



Agribusiness  
& Economics  
Research Unit  
LINCOLN UNIVERSITY



With the support of the  
Erasmus+ Programme  
of the European Union

## Policy Brief

### The impacts of changes in agricultural policies in the United Kingdom on trade and agriculture especially in New Zealand – the Norway - Option.

John T. Saunders, Meike Guenther & Caroline Saunders (2019)

Agribusiness and Economics Research Unit (AERU), Lincoln University, New Zealand

On June 23, 2016, the United Kingdom (UK) voted narrowly (52:48) to leave the European Union (EU). The UK government then officially notified the EU on March 29, 2017, of its intention to leave, thus triggering Article 50 of the EU Treaty, which specifies that within two years the UK will cease to be a member. However, the date for Brexit is still unclear as the European Union leaders have granted the UK a six-month extension to Brexit until October 31, 2019. Consequently, the nature of the economic relationship between the UK and the remaining EU-27 is still to be defined (Belke & Gros, 2017).

Brexit will change the domestic and trade policies affecting agriculture in the UK and will have important implications for agricultural commodity trade worldwide. The trade policy changes are key factors in determining the consequences of Brexit for agricultural markets in Europe and elsewhere. New Zealand (NZ) is a small open economy which is dependent on its agricultural exports. The UK is an important export market for New Zealand, especially for agricultural commodities. Since 1973, New Zealand's agricultural exports to the UK were subject to EU trade policy, hence, the UK exiting the EU will affect trade between the UK, the EU and third party countries like NZ.

In 1973 the UK entered the EU, then called the European Community (EC), which was established on March 25, 1957 when the Treaty of Rome was signed. Since then the UK and the EU have become highly integrated through the Common Agricultural Policy (CAP) among other policies. The Common Agriculture Policy (CAP) has a common external barrier and a system of subsidies and support programmes for agriculture. The policy was established in 1963, and it effectively set internal minimum prices well above world market levels and restricted imports in order to raise domestic prices (Saunders, 2008). Since its launch the CAP has been reformed considerably, aiming to reduce its costs (from 71 per cent of the EU budget in 1984 to 39 per cent in 2013) and to include objectives for a rural policy (Agenda 2000 reforms). In the event of Brexit, the UK will withdraw from the EU and the CAP. This means that it is no longer entitled to the subsidies under the CAP and will also face restrictions on entering the EU for agricultural exports (HM Government, 2017).

Currently, the UK has free movement of its agricultural goods within the EU. There are no tariffs or tariff quotas on the agricultural commodities traded between the UK and EU member states. In addition, being a part of the Customs Union, the UK has imposed the EU's common external tariff on goods imported into the UK from non-EU countries (Saunders et al., 2016). External tariffs on agricultural goods tend to be considerably higher than non-agricultural goods. A number of countries have free trade agreements with the EU (e.g. South Africa, Mexico, Chile and Korea) and thus face lower or no tariffs on agricultural exports. In addition, the EU has numerous preferential trade agreements (e.g. Switzerland) (Potton & Webb, 2017). The EU has a system of tariff rate quotas (TRQs) which allow imports to come into the EU at a lower tariff rate up

to a quota. There are 87 TRQ schemes for agricultural, food and beverage products which comprise of more than 120 separate tariff quotas (Revell, 2017). In the event of Brexit, both the UK and the EU would need to make a decision on splitting the current TRQs between them. This would involve negotiating trade agreements not only between the remaining EU countries and the UK, but also with third country exporters regarding market access (Revell, 2017).

The agri-food sectors of the UK and EU have become highly integrated since the UK joined the EU in 1973. In 2018, 62 per cent of all UK agri-food exports went to the EU, at a value of approximately £13.9 billion. In particular, seven of the UK's ten largest export markets for agri-food products are EU member states. Similarly, the UK is reliant on imports of many agri-food commodities from the EU, with EU agri-food imports comprising approximately 70 per cent of total agri-food imports in 2018. In particular, nine of the UK's ten largest importers for agri-food products are EU member states (Defra, 2019).

NZ and the UK have a long history of trading agricultural commodities. The NZ agricultural sector originally developed to service the UK market. However, over the 1960s it became clearer that the UK would enter the EC and that NZ agricultural trade would be seriously affected by the CAP. The CAP was based upon fixed support prices with barriers to entry from third country imports (Saunders, 2008; Potton & Webb, 2017). NZ was allocated country-specific TRQs for its beef, sheep, cheese, and butter exports to the EU market, which have been maintained. However, once the UK exits the EU it can negotiate its own trade policies with third countries like NZ. In recent years, the UK's historical importance as NZ's key trading partner has decreased, however it remains an important market for NZ exporters of sheepmeat, and retains a position as NZ's eighth-largest trade partner in merchandise trade by total export value in 2018 (Statistics NZ, 2018).

Several studies have assessed the potential effects of the UK exiting the EU on the UK economy and in particular on its agricultural sector using various scenarios and assumptions. These scenarios range from soft/optimistic Brexit scenarios (e.g. Swiss Option, Norwegian Option, Unilateral Free Trade etc.) with new trade tariffs combined with changes in trade facilitation costs as non-tariff barriers (with various ranges) to the hard/pessimistic Brexit scenario (e.g. WTO Option/ No deal scenario). The majority of these studies projected a negative impact on the UK's economy from Brexit with a projected reduction of GDP and loss in household income to varying degrees depending on the scenario assumptions and the type of trade agreement met with the EU (HM Treasury, 2016; PWC, 2016; Dhingra et al., 2017; Booth et al., 2015; Boulanger & Philippidis, 2015); Mion & Ponattu, 2019). The studies also indicated that these welfare impacts would vary regionally across the EU with welfare losses predicted to be stronger the closer a country is to the UK (Mion & Ponattu, 2019). At industry level, a few studies have assessed the potential effects of the UK exiting the EU on the UK agricultural sector. Results from these studies were mixed depending on the scenarios examined. While some studies projected a positive impact on the UK agricultural sector with increased producer prices across the agricultural commodities (Davis et al, 2017; Jongeneel et al., 2016; Van Berkum, 2016; Sik Choi et al., 2019), other studies projected price drops especially for the beef and sheepmeat sector (The Andersons Centre, 2019; Davis et al., 2017). In contrast, a Unilateral Trade scenario (i.e. all UK import tariffs drop) showed a significant negative impact on prices, production and incomes across the agricultural sector (Jongeneel et al., 2016; Hubbard et al., 2018). Further, these studies have shown a decrease in bilateral agricultural trade between the UK and the EU with larger impacts on trade patterns in the UK compared to the EU27 but also affecting other EU member states, particularly Ireland (Bellora et al., 2017). In addition, the majority of studies and scenarios predicted a negative impact on the UK's consumers facing higher food prices.

A study undertaken by the Agribusiness and Economics Research Unit at Lincoln University, New Zealand (Saunders et al., 2019) and funded by the EU assessed how the agricultural sector in the UK, the EU and NZ would be affected if the UK applied the agricultural policy currently in place between Norway and the EU. The European Economic Area (EEA) agreement came into force in 1994; and it includes the free movement of persons, goods, services and capitals within the EU's Single Market (Dhingra & Sampson, 2016). Hence, Norway participates in the EU Single Market, must comply with its EU rules, and effectively contributes to the EU budget to be part of the Single Market. However, Norway does not have a vote in deciding the rules of the Single Market. Also, the EEA agreement does not cover the EU Customs Union which means that

Norway can set its own external tariff and negotiate its own trade deals with countries outside the EU (Dhingra & Sampson, 2016).

In their study, in order to assess the potential impact of an agricultural policy for the UK that resembles the current EEA agreement between Norway and the EU, a scenario was developed applying trade weighted ad valorem tariffs derived from this agreement to bilateral EU-UK trade; additionally, the change in trade transaction costs was set at 10 per cent. Trade with third countries were subject to WTO tariff rates. The Lincoln Trade and Environment Model (LTEM), a partial equilibrium trade model that simulates international trade, production and consumption of agricultural commodities, was then used for the analysis.

Study results focus on the impact on bilateral trade between the UK and the EU and are presented as percentage changes to the baseline scenario (i.e. the UK remaining in the EU) in 2030. The influence of higher tariff rates and transaction costs between the countries was expected to have two effects, (1) an increase in total producer prices as the demand for goods must be satisfied by domestic production, higher prices from the EU, and/or imports from other third party nations; (2) a consequential increase in price for consumers as the cost of traded goods increases. In the case of the EU, demand can also be satisfied by intra-EU trade. Outside of these general predictions, the results show the extent of these effects and the difference between commodities, as tariff levels and volume of trade vary between commodity groups. Then, the results for NZ are presented.

Model projections indicated that trade between the EU and the UK would decrease, with drops up to 35 per cent in UK producer returns from exports to the EU, and up to 65 per cent in EU producer returns from exports to the UK. Beef and sheepmeat were affected the most, with over half of total returns lost for EU producers exporting to the UK and about a third lost for UK producers exporting to the EU.

With regards to bilateral trade, not surprising, modelling projections showed a fall in UK exports to the EU and EU exports to the UK by 2030. The greatest impact was projected for EU exports of wheat (-216 kt), beef (-82 kt) and cheese (-69 kt) to the UK. UK exports to the EU were projected to fall by 36 kilotonnes for wheat, 16 kilotonnes for beef and 10 kilotonnes for sheepmeat.

Modelling results further showed that consumer prices for bilaterally imported goods were expected to increase under this scenario, with large price increases projected for goods imported from the EU into the UK (ranging from 23 - 91 per cent). The prices of UK products in the EU were also expected to rise (with the exception of skim milk powder), but to a lesser extent. Total consumer spend on bilaterally traded goods were predicted to increase. Consumers in the UK were projected to face higher increases in spending on EU products, and this percentage change was greater than for the increase in EU consumer spending on UK imports.

Overall, the impacts for total consumer spending in the UK is large, with higher tariffs leading to overall higher prices especially in the case of dairy and wheat products. The largest increase were for skim milk powder at 47 per cent, followed by wheat, sugar, butter and cheese at between 21 and 26 per cent by 2030. The overall impact on EU consumers was minor, little to no change in total spending was projected. These figures reflect the importance of the trade flows for each nation, as trade with other EU countries are the most significant trading relationships for the UK. In contrast, trade with the UK makes up a relatively small part of total EU consumption. In practice these impacts would vary on a country by country basis in the EU, relative to the importance of the UK as a trading partner.

In case of NZ, the impact on producers and consumers from the Norway scenario was minimal, with slight changes to world prices having a slight follow-on impact. NZ producer returns were affected slightly across all commodities with returns from the majority of commodities predicted to remain unchanged bin 2030. Also, NZ consumer spending was projected to remain unchanged for most commodities. Finally, impacts on NZ trade were very minimal with slight drops projected for dairy exports.

The authors identified some limitations to their study. The tariff levels used for this scenario were taken from Norway – EU trade, these data were then trade weighted to fit the profile of UK-EU trade. This mirroring of trade relationships may not tell the entire story, as trade agreements are often centred on key commodities or areas of importance for each country. These areas of importance are different for the UK and Norway, thus applying Norway’s tariffs to the UK may miss some areas of importance the UK would negotiate differently. These results then do not express exactly what a ‘Norwegian style’ agreement would look like for the UK, as to simulate such an agreement would take some degree of speculation and presumption on what the key areas for the UK would be under a similar agreement. Furthermore, the scenarios presented have focused on isolating the impacts of the trading relationship between the EU and the UK. The UK’s outward facing tariff agreements with other countries were set to WTO levels. Further, research could examine the UK taking a different approach with other trading partners.

To conclude, the UK’s exit from the EU will have a range of implications for the UK, the EU and other countries like NZ. The exact nature and extent of its impacts will be determined by the terms under which the UK exits, hence the impact of Brexit is yet unknown. If the UK would implement an agricultural policy that resembles the current EEA agreement between Norway and the EU, this would have a significant impact on bilateral EU-UK trade of agricultural goods while the agricultural sector in NZ would be only slightly affected by the new trade policy. However, the UK leaving the EU could work to strengthen the trading relationship with NZ depending on the UK’s access to the EU’s Single Market.

The study is part of a series of discussion documents on the impacts of changes in EU policies that have the potential to affect New Zealand and how these can be discussed and communicated across a number of interested communities. The study is initial analysis of what the possibilities are and the potential methods to assess this. Clearly, there are a number of further options which can be assessed especially as more detail is released on the future of EU and UK policy.

---

## References

- Belke, A. & Gros, D., (2017). *The Economic Impact of Brexit: Evidence from Modelling Free Trade Agreements*. RWI Leibniz-Institut für Wirtschaftsforschung. Munich, Germany.
- Bellora, C., Emlinger, C., Rouré, J., and Guimbard, H. (2017). *Research for AGR1 Committee, EU-UK agricultural trade: state of play and possible impacts of Brexit*. European Parliament, Policy Department for Structural and Cohesion Policies, Brussels.
- Booth, S., Howarth, C., Persson, M., Ruparel, R., & Swidlicki, P. (2015). *What if...? The Consequences, challenges & opportunities facing Britain outside EU*. Open Europe. London, UK.
- Boulanger, P. & Philippidis, G. (2015). *The End of a Romance? A Note on the Quantitative Impacts of a 'Brexit' from the EU*. *Journal of Agricultural Economics*, 66 (3): 832-842.
- Davis, J., Feng, S., Patton, M., & Binfield, J. (2017). *Impacts of Alternative Post-Brexit Trade Agreements on UK Agriculture: Sector Analyses using the FAPRI-UK Model*. Agri-Food and Biosciences Institute. Belfast, UK.
- Department for Environment, Food and Rural Affairs (DEFRA) (2019). *Agriculture in the United Kingdom Datasets*. Retrieved from <https://www.gov.uk/government/statistical-data-sets/agriculture-in-the-united-kingdom>
- Dhingra, S., Huang, H., Ottaviano, G., Pessoa, J. P., Sampson, T., & Van Reenen, J. (2017). *The costs and benefits of leaving the EU: trade effects*. Centre for Economic Performance. *Brexit Analysis*. Technical Paper. London, UK.
- Dhingra, S., & Sampson, T. (2016). *Life after Brexit: What are the UK's options outside the European Union?* Centre for Economic Performance, London School of Economics and Political Science. Paper Brexit 01. London, UK.
- Figus, G., Lisenkova, K., McGregor, P., Roy, G. & Swales, K. (2018). *The long-term economic implications of Brexit for Scotland: An interregional analysis*. *Papers in Regional Science*. 97: 91-115. DOI: 10.1111/pirs.12349.
- HM Government (2017). *The United Kingdom's exit from and new partnership with the European Union*. London, UK. Retrieved 11 November 2018: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/589189/The\\_United\\_Kingdoms\\_exit\\_from\\_and\\_partnership\\_with\\_the\\_EU\\_Print.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/589189/The_United_Kingdoms_exit_from_and_partnership_with_the_EU_Print.pdf)
- HM Treasury (2016). *HM Treasury analysis: the long-term economic impact of EU membership and the alternatives*. Presented to Parliament by the Chancellor of the Exchequer by Command of Her Majesty, April 2016. Retrieved 11 July 2018 <https://www.gov.uk/government/publications>
- Hubbard, C., Davis, J., Feng, S., Harvey, D., Liddon, A., Moxey, A., Ojo, M., Patton, M., Philippidis, G., Scott, C., Shrestha, S. & Wallace, M. (2018). *Brexit: How Will UK Agriculture Fare?* *EuroChoices*. 17(2): 19-26. DOI 10.1111/1746-692X.12199
- Jongeneel, R., van Berkum, S. & Vrolijk, H. (2016). *Brexit: Breaking Away- Would it Pay*. *EuroChoices* 15(2): 26-33. DOI: 0.1111/1746-692X.12130.
- Mion, G. & Ponattu, D. (2019) *Estimating the impact of Brexit on European countries and regions* Policy Paper. Bertelsmann Stiftung. Gütersloh, Germany.
- Potter, E. & Webb, D. (2017) *Brexit: Agriculture and Trade*. House of Commons. Briefing paper, number 7974
- Price Waterhouse Coopers (PwC). (2016). *Leaving the EU: Implications for the UK economy*. Discussion Paper. London, UK.
- Revell, B. J. (2017). *Brexit and Tariff Rate Quotas on EU Imports: A Complex Problem*. *EuroChoices* 16(2). Doi: 10.1111/1746-692X.12157.
- Saunders, J., Guenther, M. & Saunders, C. (2019). *The impacts of changes in agricultural policies in the United Kingdom on trade and agriculture especially in New Zealand – the Norway Option*.

Discussion Research Report prepared for the European Union Centres Network. Agribusiness and Economics Research: Unit Lincoln University.

Saunders, C. (2008). The future of New Zealand – European Union relations. In: Gibbons. M. New Zealand and the European Union. Pearson Prentice Hall.

Sik Choi, H., Jansson, T., Matthews, A., Mittenzwei, K., Himics, M. & Höglind, L. (2019). European agriculture after Brexit: Does anyone benefit from the divorce?. Working Paper 2019:1. Agri-Food Economics Centre. Lund, Sweden.

Statistics New Zealand (2018). Global New Zealand – International trade, investment, and travel profile: Year ended December 2017. Wellington, NZ

The Andersons Centre (2019). Red Meat Route to Market Report May 19. The Anderson Centre. Report prepared for AHDB, QMS and Hybu Cig Cymru. Leicestershire, UK.

Van Berkum, S., Jongeneel, R. A., Vrolijk, H.C.J., van Leeuwen, M.G.A., and Jager, J.H. (2016). Implications of a UK exit from the EU for British agriculture. Study for the National Farmers' Union (NFU). Warwickshire, UK. Wageningen, LEI Wageningen UK (University & Research centre), LEI Report 2016 – 046. Wageningen, The Netherlands.