

SPECIAL REPORT

NAVIGATING

BREXIT

Will agricultural interests make it through?

HARD BREXIT

That describes what will happen if the U.K. and EU fail to reach an agreement by March 29 2019. Britain would revert to World Trade Organization tariffs on imports and exports to and from the EU rather than the zero tariffs granted to member states.

The split could run into obstacles, such as an election in Germany with a possible leadership change or coalition government.

That could delay the European Council from moving ahead and EU negotiators have said an agreement must be reached by October 2018 to leave time for the member states to endorse Brexit in their own parliaments.

Calgary-based *Western Producer* reporter **Barbara Duckworth** was in Britain recently and spoke with farmers and policy makers about Brexit and what it could mean for the country's agricultural industry.

IN THAT understated English way, Brian Lear describes Brexit as a "bit of a mess."

The English beef producer wonders where agriculture sits on the agenda as negotiators work through the tangled web of details involved in separating the United Kingdom from the European Union.

He wants to know about possible tariffs, currency volatility and potential competition from lower-cost producers in other countries.

However, little information is forthcoming from EU headquarters in Brussels.

"There will be a place for beef producers in this country, you just have to be one of the efficient ones is the way I look at it, because everything is out control," he said in an interview at his farm at Aylesbury in central England.

The loss of control troubles farmers in the Republic of Ireland and the United Kingdom as they watch the biggest divorce since Henry VIII discarded his first wife in favour of a younger woman. Like that acrimonious split there was upheaval, uncertainty and change forced on an unprepared nation.

In fact, some of the Brexit negotiation tactics are referred to as Henry VIII clauses where ministers change laws and regulations with-

out consulting parliament.

Agriculture is a low priority as both sides debate the future of the 40-year-old economic union that has integrated human rights law, trade, regulations, food production and culture, said Irish farmer Angus Wood.

A cereal and livestock producer from County Wicklow near Dublin, Wood is also on the board of the Irish Farmers Association and is in tune with developments as officials trade barbs in the media without providing details about how businesses might be affected in the aftermath.

He wonders what the U.K. hopes to gain from this upheaval.

"The U.K. is starting from a position that anyone else would hope to finish on, a really good deal.

"They can't get better than where they are at the moment. They have free access to 500,000 European consumers, free movement of people," he said.

Born in 1971, he has never known life outside the EU but he knows the Irish stories about poverty, a low standard of living and farmers immigrating to Canada, United States and Australia.

"Prior to European entry, Ireland wasn't a very good place to live. It wasn't easy to be in Ireland and Europe has been very good to Ireland," he said. "People forget that. The European Union is probably at the forefront of workers' rights, human rights, climate change and the kinds of things people take for granted now. The European Union is not a bad place to live."

Gavin Dick of Scotland said the effects may not be known until the break is complete. Things might be better in 15 years, but those living through the change may have a con-

siderable adjustment ahead of them.

Dick is the manager of the cereals and oilseeds division with the British Agriculture and Horticulture Development Board. The organization represents all commodities except poultry and collects farmer levies to support education, marketing and research.

The lack of information is troubling as the organization tries to provide farmers with possible scenarios and business plans to help them survive a post-EU world.

"We are delivering forests of paper but in those forests of paper there is not a single action that a farmer can react to from a business perspective," he said at the Scottish Rural Centre outside of Edinburgh.

A deciding vote

The British decision to leave the EU bloc followed a June 2016 referendum when 51.89 percent of the British public voted to leave. Most of Scotland, Northern Ireland and regions around London voted to remain.

British Prime Minister David Cameron resigned when the vote was lost and Theresa May took over and quickly called another election leaving her Conservative government in a minority position, but she promised to honour the referendum decision.

Separation is scheduled for March 29, 2019. The British government repealed the European Communities Act of 1972 in September. Following that, May asked for a two-year transition period and a commitment to keep paying 10 billion pounds a year to the EU until 2021.

It was hoped to be a conciliatory offer but Donald Tusk, president of the European Council told report-

ers, "We will discuss our future relations with the U.K. once there is so-called sufficient progress," he said. "I would say there's not sufficient progress yet."

The National Farmers Union representing 55,000 producers in England and Wales did not anticipate the referendum outcome. It advised farmers to stay.

There was little information beforehand and in the days leading up to the vote, it became a divisive issue, even within families, said Minette Batters, deputy president of the NFU and a beef and lamb producer from Wiltshire.

"The government was so adamant it wanted to remain, the way the debate was handled, it got more and more toxic the closer we got to the vote," she said in an interview at NFU headquarters at Stoneleigh Park near Warwick.

More farmers voted to remain than leave but there is a general agreement about why the vote went the way it did.

"It was all about taking back control of our own democracy, our own borders and we can build a future inside the U.K.," Batters said.

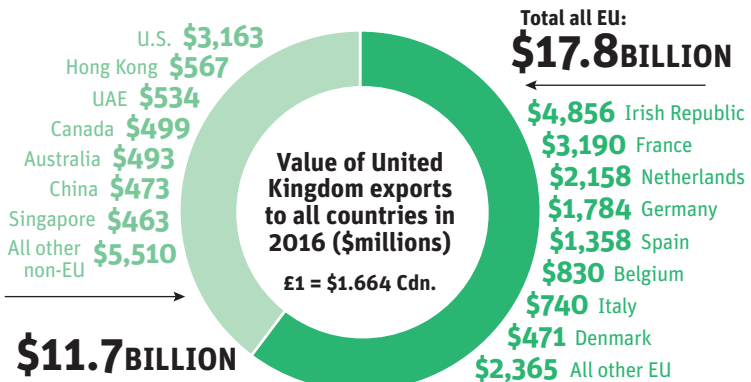
"There are advantages and minuses in being part of Europe for 40 years. On the food supply it has been good going in with tax-free access to 500 million people. It has been very good to the U.K. and very good for Europe," she said.

"Politically, it has deferred all the decision making to Brussels. The fact that we don't have any food policy hasn't mattered because we trade with Europe and the rules have been set by Europe and interpreted by us," she said.

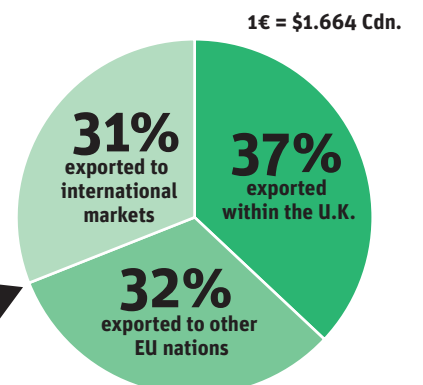
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WHAT'S AT STAKE: EXPORT MARKETS WORTH BILLIONS



In 2016, Ireland exported food and drinks worth **\$16.5 BILLION CDN.** into **180 MARKETS WORLDWIDE**





Minette Batters of Wiltshire, England, is a beef producer and deputy president of the National Farmers Union, representing 55,000 members in England and Wales. She raises registered Herefords and has a herd of Simmental-Angus commercial cows. | UK NATIONAL FARMERS' UNION PHOTO

The government promised to release a made-in-the-U.K. agriculture policy next year.

"So, the challenge is now is to position where agriculture sits with government. That is no mean task because in their eyes we can afford to import our food from anywhere in the world," she said.

Batters, who raises pedigreed Herefords and has a commercial herd of Simmental-Angus cross cows, is examining her business plans. She needs to know how she might market her calf crop in 2018 and 2019.

"It is bizarre. We don't know if we are trading with Europe or not and that is the craziness of all of this," she said.

She anticipates more consolidation of farms and some farmers may quit. The red meat sector could be among the hardest hit.

There are opportunities for expanded trade in dairy, but the U.K. is in short supply of lamb and beef. Cheaper imports could flood in and force domestic livestock prices lower.

"If we have full and unrestricted

access to the European market, we will be protected. If we do not achieve a deal with the EU, we will be trading with the rest of the world."

Consumers say they support British products but often price trumps loyalty, she said.

The British government has committed to continue farm subsidies until 2020 and many depend on that money to live.

Farm debt at record high

Farm debt is at a record 18 billion pounds sterling.

"Some of that will be on-farm investment but a lot of it is people borrowing money to live on."

Like many farmers, she also depends on hired help.

Thousands of workers from the European Union come to the U.K. every year to work in processing plants, hog farms and horticulture. Many meat inspectors come from Spain.

A system of work permits to bring in labour is under consideration but under the current cli-

mate many of these people have decided to work elsewhere. Many are paid less in the U.K. because of the weaker currency and many do not feel welcome in Britain.

Politicians may also take farmers and food production for granted. Most voters are urban and the Conservative cabinet is less interested in agriculture and it has limited trade experience.

"The main proportion of MPs are urban and their worries are the benefits system, education and the national health system and farming is taken for granted, really. It is always available 24-seven, you can always buy food," she said.

Paul Hogan, European commissioner for agriculture and rural development, said if there are uncertainties surrounding the rules of Brexit, then blame can be laid solely at the doorsteps of the U.K.

"In my view, and in the European Commission's view, the U.K. is responsible for this. They voted to leave and it is up to them to come up with the answers," he said.

barbara.duckworth@producer.com

THE AFTERMATH

So what happens next?

Frustration grows in Britain's farming community while the government works on new policies

BY BARBARA DUCKWORTH
CALGARY BUREAU

FOR MANY farmers in the United Kingdom, the aftermath of succession from the European Union could be nicknamed Nexit.

The decision to leave the 40-year-old relationship in 2019 has left many people in agriculture swimming in a sea of uncertainty as everything from farmer payments, labour availability, regulations, tariffs and border controls is up for review. No one is sure what happens next.

At this point, the U.K. government decided to "lift and shift" and transferred all the EU legislation to U.K. books. Regulations and laws will be reviewed over time.

"It is more complicated than people think it is," said Peter Hardwick of the Agriculture and Horticulture Development Board (AHDB), an umbrella organization for British commodity groups supported with farmer levies.

Head of international market development, Hardwick and others know past trade deals take years to settle before goods start to flow freely. Part of the frustration is a lack of clarity about the end goals.

Conversely, the EU has given the impression it does not want to concede too much for fear of encouraging other members in the 28 country bloc to leave.

Many people blame the initial dispute over immigration policy where the U.K. had to accept more migrants than it wanted as a member of the European Union.

Under a new agreement Britain has indicated it wants to continue with the four freedoms of movement for goods, services, capital and labour. The EU responded if Britain wants free movement of goods it must accept free movement of people as well.

Ultimately the corporate world may settle disagreements as the big retailers challenge governments about guarantees of consistent supply, food standards and keeping food prices reasonable.

"The one thing government will not want as a result of Brexit is higher food prices which is slightly different from protecting agriculture. It may actually be the opposite," said Jim Davies, head of the marketing and communications arm of AHDB.

The British government has

promised an agriculture policy next year tailored to its own needs rather than requiring balance and approval from the other members of the EU.

But frustration is growing within the farming community with what it sees as inaction from the department for environment, food and rural affairs.

"We can ask questions of (Department for Food and Rural Affairs), which you would imagine they should be able to answer. It is quite a frightening situation," said Rob Burns, head of crop exports for AHDB.

"At the moment we have trade agreements through Europe that covers 300 commodities for import and export, tariff free. No one knows what is going to happen when that fails," said Burns.

"The politicians are in such a mess. They will probably just take on board everything they possibly can and keep it as it is. It is much simpler, not only dealing with Europe but with other countries," he said.

The U.K. and Ireland are probably the closest trading partners within the EU and both sides have a long list of questions about what happens next.

Since the Brexit vote, the pound sterling has weakened 15 percent against the euro. It has made U.K. exports more competitive, but created tension for Ireland because it uses the euro.

"Brexit is already having a negative impact on the value of agriculture and food products and our exports to the U.K., principally as a result of depreciation of sterling," said Paul Hogan, European Commissioner for agriculture and rural development at the Agricultural Science Association 75th conference at NAAS,

Ireland. An Irishman working for the EU, he is opposed to the U.K. decision.

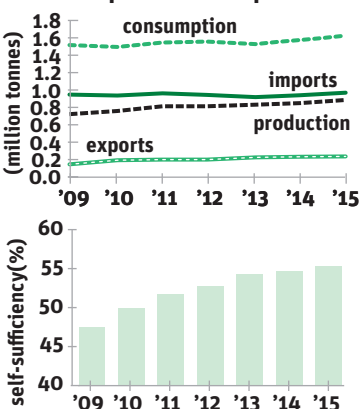
Businessperson Niall Browne is also frustrated. He is chief executive of Dumbia, an Irish meat processing firm that processes nearly one million cattle and 2.6 million sheep in Ireland and the U.K.

"We know we are suffering major currency volatility but apart from that, we are in an information vacuum, which is being fueled by unnecessary and unhelpful speculation. We do not have the detail to make business decisions in relation to Brexit," he said.

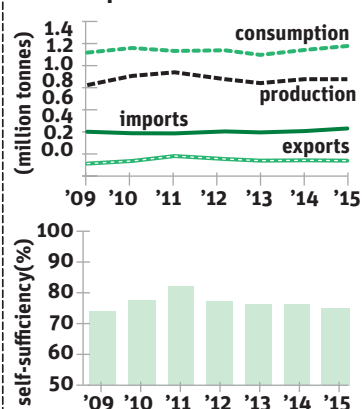
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THE UNITED KINGDOM IS RELIANT ON MEAT IMPORTS

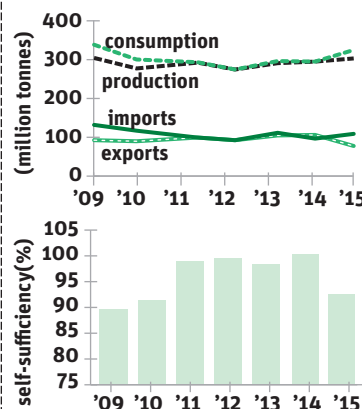
PORK: imports exceed production



BEEF: imports needed



SHEEP: balanced trade



What would happen to U.K. farms if ALL supports were removed?

	Farms unable to survive	Able to survive but would suffer financial distress	Income positive but insufficient to invest & modernize	Income positive, farms with good prospects	Income above costs, farms with good prospects
All farms	15%	20%	23%	38%	1%
Dairy	8%	8%	16%	62%	6%
Livestock	17%	53%	20%	10%	
Mixed farms	12%	30%	28%	28%	1%
Crops	19%	28%	19%	32%	2%
Horticulture	18%	50%		32%	

Source: Agriculture & Horticulture Development Board MICHELLE HOULDEN GRAPHICS

THE THREE SCENARIOS

These are the trade scenarios that have been and studied to see how commodity prices would be affected in the U.K. after Brexit:

1. Under a **bespoke free trade agreement**, the U.K. retains tariff and quota-free access to the EU (and vice versa). The U.K. maintains the EU tariff structure to the rest of the world, and pays a 5% trade facilitation cost on UK-EU27 trade.
2. Under the **WTO default** option, the most favoured nation (MFN) tariffs are applied to imports from the EU. Tariff rate quotas from third countries are retained. MFN tariffs are applied to U.K. exports destined for the EU. No changes are made to the tariff structure for exports to the rest of the world, and the U.K. pays an 8% trade facilitation cost on UK-EU27 trade.
3. Under a **unilateral trade liberalization**, zero tariffs are applied on any imports to the U.K. MFN tariffs are applied to U.K. exports within the EU. No changes made to tariffs for exports to the rest of the world. The U.K. pays an 8% trade facilitation cost on UK-EU27 trade.

Percent change in UK commodity prices under each scenario:

	#1	#2	#3
Beef	+3%	+17%	-45%
Sheep	-1%	-30%	-29%
Pigs	0%	+18%	-12%
Poultry	0%	+15%	-9%
Milk/dairy	+1%	+30%	-10%
Wheat	-1%	-4%	-5%
Barley	-1%	-5%	-7%

Source: University of Missouri



"If there was a proper, well-thought-out trade deal at the end of this, possibly there would be no need for any kind of a border issue but a lot of this depends on what the U.K. decides it really, really wants."

ANGUS WOODS
IRISH FARMER

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"Any disruptions to the current supply chain have very negative consequences for farmers, for consumers, business and indeed for the wider EU community," he said.

Many U.K. farmers have not paid attention in the past but may have to learn to watch currencies as well.

Their farm support payments are in euros and it may get their attention if they receive less money, said Gavin Dick of the AHBD cereals and oilseeds division.

"There are individuals who pay a lot of attention to it and use it to their



GAVIN DICK
AHBD CEREALS & OILSEEDS DIVISION

advantage to sell by, but for the majority of farmers it does not come across their horizon," said Dick.

Immigration policy may have ultimately been a major cause of the vote to leave the EU, but the farm sector needs thousands of workers for horticulture, dairy, pork and processing. Most of those workers come from Eastern Europe and there are signs fewer are willing to come to the U.K. under a cloud of uncertainty.

"This is a unique situation," said Hardwick.

"The argument the EU makes is people came here in good faith and their rights should continue to be guaranteed under the legal framework under which they arrived

here," said Peter Hardwick.

Soft fruits are an important crop in Scotland and England where strawberries, raspberries, black currants and blueberries are grown for the local fresh market as well as processing.

Labour shortages have cast a shadow over commercial growers' prospects. Some growers had to abandon some of last year's harvest because of the labour shortage.

"The bulk of the specialist growers would typically bring in over 300 migrant workers at the peak times. Out of that 50 or 60 would

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work here year round," said Dick.

Abattoirs have a unique problem because many meat inspectors are Spanish and once the U.K. leaves the EU, they will have to train their own staff. Abattoirs also employ large numbers of foreign workers, mostly from Poland.

ONCE THE DIVORCE is complete, the U.K. will have its own standing in the World Trade Organization. It needs to set its own tariff schedule and must notify the WTO. It would likely follow the EU tariffs already in place.

The agriculture departments of England, Wales, Scotland and Northern Ireland commissioned a study on post-Brexit trade alternatives. Conducted by the University of Missouri, three different scenarios were modelled and concluded changes in trade flows would have important consequences on U.K. commodity prices, production and domestic agriculture policies.

The study examined the consequences of a free trade deal, no deal with the EU and trade liberalization with the world.

It concluded the best the U.K. could hope for is a free trade agreement with the EU. It would retain tariff and quota-free access to the continent.

If the U.K. does not manage a free trade agreement with the EU by the time it leaves, Europe must apply the same tariff on U.K. goods as it does to all other WTO members. This could be punishing for agriculture because the duties for many products is high, depending on the commodity.

The University of Missouri pre-

dicts serious consequences for the livestock sector with higher consumer prices and the opportunity to bring in cheaper products from low-cost producing countries.

For example, beef and cheese prices would go up because the U.K. is a net importer, while a commodity like barley would go down because it is a net exporter.

If tariffs are in place, a physical customs border must be established between the U.K. and the EU, including a barrier for inspections between Northern Ireland and the Republic of Ireland.

British Prime Minister Theresa May said she wants a frictionless customs arrangement and a free-trade deal with the EU to prevent this.

Deciding whether there should be a solid border between the Republic of Ireland and Northern Ireland is a contentious issue. There are no border controls at present.

"If there was a proper, well-thought-out trade deal at the end of this, possibly there would be no need for any kind of a border issue but a lot of this depends on what the U.K. decides it really, really wants," said Irish farmer Angus Woods.

Another problem is the lack of border controls and infrastructure between the U.K. and EU because there are no physical customs inspection points. These would need to be built at key crossings.

"Today through the port of Dover and the Channel tunnel, in a year, four million vehicles travel through that corridor. There is a vehicle every eight seconds and that is only possible because vehicles don't stop. There is no need and nor is there any provision for a border post to be there,"

As members of the EU, British farmers are entitled to farm subsidies and follow European farm policy crafted in Brussels through the Common Agriculture Policy. Beef, sheep and cereals are dominant industries but analysis shows few make a profit on their own, so farmers depend on subsidies and diversification to survive.



PHIL BICKNELL
AGRICULTURE AND HORTICULTURE
DEVELOPMENT BOARD

said Hardwick.

No one wants lengthy vehicle line-ups at inspection points. If an eight-second stop morphed into a minute, there would be traffic jams for miles.

The British government published a paper about customs arrangements that may not be practical but they realize there are technical ways like electronic tracking and payment of tariffs at the point of dispatch to clear customs.

The EU prides its high animal welfare and environmental standards so it is likely the U.K. will continue to follow those in order to continue trading on an equal footing.

Many of the standards are not necessarily coming from the EU but from retailers, who have made specific demands of suppliers. U.K. retailers will not reverse those standards.

However, regulations lifted from

the EU must be rewritten for the Britain's purposes.

Some aspects are straightforward and anything called a directive is already transposed into U.K. law.

There are two types of regulations. Operable regulations do not rely on European regulatory authority to operate and monitor it. Regulations like the domestic auditing of plants are an example.

Inoperable regulations like the Veterinary Medicines Directorate were under the EU system that controls the approval of veterinary medicines across the union. There is no U.K. veterinary medicine directorate so one must be created or agreed upon during a certain period of time so it can continue operating under the European equivalent agency.

As members of the EU, British farmers are entitled to farm subsidies and follow European farm policy crafted in Brussels through the Common Agriculture Policy.

"If we are not members of Europe anymore we won't have access to the Common Agriculture Policy and then what happens?" said Phil Bicknell with the Agriculture and Horticulture Development Board.

Beef, sheep and cereals are dominant industries but analysis shows few make a profit on their own, so farmers depend on subsidies and

diversification to survive.

"The positive from an U.K. perspective is we have got an opportunity with Brexit to develop a farm policy that works and fits," said Bicknell.

AHDB has researched agriculture policy frameworks from other parts of the world like Canada, United States, Australia and New Zealand to craft a model that works for British farmers working a diverse landscape at different levels of sophistication and technology.

"Government policy always seems to be a step behind what is needed. The last common agriculture policy reforms focused quite a lot on greening the policy when the biggest challenge facing the industry was around volatility," said Bicknell.

The U.K. government has promised to continue payments until 2020, but no one knows what to expect after that.

The CAP paid for production but gradually payments were adjusted with the latest permutation expected to attach a subsidy to environmental care and services.

This is more palatable to taxpayers who complain about paying farmers when there is already pressure on services like health care and education.

barbara.duckworth@producer.com



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