultural GVA and TIFF

	2014	2015	2016	Average 2014-16	2014	2015	2016	Average 2014-16
	Share in GVA at basic prices				Share in Total Income from Farming			
England	19.3%	21.1%	26.6%	22.3%	38.3%	50.0%	67.6%	52.0%
Scotland	47.2%	46.8%	62.3%	52.1%	84.9%	106.7%	140.8%	110.8%
Wales	32.3%	30.7%	34.3%	32.4%	49.3%	53.3%	54.1%	52.2%
Northern Ireland	51.8%	62.6%	68.0%	60.8%	80.5%	118.5%	114.5%	104.5%
United Kingdom	23.6%	25.4%	31.3%	26.8%	44.5%	56.7%	71.1%	57.5%

Source: Own calculations based on Defra, *Agriculture in the United Kingdom*, various years

Implications of devolved administrations

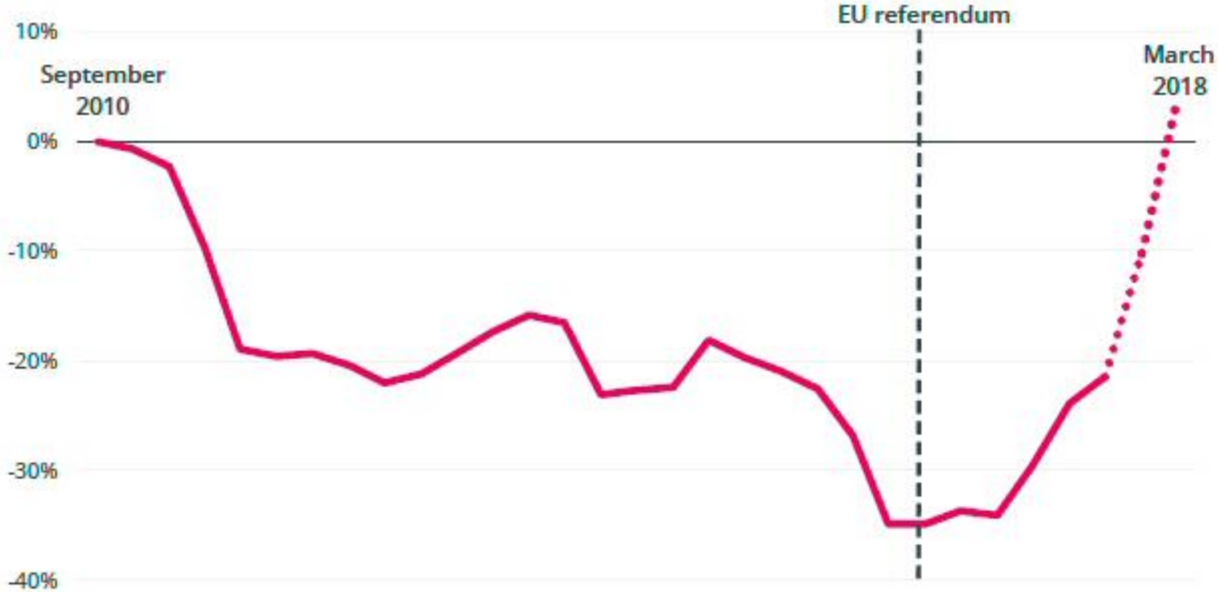
- Agricultural policy the responsibility of four administrations
- EU sets common framework through CAP regulations.
- CAP budget distributed to devolved administrations based on (disputed) formula, to which they can add from own resources through their block grants
- Devolved administrations have the same flexibility as Member States in making their CAP implementation decisions (over some 80 decision points).
- Prime Minister’s Lancaster House speech 17 Jan 2017
  - “no decisions currently taken by the devolved administrations will be removed from them.
  - “working very carefully to ensure that – as powers are repatriated from Brussels back to Britain – the right powers are returned to Westminster, and the right powers are passed to the devolved administrations of Scotland, Wales and Northern Ireland”

Role of devolved administrations after Brexit

- Extent of differentiation will need to be regulated by new powers at UK level through a common framework
  - e.g. market support policy, caps on trade-distorting support and other forms of state aids
- Extent of differentiation limited by funding possibilities
  - Allocation of agricultural funding across devolved administrations will be controversial
    - Devolved functions are included in block grant distributed according to Barnett formula (i.e. primarily based on population)
    - CAP payments currently distributed on the basis of 1991-2001 production
    - Scotland argued for area distribution at last MFF negotiations and got commitment to review formula in 2016-17 to apply post-2020
  - DEFRA (lead department for agriculture) has seen its budget reduced by 30% between 2010-11 and 2015-16

… though this is changing

Change in payroll staff numbers (FTE), September 2010 to March 2018



1,200
new EU exit roles created by March 2018

65%
projected increase in staff numbers on June 2016, by March 2018

Source: Institute for Government analysis of ONS Public Sector Employment Data.

Source: Institute for Government, 2018

White Paper – Pubic money for public goods

- England only
- Direct payments to be eliminated during the ‘agricultural transition’
- Simplify Countryside Stewardship Scheme and cross compliance, remove or reduce “current ineffective greening requirements”
- To be replaced by payments for public goods
  - Wide definition – environmental protection, better animal and plant health, animal welfare, improved public access, rural resilience and improved productivity
- Originally proposed to cap direct payments and gradually reduce, now shifted to linear cut in payments over ?? years
- If implemented, will be extraordinary guinea pig for future EU agricultural policy

Future UK agricultural trade policy

- UK will leave the Customs Union so free to set its applied tariffs
  - Assume will set at lower levels although not zero
- Will the UK will take the opportunity to simplify some of the enormously complicated EU agricultural tariffs? (*ad valorem tariffication?*)
- UK will seek wide-ranging and ambitious free trade agreements with EU and third countries, some of whom are agricultural exporters
- Will UK implement a Generalised System of Preferences – more generous than EU for agrifood products? Has already agreed to maintain duty-free quota-free access for imports from LDCs

Joint EU-UK WTO issues

- Apportionment of WTO Tariff Rate Quotas (TRQs)
  - Joint UK-EU letter to WTO Members setting out intention to apportion EU28 TRQs on basis of UK’s usage share 2013-15
  - Commission draft Regulation seeking negotiating authority to enter into negotiations with the principal supplying countries affected
  - Third countries reject idea of apportionment
- Apportionment of domestic support ceilings
  - Less contentious in principle..
  - .. But many technical issues
- Adjustment of EU27 TRQs in existing Free Trade Agreements or those under negotiation
  - Third country interests?
  - EU interests exemplified by Mercosur beef

The Irish border issue

- ‘The Troubles’ which began in 1968 concluded with a peace agreement in 1998 called the Good Friday Agreement approved by same day referendum in both parts of Ireland
  - a multi-party agreement between political parties in Northern Ireland which results in power-sharing devolved government
  - An international agreement between Ireland and the UK
- Future status of Northern Ireland to be a matter for the people of Northern Ireland
- Joint citizenship
- EU membership was the context for this co-sovereignty
  - No mention of tariffs or customs administration

Joint Report Paragraphs 49 and 50

- The United Kingdom remains committed to protecting North-South cooperation and to its guarantee of avoiding a hard border.
- The United Kingdom's intention is to achieve these objectives through the overall EU-UK relationship (Scenario 1)
- Should this not be possible, the United Kingdom will propose specific solutions to address the unique circumstances of the island of Ireland (Scenario 2)
- In the absence of agreed solutions, the United Kingdom will maintain full alignment with **those rules** of the Internal Market and the Customs Union which, now or in the future, support North-South cooperation, the all-island economy and the protection of the 1998 Agreement (Scenario 3)
- In all circumstances, the United Kingdom will continue to ensure the same unfettered access for Northern Ireland's businesses to the whole of the United Kingdom internal market.

The draft Withdrawal Agreement – protocol on Ireland/Northern Ireland

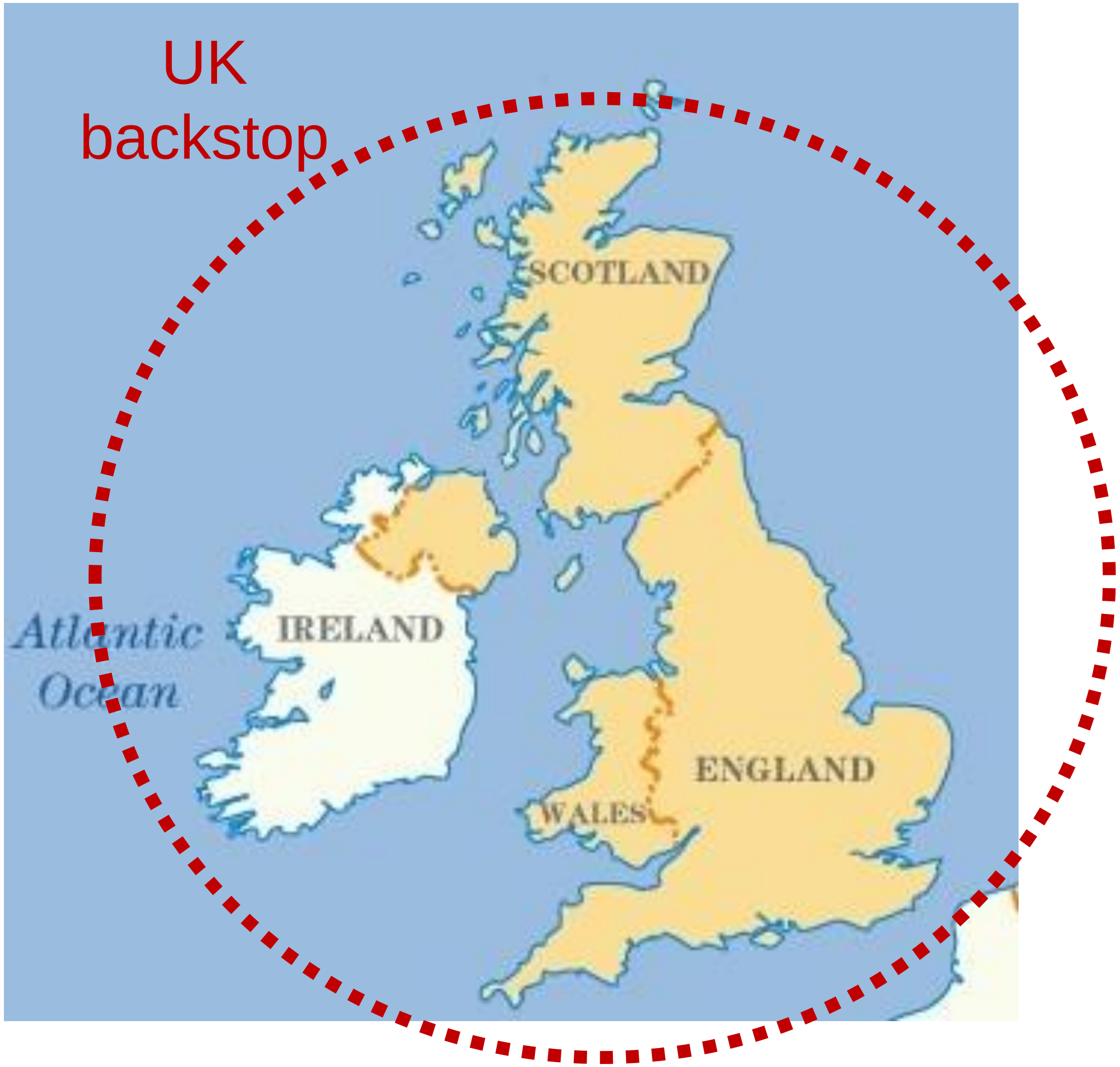
- Underlines that part or all of this Protocol may cease to apply should a future agreement between the Union and the United Kingdom be agreed which addresses the unique circumstances on the island of Ireland, including by avoiding a hard border and protecting the 1998 Agreement in all its dimensions;
- Establishes a common regulatory area between the Union and Northern Ireland, specifically covering agriculture and fisheries, the single electricity market and state aids
  - The specific EU legislation which would operate is spelled out in a series of Annexes
- Considers the territory of Northern Ireland part of the customs territory of the Union, including with respect to administration of VAT and excise duties

The EU backstop position

UK backstop proposal

- Put forward in context that UK’s preferred approach, to address customs issues on the Irish border in the context of future trade relationship unlikely to be technically feasible by end-2020 when transition period expires
- Made in Technical Paper 7 June 2018
  - Only a proposal for joint solution on customs, recognising that an approach on regulatory standards also needs to be addressed
  - Proposes a ‘temporary customs arrangement between the EU and the UK’ in the context where the backstop would apply
  - Internal conflicts within UK government on whether there would be a stated end date
  - Compromise was to stress it would be time-limited and that it was not UK’s preferred option
- UK proposal given critical reception by Art. 50 Task Force on 11 June

UK backstop position



What if the UK backstop becomes the trade deal?

- Implications of EU backstop proposal for integrity of the UK
- The UK backstop would imply that the UK remains in a goods-only customs union and single market and abides by EU rules
  - It would resolve the Irish border issue
  - Trade off for UK – would avoid supply chain disruption and gain control over freedom of movement but lose preferential access to the single market for services
  - UK would have nothing to offer on goods in future Free Trade Agreements with its bilateral partners unless agriculture were excluded
  - Certainly not the official position of the UK government at this time and politically hard to see how it would get Parliament support

The EU's dilemma

- If UK were to make this proposal how would/should EU react?
  - Would it see this as 'cherry-picking', or a way of achieving a 'balance of rights and obligations'?
  - Can regulations for goods and services be separated in this way?
  - Is free movement of people an economic requirement for a single market?
- The EU is a political project – here the Brexiteers are right – and needs to make it worthwhile to remain a member of the club – hence its red lines
- Despite the further progress on the draft Withdrawal Agreement reported by the Joint Negotiators on 19 June, irreconcilable positions on avoiding hard border in Ireland could lead to breakdown of Art 50 negotiations and thus 'no-deal' outcome

Some key messages

- A 'no-deal' outcome is still possible
  - Would have budget implications for 2019 and 2020, though revenue from tariffs on UK imports would help to offset
- Will period of Art. 50 negotiations be extended if negotiators run out of time?
- Even if Withdrawal Agreement is reached and ratified, will transition period be long enough to conclude a future trade agreement before end 2020?
- Brexit has complicated MFF budget negotiations mainly by requiring increase in political ceiling on own resources
- Agricultural market implications appear manageable for most Member States, only a small number really affected
- Proposed radical change in England's farm policy
  - A terrific laboratory experiment for agricultural economists!

THANK YOU

Matthews, A., 2018. *Implications of Brexit for food and agriculture in developing countries*, TEP Working Paper No. 0318, Department of Economics, Trinity College Dublin.

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