



## Brexit: the long and short of it

- In the short term, Brexit's impact on NZ agriculture is limited.
- However, longer term, Brexit sets a dangerous precedent.
- In particular, Brexit may signal the start of a backlash against global integration and free trade agreements.
- For example, the ongoing progress of the TPP could be one potential casualty.

### The Brexit has been brewing for a while

While the recent Brexit vote on whether Britain should remain in the European Union (EU) seems very contemporary and unique, discussions to remove Britain from formal participation in European-wide governance have taken place since 1983. There have been various political efforts to force Britain's succession from, initially, the European Economic Community and then its successor, the EU.

However, the recent Brexit referendum was the first time voters were able to have a direct voice on whether Britain should, or should not, be part of the EU. Voters were asked "Should the United Kingdom remain a member of the European Union or leave the European Union?"; and they responded they wish to leave.

### Negotiations to leave the EU will be long and complicated

Decisions on Common Agricultural Policy (CAP) payments, tariffs, immigration and a variety of other issues must now be negotiated between Britain and the EU. There is specific language in the current EU agreement between the UK and the EU dealing with what happens when a member leaves.

The only member to leave the EU was Greenland, in the early 1980s. It took almost three years for negotiations to be completed, following more than 100 meetings between Greenland and EU officials. And Greenland had a population of just 56,000 with very limited exports and few international visitors.

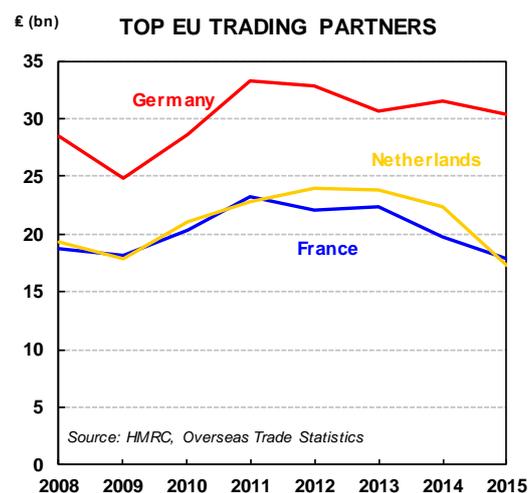
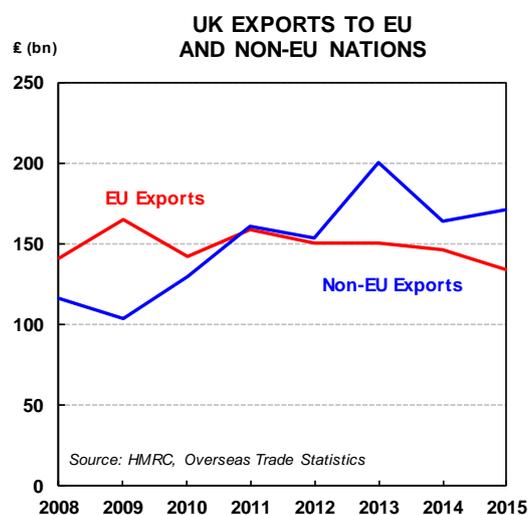
Such a difficult transition for Greenland does not bode well for the exponentially more complicated UK-EU discussions. So, as Kevin and Terry said, good things take time – potentially several years.

Negotiations with the EU over the UK's departure from the organization won't begin until the UK officially notifies the EU of its intent to leave. It is not clear when that might happen, but I suspect the notice will not be given quickly, despite growing

pressure from current EU member countries to speed up the process. With the UK Prime Minister David Cameron stepping down in September this year, I doubt the EU will be notified by the UK of its intention to leave before then.

### The future of the UK agricultural sector is uncertain...

As a result of the successful passage of Brexit, the obvious agriculture-related questions centre on the impact of Britain's exit from the EU on the country's agricultural production and demand, including exports. It will take several years to unwind all of the various rules and regulations that currently bind Britain to the EU. For example, British



farmers received NZ\$4.8 billion last year in direct CAP payments. When will those payments stop and will Britain make the same level of payments are questions that are starting to be asked.

At this early date, there are no clear answers. Any negotiations on how things will evolve for agriculture, particularly CAP payments, will not begin for some time and will take a considerable time to resolve – potentially two production cycles.

### ...with a reduction in UK farm support a possible scenario

Over the past several years, CAP payments have composed more than 50% of total UK farm income. So a reduction in those payments, as the UK departs the EU, will have significant impact on UK agricultural production, unless the UK government steps in to keep payments at current levels.

While some UK politicians have indicated payment levels would remain unchanged, most industry analysts foresee a reduction in government payments to UK farmers – potentially, a significant reduction.

Over the past 10 years, Britain’s trade with other members of the EU has declined, although EU members Germany and France are the UK’s second and third most important markets. The US is the UK’s primary export market. However, the decline in EU-focused exports has been compensated by increased exports to non-EU destinations – primarily, the United States and China. Consequently, the impact of a successful Brexit on UK exports will not be as significant as it might have been 10 years ago.

### UK agriculture rarely competes head-to-head with NZ...

There are several factors, unrelated to the UK-EU negotiation process, which will have a reasonably immediate effect on UK agriculture. The cheaper Pound, which dropped to its lowest level in more than 30 years immediately after the result of the vote to leave the EU was announced, will make UK agricultural exports cheaper.

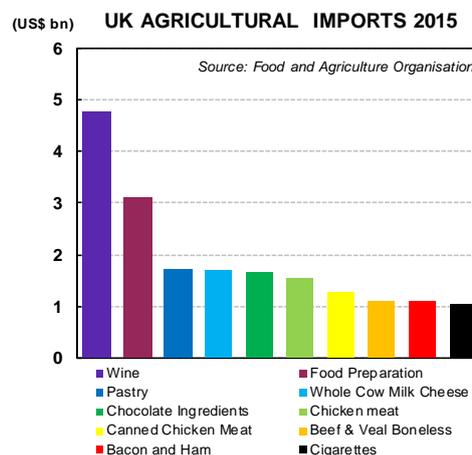
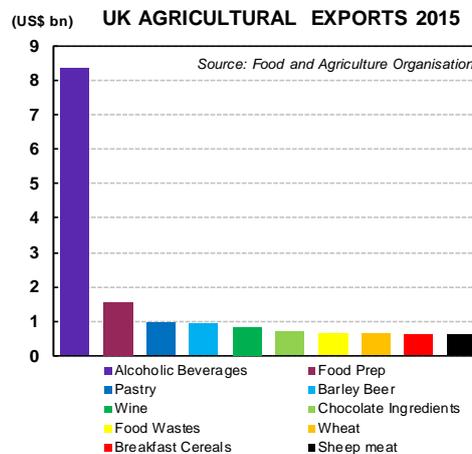
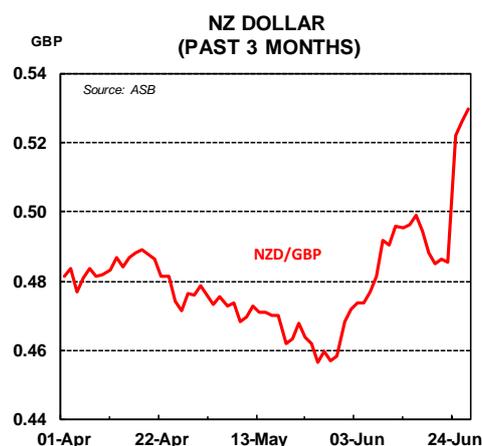
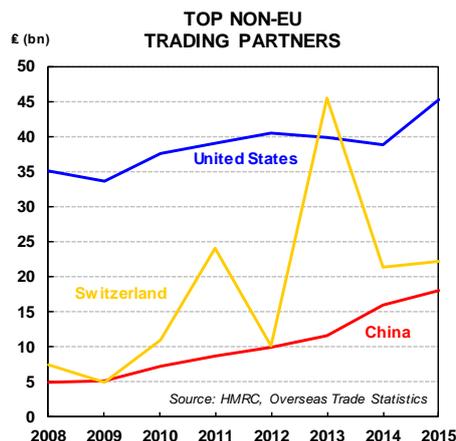
However, UK agricultural exports seldom directly compete with New Zealand exports, so the increased competitiveness, resulting from a weaker Pound, will have a limited impact on New Zealand agriculture. The leading UK agricultural export is alcoholic beverages followed by food preparations. Sheep meat exports from the UK are in 10<sup>th</sup> place with cheese at 12<sup>th</sup> place.

### ...but a weaker Pound will make NZ exports more expensive

The Pound’s decline in value will make imports more expensive for UK shoppers. However, New Zealand exports to the UK have declined significantly over the past several decades and a potential reduction in exports to the UK is not expected to have much of an impact on the New Zealand farming sector.

A second factor that could have a more immediate impact on New Zealand’s agricultural exports is the potential that other countries could join the movement to leave the EU. There is current speculation that France, the Netherlands, Austria, Finland and Hungary may have referendums similar to Brexit.

Potentially, if at least one of these countries joins the UK and departs the EU, the CAP will become history. If that happens, each current EU country would need to craft its own farm support policy, potentially using protection mechanisms such as tariffs or import quotas to protect domestic farmers and keep prices up.



## Brexit-related uncertainties may hurt NZ's broader global trade

A third factor that might affect New Zealand agriculture is the overall uncertainty associated with Brexit. There is significant uncertainty about the long, and not particularly transparent, journey to craft new trade rules between the UK and the EU. Existing agreements, such as the UK's membership in the World Trade Organization, will provide some stability.

But markets do not like such uncertainty and, as a result, trade will be negatively affected. The negative impact will be on not just UK-EU trade, but world trade, since the EU is an important market to a number of non-EU countries, including New Zealand's largest and third-largest export markets, China and the US.

## Brexit could signal the start of a broader backlash against global integration and free trade agreements

In summary, while Brexit is significant, more fundamental questions have arisen – is the departure a sign more international organizations and treaties will be scrapped? Might the North American Free Trade Agreement end? What might be the impact on the Trans Pacific Partnership (TPP)? Will ongoing discussions between the US and the EU on the Transatlantic Trade and Investment Partnership, broadly similar to the TPP except focused on Europe, be affected?

Details over the departure of the UK from the EU will take several years to sort out. During that time, life and business go on, but with increased uncertainty. The Brexit vote was just the beginning of a potentially new era in world trade.



### About the author:

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