

BREXIT FOOD & FARMING

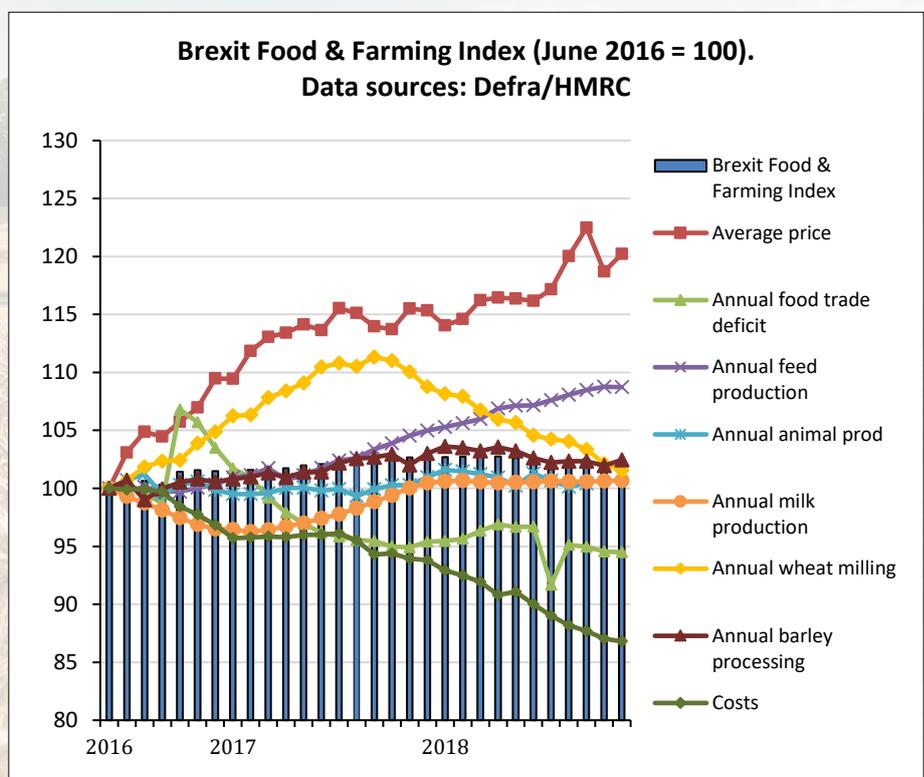
ESSENTIAL NEWS, VIEWS AND ANALYSIS AS THE UK LEAVES THE EUROPEAN UNION

Brexit path has never been more unclear

With just 56 days to go before the UK is due to leave the EU, the shape of Brexit has probably never been more unclear at any time since the June 2016 vote. Prime Minister Theresa May is seeking concessions on the now infamous backstop she agreed with the EU, but there is little appetite, and more importantly, little scope for major changes in Brussels. She will be hoping that MPs will hold their noses and vote for her deal when it comes back to Parliament.

A no-deal is still not off the table and it is clear that neither the UK or EU is prepared for such a scenario. Whatever happens now, Brexit will have a significant impact on the EU and UK and particularly on its food and farming industries. History will judge that things could have been so different and once the dust settles there could still time to salvage an internationalist, outward looking Brexit, where the UK stands alongside its closest and strongest partner – the EU. But that will take a lot more vision and courage than has been shown so far.

The latest **Brexit Food & Farming Index** for November recovered some of the losses seen the month before, with slightly higher prices, accompanied by increase costs. The Index compares latest farm economic performance with June 2016 (the referendum date) and consists of key price, cost, production and trade components, posting a positive score for higher prices and production and a reduced trade deficit, but a negative score for rising costs.



Your Brexit Food & Farming views

We welcome your views on Brexit and on **Brexit Food & Farming**.

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Brexit summary

A roundup of latest food and farming Brexit developments

- Political mayhem moves much faster than Brexit progress does.
- Finding practical alternatives to the Brexit backstop is very difficult.
- The Norway option offers a way forward, but many will call it BINO – Brexit In Name Only.
- MPs likely to insist no-deal is rejected if Prime Minister loses her vote again.
- Chaos means no-deal planning has stepped up a gear.
- The UK and EU publish fresh no-deal advice, affecting the movement of plants and animals and fishing rights.
- Recipients of EU Horizon 2020 science funding urged to register with UK Government to secure support in the event of a no-deal.
- Independent Brexit readiness assessment shows that of 12 key Brexit bills only five have been passed and five have little prospect of being law by the end of March.
- IN 11 key areas of Brexit implementation, the UK is only ready in one. The lack of systems and staff mean agri-food trade will go unchecked if a no-deal takes place in March.
- Food, farming, business and trade union leaders rail against the lack of a Brexit deal and clear way forward, saying it is costing investment and potentially jobs.
- **Brexit Food & Farming** expects prospect or reality of a no-deal Brexit will focus minds and could result in a continued temporary union between the UK and EU.
- Agriculture and Fisheries Bill both stuck at third reading stage in the House of Commons, with no debate date yet released.
- UK Government drops plan to charge a £65 fee to EU citizens for settled UK status.
- Japan signs a deal, which could lead to £125 million of UK beef and lamb exports to the country within the next five years.
- New clean air act comes with support for farmers to reduce their emissions.
- New boss of the UK's Trade Remedies Authority, which will act for the UK in trade disputes, expects it to be up and running by the end of March.
- Department of International Trade scrambles to replicate EU trade deals with 70 countries. So far Switzerland, Australia, New Zealand, Israel, the EFTA countries of Norway, Iceland and Lichtenstein and Chile are on board.
- Cross-party Parliamentary Brexit Committee comes out against a no-deal Brexit.
- Scottish, Welsh and Northern Irish politicians and business leaders call for rejection of a no-deal Brexit.
- Ireland launches €20 million beef efficiency scheme as part of its agri-food Brexit strategy.
- EU agri-food exports were at a new monthly high in October, with strong sales to the USA.
- Commodity prices remain relatively firm, but no major price rises in prospect.
- Costs continue to rise putting pressure on farm incomes.
- UK wheat processing down on the back of a small 2018 harvest. Egg and poultry production reach record levels, although growth appears to be slowing.
- The UK's food imports, exports and trade deficit are at record levels, but little change in EU share of the market.
- Unemployment hits new low, while UK economy could be benefitting from pre-Brexit spending.

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**Days since referendum vote: 953. Days to Brexit Day: 56.
Days to end of proposed transition: 699 (To & from 1 February 2019)**

Brexit update

Developments in Westminster have moved at a fast pace in the last month, but progress towards Brexit has not. The situation was described by many as: “Parliament is letting us know what it doesn’t want, but it is not clear what it wants.” One thing was clear – MPs on all sides did not like the EU/UK deal proposed by Theresa May, voting by a record margin of 432 to 202 against it. In seven votes proposed by individual MPs two weeks after the historic vote, only two were won.

The first was a non-binding vote against a no-deal Brexit proposed by former Conservative Defra Secretary Dame Caroline Spelman, who with her Labour West Midlands neighbour Jack Dromey feared the effect a no-deal would have on the region’s manufacturing sector. It was won by 318 to 310. As well as 245 Labour MPs, nationalist MPs and six independents/greens, the amendment was voted for by 17 Conservative MPs. Three Labour MPs joined the 10 Northern Ireland DUP MPs and two independents to vote against it, alongside 295 Conservatives.

Other votes on committing the Government to rule out a no-deal or delay Brexit were defeated. However, the victory of the Spelman amendment suggests there is no appetite for a no-deal within Parliament and that if it came to a crunch vote, Parliament would block the UK tumbling out of the EU in some way. There have been reports that up to 40 Government ministers would resign and block a deal if it came to it, including Cabinet members Chancellor of the Exchequer Philip Hammond, Work & Pensions Secretary Amber Rudd and Business Secretary Greg Clark.

The second vote, which was won by MP Sir Graham Brady was on the UK returning to EU to seek ‘alternative arrangements to the Northern Ireland backstop.’ The winning margin was 317 to 301, with seven Labour MPs joining 297 Conservatives, the DUP and three independents. Eight Conservatives joined 239 Labour MPs and 54 other opposition MPs to vote against the amendment. Significantly, Sir Graham is the chairman of the organisation representing Conservative MPs and so some will view that his proposal was as much about bringing together a fractured party as plotting a way forward.

What is the backstop?

The backstop is designed to prevent the establishment of any ‘hard’ border between Northern Ireland and the Republic of Ireland, which would lead to customs checks. It would come into place if at the end of a Brexit transition period (either at the end of 2020 or 2021) there was no long-term agreement on the future relationship between the EU and UK. Both the UK and EU signed up to three principles of the backstop in December 2017. They are:

- The backstop must maintain a cross-border co-operation
- It would support the inter-dependent all-island economy
- It would protect the Good Friday agreement

In practice, the backstop would see Northern Ireland staying aligned to some EU single market rules. This would include the checking of goods entering Northern Ireland from outside the EU, which are destined for the EU, including the Irish Republic. Meanwhile, the whole of the UK would remain in a customs union until it is agreed that is not necessary.

What happens now?

In Mrs May’s ideal world Brussels would convene a summit and agree to a new proposal, which would see some relaxation of the backstop. That could be a time limit to the arrangement or the use of technology to ensure that goods and people can be checked frictionlessly. The mood music from Brussels suggests that will not happen. Chief EU negotiator Michel Barnier has said: “The EU institutions remain united and we stand by the agreement we have



negotiated with the UK.” The Irish Government maintains the backstop is necessary and French President Emmanuel Macron said it is not renegotiable.

It appears that the best Mrs May can hope for is a greater commitment by the EU that the UK will have more say in how the backstop is operated and when or if it can be removed. She will take any concessions she has gained back to Parliament in the middle of February. She will be hoping that enough MPs will believe that the deal is a good as it gets and albeit reluctantly vote for it. If not enough do, then a vote on preventing a no-deal Brexit or an extension of the Brexit process could be called, and she could lose that too. We would then be into unknown territory.

Alternatives to the backstop

The UK Government is calling for alternatives to the backstop, but it is difficult to see what they might be. Both the UK and EU have committed to preserving a free and frictionless border between Northern Ireland and the Republic of Ireland. There are only a limited number of options to do that. One is to keep arrangements essentially as they are (which is fundamentally what the backstop is) allowing the free movement of goods and people with UK or Irish/EU citizenship.

Another is to check goods and people using electronic technology. It might be easy to count and track trucks moving across the border – toll equipment can already do that - but that would still require trucks registering with authorities either side of the border. It would be more difficult to track people crossing the border electronically unless they had remotely readable barcodes on them all the time. There are 300 road crossings on the border and putting technology on all of them would be expensive and very difficult.

Meanwhile, tracking different goods within loads would be difficult. As one Irish senator said, “There is no technology that can determine whether a load of beef moving across the border has been treated with hormones or not.” Again, for frictionless movement across the border to take place, there would be the need for some pre-registration of goods being carried out, which arguably would not be frictionless trade. Other alternatives would be to have customs checks away from the border or at the point of origin or destination. All of those options would involve extra expense for traders and the UK and Irish Government and again would not be regarded as frictionless by many.

For those who regularly trade across the border a system of ‘trusted traders’ could be put in place. It would allow regular and established transporters of goods to register just once stating what type of goods they regularly move across the border. There could then be an obligation for the updating of registration if circumstances change or after a certain period. This option could be particularly valuable for traders in agri-food items, which are responsible for 50% of trade, much of which takes place on a daily basis in much smaller loads than other goods.

According to a UK position paper, 10,000 pigs cross the border from Ireland to Northern Ireland every week and a quarter of Northern Ireland’s milk is shipped to the Republic. There could be some fears over time that if the UK and EU’s customs regimes and standards become too diverse, then a system that allowed check-free movement could lead to smuggling.

What few have said about the backstop is that it is likely to be very similar to what a long-term arrangement with the EU could look like anyway, as that system would be faced with the same hurdles as the backstop proposal.

Brexit Food & Farming

Brexit Food & Farming is compiled by Cedric Porter, managing director of Supply Intelligence Ltd. It provides food chain information and support for a range of clients. Cedric is also co-editor of World Potato Markets – www.worldpotatomarkets.com, a Trustee of Linking Environment And Farming (LEAF) and a non-executive director of a Norfolk farming company.

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