House of Commons Library

BRIEFING PAPER

Number 7602, 26 May 2016

EU Referendum: Impact on UK Agriculture Policy

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Summary

Farming unions across the UK have passed council resolutions advocating a 'remain' position for the EU referendum. This is on the basis that the uncertainties associated with a UK exit are just too great in terms of the levels of future support for UK agriculture and the basis of future UK trade with the EU.

However, their members are more evenly split.

A *Farmers Weekly* survey in April 2016 found that 58% of farmers planned to vote exit and only 31% were planning to vote remain.[1] This is in contrast to CBI reports that almost 80% of UK businesses want to remain in the EU.[2]

This briefing provides an update to the agriculture chapter in House of Commons Library briefing *EU referendum: Impact of an EU exit in key UK policy areas* (February 2016) to reflect the more detailed analysis and stakeholder positions which are now in the public domain.

It concentrates on the potential implications for UK agriculture policy of the EU referendum vote mainly in terms of the EU's Common Agricultural Policy. Broader issues of trade models and tariffs are covered in the trade section of the February paper.

EU Common Agricultural Policy support – a major element of UK farming

Almost 40% of the EU's budget is related to agriculture and rural development through the EU Common Agricultural Policy (CAP).

The CAP provides an EU framework of regulation for direct payments to farmers, market support measures and rural development. In the UK, EU farm subsidies currently make up around 50-60% of farm income.[3]

Whatever the outcome of the referendum, there are major implications for the UK's food and farming industry because of the CAP.

Prime Minister David Cameron has committed to ensuring that an agricultural support system is "properly maintained" in the event of a UK exit.[4] However, the UK Government has provided no 'Plan B' for agriculture for exit.

Defra Secretary of State Liz Truss supports a 'remain' position on the basis that EU exit is a "leap in the dark" for farmers.[5] The farming minister, George Eustice has set out how a fresh approach to farm

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1 58% leave, 31%remain, 11% undecided, *Farmers Weekly*, 29 April 2016
2 CBI, *Two futures: What the EU referendum means for the UK's prosperity*, April 2016, p.2
3 Defra, Total Income from Farming 2014 - 2nd estimate United Kingdom, 26 November 2015 shows that subsidies made up around 54% of UK Total Farm Income in 2014 and HM Government, Review of the Balance of Competencies between the United Kingdom and the European Union: Agriculture, Summer 2014 paras 2.34 –2.38 indicted that in 2012 this figure had been as much as 68%.
4 CLA, *PM David Cameron responds to CLA EU referendum concerns*, 14 April 2016
5 DEFRA Press Release, *Environment Minister addresses the NFU Conference*, 23 February 2016

support and policy could look outside the EU.[6] UKIP has done the same.[7] Both of these positions in support of a UK exit suggest maintaining some level of subsidies. Meanwhile, Shadow Environment Secretary, Kerry McCarthy has welcomed the backing of EU membership by the farming unions.[8]

Although there is no UK vision for an agricultural sector operating outside CAP, successive UK governments have consistently sought to reduce the overall CAP budget, levels of direct subsidies and ensure that direct subsidies are linked to the delivery of wider public goods such as environmental protection to give value for money to the tax payer.[9]

The key EU referendum issues for the agricultural sector

If the UK stays in the EU the key issues for the agricultural sector are around:

- the shape of the next CAP reform (2020-2027) for which preparations are already under way
- decisions on a range of pesticide approvals that are currently being reviewed.
- the outcome of the CAP simplification process being led by the EU Agriculture Commissioner Phil Hogan.

The key issues influencing the debate around EU exit are around:

- future levels of payment support
- future levels of rural development funding
- overall national farm policy and regulation
- future trade models
- seasonal labour availability
- the potential for greater deregulation and innovation outside CAP

From a general rural perspective, there is also the issue that the CAP includes Rural Development Programmes for each Member State which fund the broader rural economy e.g. rural broadband, agri-environment schemes and tourism.

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[6] Eustice outlines £2bn plan for farming as Defra Ministers stand divided on Brexit, *Farmers Guardian*, 25 February 2016

[7] Leaving the EU 'too risky' warn farm leaders, *Farmers' Weekly*, 5 March 2016

[8] Labour Party Press Release, *Labour welcomes the NFU's decision to back British EU Membership – McCarthy*, 18 April 2016

[9] See for example, House of Commons EU Scrutiny Committee *Seventh Report of Session 2007–08*, 9 January 2008 and overall explanation of the Health Check in National Assembly for Wales Members' Research Service, *EU Common Agricultural Policy 2008: CAP Health Check*, February 2008

Latest agricultural sector analysis

A range of agricultural analysis produced within the last year illustrates the range of uncertainties associated with a UK exit in terms of implications for agriculture.

Wageningen University for the National Farmers Union (April 2016)

- Analysis, produced by LEI at Wageningen University (The Netherlands) for the NFU, *Implications of a UK exit from the EU for Birtish Agriculture* (April 2016), looks at 3 different trade scenarios with 3 different levels of direct payment support (status quo, 50% reduction and no support). It concludes that, in the main the biggest driver of UK farm income changes is the level of public support payments available. The loss of these support payments offset positive price impacts in all of the scenarios. It also highlights that livestock farms are particularly heavily dependent on direct income payments.
- The NFU has also produced a report to influence policy makers and indicate the questions that farmers need answering on Brexit. See *UK Farming's Relationship with the EU – NFU report*, 29 September 2015.

Country Land and Business Association (March 2016)

- The *CLA's Leave or Remain: The decisions that politicians must make to support the rural economy* report suggests that the £3.87bn EU CAP spend in the UK in 2013 resulted in a £10bn contribution to the EU economy, including more than 350,000 jobs and £3.5bn in tax revenue.[10]

Agra Europe Analysis (October 2015)

- *Agra Europe*, an EU agriculture and food publication, has prepared a detailed analysis of the impact that the likely farm policies on EU exit and their impacts. *'Preparing for Brexit: What UK withdrawal from the EU would mean for the agri-food industry'*.
- This highlights how an EU exit would be "traumatic" for the farming industry with large cuts in farm incomes, bankruptcies, falling land prices and elimination of small and medium sized farms as well as increased barrier to exports and lost markets.[11]

[10] CLA, *Leave or remain: The decisions that politicians must make to support the rural economy*, March 2016

[11] Analysis: The CAP and its role in the UK's Brexit debate, *Agra Europe*, 14 October 2015

1. Common Agricultural Policy support

Summary

- The Common Agricultural Policy (CAP) represents almost 40% of the EU budget and provides financial support for farmers and wider rural development funding.
- Currently CAP subsidies make up around 50-60% of farm incomes in the UK.[12]
- The UK gets a rebate on its EU budget contribution to reflect that it does not benefit as much from the large budget spend on CAP as other Member States due to having a relatively small farming area.

Implications of EU exit

- If the UK leaves the EU it leaves the Common Agricultural Policy support system. This includes direct subsidies, rural development programme funding and emergency market support measures.
- The UK Government has not outlined a possible 'Plan B' for agriculture in the event of a UK exit but the Prime Minister has committed to "maintaining an adequate support system."The level or direction of this support is not clear.
- Successive UK governments have sought to reduce CAP expenditure, simplify the complex policy, and gain more value for money for the tax payer through ensuring that CAP subsidies support farming that delivers public goods such as environmental protection.
- Outside the CAP, the UK would be free to devise a simpler support system, introduce innovations in farming policy, reduce farming regulation, and to orientate farming policy more closely to UK priorities.
- Most EU exit campaigners have advocated some form of continuing farm support.

Implications of remaining in the EU

- The UK would retain access to CAP and potentially benefit from ongoing simplification measures proposed to reduce its complexity and administrative burden.
- The UK would participate in the negotiations for the next CAP reforms for the period of 2020-2027. These reforms may or may not result in good outcomes for UK farming.
- The CAP budget could potentially be reduced in the next round as the EU continues with austerity measures. A reduction in the CAP budget was sought by the UK in the last round.

1.1 The Common Agricultural Policy (CAP)

The 1957 Treaty of Rome provided for a Common Agricultural Policy (CAP) intended to increase food production in the European Union after the Second World War.

The CAP today consists of a very complex range of regulations, agreed, at EU level, which regulate a number of aspects of farming from direct payments (subsidies) to farmers and environmental management to market intervention and rural development.

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[12] Defra, *Total Income from Farming 2014 - 2nd estimate United Kingdom*, 26 November 2015 shows that subsidies made up around 54% of UK Total Farm Income in 2014 and HM Government, *Review of the Balance of Competencies between the United Kingdom and the European Union: Agriculture,* Summer 2014 paras 2.34 –2.38 indicted that in 2012 this figure had been as much as 68%.

CAP reforms go in 'rounds' of seven years in line with EU's budget periods (the Multi-annual Financial Framework – see below). The latest reform/round covers 2014-2020. The next reform will be for 2021-2027.

Successive reforms have sought to break the links between subsidy and production so that farmers respond to supply and demand in the market and do not produce more because then they get paid more.

More recently the CAP is moving to a more market-orientated approach which seeks to incentivise a competitive farming industry which also delivers public goods such as environmental protection and enhancement.

Box 1: The Pillars of CAP support

The CAP gives direct support to UK farmers through two pillars of support:

Pillar 1: European Agricultural Guarantee Fund (EAGF)

- Supports the Basic Payment Scheme (BPS) of direct subsidies
- Supports market support measures which are set out in the Common Markets regulation. These measures provide an emergency safety net for different commodities e.g. the intervention price of milk.
- Farmers must meet Cross Compliance rules covering animal husbandry and farm management to get payments and they are inspected.

Pillar 2: European Agricultural Fund for Rural Development (EAFRD)

- Supports Rural Development Programmes which include projects and capital grants which support the wider rural economy e.g. rural tourism, forestry and broadband provision.
- There are individual RDPs for each UK administration
- At least 30% of this RDP allocation has to be spent on environmental measures
- Co-funding from Member States is permitted

Transferring funds between Pillars

- Member States are free to modulate (transfer) up to 15% of their allocation from Pillar 1 to Pillar 2 or vice versa. Those Member States receiving less than 90% of the EU average payments can move up to 25%.
- In the UK, all administrations move funds from Pillar 1 to Pillar 2.

England 12% (with a potential rise to 15% in 2018 and 2019 after review)
Scotland 9.5%
Wales 15%
N.Ireland 0% (at present)

Source: House of Commons Library (and Research Services of the Devolved Administrations and Ireland), CAP Reform 2014-20: EU Agreement and Implementation in the UK and in Ireland, 30 October 2014

CAP reform 2014-2020

The latest CAP reform (2014-2020) was politically agreed in 2013 and 2014 was a transition year.

Despite the UK's CAP simplification efforts at EU and UK level, the current CAP is more complicated than the one it replaced.

The key elements of this reform are that:

- Devolved Administrations have the same flexibility as Member States in making their CAP implementation decisions (over some 80 decision points). This has meant that CAP policy has considerably diverged across the UK with only a handful of common implementation decisions
- 30% of direct payments are related to meeting new greening criteria (e.g. crop diversification and Ecological Focus Areas)
- There is a mechanism to reduce or redistribute the largest payments over €150,000.
- Mechanisms are in place to move Member States towards minimum levels of direct payments related to the EU average.

Current CAP issues

There are a number of elements of CAP 2014-2020 that farmers are unhappy with e.g. some of the 'greening measures' required in order to secure 30% of their direct payments and some of the arrangements for penalties and inspections. However, these are starting to be addressed under an EU Commission-led CAP simplification programme (see Section 1.5).

Careful administration is important because Member States receive disallowance penalties when the EU Commission finds that a Member State has not complied with its requirements to control and administer payments properly under the CAP.

Disallowance penalties

The UK has incurred 'disallowance penalties' of £2.70 for every £100 of CAP funds paid out to the UK from the European Commission since 2005. Over the period this represents the sixth highest figure in Europe out of 28 member states. The countries with higher rates of penalties are Greece, Romania, Portugal, Bulgaria and Cyprus.[13]

The main causes of our disallowance fines now are historic stemming from the disastrous new system introduced in 2005 which is still having repercussions keeping disallowance levels at much higher levels than the 2% that would normally be expected and budgeted for.

1.2 The EU budget and CAP

The CAP represents almost 39% of the EU budget.[14] This means that there is a great deal of interest in the referendum debate about how this element of the EU budget benefits the UK for the contribution that it makes.

Member States do not make contributions to individual EU programmes such as the CAP; they contribute to the EU budget as a whole. Therefore, any estimates of UK contributions and receipts in terms of

[13] NAO Press Release, *Managing disallowance risk*, 13 July 2015
[14] House of Commons Library Briefing, *EU Budget and the UK's contribution*, 12 April 2016

CAP alone can only be broad approximations based on the proportional share of the UK contribution. The UK contributed 13% of the total EU budget in 2014.[15]

The EU's spending is organised around a seven year period, known as the multiannual financial framework (MFF). The MFF sets out what the EU will spend its budget on and sets spending limits for the seven years.

House of Commons Library Briefing, *EU Budget and the UK's contribution* (12 April 2016) provides detail on the MFF and the UK's contribution to the EU budget.

The Multiannual Financial Framework

The current MFF covers the period 2014-20 and allows the EU to commit to spending of €960 billion (2011 prices). This is a real terms reduction on the previous MFF 2007-13.

During 2014-20, the majority of EU spending will be on the themes 'smart and inclusive growth' and 'sustainable growth: Natural resources'. The latter theme includes CAP, rural development and fisheries policy.

MFF 2014-20 divides the EU's spending into five broad categories:[16]

- **Smart and inclusive growth (47% of total commitments)** *largely covers cohesion policy, including structural funds. Around three quarters of the category's spending is dedicated to these programmes. Other spending areas include research and innovation, infrastructure, education and training and enterprise development.*
- **Sustainable growth: natural resources (39%)**

  The main budget line for funding the common agricultural policy (CAP), rural development and fisheries policy.
- **Security and citizenship (2%)** *includes asylum, migration, public health, consumer protection, culture and youth.*
- **Global Europe (6%)** *includes support to the EU's foreign policies and international development.*
- **Administration (6%)** *includes expenditure on the salaries, allowances and pension costs for staff and members.*

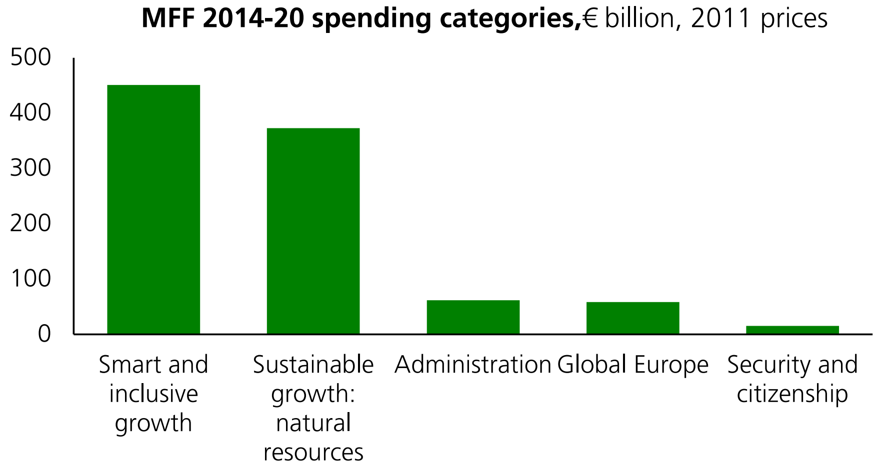
In the Multi-Annual Financial Framework (MFF) for 2014-20, the EU CAP spending allocation (in current prices) is: [17]

- €312.7 billion (29%) for market-related expenditure and direct aids (Pillar 1) and
- €95.6 billion (9%) for rural development (Pillar 2).

[15] Based on figures in House of Commons Library Briefing, *EU Budget and the UK's contribution*, 12 April 2016
[16] A sixth category, compensations, relates to the latest enlargement of the EU, with €27 million for Croatia, which joined the EU in July 2013
[17] European Commission, *12 Highlights from the MFF 2014-2020* as viewed on 24 May 2016

Much of the rest of the UK's EU receipts came from the European Structural Funds. The Structural Funds – made of the European Regional Development Fund and European Social Fund – are used to support economic development.

Figure 1



source: European Commission

1.3 UK contribution to the EU budget

The UK is a net contributor to the EU budget and has received a rebate on its contribution since 1985 because of the large proportion of EU budget which goes on the CAP. The UK benefits less from the CAP than other Member States because it has a smaller farming sector.

This rebate complicates the UK calculations and the net contribution to the EU budget varies every year.

Box 2: Key figures for UK contribution and receipts – EU budget[18]

2015

- The UK's estimated *net* contribution to the EU budget is estimated at £8.5 bn.
- The UK made an estimated *total* contribution of £12.9 bn to the EU budget.
- The UK received an estimated £4.4 billion of public sector receipts

2014

- The UK's *net* contribution to the EU budget was £9.8bn after payments and the UK's rebate (£4.9bn for 2014) was accounted for.
- The UK's total contribution to the EU budget was £14bn
- The UK received an estimated £4.5 bn of public sector receipts

The vast majority of the UK contribution comes from its Gross National Income (GNI) contribution (see Table 1 below).

The UK's net contribution to the EU Budget in 2015 is estimated at £8.5 billion, up from £4.3 billion in 2009 and down from £9.8 billion in

[18] Cm 9167, *European Union Finances 2015: statement on the 2015 EU Budget and measures to counter fraud and financial mismanagement*, HM Treasury, December 2015

2014. It is forecast to fluctuate between £11.2 billion and £7.3 billion a year between 2016 and 2020.[19]

Table 1 below is taken from Library Briefing *EU Budget and the UK's contribution* (12 April 2016) and shows how agriculture receipts through the EAGF (Pillar 1) and EAFRD (Pillar 2) have impacted on the UK's net contribution to the EU budget since 2009.

Table 1. UK Contributions to, and public sector receipts, from the EU budget, £ million

		2009	2010	2011	2012	2013	2014	2015
Sugar Levies		200	8	8	10	9	2	10
Customs Duties		1,802	2,146	2,216	2,192	2,171	2,200	2,462
VAT Own Resources		1,733	2,172	2,174	2,279	2,344	2,388	2,487
Fourth Resource Payments (GNI)		10,670	10,689	10,922	11,362	13,497	12,557	12,361
VAT and Fourth Resource Adjustments		-277	181	36	-98	114	1,631	459
Gross Contributions		14,129	15,197	15,357	15,746	18,135	18,777	17,779
UK rebate		*-5,392*	*-3,047*	*-3,143*	*-3,110*	*-3,674*	*-4,416*	*-4,861*
Total Contributions		8,737	12,150	12,214	12,636	14,461	14,361	12,918
EAGF	(Agriculture)	2,910	2,910	2,667	2,753	2,747	2,595	2,544
EAFRD		215	439	419	291	619	567	556
ERDF	(Structural Funds)	639	758	605	438	297	1,053	1,032
ESF		609	644	389	585	246	263	217
Other Receipts		28	18	52	102	86	98	96
Total Public Sector Receipts		4,401	4,768	4,132	4,169	3,996	4,576	4,445
Net Contribution		**4,336**	**7,382**	**8,082**	**8,467**	**10,465**	**9,785**	**8,473**

Notes: 2015 figures are forecast

EAGF - European Agricultural Guarantee Fund; EAFRD - European Agricultural Fund for Rural Development; ERDF - European Regional Development Fund; ESF - European Social Fund

Source: HM Treasury, *European Union Finances,* latest edition published December 2015, Cm 9167

1.4 UK levels of CAP support

Over 2014-2020 the UK is expected to receive €25.1 billion in direct payments (Pillar 1) and €2.6 billion in rural development funds (Pillar 2) for the environment and rural development.[20]

This represents a reduction in real terms of 12.6% and 5.5% respectively compared with CAP payments to the UK in the period 2007-2013. [21]

The majority of the UK's EU receipts for 2015 were through the CAP. The two pillars of the CAP provided the UK with receipts of £2.5 billion (EAGF) and £0.6 billion (EAFRD) in 2015.

The National Farmers' Union (NFU) main concern is how far the UK Government would support farming to ensure it remains competitive following an EU exit. The NFU has said that farmers would accept a reduction in farm subsidies, as long as it was across the board i.e. UK farming was not disadvantaged compared to its EU competitors. [22]

[19] House of Commons Library briefing 06091, *In brief- UK-EU economic relations*, 13 April 2016
[20] GOV.UK Press Release, *CAP allocations announced*, 8 November 2013
[21] Ibid
[22] NFU online, *EU debate: Raymond stresses need to guarantee competitiveness*, 13 January 2016

The NFU is also concerned about how the UK would seek access to the Single Market and seasonal labour. The Union has highlighted that EU withdrawal would require very careful transitional arrangements to ensure that the uncertainty of future incomes does not lead to problems with lending and succession of ownership

Table 2 below shows how the total UK CAP allocations for 2014-2020 have been allocated across the UK.

Table 2: UK CAP allocations 2014-2020

	Pillar 1 / € million (approx non-inflation adjusted)	% share	Pillar 2 / € million (approx non-inflation adjusted)	% share
England	16,421	65.5	1,520	58.9
Northern Ireland	2,299	9.2	227	8.8
Scotland	4,096	16.3	478	18.5
Wales	2,245	8.96	355	13.7
Total UK allocation	**25.1 billion**		**2.6 billion**	

Note: Figures are in nominal terms (i.e. they have not been adjusted for inflation over the period)
Source: UK Government, November 2013.[1]

Comparison with other Member States

In an EU exit scenario, the UK's levels of competitiveness with EU Member States remaining within the security of CAP is of concern to the farming sector. Even, remaining within the EU, each CAP reform alters the operating environment for the UK in comparison to other Member States.

In 2014, the UK had the 5th largest EU allocation for direct payments (and market support measures) after France, Spain, Germany and Italy.[23]It is possible to look at country CAP allocations for Pillar 1 (subsidies) and Pillar 2 (rural development) to see relative size of allocations. However, a direct comparison is not completely straight forward.

The basis for these allocations is not transparent but they are largely based on historic trends and previous negotiating positions as well as deals on other aspects of EU policy. In addition, UK calls for austerity in

[1] .GOV.UK Press Release, *CAP allocations announced*, 8 November 2013
[23] European Commission COM 244, *8th Financial report – EAGF- 2014*, Annex 5

the overall EU budget at the time of the latest reforms mean that the overall CAP budget is smaller than previously.

As each Member State can allocate Pillar 2 funding to measures that are not area based e.g. SME support schemes and rural broadband, it is not possible to just look at the CAP allocations and conclude that one country has a competitive advantage over another. Each Member State is allowed to move a certain amount of funding between pillars. The UK has tended to favour diverting some funding away from direct payments (Pillar 1) and into rural development programmes (Pillar 2).

The UK's Pillar 2 allocation compared to other counties was criticised at the time of the 2013 agreement for this 2014-20 round by the House of Commons Environment, Food and Rural Affairs Committee which noted in its [December 2013 report on CAP implementation] that the UK Government's handling of the negotiations for this allocation was the source of most criticism. The Committee noted that:[24]

> ….While countries such as France and Italy saw their allocations increase by €1bn and €1.5bn respectively, the UK's budget for 2014– 2020 is 5.5% less than for the previous CAP period. Without modulation (the transfer of money between Pillars) this means that annual Pillar II spend in England would be 16% less in 2014 than in 2013, and by 2020 it would be 27% less. The European Council stated that the allocation of funding would be based on 'objective criteria and past performance' but the Commission has not revealed how it interpreted this guidance in practice or what objective criteria were used…

1.5 A changing CAP - CAP reform and simplification.

CAP is reformed in 7 year cycles (known as 'rounds') and the next period is 2021-2027. Preparations are already underway and formal negotiations are likely to start in 2018/9.

A CAP simplification process is also underway. CAP reform 2013-2020 is one of the most complex to administer to-date, despite previous simplification efforts.

The current EU Agriculture Commissioner, Phil Hogan (Ireland) made CAP simplification a priority in 2015. It is now an ongoing process and, having implemented some early changes, the Commission will be presenting a further tranche of measures before the summer of 2016 to apply in 2017.[25] Thus, a simplification agenda will be rolling into preparations for the next CAP reform negotiations 2021-2027 as preparations usually start 4-5 years ahead.

[24] House of Commons Environment, Food and Rural Affairs Committee, *Implementation of the Common Agricultural Policy 2014-2020 in England*, 26 November 2014, HC745-I

[25] European Commission Press Release, *Commissioner Hogan proposes a fairer and more transparent penalty system for direct payments*, 19 January 2016

1.6 UK Government position on future support for agriculture

In the UK, EU farm subsidies currently make up around 50-60% of farm income.[26]

If the UK left the EU the CAP subsidies and EU rural development funding would stop. It is not clear how far they would be replaced by the UK government in terms of level or approach.

As agriculture and CAP implementation has been devolved it is also not clear how far the Devolved Administrations would choose to support agriculture and rural development and how this might differ across the UK.

The Rt Hon Carwyn Jones AM, First Minister of Wales, explained the importance of EU funding for Wales in evidence to the House of Lords European Union Committee earlier this year:

> "Brussels is a better friend to us in terms of funding at the moment … we have benefited not just from the structural funds but from other sources of funding as well: access, for example, to funding from the European Investment Bank … What I would not want to see is the CAP replaced with something run from London. That would be disastrous for Welsh farmers." [27]

In an exit situation, agriculture would be competing in a difficult budgetary climate along with ring-fenced public services. For example, Defra, the lead department for agriculture has seen its budget reduced by 29.9% in real terms from 2010-11 to 2015-16.[28]

The UK Government has acknowledged that it has no 'Plan B' for agriculture in terms of exiting the EU.[29] However, in April 2016 Prime Minister David Cameron did commit to ensuring that as long as he is Prime Minister "an agricultural support system would be properly maintained." but cautioned that he could not make the same guarantee for future governments.[30] These comments were made in a letter to the Country Land and Business Association (CLA) which had asked for reassurances that the UK Government was making adequate preparations for a possible EU exit.[31]

Secretary of State for the Environment, Food and Rural Affairs, Liz Truss is advocating staying in the EU and the farming Minister George Eustice is advocating exit.

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[26] Defra, Total Income from Farming 2014 - 2nd estimate United Kingdom, 26 November 2015 shows that subsidies made up around 54% of UK Total Farm Income in 2014 and HM Government, Review of the Balance of Competencies between the United Kingdom and the European Union: Agriculture, Summer 2014 paras 2.34 –2.38 indicted that in 2012 this figure had been as much as 68%.

[27] House of Lords European Union Committee, *The European Union Referendum and EU Reform*, HL Paper 122-1, 12 March 2016, para 26

[28] Institute for Fiscal Studies, *Recent cuts to public spending*, 1 October 2015 as viewed on 26 May 2016

[29] Elizabeth Truss speech to the Oxford Farming Conference, January 2016

[30] CLA, *PM David Cameron responds to CLA EU referendum concerns*, 14 April 2016

[31] Ibid

Liz Truss set out her arguments for why farmers were better voting in at the NFU Conference on 23 February 2016:[32]

- She felt that it was a 'leap in the dark' at a time of severe price volatility and global market uncertainty.
- She stressed her support for the Commission's CAP simplification process which is already underway and being led by EU Agriculture Commissioner, Phil Hogan. This is already moving towards simplified inspection processes and most Member States have made it clear, like the UK, that they want to see changes to the unpopular greening requirements.
- She highlighted that by staying in the UK could work within a reformed EU to reduce bureaucracy and secure further reform while still enjoying the significant benefits of the Single Market and its access to 500 million customers without the trade barriers experienced with countries that the UK deals with outside the EU.
- She outlined how the "years of complication and risk caused by negotiating withdrawal would be a distraction from our efforts to build a world-leading food and farming industry that brings jobs and growth to Britain."

The UK Government's historic position on CAP subsidies

As the UK Government has not provided details of how it would continue to support farmers if the UK left the EU, past CAP negotiating positions and comments on future reform are the only clues to the possible principles and overall approach that the UK Government might adopt given a free reign in agriculture.

UK policy, over successive governments in the last 20 years has been to seek to reduce CAP direct subsidies in EU negotiations on CAP reform and to shift any support to farmers towards provision of public goods to provide more value for money for the UK tax payer e.g. environmental benefits and services through habitat and farm management.[33]

Whether the UK votes to stay or leave the EU, farming unions are expecting support for farming to fall as a result of reducing budgets and changing policy thinking on subsidies at both EU and UK level.[34]

In the last CAP round (2014-2020) which was agreed at EU level in 2013, the UK sought cuts in the overall EU budget supporting the CAP. It also made it clear that it wanted to see a more market-orientated

[32] DEFRA Press Release, *Environment Minister addresses the NFU Conference*, 23 February 2016

[33] See for example, House of Commons EU Scrutiny Committee *Seventh Report of Session 2007–08*, 9 January 2008 and overall explanation of the Health Check in National Assembly for Wales Members' Research Service, *EU Common Agricultural Policy 2008: CAP Health Check*, February 2008

[34] The future for subsidies in and out of the EU, *Farmers Weekly*, 13 May 2016

policy with competitiveness at its heart, to ensure that farmers can prepare for a future without income support.[35]

In January 2015, the UK Government's response to a written question reiterated a commitment to moving away from farming subsidies in the long run: [36]

> ...We continue to believe that expenditure on market price support and direct payments to farmers under Pillar 1 of the CAP represents very poor value for money. The UK has always made clear that we would like to move away from subsidies in the long run. However, we recognise that there is scope for using taxpayers' money to pay farmers for public goods that the market otherwise would not reward, such as protecting the natural environment, supporting biodiversity and improving animal welfare.

Northern Irish Farming Minister Michelle O'Neill also said in February 2016 that she did not believe the current UK Government would match the current level of subsidies if there was an EU exit:[37]

> ….The British Government have consistently pushed for reductions in the support going to farmers and rural development under the CAP. They do not regard that spending as value for money, so I believe that the Treasury would be unsympathetic to our calls for some of the money saved from withdrawing as a member state from the EU to be used to maintain support to farmers and rural communities. A significant reduction in direct support would leave many of our farmers in real and long-term financial difficulty. A reduction of funding for farmers and rural communities would have knock-on effects for the environment.

In the last CAP round, the UK Government also secured the flexibility for the UK to effectively devolve CAP arrangements across the UK administrations. However, this devolution brings its own complications, as currently the Devolved Administrations shape their own CAP implementation decisions within the EU rules and have chosen very different paths. It is not clear how the UK would approach farming policy without common EU rules as the overall working framework for the UK Government and the Devolved Administrations.

Pillar 2: Rural Development Programmes

The EU CAP subsidies under Pillar 2 relate to payments for rural development programmes (RDPs) which benefit the wider rural economy. They have a range of priorities relating to tourism, rural broadband and SMEs.

There are separate RDPs for each UK administration.

The Pillar 2 funding for 2014-2020 is supporting various growth programmes across the UK with little additional Exchequer funding. For

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[35] E.g. HC Deb 25 January 2012 c 250W
[36] HC Deb Written Answer 221523, 27 January 2015
[37] Northern Ireland Assesmbly, Agriculture Questions, 2 February 2016

example, the £3.5bn RDP for England has around 15% Exchequer funding.[38]

Thus, in an EU exit scenario, without CAP funding and a required RDP approved by the EU, it is not clear how much specific support would be prioritised and directed to rural areas.

Environmental concerns

Across the UK, a large component of these programmes is directed at agri-environment schemes where farmers receive additional payments for practices which especially protect and enhance the environment. It is very likely that these would continue in some form across the UK outside a CAP regime as they are well-established mechanisms to promote environmental policy objectives.

However, although environmental NGOs have been critical of CAP and especially the latest reforms in terms of environmental benefits, there is also some concern that support for agri-environmental schemes and wider rural development funding would be reduced in an exit scenario.

The Institute for European Environmental Policy (IEEP) has said that it is "far from clear whether the UK environment would be better serviced by a new set of national agriculture policies which would follow from an EU Brexit" especially as there would be major variations across the UK administrations.[39] The IEEP highlights the following key environmental factors:[40]

- Established UK policy, strongly supported by the Treasury, is to cut expenditure on agriculture. Consequently, there are major questions about how far a future government would maintain funding for managing the rural environment as well as for agriculture.
- The majority of experts on the topic are sceptical and expect significant cuts.
- Incentives for greener farming could decline, and there are also concerns about the extent to which governments would be willing to impose environmental obligations on a sector subject to competition from more subsidised counterparts in the remaining EU Member States.
- All in all, there would certainly be significant environmental risks associated with departure.

Operating with less subsidy

Farm subsidies have shaped farming practice and business structures which some commentators and farmers believe has hampered innovation and competitiveness.

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[38] Defra, *The Rural Development Programme for England 2014-2020: Final Impact Assessment*, 10 April 2014.

[39] IEEP, *The potential policy and environmental consequences for the UK of a departure from the European Union*, March 2016

[40] Ibid

On EU exit, the UK would be free to restructure farming policy and incentivise farmers in line with its own priorities.

Direct Payments provide farmers with important income support to withstand protracted periods of low prices. However, the House of Lords EU Energy and Environment Sub-Committee's recent report on price volatility in the agricultural sector noted that they can also reduce incentives for innovation and efficiency gains and hold back much needed structural change. This is because direct payments offer farmers a guaranteed income regardless of their actions to improve resilience. [41]

The Committee heard evidence from Barclays and HSBC that sectors that did not benefit from direct payments might be better prepared to operate in competitive markets. They cited the pig and poultry sectors, along with horticulture as being ahead in terms of having the business knowledge and recording systems to understand their production costs.[42]

A report by Andersons for the Oxford Farming Conference in 2014 highlighted the same message concluding that "direct subsidies don't help competitiveness, but the subsidised sectors should look to learn more from unsupported sectors in and out of agriculture."[43]

The House of Lords EU Energy and Environment Sub-Committee also looked at farming systems in New Zealand, the USA and Canada. Many look to New Zealand for an example of successful farming with minimal subsidy (see Box 3).

Box 3: Case Study: New Zealand[44]

- Agricultural policy was reformed in the mid-1980s in response to budget problems and subsidies were largely removed.
- The country retained 99% of its farms, despite predictions that 10% of farms would go bankrupt
- Herds were consolidated
- Pesticide use declined by 50% as farms introduced efficiencies.
- Almost all domestic prices are now aligned with world market prices
- The overall impact has been seen as positive and improving the country's competitiveness.
- However, the model may not be useful for the UK because the reforms were introduced so quickly and with a depreciation in currency which supported exports.

However, New Zealand had to make radical changes to its farming support very quickly because of a budget emergency and a depreciation in the New Zealand dollar helped the country to compete in world export markets at the same time.

[41] House of Lords European Union Committee, *Responding to price volatility: Creating a more resilient agricultural sector*, 16 May 2016, HL Paper 146-I, para 124

[42] Ibid para 122

[43] Andersons, *The best British farmers – what gives them the edge?* Oxford Farming Conference Report, 15 December 2014

[44] Environmental Performance Index, *Removal of Agricultural Subsidies in New Zealand*, 14 June 2014

The Committee reported that:[45]

> Although there was a general consensus among witnesses that a gradual move in the EU away from public support was appropriate, there were doubts over the wisdom of such a radical and sharp change in policy as occurred in New Zealand.

Suggestions for 'Plan B'

Farming Minister, George Eustice

Farming Minister, George Eustice is supporting the out campaign and has made some suggestions for how much he thinks the UK Government should support agriculture if the UK left the EU.

He advocates that Brexit would be an opportunity to shape new, fresh thinking and create policies that would "really deliver for our agriculture". He has acknowledged that farmers are not guaranteed a level of support with an EU exit but has stressed that the future CAP budget is also not guaranteed. He has refuted suggestions that the UK would be hit by a lack of access to the Single Market as the EU would not want to jeopardise its access to the lucrative UK market.

Mr Eustice has suggested the following elements in a 'Plan B' for agriculture:[46]

- The UK Government could invest £2bn compared with the £3bn that UK farmers receive today towards a new policy because of the budget savings of leaving the EU.
- Without EU control, Parliament would step in and start "to think about farming again".
- An element of the current area payment would be retained but with a 'fresh agricultural policy from scratch' which would not look like it does today.
- The Pillar 1 (direct subsidies) and Pillar 2 (rural development) structure could be dismantled. Instead, you could have a number of key objectives, including protecting food security, risk management tools and insurance schemes akin to Canada – investing in science and technology and protecting and enhancing the environment with the kinds of agri-environment schemes that the UK currently supports.
- A new theme to reward high standards in animal welfare e.g. in the pig and poultry sectors.
- Farmers could apply for individual schemes within the new policy, rather than being tied to a single scheme, complex application process and cross-compliance rules.
- A UK policy could be targeted to protect those farmers who need it rather than 'paying hundreds of thousands of pounds to large

[45] House of Lords European Union Committee, *Responding to price volatility: Creating a more resilient agricultural sector*, 16 May 2016, HL Paper 146-I, para 146

[46] Farmers Guardian, *Eustice outlines £2bn plan for farming as Defra Ministers stand divided on Brexit*, 25 February 2016

> landowners who in some cases are not really farming or doing so very effectively'.

UKIP

UKIP's agriculture spokesman, MEP Stuart Agnew has highlighted that UK farmers would be better off outside the EU because they would benefit from less red tape.

If the UK left the EU, Mr. Agnew has proposed:

- a modified Basic Payment Scheme with an £80/acre payment to lowland farmers
- less pro-rata on uplands to be capped at £120,000/holding or 1,500 acres
- dropping all greening requirements (currently mandatory greening practices are required to secure 30% of the direct subsidy).[47]

[47] Leaving the EU 'too risky' warn farm leaders, *Farmers' Weekly*, 5 March 2016

2. EU exit and agricultural trade and prices

Summary

Implications of EU exit

- The trade model that the UK would follow outside the EU is unknown. Therefore economic analyses of agricultural trade, price and competitiveness impacts are varied and contradictory and can only provide possible scenarios and list the uncertainties.
- Potential to negotiate a range of new trade deals but timeframes to do this increase uncertainty for business. The House of Lords EU Scrutiny Committee reports that trade deals between EU and non-EU Member States take between 4-9 years on average.
- The continued basis of access to the Single Market is not clear in an exit scenario
- Free from the restrictions of CAP and therefore opportunities for deregulation. However, uncertainty as to whether opportunities for innovation and improvements in competitiveness would outweigh the competitive advantages of EU trade protection.
- Lower UK trade protection levels than competitors in an exit scenario could reduce UK farmer prices but also reduce consumer costs.

Implications of remaining in the EU

- Continued access to the Single Market and trade deals as part of the EU trading bloc
- The UK's EU reform deal includes commitments on deregulation and fairer movement of goods[48]

UK farmers have access to the Single Market which allows them to trade freely within the EU in a common market with no barriers to trade. In addition, the EU facilitates global trade providing the UK with privileged access to 53 markets outside of the EU through trade deals.[49]

The key issue for the referendum debate is whether the benefits of having a more tailored and flexible national regulatory regime outweigh the loss of access to the single market that may come with pursuing an independent agenda outside the EU.[50] The CBI's assessment of EU exit suggests that most economic analysis to date predict reductions in GDP in a variety of alternative trade scenarios.[51]

This section highlights comment and analysis from those specifically considering the implications for the agricultural sector.

House of Commons Library briefing paper, *EU Exit: Impact of an EU exit in key UK policy areas*, February 2016 provides an overview of the general trade implications for the UK of an EU exit as well as comment and analysis of alternative trade models.

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[48] .gov.uk (Prime Minister's Office), *PM Commons Statement on EU reform and referendum*, 22 February 2016

[49] CBI, *Two Futures: What the EU referendum means for the UK's prosperity*, April 2016, Table 1

[50] House of Commons Library Briefing 7213, *Exiting the EU: Impact in key UK policy areas*, 12 February 2016

[51] 51 CBI, *Two Futures: What the EU referendum means for the UK's prosperity*, April 2016, pp 16-17

The House of Commons Treasury Committee is also currently conducting an inquiry on the *Economic and Financial Costs and Benefits of the UK's EU Membership*.

2.1 Farming concerns

Farming unions are concerned about how the UK would seek access to the Single Market and seasonal labour. They have also highlighted that EU withdrawal would require very careful transitional arrangements to ensure that the uncertainty of future incomes does not lead to problems with lending and succession of ownership.

In the case of a UK exit, the uncertainties for farmers relate to the type of trade model that the UK would follow outside the EU and the nature of a future trade deal with the EU.

The UK would be free to negotiate bilateral trade deals with countries outside the EU and at the WTO, and would have more flexibility on pricing.[52] However, the benefits would depend on the terms on which the UK joined a different trade area, if it chose to do so. There is also concern about the interim whilst new trade deals are being developed.

The House of Lords European Union Committee's report *The Process of Withdrawing from the European Union* (May 2016) concluded that:[53]

> No firm prediction can be made as to how long the negotiations on withdrawal and a new relationship would take if the UK were to vote to leave the EU. It is clear, though, that they would take several years—trade deals between the EU and non-EU States have taken between four and nine years on average.

2.2 The EU as a trading partner

House of Commons Library Briefing, *In-brief: UK-EU economic relations* (13 April 2016) sets out some of the main indicators of the UK's economic relationship with the EU, including trade.

The EU, taken as a whole, is the UK's major trading partner, accounting for 44% of exports and 53% of imports of goods and services in 2015. The share of UK trade accounted for by the EU 28 is lower than a decade ago. [54]

The UK Government has highlighted that "a considerably larger proportion of the UK economy is dependent on the EU than vice versa" in its February 2016 report, *The process for Withdrawing from the*

52 BIS, Government Office for Science, Should Britain withdraw from the EU? Sigma Scan 2.0, 21 January 2012.

53 House of Lords European Union Committee, *The Process of Withdrawing from the European Union*, HL Paper 138-I, 4 May 2016

54 House of Commons Library Briefing, *In-brief: UK-EU economic relations*, 13 April 2016. The EU is still the UK's major trading partner, even accounting for the"Rotterdam effect", whereby trade recorded as being with the Netherlands is actually with non-EU countries. Even if all trade with the Netherlands were excluded, the EU would still account for 41% of the UK's goods exports and 47% of goods imports.

European Union and that this would have an impact on the dynamic of UK exit negotiations. It states:[55]

> The EU is by a wide margin the UK's biggest trading partner. The UK is more reliant on exports to the EU than the rest of the EU is reliant on exports to the UK. Taken as a share of the economy, only 3.1 per cent of GDP among the other 27 Member States is linked to exports to the UK, while 12.6 per cent of UK GDP is linked to exports to the EU.

Prof. Alan Matthews of Trinity College, Dublin has highlighted the same messages. He has pointed out that across all traded agriculture commodities, with the exception of fish, the UK is a net importer from the EU. [56]

Matthews argues that whilst imports dominate the statistics, UK exports to the EU are significant and rather than consider net trade flows, one should consider the gross trade situation. For many sectors access to the EU market is critical; not withstanding that the UK market is important to the EU exporters. However, the fact that the EU's trade balance with the rest of the world dwarfs the EU-UK balance suggests that the EU is a much more important partner for the UK than the UK is to the EU.[57]

EU/UK import and export data is provided for a large range of commodities in *Agriculture in the United Kingdom 2014* (Defra and Devolved Administrations May 2015). The key commodities in EU/UK trade are: bacon and ham (net importer), pork (net importer) and milk and cream (net exporter).[58]

The principal destinations of food, drink and animal feed *exports* to the European Union in 2014 were:

- the Irish Republic (£3.4 billion)
- France (£2.1 billion)
- Netherlands (£1.3 billion) and
- Germany (£1.2 billion).

The principal European Union countries from which food, drink and animal feed was *imported* into the United Kingdom in 2014 were:

- the Netherlands (£4.9 billion)
- France (£4.2 billion)
- the Irish Republic (£3.8 billion) and
- Germany (£3.7 billion).

[55] Cm9216, HM Government, *The process for withdrawing from the European Union*, February 2016
[56] NFU online, *Brexit,UK farming and the 'great unknowns'*, 18 February 2016
[57] Ibid
[58] Defra and Devolved Administrations, *Agriculture in the United Kingdom 2014*, May 2015

2.3 Competitiveness

Levels of UK farming support offered and phasing will have implications for competitiveness with other EU Member States. However, this might be somewhat offset by the opportunities for increased innovation outside of the complex CAP regime.

The Prime Minister has said that livestock producers would be forced to pay an extra £330m/year to export their goods abroad in the event of an EU exit.[59]

Agra Europe, an EU agriculture and food publication, has prepared a detailed analysis of the impact that the likely farm policy of a non-member UK would have on the main UK farm sectors. *'Preparing for Brexit: What UK withdrawal from the EU would mean for the agri-food industry'*.

This highlights how an exit would free the UK from the highly complicated CAP regime. However, it also suggests that an EU exit would be "traumatic" for the farming industry with large cuts in farm incomes, bankruptcies, falling land prices and elimination of small and medium sized farms. It predicts that the country's food industry could also be badly hit by lost markets and heightened tariff and non-tariff barriers against its major exports.[60]

Balance of Power shift in the EU

If the event of a UK exit from the EU, some commentators suggest that the balance of power in shaping agricultural policy in the EU is likely to shift towards the French, southern and eastern priorities.[61]

The CAP allocation is negotiated as part of the overall Multi-Annual Financial Framework (MFF) and therefore in the mix with other priorities. The UK, along with Germany and the Netherlands has consistently sought to constrain the EU budget, especially in relation to agriculture, and orientate it towards innovation and growth programmes.

To maintain the same level of subsidies, there would either have to be expenditure reductions in other areas or larger contributions by the remaining Member States following Brexit. There would also be different voting majorities in the Council.

2.4 Prices

Lower UK trade protection levels than competitors in an exit scenario could reduce UK farmer prices but also reduce consumer costs. However, the UK's extremely competitive supermarket sector means that UK food prices are already relatively low as a proportion of income.

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[59] NFU seeks talks to restructure farm debt, *Farmers Weekly*, 18 March 2016, p.7

[60] Analysis: The CAP and its role in the UK's Brexit debate, *Agra Europe*, 14 October 2015

[61] See for example, Global Counsel, *Brexit-The Impact on the UK and the EU*, June 2015 (Global Counsel is a business advice firm run by former EU/UK civil servants) and Alan Matthews blog, *Agricultural implications of British EU withdrawal for the rest of the EU*, 21 January 2015

UK food prices on the whole are already the lowest in the world, after America.[62]

Professor Patrick Minford (economist at Cardiff University) told the House of Commons Foreign Affairs Committee in November 2015 that he had done a simulation of leaving the EU and on day one there was an 8% drop in the cost of living because of the move from EU prices to world prices.

He told the Committee that everyone was putting too much emphasis on what trade agreements the UK would be able to forge outside the EU when actually avoiding such protectionist approaches and capitalising on the UK's competitiveness would be more advantageous:[63]

> It is infinitely preferable to be in the global market under conditions of free trade. That will give us huge gains. The trade issue, far from being a great negative in terms of leaving the EU, is a huge positive. People think that it is terribly negative because you cannot negotiate these trade agreements, but they have totally misunderstood the irrelevance of these trade agreements to our situation in the global market.

Worshipful Company of Farmers' analysis (February 2016)

Professor Alan Buckwell produced a report for the Worshipful Company of Farmers, *Possible Agricultural Implications of Brexit* (February 2016)

He concluded that the EU trade question was fundamentally a choice between remaining close to the EU single market and therefore having to retain most existing EU regulation or leaving the single market in order to allow some deregulation.

Whatever the outcome of the referendum, he predicts more customs controls and thus higher trading costs than now on trade with the EU (both ways). This could depress UK farm prices and raise some consumer costs. If the UK then chooses lower protection levels on agriculture with the rest of the world this would also depress some UK farmer prices, but reduce consumer costs. Therefore together, farmers might face weaker prices, whilst consumer food prices, on balance, may not be much affected.[64]

LEI for the NFU (April 2016)

Detailed analysis has been commissioned by the NFU from a leading agricultural research institute, LEI at Wageningen University (The Netherlands). This analysis, *Implications of a UK exit from the EU for Birtish Agriculture* (April 2016) looks at three trade scenarios with different levels of agricultural support.

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[62] Oral Evidence to the House of Commons Environment, Food and Rural Affairs Committee: Farmgate Prices (HC 474), Q455, 16 December 2015

[63] Evidence to the House of Commons Foreign Affairs Committee, *Costs and benefits of EU membership for the UK's roles in the world*, HC 545, 3 November 2015

[64] Workshipful Company of Farmers, *Possible Agricultural Implications of Brexit* , February 2016, Executive Summary

1) a UK-EU Free Trade Arrangement (FTA)

2) a WTO default position; and,

3) a UK Trade Liberalisation (TL) scenario

In each of these scenarios the effects of three different levels of agricultural support were estimated:

- status quo, i.e. a continuation of all direct payments
- 50% reduction of direct payments and
- no direct payments

It was assumed that there was no change in the level of environmental (Pillar II) payments to farmers.

The researchers found that:[65]

- for most sectors the biggest driver of UK farm income changes was the level of public support payments available. The loss of these support payments offset positive price impacts in all of the scenarios.
- The positive price impacts seen through both the FTA and WTO default scenario were offset by the loss of direct support payments.
- A reduction of direct payments, or a complete elimination, exacerbated the negative impact on farm incomes seen under the UK TL scenario.
- The UK TL scenario implied a lowering of the UK's external import tariffs by 50%. This scenario was found to have significant impacts on UK meat and dairy prices as current import rates are higher for these products. Consequently, the overall effect of the TL scenario was a price decline for animal products which leads to a reduction in meat and milk production in the UK.

[65] Berkum, S. van, et al, 2016, *Implications of a UK exit from the EU for British agriculture*; Study for the National Farmers' Union (NFU). Wageningen, LEI Wageningen UR (University & Research centre), LEI Report 2016-046

3. Agricultural Stakeholder Positions

3.1 Farming unions

The councils of the major farming unions across the UK have all indicated that on the balance of evidence available, the interests of farmers are best served by remaining in the EU.

The unions accept that the CAP is not perfect but state that the uncertainties of a UK exit are too great.

Although they have declared a position, the unions are stressing that it is not their role to tell their members how to vote and they are providing information to their members about both sides of the debate so that they can make an informed, personal decision.

Shadow Environment Secretary, Kerry McCarthy has welcomed the backing of EU membership by the farming unions.[66]

NFU (England)

The NFU (England) has produced a report to influence policy makers and indicate the questions that farmers need answering on Brexit. See *UK Farming's Relationship with the EU – NFU report*, 29 September 2015.

There are many questions for farmers beyond the level of support that might be available in a UK exit situation. For example, the NFU in England has said that its resolution was agreed taking into account the following factors:[67]

- The implications for agricultural trade with the EU and the rest of the world
- The balance of risks of a national farm policy versus the CAP
- The impact of the agricultural uncertainty following a vote to leave
- The potential impacts for the wider food chain
- The consequence for farming regulation, in or out
- The consequences for agricultural labour availability
- The consequence for agricultural product approvals
- The consequences for science and R&D relating to agriculture

The resolution was supported by more than 90% of NFU council members and said that "on the balance of evidence available to us, the interests of farmers are best served by our continuing membership of the European Union."[68]

66 Labour Party Press Release, *Labour welcomes the NFU's decision to back British EU Membership – McCarthy*, 18 April 2016
67 NFU online, *NFU Council agrees resolution on the EU referendum*, 18 April 2016
68 Ibid

NFU Cymru

NFU Cymru has adopted a 'remain' position based on the need to have ready access to the widest possible range of markets and having the necessary support mechanisms to deal with periods of extreme volatility.

The union has agreed the following on the EU referendum issues:[69]

- Access to European markets is absolutely vital to the Welsh food and drink industry and the risk of this access being denied, or granted on less favourable terms as a result of leaving the EU is too great
- The Common Agricultural Policy (CAP) is a critical component of Welsh agriculture, the current commodity price crisis highlights the importance of direct payments to help manage price volatility and thus ensure food security and underpin high standards of production
- Correctly utilised in Wales, the EU Rural Development Programme has the potential to help Welsh agriculture improve its competitiveness and profitability
- Whilst claims have been made that trade could be maintained, a domestic policy would replace the current CAP and regulation would be reduced we have yet to see firm commitments, details or the credible assurances that we need on these extremely important matters.
- On the basis of the information available to us at this time the best interests of Welsh agriculture is served by Wales staying within the EU.

Farming Union of Wales

The Farming Union of Wales (FUW) has been a long standing supporter of on-going membership of the EU. The union is currently running a series of debates to provide as much information as possible for its members on all aspects of the EU referendum debate.[70]

NFU Scotland

NFU Scotland (NFUS) has taken a 'remain' position on the basis of the balance of evidence available.[71]

The union has also stressed that as well as discussing the likely scenarios for Scottish agriculture of a UK exit, it is also relevant to consider what farmers can hope to achieve from the reform agenda for Europe and what that would mean for the CAP.

The union has highlighted that key issues for farmers in Scotland are:

- the future of agricultural support
- access for Scottish produce to European markets, and the
- movement of labour

[69] NFU Cymru, *NFU Cymru Position Statement on the EU Referendum*, 11 March 2016
[70] FUW, *EU debate* as viewed on 26 May 2016
[71] NFUS, *Political Heavyweights Debate EU Referendum* 20 May 2016

Ulster Farmers Union

The Ulster Farmers Union has said that to date no 'compelling argument' has been made that agriculture would be better off outside the EU, and that those supporting Brexit need to rise to that challenge.

The Union has said that both sides in the debate on the EU referendum need to set out, in detail, their vision of the future for agriculture in or out of the EU and the Common Agricultural Policy.[72]

The Ulster Farmers Union (UFU) has said:[73]

> "In the absence of no compelling reason to leave, we see remaining as the safer option – but from the outset we have said our 12,000 plus members and their families will make up their own minds how to vote. This debate is wider than agriculture and it is our aim to create an opportunity for people to have their questions answered, before they finally cast their vote…"

3.2 Farmers for In

Farmers for In, led by former NFU President Sir Peter Kendall, are campaigning to remain in the EU. The group also includes the Rt.Hon Sir Jim Paice, former Minister for Agriculture and Food and Lord Plumb DL, former President of the NFU and former President of the European Parliament.

Farmers for In has said:[74]

> Leaving the EU is a risk we cannot afford to take. It would mean reducing our access to our most important market, little or no reduction in regulation, no influence on future rules, the speedy abolition of direct support and an uncertain future for UK agriculture.

3.3 Country Land and Business Association (CLA)

The Country Land and Business Association (CLA) is taking a neutral stance and has produced a report *Leave or Remain: The decisions that politicians must make to support the rural economy* (March 2016) challenging both sides of the EU Referendum debate to set out how the rural economy will be supported.

The report suggests that the £3.87bn EU CAP spend in the UK in 2013 resulted in a £10bn contribution to the EU economy, including more than 350,000 jobs and £3.5bn in tax revenue.[75]

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[72] UFU, *Brexit issues must be debated says UFU*, 25 February 2016
[73] UFU, *UFU host major open EU referendum debate*, 25 May 2016
[74] Britain Stronger In Europe, *Farmers for In launched*, 5 March 2016
[75] CLA, *Leave or remain: The decisions that politicians must make to support the rural economy*, March 2016

In the introduction to the report the CLA stresses the need for direct support to the rural economy to continue, whether the UK is in the EU or not:[76]

> Any future decision to significantly reduce direct economic support to the rural economy could lead to a reduction in private sector investment, lower tax revenues and loss of jobs. The report also stresses the vital role of current EU programmes in making it possible for farmers, land managers and rural businesses to undertake activities that deliver environmental goods and outcomes that we all benefit from. These programmes or equivalent measures, which would benefit from reforms that the CLA has consistently advocated, must continue whether the UK is inside or outside the EU.

3.4 Farmers for Britain

Farmers for Britain, advocating UK exit, was launched in March 2016 as part of the Vote Leave campaign supported by current farming minister George Eustice and previous Secretary of State for Environment, Food and Rural Affairs, Owen Paterson. The launch press release sets out this position:[77]

> The EU's Common Agricultural Policy (CAP) is bad for farmers and bad for Britain. It is extremely bureaucratic – farmers often find themselves being fined for failing to comply with burdensome and complex rules made by unelected EU officials who don't understand the UK's industry, climate and geography. For years Brussels has promised reforms to the outdated CAP system – but, as ever with the EU, this has not happened.

A fuller policy position is positive about the UK's future trading position with the EU and highlights the advantages of a tailor-made national farming policy:[78]

> The 'one-size-fits-all' policy does not work for the UK's farmers and is failing certain sectors, particularly the Dairy industry, in a big way. Only outside the EU can the government tailor subsidies to support farmers in a truly efficient and effective way.

3.5 Current polling in the farming sector

An NFU England survey in January 2016 showed that 50% of their members would vote to stay in the EU, 25% would vote to exit, and 25% are undecided.[79] However, a *Farmers Weekly* survey in April 2016 found that 58% of farmers planned to vote exit and only 31% were planning to vote remain. A separate *Farmers Weekly* survey in April 2016 of 656 young farmers found that 38% were for remain and 62% for exit.[80]

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[76] Ibid,
[77] Vote Leave, *Campaign news – Vote Leave to protect UK agriculture*, 23 March 2016
[78] Farmers for Britain*, Our issue with the EU* as viewed on 26 May 2016
[79] NFU must remain 'apolitical' about Europe vote (Opinion piece from Guy Smith, NFU Vice-President, *Farmers Weekly*, 15 January 2016
[80] The future for subsidies in and out of the EU, *Farmers Weekly*, 13 May 2016

4. Wider EU agricultural policy issues

Although the CAP is a key feature of UK farming policy, there are a number of other important areas of EU regulation that would be affected by a UK exit from the EU.

The UK Government's *Review of the Balance of Competences between the United Kingdom and the European Union* (Summer 2014) highlighted pesticides regulation and plant and animal health regulation as key areas of interest from stakeholders. The NFU has also highlighted EU funding of agricultural research and development.[81]

Farmers for In argues that it is "pointless" trying to tackle environmental threats, and animal and plant diseases at country level. The group highlights that EU common standards and thresholds give farming the security that it needs in "today's uncertain landscape".[82]

4.1 Pesticide Regulation

The NFU has raised concerns that UK crop production is 'flatlining' because EU regulation is steadily reducing the range of crop protection products that farmers can use.[83]

The regulation and licensing of pesticides has a major impact on agricultural and horticultural businesses and is undertaken on a pan-European basis, sharing the burden of evaluating scientific evidence. However, the process still requires a range of UK 'machinery' which could be used if the UK had full control over its own pesticide use.

Before a pesticide can be used in the EU it must be scientifically evaluated by its manufacturer under Council Regulation 1107/2009. The European Food Safety Authority (EFSA) evaluates the scientific evidence on the impact of the active substance to human health and the environment and on its effectiveness against pests. The conclusions are provided to the European Commission which proposes approval or non-approval. This recommendation is subject to a vote by all Member States in the Standing Committee on the Food Chain and Animal Health. Pesticide approvals can be reviewed in the light of new scientific evidence. Once listed on the approved substance list the pesticide must then gain consent at a national level after a national risk assessment process.

The UK's pesticide authority is the Health and Safety Executive's Chemicals Regulation Directorate. The House of Commons Environmental Audit Committee has described the system for approving pesticides as "opaque".[84]

81 NFU online, *NFU Council agrees resolution on the EU referendum*, 18 April 2016
82 Britain Stronger In Europe, *Farmers for In launched*, 5 March 2016
83 NFU Online, *A healthy harvest?,* Vice-President's blog,1 June 2014 and NFU online, Lobbying for a Healthy Harvest, 5 February 2015
84 HC 668, Pollinators and Pesticides, Seventh report of Session 2012-13, House of Commons Environmental Audit Committee, p.3.

Recent issues

The EU approval and assessment process has recently received a great deal of attention because of the European Commission's introduction of restrictions on a number of the most commonly used neonicotinoid insecticides due to their negative impact on bees.

The UK Government does not agree that the scientific evidence supports the restrictions but the Commission had sufficient support to introduce them. These restrictions are currently being reviewed by the European Food Safety Authority (EFSA) which is expected to provide an assessment by 31 January 2017.[85]

In addition, the renewal of the approval for the herbicide glyphosate has been delayed at EU level after conflicting scientific assessments.

The National Farmers' Union (NFU) has said that it is fundamental that the agricultural sector is able to use glyphosate responsibly in order to produce healthy products across the sector, to reduce greenhouse gas emissions and to continue to farm sustainably.

In this particular case, the UK is arguing that the scientific assessments carried out so far do not suggest that certain uses of the pesticide should be restricted at EU level and that it should be for Member States to consider whether restrictions are needed as part of their national re-approval processes.[86]

4.2 GM crops

The UK regulatory process for approving GM crops is also part of an EU-wide system of evaluation and authorisation for Genetically Modified Organisms (GMOs) based on scientific evidence and evaluation. However, the final decision on authorisation rests with Member States in a vote which somewhat politicises the process, as such votes can reflect the Member State's overall position on GM rather than the specific authorisation being considered.

Since 1990, only 3 GMOs have been authorised for cultivation in the EU and only one product (MON810 maize) is currently authorised. It is cultivated in five Member States (not the UK) on an area representing only 1.5% of the total area of maize production in the EU. This has implications for EU trade and innovation.

The Commission has acknowledged this shortfall in the authorisation process and has been seeking to address it. For example, since April 2015 Member States have had more discretion to restrict or prohibit the use of GM crops in their own jurisdiction, even if EU-authorised, without having to vote against the whole authorisation of a particular GM crop to achieve this. The EU Commission has also reviewed the whole decision-making process for authorising GMOs and has proposed

85 HC Written Answer 24715, 3 February 2016
86 HL Written Question HL8 171 11 May 2016

that this approach should also be taken for GM food and feed (which is more widely authorised).[87]

However, in October 2015, the European Parliament voted against these proposals the plans on the grounds that they were unworkable and could lead to border controls between countries that disagree on GMOs, which would affect the internal market. The Parliament asked the Commission to come forward with new ideas.[88]

4.3 Plant and Animal Health and Food Safety

The Balance of Competences Review noted that an extensive body of EU legislation on animal health, veterinary medicines, medicated feeding stuffs, animal welfare, food and feed safety and hygiene, food labelling and compositional standards has developed. This is mainly to facilitate trade and to provide the EU with comprehensive disease and food safety alert systems.[89]

Many of these areas have international standards, food for example, where an EU exit would not greatly change standards. Some also already allow Member States to maintain stricter rules if they have them: e.g.UK slaughter rules and animal welfare. However, Member States also share expertise, intelligence and resources to support these systems.

Without access to such resources the UK would have to replicate some of the services currently provided or seek to participate in them on other terms.

87 COM (2015) 176 final, 22 April 2015, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Reviewing the decision-making process on Genetically Modified Organisms (GMOs).

88 European Parliament News, *Eight things you should know about GMOs*, 27 October 2015

89 HM Government, *Review of the balance of competency between the UK and EU: Animal Health and Welfare and Food Safety report*, July 2013.

BRIEFING PAPER
Number 7602
26 May 2016