The First Minister said Brexit “presents the biggest challenge to farming in Scotland for a generation at least”.

This briefing explores 10 issues related to agriculture and Brexit. These include the importance of the Common Agricultural Policy and its subsidies to Scottish farmers; the relationship between Scotland and the UK in terms of agricultural budgets and policy; WTO rules; the impacts of leaving the EU on imports and exports of agricultural products; agricultural regulations; the importance of EU-migrant workers to Scottish agriculture; and protected food name schemes.
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EXECUTIVE SUMMARY

The First Minister, Nicola Sturgeon (2017) said Brexit “presents the biggest challenge to farming in Scotland for a generation at least”. 79% of Scotland’s land mass is dedicated to agriculture (Scottish Government, 2016b). It is the foundation of the food and drink sector, it strengthens the social fabric of rural communities and provides services including flood protection, clean air and water, and a rich and varied wildlife (Scottish Government, 2016a). What happens in the agricultural sector has implications for the whole of Scotland. This briefing explores 10 issues.

1. Whilst in the EU, Scotland is part of the Common Agricultural Policy (CAP). Total funds of £4.6 billion would have been available to Scotland between 2014 and 2020. Once the UK leaves the EU, it will leave the CAP and access to these funds will stop.

2. Without EU subsidies many Scottish farms are not profitable. There is currently no information on what will replace the CAP, once the UK leaves the EU.

3. Scotland receives 17% of the total UK CAP budget. Once the UK leaves the EU, if population share was used to allocate the budget, Scotland would receive around 8%.

4. Under the CAP, UK agricultural policy shares a common framework, although with considerable regional variations. Once the UK leaves the EU it is unclear whether there will be a single UK agricultural framework.

5. New domestic agricultural policy will be constrained by WTO rules. The UK will need to ensure that agricultural support across all devolved administrations fits within WTO commitments.

6. Currently, Scottish farmers have to comply with EU regulations. Once the UK leaves, there may be an opportunity to reduce regulation.

7. Whilst in the EU, imports from non-EU countries into the UK are subject to the common external tariff, and the UK shares the EU’s inward quotas. Leaving the EU, the UK will need to negotiate trade agreements with the EU and non-EU countries.

8. Currently UK agricultural products have tariff free access to the European single market. Once the UK leaves, depending on negotiations, Scottish farmers may be subject to tariffs on exports into the EU single market.

9. Within the EU, citizens can work in any member state. Scotland’s soft fruit and vegetable sectors rely on EU migrant labour during harvest. It is unclear whether such workers will be available to the agricultural sector once the UK leaves the EU.

10. EU membership allows participation in EU protected food name schemes such as Protected Geographical Indication (PGI). Future participation will need to be negotiated.
1. THE COMMON AGRICULTURAL POLICY IN SCOTLAND

Whilst in the EU, Scotland is part of the Common Agricultural Policy (CAP). This gives access to EU funding via schemes under 2 Pillars. Under Pillar 1 farmers are given money for working farmland, subject to certain conditions - known as direct payments. Under Pillar 2 farmers can apply for funds in order to carry out particular activities, often related to the environment. Pillar 2 is known as the Scottish Rural Development Programme (SRDP). Total Pillar 1 and Pillar 2 funds of £4.6 billion would have been available to Scotland between 2014 and 2020.

Once the UK leaves the EU, it will leave the CAP. Access to these funds will stop.

Figure 1: The value of Common Agricultural Policy schemes in Scotland

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Source: Audit Scotland, 2016
2. FARM VIABILITY IN SCOTLAND

According to the Farm Accounts Survey (FAS), in 2014-15 average farm revenue (or output) was £148,726, with costs at £167,955. The average subsidy and payments to Scottish farmers was £39,885 (Scottish Government, 2016b). Without this, Scottish farm sectors included in the FAS (those in Figure 2a) are on average not profitable, and have not been profitable for many years. Mixed farms and mixed cattle and sheep farms in less favoured areas (LFA) were the most unprofitable, whilst dairy is profitable. However, some sectors such as the horticulture, poultry and pig sector are not included in the FAS, and have survived despite getting little subsidy.

A weak pound following the vote to leave the EU has increased subsidy payments in 2016. The 17% change in the exchange rate resulted in total payments increasing by £53 million. It has also “led to improved prices for grain, beef and lamb, resulting in a boost to the value of outputs” (Scottish Government, 2017).

There is currently no information on what will replace the CAP, once the UK leaves the EU.

Figure 2: Farm business income with and without subsidies 2009-2015

Source: Scottish Government, 2016b

Figure 2a: Profitability of different sectors with subsidy removed for 2014-15

Source: Scottish Government, 2016b
3. SCOTLAND’S ALLOCATION OF AGRICULTURAL SUBSIDY

Currently Scotland currently receives around 17% of the total UK CAP budget. All of Pillar 1 funding comes from the EU. Pillar 2 funding comes partly from the EU and (in Scotland) partly from the Scottish Government.

Once the UK leaves the EU, it is unclear how a UK budget for agriculture will be allocated. Allocation of the CAP budget between the devolved administrations has been reserved to Westminster. There are many criteria upon which a UK agricultural budget could be allocated (Cao, 2010). If population share were used, Scotland would receive around 8%.

The UK Government has guaranteed that the equivalent of Pillar 1 funds will be paid to farmers until 2020 (Gauke, 2016). The UK has also guaranteed that the equivalent of the EU’s contribution of Pillar 2 funds will be available so long as they are committed before the UK leaves the EU (Hammond, 2016).

Figure 3: Share of UKs agriculture budget currently, and using population share

![Chart showing the share of UK agriculture budget currently and using population share]

Source: from DEFRA 2013

Figure 3a: Make up of the budget for Scottish Rural Development Programme (€ million)

<table>
<thead>
<tr>
<th>EU contribution</th>
<th>Scottish Government co-financing</th>
<th>Transfer between pillars (i.e. EU contribution)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>478</td>
<td>838</td>
<td>364 (9.5%)</td>
<td>1,680 (approx. £1.3 million)</td>
</tr>
</tbody>
</table>

Source: Allen at al, 2014 (p 30)
4. THE FRAMEWORK FOR AGRICULTURAL POLICY IN THE UK

Currently overarching agricultural policy in the UK is consistent, as it fits within the EU CAP framework. Over 90% of EU CAP funds are paid because farmers work farmland (Pillar 1 payments) and less than 10% are in return for carrying out specific, often environmental, actions (Pillar 2 payments) (DEFRA, 2013). The EU allows Member States to transfer up to 20% of their Pillar 1 allocation to Pillar 2. English Ministers have always transferred more CAP funds from Pillar 1 to Pillar 2 than Scottish Ministers. This indicates a difference in approach to agricultural support.

Once the UK leaves the EU, there may be differences between the approach that UK Ministers wish to take and the approach Scottish Ministers wish to take. Statements from Ministers over many years suggest that England is likely to move towards more payments to farmers in return for carrying out specific actions. Whilst Scottish Ministers have been more supportive of direct payments to farmers.

Once the UK leaves the EU, it is unclear whether the powers currently held by the EU for agriculture including determining the overarching framework, will be devolved to Scotland (as demanded by Nicola Sturgeon, 2017), be reserved to Westminster, or shared (as proposed by Ruth Davidson, 2017).

Figure 4. Voluntary transfer of funds from Pillar 1 to Pillar 2, 2007 - 2020

<table>
<thead>
<tr>
<th>Year</th>
<th>England</th>
<th>Scotland</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>12%</td>
<td>5%</td>
</tr>
<tr>
<td>2010</td>
<td>14%</td>
<td>9%</td>
</tr>
<tr>
<td>2014</td>
<td>12%</td>
<td>9.5%</td>
</tr>
<tr>
<td>2020</td>
<td>15%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

“In oral evidence, the Minister emphasised that Defra is "not proposing to end direct payments tomorrow", but that "during this seven-year period, from the beginning of 2014 to 2020, we should be moving in that direction. In an ideal world, yes, we would like to see them end soon after that".

“The devolved administrations have publically questioned Defra's stance on direct payments…. The Scottish Cabinet Secretary for Rural Affairs and the Environment said "We cannot and will not support any UK response which supports the abolition of direct subsidy payments to Scotland's farmers"”.

Currently, Scottish farmers have to comply with EU legislation and regulations. Pack (2014) concluded that “there must be an easier, more efficient, less costly way to regulate Scottish farming and land management.” Figure 5 gives an indication of the regulatory landscape faced by farmers. Some regulations originate from international agreements such as the Bern Convention and Kyoto and Paris Climate Change Agreements, but many are from the EU.

Compliance with EU regulations (especially EU sanitary, phytosanitary (SPS) and veterinary standards) mean that it is simpler to export to non-EU countries. Exporters usually require an Export Health Certificate (EHC) to ensure the safety of imports. Compliance with EU regulations enables exporters to more easily obtain an EHC (AHDB, 2016a).

Once the UK leaves the EU, there may be an opportunity to reduce regulation. However, the UK will still be bound by international agreements. Producers will have to comply with most EU legislation if it is within the single market, as Norway does. If the UK is outside the single market, but wishes to export into it and into non-EU countries, an Export Health Certificate (EHC) will usually be required. This will require compliance with the regulations relevant to that country. The UK may have to adopt all existing EU laws on standards of production or renegotiate with each non-EU country on a bilateral basis. (AHDB, 2016a)

Figure 5: Mind Map of the Agricultural Regulatory Framework

Source: Pack, 2014
6. **WTO AGREEMENT ON AGRICULTURE**

The EU is a member of the World Trade Organisation (WTO) and therefore the CAP should abide by the WTO Agreement on Agriculture. This limits the amount of some forms of agricultural support (subsidy) that can be provided, because some are considered to distort trade. There are no limits on blue and green box forms of agricultural support (Figure 6). There are *de minimis* limits on price support and aid coupled to production – amber box forms of support. Scotland is currently the only country within the UK providing coupled support via the Scottish Suckler Beef Support Scheme and the Scottish Upland Sheep Support Scheme (Allen et al, 2014). However, some WTO members are allowed to exceed these "*de minimis*" limits because historically they have provided this type of support. The EU is allowed to and has Amber Box entitlements of €72.4 billion. As part of the EU and the CAP, the UK shares this entitlement. Indeed, total EU CAP payments are well within this limit (Swinbank, 2017).

Outwith the EU, a new domestic agriculture policy will be constrained by these rules. Negotiations will determine whether the UK shares the EU's Amber Box entitlements, or has a zero entitlement. Agricultural economist, Professor Alan Swinbank (2017) argues that under a new UK agricultural policy, other WTO Members might challenge which box any new support comes under, and there may be stricter constraints on what support can be provided.

Swinbank also argues that outwith the EU, and as a member of the WTO “the UK Government would be responsible for providing the WTO with an aggregate list of all UK support on an annual basis. How the UK will ensure that support across all its devolved parts fits within its WTO commitments” will need to be negotiated with the Devolved Administrations.

**Figure 6: The WTO’s constraints on agricultural support**

<table>
<thead>
<tr>
<th>Description</th>
<th>WTO constraint</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Green box</strong> Support with no, or minimal, trade distorting effects or effects on production, and that meets policy-specific criteria. (e.g. research programmes, pest and disease-control measures, agri-environment schemes. Also, the EU claims, decoupled income support including, the Basic Payment Scheme and its Greening component)</td>
<td>No expenditure limits apply</td>
</tr>
<tr>
<td><strong>Blue Box</strong> Direct payments under production limiting programmes (e.g. area payments or ‘livestock payments … made on a fixed number of head)</td>
<td>Currently no expenditure limits</td>
</tr>
<tr>
<td><strong>Amber Box</strong> Price support (e.g. milk will be sold at £X per litre) and aid coupled to production (e.g. a farmer will get £X for each beef cattle)</td>
<td>Support in this category must be within de minimis limits, unless the WTO member has negotiated additional entitlement, as the EU has.</td>
</tr>
</tbody>
</table>

7. IMPORTS OF AGRICULTURAL PRODUCTS TO THE UK

Whilst in the EU, imports from non-EU countries into the UK are subject to the common external tariff. However, the EU has trade deals with some countries which allow products to enter the EU with reduced or zero tariffs. The UK shares the EU’s inward tariff rate quotas (TRQs) in these agreements. TRQs are quantities of products allowed into the EU single market at a lower (or zero) tariff than those outwith the quota. For wheat 3,140,856 tonnes can be imported at a tariff of €12. These low-tariff products can be sold in any part of the EU. Once that amount has been imported the tariff for wheat increases to €95 (AHDB, 2016b).

Leaving the EU, the UK will negotiate how the quantities of quotas are divided up between the EU and the UK. Matthews (2016) has said that -

“a more protectionist EU might be only too delighted to offload a larger than pro-rata share of its TRQs to the UK…. No matter what allocation key is used.”

Figure 7. Tariffs and tariff rate quotas for wheat, cheese, lamb and skimmed milk powder

Source: Based on data in Andersons, 2017
8. EXPORT OF AGRICULTURAL PRODUCTS FROM THE UK

Currently UK agricultural products have tariff free access to the European single market. In 2015, £105 million of Agriculture, Forestry and Fishing products were exported from Scotland to the EU, £625 million to the rest of the UK, and £245 million to the rest of the world (Scottish Government, 2017). Export destinations for Food Products, Distilled Products and Agriculture, Forestry and Fishing Products are shown in Figure 8.

The UK has a share of the EU’s outward tariff rate quotas. This allows specified EU agricultural products to be exported to non-EU countries at a very low or zero tariff.

Once the UK leaves the EU, depending on negotiations, Scottish farmers may be subject to tariffs on exports into the single market (Figure 8a). The UK may negotiate some of the EU’s outward TRQ, or may have to make new arrangements to export products to non-EU countries as well.

Figure 8: Value of agricultural related exports from Scotland to the rest of the UK, EU, and Non-EU counties

![Bar chart showing export values to different regions](chart.png)

Source: Export Statistics Scotland for 2015, 2017

Figure 8a. Tariffs payable on selected products entering the EU single market

<table>
<thead>
<tr>
<th>Product</th>
<th>Tariff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fresh/chilled boneless beef cuts</td>
<td>12.8%+€303.4/100kg</td>
</tr>
<tr>
<td>Milk/cream (fat content 3-6%)</td>
<td>€21.8/100kg</td>
</tr>
<tr>
<td>Fresh/chilled potatoes (excl new/seed potatoes)</td>
<td>11.5%</td>
</tr>
<tr>
<td>Wheat (excl Durum/seed)</td>
<td>€95 per tonne</td>
</tr>
<tr>
<td>Rapeseed</td>
<td>Tariff Free</td>
</tr>
</tbody>
</table>

Source: AHDB, 2016b
9. FREE MOVEMENT OF PEOPLE WITHIN THE EU

Within the EU, citizens can work in any member state. Official statistics providing concrete evidence on non-UK EU nationals working in the Scottish agriculture sector are very limited. The Scottish Government (Scottish Government, 2017, para 38) estimate that for 2015:

“around 8,000 people employed in the food and drink sector are non-UK EU nationals and up to 15,000 non-UK seasonal migrant workers are employed in the soft fruit and vegetable sectors for harvest in summer and autumn.”

As Figure 9 shows, in 2016 the total work force in Scottish agriculture was over 63,000. In addition, up to 14,000 non-UK migrants were working temporarily in Scotland during harvest.

Stakeholders have stated -

“A solution must be found which allows industry to recruit and retain both skilled and non-skilled labour from outside of the UK for permanent and seasonal posts.” (NFUS, 2016)

Once the UK leaves the EU, free movement of people between the EU and the UK may be stopped. It may be harder to find people to carry out essential seasonal work in agriculture.

Figure 9: Total work force and additional non-UK seasonal migrant workers in Scottish agriculture in 2010-2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Workforce</th>
<th>Non-UK Seasonal Migrant Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>68,000</td>
<td>14,000</td>
</tr>
<tr>
<td>2011</td>
<td>68,000</td>
<td>14,000</td>
</tr>
<tr>
<td>2012</td>
<td>68,000</td>
<td>18,000</td>
</tr>
<tr>
<td>2013</td>
<td>67,000</td>
<td>16,000</td>
</tr>
<tr>
<td>2014</td>
<td>66,000</td>
<td>12,000</td>
</tr>
<tr>
<td>2015</td>
<td>65,000</td>
<td>15,000</td>
</tr>
<tr>
<td>2016</td>
<td>63,000</td>
<td>14,000</td>
</tr>
</tbody>
</table>

10. EU PROTECTED FOOD NAME SCHEME

EU membership allows participation in three EU protected food name schemes. Under these schemes a named food or drink registered at a European level will be given legal protection against imitation throughout the EU. AHDB (2016c) reports that products in these schemes are sold for 1.55 times more than products not in the schemes. But registered products cost more to produce than other products and incur registrations costs.

When the UK leaves the EU, the future of Scottish products in these schemes will depend on negotiations. The UK Government could ensure that products currently covered by EU legislation will be covered by domestic legislation to ensure continued protection within the UK but this would not protect them in the single market.

Non-EU products can be in these schemes. For example Columbian coffee holds a PGI in the European Union. Adopting this approach for UK products would require agreement between the UK and the EU and would probably require the UK to agree to continue to recognise EU protected products.

Figure 10. Scottish Products in EU Protected Food Name Schemes

<table>
<thead>
<tr>
<th>Protected Designation Of Origin (PDO)</th>
<th>Protected Geographical Indication (PGI)</th>
<th>Traditional Speciality Guaranteed (TSG)</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1" alt="" /></td>
<td><img src="image2" alt="" /></td>
<td><img src="image3" alt="" /></td>
</tr>
<tr>
<td>Products that are produced, processed and prepared in a specific geographical area, using the recognised know-how of local producers and ingredients from the region concerned.</td>
<td>Products whose quality or reputation is linked to the place or region where it is produced, processed or prepared, although the ingredients used need not necessarily come from that geographical area.</td>
<td>Products of a traditional character, either in the composition or means of production, without a specific link to a particular geographical area.</td>
</tr>
</tbody>
</table>

Scottish products

- Native Shetland Wool
- Shetland Lamb
- Orkney beef
- Orkney lamb
- Traditional Ayrshire Dunlop
- Orkney Scottish Island Cheddar
- Stornoway Black Pudding
- Scottish Wild Salmon
- Lough Neagh Eel
- Scottish Farmed Salmon
- Scotch Lamb
- Scotch Beef
- Arbroath Smokies
- Teviotdale Cheese

Source: [European Commission](http://example.com) (undated) and [DOOR database](http://example.com) (undated)
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World Trade Organisation (undated) *Agriculture Negotiations: Backgrounder Phase 1: Market access: tariffs and tariff quotas*. Available at: [https://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd07_access_e.htm](https://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd07_access_e.htm) [Accessed 13 February 2017]
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