Brexit – NFU Scotland’s considerations

Executive Summary – NFU Scotland’s 10 priorities

In 2013, the Scottish food and drink growth sector employed 119,100, with the sector turning over £10.5 billion in the Scottish economy. Overseas exports of Scottish food and drink products are worth £5 billion.

This would not be possible without the 65,000 people directly employed in the Scottish agriculture sector, who as primary producers are just the start of the food and drinks industry which is the largest manufacturing industry we have in Scotland.

As custodians of the countryside, Scottish farmers and crofters are the mainstay of the rural economy. The Scottish public value the contribution that farmers and land managers make and the access they have to our beautiful, managed environment across the whole of Scotland. Most farmers and crofters wish they could deliver these benefits without the need for financial support however the reality is the marketplace does not allow that to happen.

The referendum result brings into sharp focus the interests that agriculture has always held in the EU in relation to trade, support and the movement of labour. With agriculture taking nearly 40 per cent of the European budget and tariff-free trade providing important markets for Scottish produce, it is vital that the UK negotiators recognise the significance of the sector as we commence our withdrawal.

A settlement that recognises agriculture and the environment can deliver a future food policy based on provenance and quality that benefits not just farmers and crofters in Scotland but the whole rural economy.

The vital task now is for all Scottish parliamentarians to maintain regular dialogue with UK negotiators and the new Prime Minister so these interests can be at the forefront of negotiations. ‘Brexit’, as it has come to be known, presents a unique and unprecedented situation and NFU Scotland (NFUS) is enthusiastic that, as the first member state to leave the EU, the negotiations are conducted on the UK’s terms and without trade-offs.

Before and during the Article 50 process, UK farmers will continue to have full access to the Common Agricultural Policy (CAP) support scheme and internal markets, and must still adhere to all the associated rules and regulations as before.

However, the UK’s pending withdrawal puts us in unknown territory and it is recognised by most that it is impossible to predict with any certainty how the settlement on future trade, support and relationships may look – and indeed when.

Whilst a degree of flexibility must be retained to respond to our shifting political landscape, NFUS has published a package of 10 priorities setting out what it considers to be the absolute bottom lines in the debate as it currently stands:
• The next four rounds of CAP payments must be delivered as planned, and as budgeted for by farmers and crofters. This will provide an anchor of stability to negotiate future trading and domestic support arrangements.

• Future deals on tariffs and market access must ensure that we have a strong and vibrant domestic farming industry. In negotiating trading relationships with Europe and the rest of the world, farming must not be used as a bargaining chip.

• Continued recognition of the Scotch Beef and Scotch Lamb Protected Geographical Indicators must be secured.

• The trading arrangements negotiated with Europe and the rest of the world must allow all the workers that the Scottish farming and the food processing industries rely upon to continue to play their vital role.

• Overly prescriptive bureaucratic requirements carried by Scottish agriculture that add costs but deliver no added value must be removed, to allow farming to be competitive.

• All decisions relating to the use of pesticides, herbicides and new technologies must be based on science.

• The promotion of Scottish food and drink in export markets must be prioritised. Scottish agriculture’s world class products can grow exports, thereby supporting economic activity and jobs in Scotland.

• Effective advisory services, practical research, tailored education, effective knowledge transfer, and measures that support innovation are required to drive efficient and profitable agricultural production in Scotland.

• Public bodies, governments and local authorities must all adopt food procurement policies which prioritise sourcing food that is produced locally and sustainably in Scotland.

• Clear and unambiguous country of origin labelling on meat, meat products, milk and dairy products must be delivered as soon as possible.

This package forms the basis of discussions that NFUS is currently having with the supply chain, stakeholders and decision-makers in Europe, Westminster and Holyrood as we begin to cross this unchartered territory.

This submission substantiates further detail behind these 10 priorities.

**CAP – 2016 to 2020**

1. As suggested, the CAP accounts for a substantial proportion of the total annual EU budget; in excess of €58 billion or just under 39 per cent. The current system has evolved to support farm businesses to remain productive (via Pillar 1 funds), whilst also delivering on environmental outcomes (Pillar 1 greening and Pillar 2) and other development goals.
2. The recent announcement\(^1\) by the Chancellor of the Exchequer, Philip Hammond MP, to commit the continuation of CAP Pillar 1 funding to the end of the Multiannual Financial Framework period (MFF) and the honouring of some Pillar 2 agri-environment scheme funding is welcome. This statement has gone some way in providing assurances to farmers and crofters in Scotland that they will be financially supported throughout the period of negotiation as the UK exits the EU. Confidence and stability for the as-yet-unknown road to 2020 will allow our members to continue to produce and invest in their businesses – at least in the short to medium term.

3. From 2014 to 2020, Scotland would have received around €4.6 billion (£3.5 billion) under the CAP from the EU. The Scottish agriculture sector is heavily reliant on CAP funding, with support payments accounting for around two-thirds of total net farm income in Scotland.

4. Whilst we are aware that the current level of agricultural funding under CAP Pillar 1 will be upheld by 2020, questions remain on how this money will come to Scotland – whether via the Barnett Formula or other means; as well as the commitment of some structural funds and elements of Pillar 2. NFUS notes that the Scottish Government’s Cabinet Secretary for Finance and Constitution has written to the Chief Secretary to the Treasury seeking clarity in this regard, and NFU Scotland supports these efforts.

5. However, from the perspective of NFUS, and indeed our sister farming unions elsewhere in the UK, it is the clear wish of the Chancellor for each of the devolved governments to use the committed Pillar 1 funds for agriculture as had been guaranteed before the referendum. In light of significant spending pressures within Scottish Government, NFUS is also seeking a commitment from Scottish Government that these funds will be delivered as budgeted, in recognition of the stability these payments provide to the industry.

6. In addition to this, clarity on committed Scottish Government spending on Pillar 2 schemes is also needed. The Less Favoured Area Support Scheme (LFASS) – approximately 70 per cent of which is funded by Scottish Government – is just one example of this.

**Future CAP post-2020**

7. In the longer term, NFUS understands that a UK framework is likely to be developed towards a future agricultural policy, but there is also likely to be devolved capacity within that framework with flexibility to adapt to the differing needs of the devolved nations. Significantly divergent agricultural policies across the UK are not considered to be desirable at this stage, due to the distortion this could create for farm businesses based on the Scottish border.

8. Following Brexit, the expectation is that funding from the EU to UK agriculture will stop at some point. When this does happen, the amount of money the UK decides to spend on farming and farming-related matters will have major consequences for Scotland. A significant concern is what budget will be committed to agricultural support post-2020. With successive UK governments showing a preference away from direct (Pillar 1) support, there has also been no reassurance given to the sector as yet whether agricultural spending will be maintained and ring-fenced.

9. Should the existing Barnett formula be used rather than another means of farm support budget allocation, then the implications for agricultural support in Scotland are severe. If future funding is delivered via the Barnett Formula, Scotland’s share of support would be cut from some 16 per cent of the overall UK total to 8 or 9 per cent, as illustrated in the table overleaf. This default option would result in a situation that could decimate Scottish agriculture and its vital food and drink sectors.

9.1 Table outlining possible funding split under Barnett Formula

<table>
<thead>
<tr>
<th>EU Budget Allocation</th>
<th>Barnett Budget Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK CAP Pillar 1 Budget 2020</td>
<td>€ 3,591,683,000</td>
</tr>
<tr>
<td>Scotland’s Share</td>
<td>16%</td>
</tr>
<tr>
<td>England’s Share</td>
<td>65%</td>
</tr>
<tr>
<td>Scotland in €’s</td>
<td>€ 589,036,012</td>
</tr>
<tr>
<td>DEFRA Barnett Allocation in 2020</td>
<td>8% or 9%</td>
</tr>
<tr>
<td>Scotland’s spend under Barnett</td>
<td>€ 287,334,640</td>
</tr>
</tbody>
</table>

10. NFUS considers that agreement between the Scottish and UK government should be reached as soon as possible on whether the Barnett Formula could be bypassed in such a situation, in order to allow existing CAP principles to be adhered to (for example: working on the basis of non-historic allocations, or using criteria based on objective analysis). There must be a different methodology that retains at least the same level of funding going into Scottish agriculture as before.

11. On leaving the EU, it is almost certain that the UK will have to operate under WTO rules. Therefore, whatever the future support mechanisms in the UK, they will have to be WTO-compliant. As a result, the levels and types of support available under a UK agriculture policy would be constrained, yet it is vital to ensure the UK isn’t disadvantaged such that it might limit the support that could come to Scottish farmers in the future. The design of the future agricultural policy has to deliver the support that Scottish farming and crofting needs.

12. Agricultural support is about much more than financial support and a future, more sovereign system can develop effective advisory services, practical research, tailored education, meaningful knowledge transfer, and measures that support innovation as well as new entrants into the industry. Whatever future system is put in place must also properly recognise activity, and reward those who are genuinely producing and growing agricultural output. The EU has attempted to address activity in previous CAP schemes but to limited success.

13. With various support systems in operation elsewhere in the world, modelling is currently underway to examine how these could be applied to the Scottish and UK context. As 85 per cent of Scotland’s land is designated as Less Favoured Area, the real prize will be a future support system which is simplified and suited to Scotland’s unique landscape and needs, and allows the primary producer to take more back from the marketplace. As such, the Canadian, USA and other models are being examined which often employ other mechanisms to support farmers, such as crop insurance policies that recognise market volatility. The long-term relationship between farm support and output is not clear. Lower support can
encourage structural change, innovation and productivity improvement which could help improve farm incomes, as was largely the case in New Zealand.

14. With numerous concepts on the table, the question of future agricultural support will form the basis of a wide-ranging consultation which NFUS will conduct with its membership in the latter part of 2016; the results of which will be fed back to governments and parliamentarians.

Trade options

15. There is a lack of data and statistics relating to the trade flows of agriculture and food between Scotland and the rest of the UK, EU Member States and non-EU nations. This includes a lack of evidence on imports and exports to and from Scotland for the main food commodities and imports and exports to and from Scotland for the main inputs to Scottish agriculture (machinery, feed, fuel, fertiliser, seed).

16. However, the Scottish Government’s Input Output tables and HMRC data suggest that food and drink exports to the EU were valued at £1,900 billion in 2015 – approximately 39 per cent of the total value of Scotland’s overseas (non-UK) food and drink exports. However, when drink exports (dominated by whisky) are stripped out, food exports to the EU were valued at £724 million in 2015 – representing some 69 per cent of Scotland’s overseas (non-UK) food exports.

17. In addition to this, we know that over 60 per cent of the UK’s agricultural exports are to the EU. Included within this total amount is 90 per cent of the UK’s beef and lamb exports which go to the EU, and 70 per cent of pork. In 2014, the UK exported £141 million worth of combinable crops and £383 million worth of lamb. Therefore, it is clear that trade currently has a massive impact on our farming sectors and any sudden change could be damaging to current trade flows.

18. It is too soon to state exactly whether there is a model which the agricultural industry would like the future trade deal to be based upon however the preference is that whatever deal must be bespoke to the Scottish and UK situation. Ideally, NFUS would prefer an outcome that gives the best possible access to markets inside and outside of the EU whilst protecting the UK’s very high standards. Having influence over new EU rules and regulations is also extremely important.

19. All the models (Norway, Swiss, Turkish, US/Canada, WTO) that currently exist do not fit this ideal, i.e. they operate on a sliding scale of low trade costs but with a trade-off that there is little regulatory autonomy, and vice versa (see annex 1).

20. Adding to the complexity is the fact that sectors of the agricultural industry vary considerably in what they need and want – for example, for sheep producers trade with the EU is extremely important, however other commodities such as milk prefer a more domestic approach. Analysis published by the NFU suggests that unilateral trade liberalisation (reverting to the WTO default position) is the most damaging scenario for the profitability of British farming, adding a minimum of 20 per cent tariff. At today’s price, the effective tariff on fresh or chilled boneless lamb cuts would be 76.7 per cent if preferential access to the EU is not secured.

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3 [https://www.uktradeinfo.com/Statistics/BuildYourOwnTables/Pages/Table.aspx](https://www.uktradeinfo.com/Statistics/BuildYourOwnTables/Pages/Table.aspx)
4 [http://www.nfuonline.com/assets/61142](http://www.nfuonline.com/assets/61142)
21. What is important to consider in addition to this is that Scotland’s most important trade partner is the rest of the UK. Some 80 per cent of our produce goes to the rest of the UK, and this cannot be undermined.

**Free movement of people**

22. NFUS is clear that the negotiation must allow the Scottish farming industry and the Scottish food processing industry the ability to recruit willing and able workers from overseas. With the resident UK workforce displaying a preference for permanent employment, the seasonal nature of much of this work makes it extremely difficult to fill these roles with people based locally.

23. There is not a single fruit farm in Scotland that could operate without access to overseas workers and there are many other farms and crofts which also rely on similar staff (see case study in Annex 2). It is thought that there are between 5,000 and 15,000 seasonal workers from the EU employed within the Scottish agricultural sector at any one time. The vast number of EU nationals employed within the food and drink processing sector also cannot be ignored. It is estimated by the Scottish Association of Meat Wholesalers (SAMW) that an estimated 50 percent of the workforce in some of Scotland’s abattoirs and meat processing plants are non-UK. With the Scottish red meat processing sector providing direct employment for approximately 2,700 people, the possible implications of the loss of this labour could be severe.

24. Immigration was at the heart of the campaign to leave the European Union and NFUS is concerned about some of the alarming narrative that was used in relation to freedom of movement. It is difficult to see a situation where the UK Government will allow the free movement of people from Europe to the UK to be part of the future relationship we have with Europe on a similar basis to before. It is essential that a solution is found that allows the industry to get the workers it needs and that a positive message is sent to current and future EU workers in Scotland so that they feel wanted and valued.

25. NFUS strongly encourages governments to consider a return to the Seasonal Agricultural Workers Scheme (SAWS), which came to an end in 2012. The SAWS allowed fruit and vegetable growers to employ workers from Bulgaria and Romania as seasonal works for us to six months at a time within the limit of an annual quota. Take-up of the quota was very high and was 98 per cent when the scheme ended in 2012. The majority of workers coming into the UK under SAWS were students seeking to fund their education and did not attempt to stay in the UK. Such a scheme should therefore be considered separate of the wider debate around immigration.

**Rules and regulations**

26. A common argument of the Leave campaign during the referendum was that a UK outside of the EU would be empowered to strip back the rules, regulations and perceived red tape that are part and parcel of our farming systems. However, NFUS suggests that, given that the EU is likely to remain an important trading partner, the UK might find it within its interests to align its regulations and standards closely to those in force in the EU. It is these rules and regulations that underpin the UK’s high standards on which we build our world-class food and drink reputation – and indeed, global standards are moving in this direction anyway.
27. It is the understanding of NFUS that all existing EU regulations will be adopted en masse on the day of departure and then ‘disapplied’ within the different competent and devolved authorities. In effect this would amount to a ‘cut and paste’, then amended within the domestic legislation (although as outlined, the same is not necessarily true for agricultural policy, where a new ‘framework’ will likely be developed).

28. In summary, this suggests that current EU regulations will be influential but not binding which could present an opportunity to develop a regulatory system that is more appropriate or sensitive to the Scottish context which encompasses a range of production practices. Examples of where EU regulations could be applied more sensibly to the Scottish context would be sheep tagging requirements for hefted flocks; or CAP greening, which could be altered for much better environmental gains.

**Enhanced reputation for food and drink**

29. Whatever trading arrangements may be developed following the UK leaving the EU, it will be vital that the provenance of Scottish produce is promoted. Exiting the European Union will present challenges in terms of the UK’s future trading relationship as discussed. However, opportunities can be taken now to build upon the fantastic Scottish and British brand – promoting this brand at home and abroad, and allowing the Scottish food and drink sector to grow and invest with focus on ambition, innovation and co-operation. Not having to comply with European rules on food labelling, or procurement policies, will allow public sector to work closely with the private sector in a unique partnership to drive an agenda focused on healthy, home-grown food and drink first and foremost.

30. Governments must consider future procurement policies for public bodies, governments and local authorities that prioritise the sourcing of food and drink that is produced locally and sustainably in Scotland.

31. There is also now a fantastic opportunity to develop clear and unambiguous country of origin labelling on meat, meat products, milk and dairy products which can improve traceability and consumer choice. Currently fresh meat origin is required under European regulations, however origin labelling for processed meat, milk and dairy products is discretionary. NFUS urges governments to look across to countries such as France, Portugal and Lithuania who are pursuing similar agendas even within the European restrictions to introduce robust country of origin labelling for processed meat and dairy products which will enhance consumer choice and increase transparency and integrity in the UK food supply chain.

32. Unique geographical origins and protected names, such as Scotch Beef and Scotch lamb, must be protected in the negotiation. NFUS urges governments to address this as an urgent priority, as, depending on the type of protection, food name protection sits in different baskets between UK Government (intellectual property) and the devolved authorities (consumer protection).

32.1. For example:

- **Protected Designation of Origin - PDO**: Covers agricultural products and foodstuffs which are *produced, processed and prepared in a given geographical area using recognised know-how.*
Due to the combination of consumer protection and intellectual property, there is reason to suggest protection of PDOs will require a combination of devolved and reserved legislation.

- **Protected Geographical Indication - PGI**: Covers agricultural products and foodstuffs closely linked to the geographical area. At least one of the stages of production, processing or preparation takes place in the area.
  
  o This mostly covers consumer protection, labelling and food information – however the need for an authority (such as Quality Meat Scotland) to control the criteria of awarding of a PGI status could infringe on intellectual property.

- **Traditional Speciality Guaranteed - TSG**: Highlights traditional character, either in the composition or means of production.

- This protection is primarily for recipe and production method, therefore sits mostly in intellectual property.
## Annex 1 – Trade options comparison table

<table>
<thead>
<tr>
<th>Model</th>
<th>Market access</th>
<th>Movement of people</th>
<th>Regulatory autonomy</th>
<th>Contribution</th>
<th>Support</th>
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<tbody>
<tr>
<td>EEA “Norway model”</td>
<td>Free access to European Single Market but an “EEA plus” model would be needed in UK context to include agricultural goods. Both Norway and the EU can be subject to import duties when trading with each other.</td>
<td>Free movement of people.</td>
<td>Must accept all single market legislation, without any formal influence or representation.</td>
<td>2/3 of UK’s current contribution. Annual commitment of approx. €89 a person (£76).</td>
<td>UK free to construct own farm policy, provided it isn’t trade distorting within WTO rules.</td>
</tr>
<tr>
<td>EFTA “Swiss model”</td>
<td>Framework of bilateral agreements and some limited access to the single market. Again, an “EFTA plus” model would be needed in UK context to include tariff-free access to most agricultural goods. Such a model could be supplemented with more bilateral deals – but these will take time to secure and certain commodities would need to be treated as “sensitive”.</td>
<td>Free movement of people.</td>
<td>Must accept all single market legislation, without any formal influence or representation.</td>
<td>Switzerland do not contribute directly to the EU budget but according to the BBC the contribution as a member to European Free Trade Areas has been around £53 per head in recent years.</td>
<td>UK free to construct own farm policy, provided it isn’t trade distorting within WTO rules.</td>
</tr>
<tr>
<td>Customs Union “Turkish model”</td>
<td>Outside the full Single Market but inside the EU Customs Unions for some goods. Customs controls abolished and an EU common external tariff imposed on goods coming in from third countries. When EU negotiates a new FTA, Turkey has no say on the terms of imports into the country and instead must negotiate a separate trade deal for exports. Only processed agricultural products are included.</td>
<td>No free movement of people with the EU.</td>
<td>Free from EU rules and regulations. However, countries have to comply with EU regulations in terms of standards for those EU states in which it is able to freely trade, with no autonomy over these standards and rules.</td>
<td>Turkey currently does not make a contribution to the EU budget however there is some evidence to suggest the case would be different for the UK.</td>
<td>UK free to construct own farm policy, provided it isn’t trade distorting within WTO rules.</td>
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<tr>
<td>Free trade agreements “US/Canada model”</td>
<td>Seek trade agreements tailored to national interests. Some trade tariffs would be likely as with other FTAs.</td>
<td>No free movement of people.</td>
<td>Different standards and rules will mean different non-tariff trade barriers with the EU. If operating within the Single Market, EU rules and regulations will need to be followed.</td>
<td>No contribution to the EU budget.</td>
<td>UK sovereignty over policy and direction.</td>
</tr>
<tr>
<td>WTO option</td>
<td>Multilateral trading system where each member must apply same tariffs to all (unless there is an FTA).</td>
<td>No provision for free movement of labour.</td>
<td>If operating within the Single Market, EU rules and regulations will need to be</td>
<td>No contribution to the EU budget.</td>
<td>UK sovereignty over policy and direction.</td>
</tr>
<tr>
<td>Tariffs are set at a minimum of 20 per cent.</td>
<td>followed. Otherwise there is no obligation to abide by these rules.</td>
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</table>
Annex 2 – Case study – East Lothian Growers, Haddington

Context

- Family-run business operating a farming and growing business (W&R Logan Ltd) and vegetable packing business (East Lothian Produce Ltd).

- The business grows in the region of:
  - 300 ha Brassicas (Brussels Sprouts, red, white and Savoy cabbage and small area of broccoli)
  - 280 ha Potatoes mainly for the packing market
  - 260ha cereals (wheat and barley)
  - 50ha Parsnips

- The business supplies the Sainsburys, Tesco, Asda, Morrisons, Aldi, Lidl and Kettle Produce in Fife. The business also has reach to supply other packers across the UK and Northern Ireland and export sprouts to Holland.

Employment

- Between the two businesses there is a permanent workforce of approximately 20. Of this number, nine are EU nationals who are permanently employed within the business.

- Additional temporary and agency staff are employed throughout the year as required for field operations (planting, weeding, harvesting) and in the packhouse (grading and packing) and for potato grading.

- From low season through to the busy season, circa 5 – 50 staff are employed in the packhouse. During peak production times (December and March), an additional 30 - 45 agency staff are also required. These workers are almost exclusively Eastern European.

- For field operations (therefore in addition to the packhouse workers) between 5 – 30 temporary and/or agency staff are employed depending on the time of year. Again, these are typically all EU nationals.

Value of EU nationals to the business

Statement from Tracy McCullagh, Technical and Transport Manager for East Lothian Growers:

“In terms of the importance of EU workers we very much depend on them. We have tried and failed to employ sufficient numbers of local workers who are prepared to do the work. This is perhaps because there is a lot of competition from other work opportunities for locals. The seasonal nature of the work also suits EU nationals who come here to work for a period of time and then they go back home. Locals may look for a more permanent working arrangement.”
“There are no benefits in terms of cost savings as of course EU nationals are paid on the same terms and conditions as locals would be. Perhaps some are more flexible since they are often relatively young and don’t have families or other responsibilities here in Scotland, their primary reason for being here is to work.

“Although most of the temporary workers are only in the UK/Scotland for short periods, our permanent staff have been living in Scotland for some time and have made a life here and we know they have concerns about their future as a result of the Brexit vote. We also have concerns as these permanent members of staff are management and supervisory staff with a lot of experience and knowledge and we would have significant problems replacing them if there were any issues about them remaining in the UK.”