

Supplementary Annex



Llywodraeth Cymru
Welsh Government

A scenic view of a Welsh landscape. In the foreground, three cows (two brown and one white) stand in a grassy field. Behind them, a stone wall runs across the middle ground, separating a green field from another. The background features rolling green hills and a large mountain range under a blue sky with scattered clouds.

**Sustainable Farming
and our Land:**
Impacts of Alternative Post-Brexit
Trade Agreements on UK Agriculture

We are republishing part of the text from the original *Brexit and our Land* consultation, as there was a minor error in the original document relating to the labelling of a figure.

The research that generated these estimates is now complete and the full report can be found at <https://research.ncl.ac.uk/esrcbrexitproject/outputs/>. We are therefore republishing our corrected summary of the analysis in order to be fully transparent about the nature of the evidence that underpins our proposals.

The error was not material to the substance of the consultation and is not likely to have affected the responses to the consultation.

The republished text refers to estimated changes to the UK agricultural commodity prices, production and value of output, in three post-Brexit trade scenarios.

Brexit scenario analysis

1. Brexit potentially brings an unprecedented departure from the trading framework that farm businesses and their supply chains currently operate within.
2. The opportunities and risks to different subsectors are best explored by considering different trade scenarios. The Cabinet Secretary's Roundtable sub-group on Evidence and Scenarios and the FAPRI (Food and Agricultural Policy Research Institute) analysis presented in our earlier document, "Brexit and trade", both used this approach as the basis for their assessments.
3. The FAPRI study sets out three scenarios, summarised in Table 1. The scenarios illustrate the potential impact of alternative, stylised trade arrangements. These are compared to a current baseline¹ in order to highlight potential changes depending upon the manner in which the UK exits the EU.
4. Given the emphasis on dairy, beef and sheep production for the majority of farms in Wales it is reasonable to assume the impacts will be felt at least as strongly in Wales as in the rest of the UK. Indeed, for sheep meat the impacts may be proportionately greater given the relative share of sheep meat activities in Wales. The Evidence and Scenarios sub-group drew similar conclusions as illustrated by the FAPRI modelling. Their report explores the potential impacts in Wales in more depth across farming, fishing, forestry, food and environment and implications for rural communities.²

Scenario 1:

A bespoke and comprehensive Free Trade Agreement (FTA) with the European Union (EU)

5. Under this scenario, bespoke and comprehensive FTA with the EU produces little change from the counterfactual, enabling "business as usual" to continue with no tariff barriers between the UK and the EU.
6. This scenario may enable the UK to develop further third nation trade deals over time, potentially opening up opportunities for new export markets for our agricultural products. Depending on the nature of the trade deal the UK agrees with the EU, these third nation agreements may increase Wales' exposure to external market forces.

¹ Baseline covers the period 2016 to 2025, and assumes the UK is fully integrated within the EU's Single Market and the Customs Union. Post-2013 CAP reforms remain in place for the baseline.

² <https://gov.wales/eu-exit-scenario-planning-workshops-summary>

Scenario 2:

Exit under World Trade Organisation (WTO) rules as a Most Favoured Nation

7. Under this scenario, if the UK exits the EU on a 'no-deal' basis it will default to trading under WTO rules with all nations until further FTAs are signed. This will require goods to be exported and imported to the EU and third countries under 'Most Favoured Nation' (MFN) rules with a range of tariffs applied to those goods. The tariffs for animal products are amongst the highest in the range.

8. The FAPRI report suggests MFN tariffs on imported food may have the effect of rendering those imports uncompetitive compared to domestic production. This creates potential substitution opportunities for domestic producers. The effect is illustrated in the analysis by price increases ranging between 15% and 30%. Beef farmers, for example, might see an increase in output value of around a third as beef imports decline.

9. The scenario also reflects there are significant risks to subsectors reliant on exports. As the FAPRI analysis states:

"The introduction of MFN tariffs diminishes the competitiveness and thus the volumes of UK exports to the EU, which leads to increases in available supplies within the domestic market. The negative price

impact is particularly marked in the sheep sector due to the large quantity of sheep meat currently exported to the EU from the UK. The projected fall in price has a depressing impact on UK sheep meat production and thus on the value of output".

10. This has particular relevance for Welsh agriculture given a large proportion of sheep meat from Wales is exported to the EU. The scenario suggests the imposition of MFN tariffs increases costs to EU buyers significantly, reducing exports sharply and leading to domestic over-supply, exacerbated by the loss to processors for cuts of sheep meat unpopular with UK consumers. This could be likely to have a negative effect on carcass balance and make the slaughter and processing of sheep meat less viable.

11. Reductions in production levels of sheep meat may also have follow-on impacts in terms of the scale of the processing sector if economic throughput cannot be maintained through increases in other areas such as beef. Without these increases in other products, farmers in some areas would need to transport animals further afield for slaughter and processing, further reducing their competitiveness in an oversupplied market.

Scenario 3:

Unilateral trade Liberalisation

12. This scenario envisages the UK Government has used its ability to unilaterally reduce import tariffs in order to keep increases in the cost of imported food as low as possible. This would be particularly relevant following scenario 2 where FAPRI's analysis shows increases in the costs of agricultural products.

13. The nature of the impacts on different UK agricultural sectors in this scenario relates to the closeness of UK prices to global food prices. Figure 1 shows how all sectors would suffer in this scenario, with beef and sheep meat especially disadvantaged because other producers of those commodities in the rest of the world are very cost competitive. The report highlights that a large increase in imports for these products would significantly reduce prices to the consumer but at the cost of very significant pressure on all agricultural sectors, especially sheep and beef farmer.

Table 1: Three alternative trade scenarios relative to baseline scenario³

Bespoke Free Trade Agreement (FTA) with EU (1)

- UK retains tariff and quota free access to the EU and EU retains tariff and quota free access to the UK
- UK maintains EU tariff structure to the rest of the world
- 5% trade facilitation costs on UK-EU27 trade

World Trade Organisation (WTO) default (2)

- MFN tariffs applied to imports from the EU
- TRQs from 3rd countries retained
- MFN tariffs applied to UK exports destined for the EU
- No change in tariff structure for exports to the rest of the world
- 8% trade facilitation costs on UK-EU27 trade

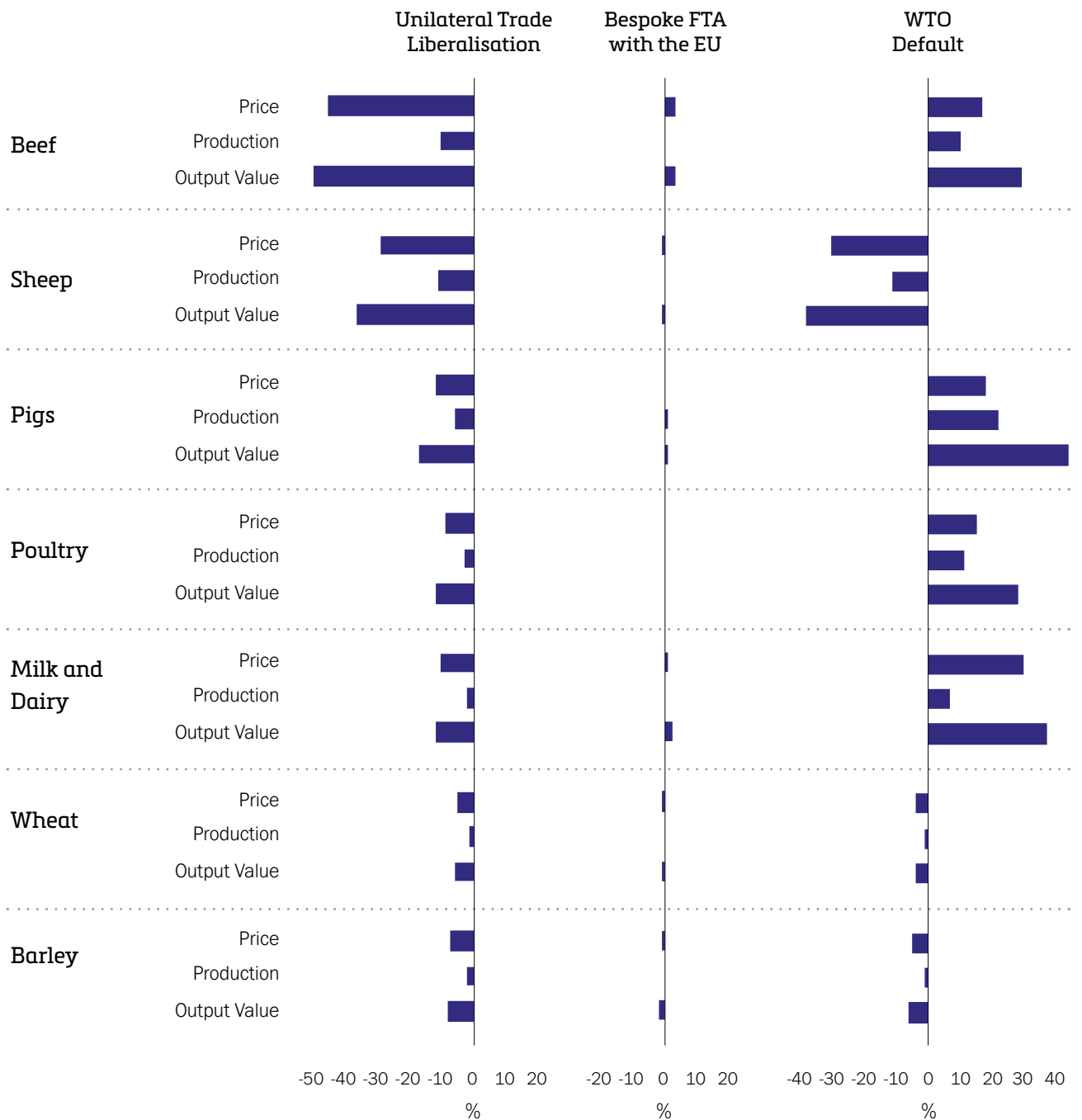
Unilateral Trade Liberalisation (3)

- Zero tariffs applied on imports to the UK from both the EU and the rest of the world
- MFN tariffs applied to UK exports destined for the EU
- No change in tariff structure for exports to the rest of the world
- 8% trade facilitation costs on UK-EU27 trade

Source: www.afbini.gov.uk/publications/afbi-report-post-brexite-trade-agreements-uk-agriculture

³ Baseline covers the period 2016 to 2025, and assumes the UK is fully integrated within the EU's Single Market and the Customs Union. Post-2013 CAP reforms remain in place for the baseline.

Figure 1: Projected percentage change in UK commodity prices, production and value of output relative to baseline scenario in 2025⁴



Source: www.afbini.gov.uk/publications/afbini-report-post-brexit-trade-agreements-uk-agriculture

⁴ Baseline covers the period 2016 to 2025, and assumes the UK is fully integrated within the EU's Single Market and the Customs Union. Post-2013 CAP reforms remain in place for the baseline.