Brexit implications for H&I agriculture (inc. crofting)

Presentation to Highland area group, Inverness, 19/04/18

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Pareto Consulting

Brexit scenarios (NFU, AHDB, FAPRI)

- Various studies, similar trade scenarios (spanning uncertainties)
- Free Trade Agreement with EU (aka ‘soft’)
- WTO (adopting existing EU tariff schedule, for all trade inc. EU)
- Unilateral tariff-free imports (aka ‘cheap food’)
- All with (all/some) or without Pillar I support

Price and income effects of trade…

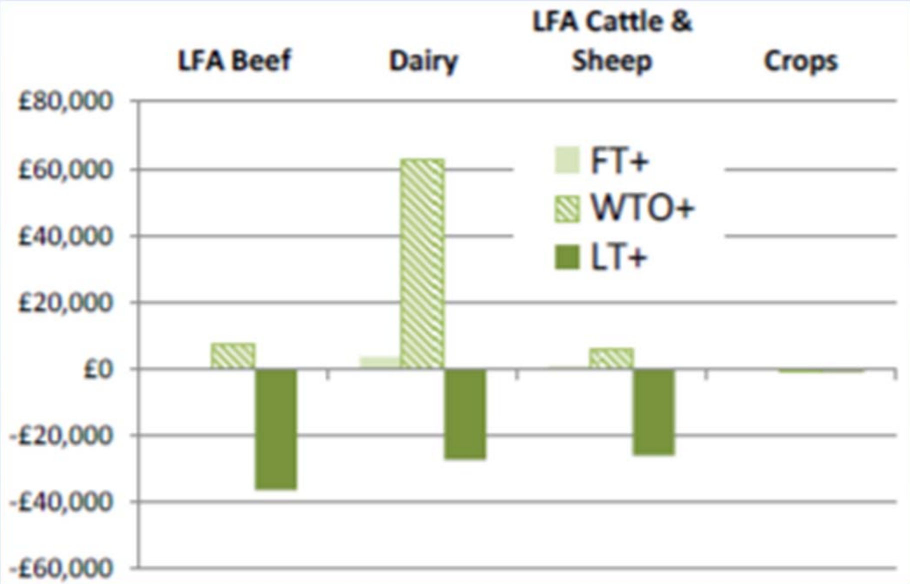
- Free Trade Agreement
  - ⇒ modest price changes (trade friction)
  - ⇒ up slightly for beef and dairy, down slightly for sheep

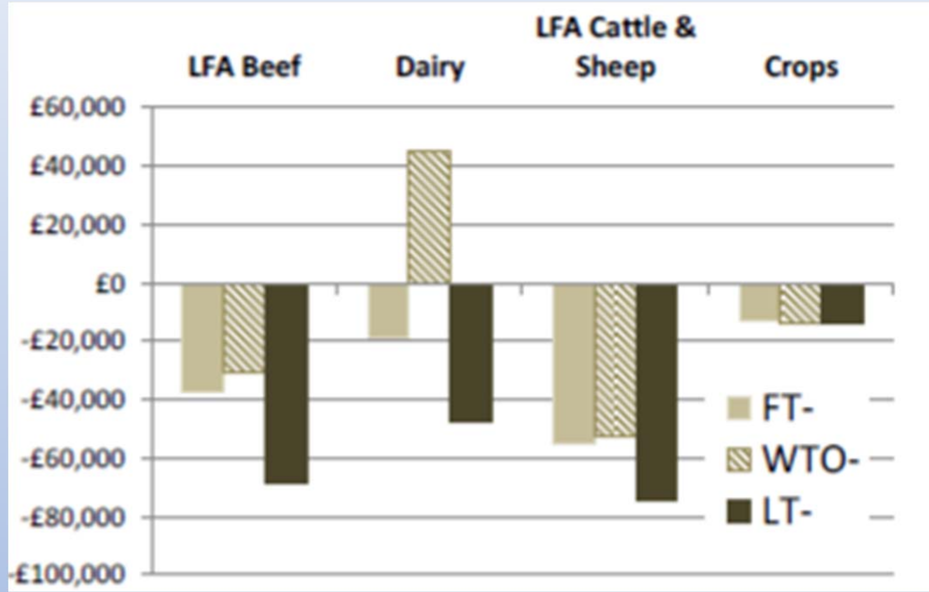
- WTO rules (adopting existing EU tariff schedule)
  - ⇒ bigger price changes (higher tariffs on EU trade)
  - ⇒ up for beef and dairy, down for sheep

- Unilateral tariff-free imports
  - ⇒ biggest price changes (no protection)
  - ⇒ down for all three enterprises

Product	FT	WTO	LT
Beef	+1.9%	+17.5%	-42.3%
Sheep	+4.3%	-23.0%	-18.8%
Milk	+1.0%	+30.0%	-10.0%
Wheat	+1.0%	+7.8%	-1.5%
Barley	+0.5%	-5.2%	-8.1%

…with or without Pillar I support

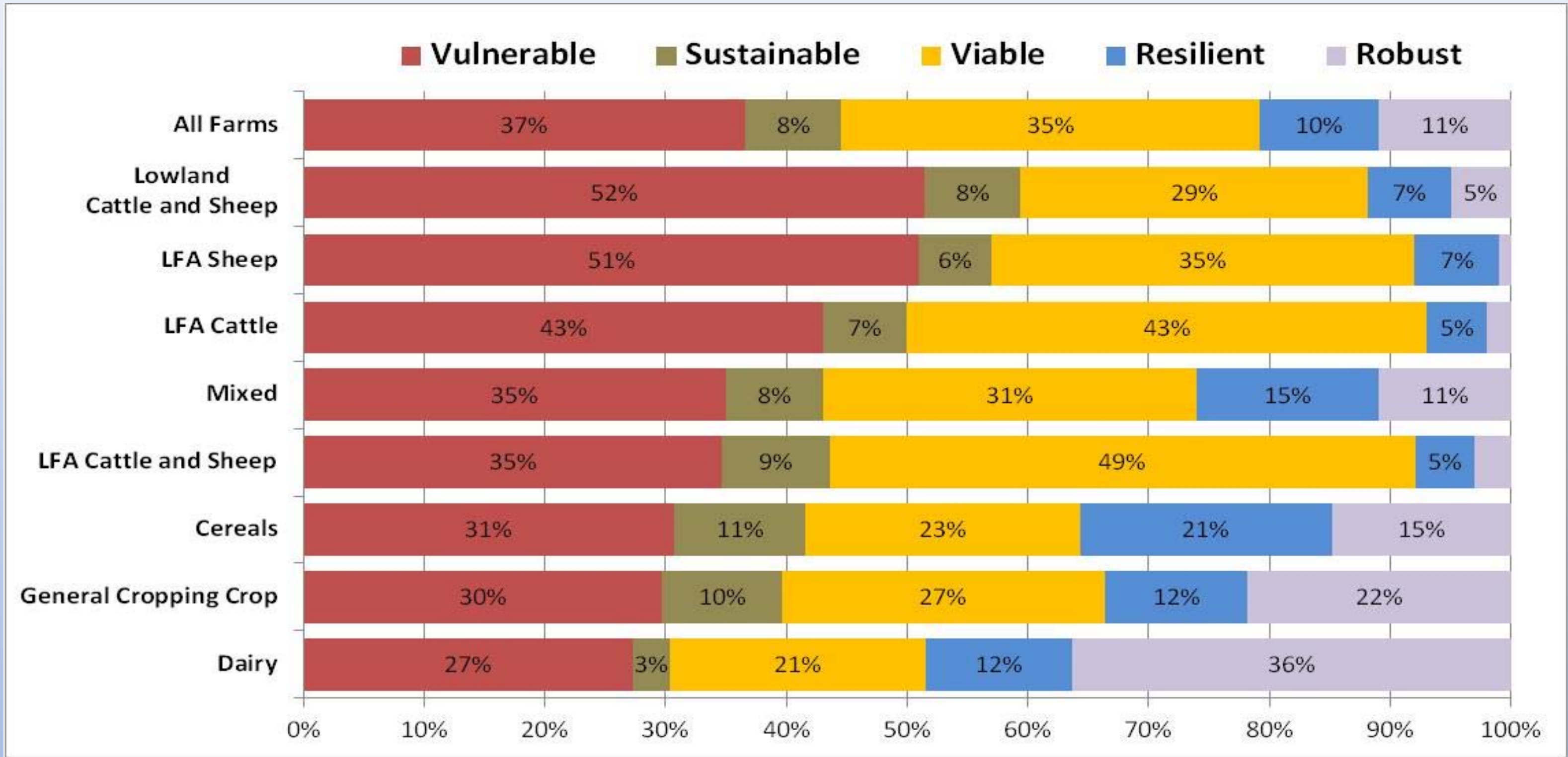




⇒ price effects important, but less so than support payments

⇒ LFA livestock particularly vulnerable

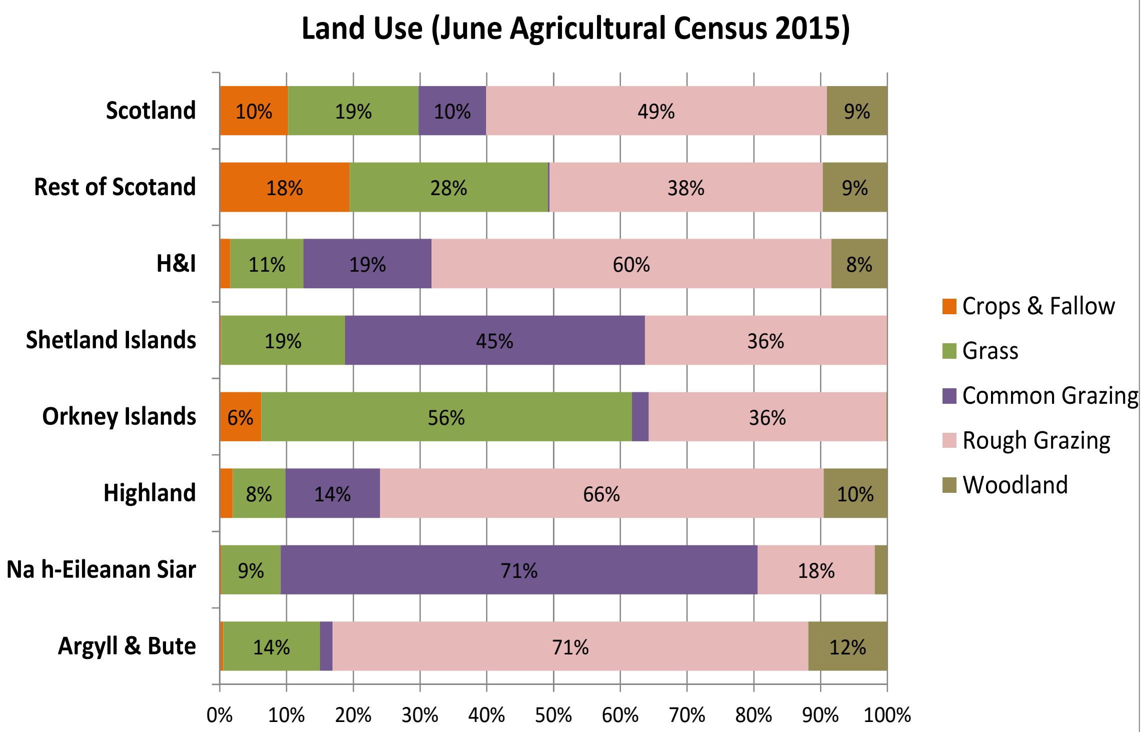
Sticky viability of farm businesses (pre-Brexit)

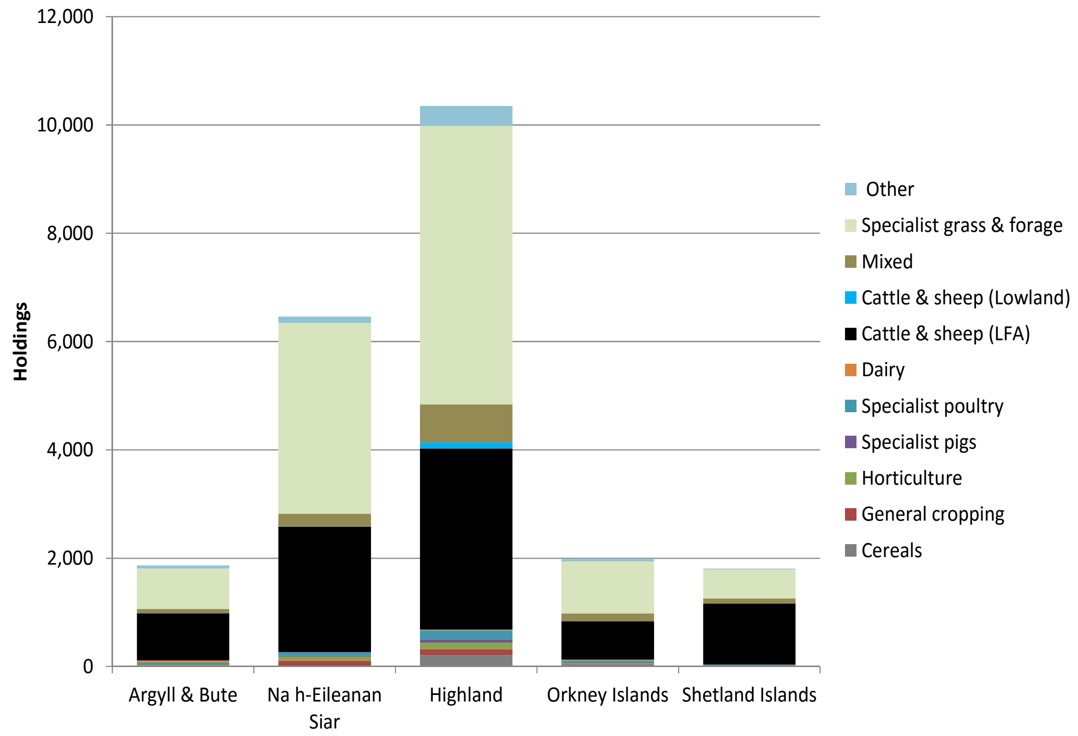


Barnes et al (ongoing) - Work under Scottish Government's Strategic Research Programme 2016-2021 (WP2.4 Rural Industries)

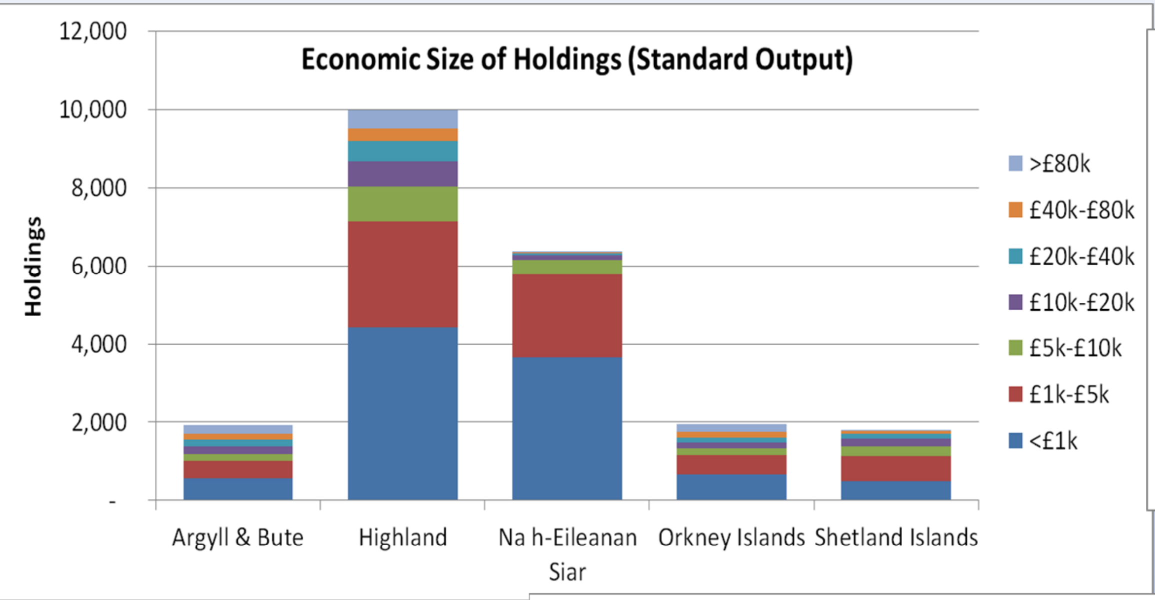
	Vulnerable	Sustainable	Viable	Resilient	Robust
Vulnerable	64%	8%	23%	2%	2%
Sustainable	41%	36%	14%	3%	5%
Viable	23%	4%	59%	7%	8%
Resilient	0%	0%	0%	86%	14%
Robust	13%	3%	31%	0%	54%

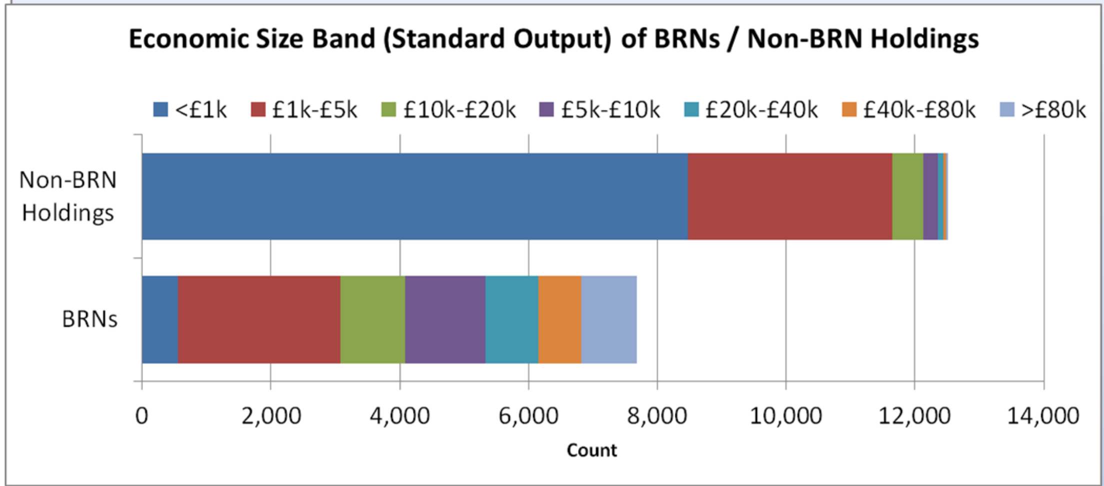
Land Use & Holding Types

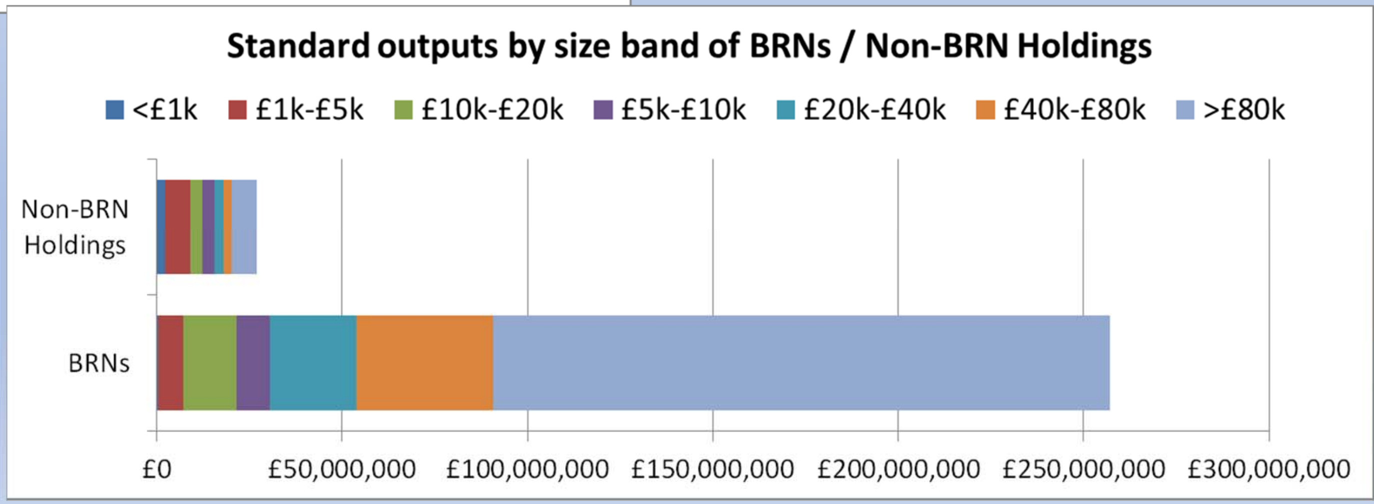




Economic Size



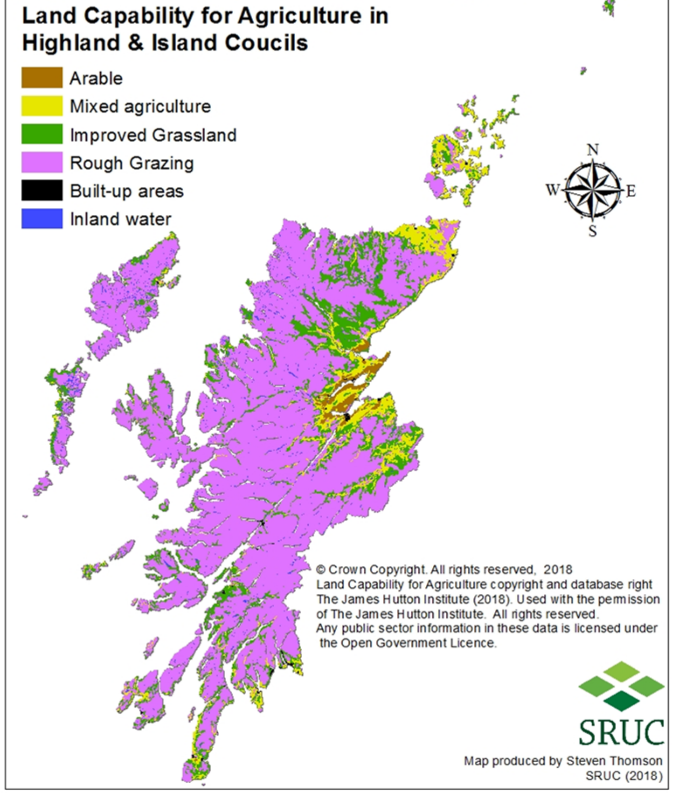




Scale and Intensity

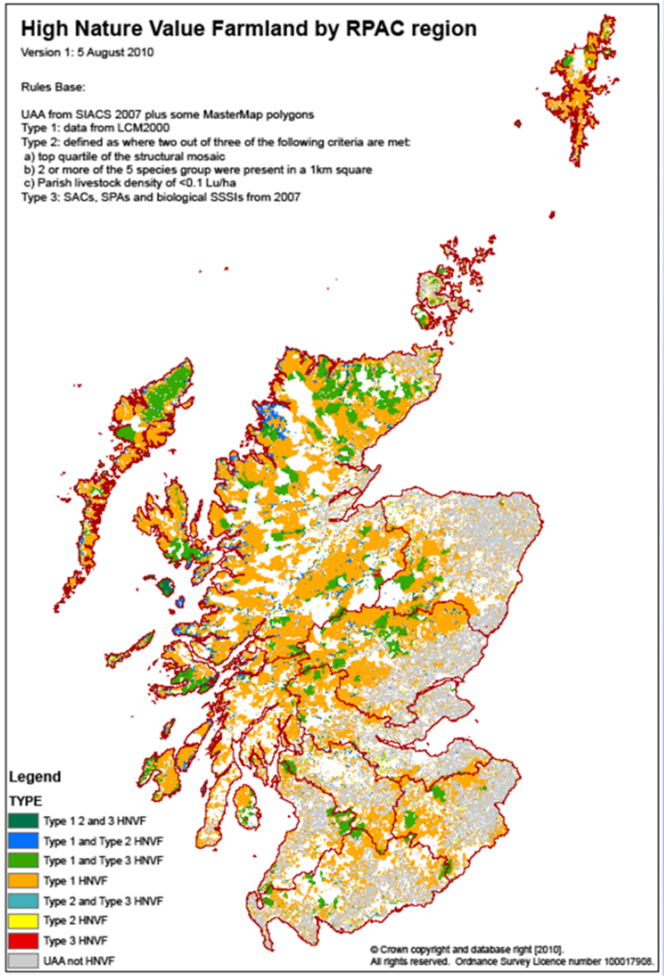
	Livestock Units	LSU/Ha	Standard Output	Standard Output / Ha
Argyll & Bute	89,169	0.18	£58.4m	£121
Na h-Eileanan Siar	19,471	0.06	£13.3m	£44
Highland	179,053	0.09	£149.7m	£72
Orkney Islands	66,547	0.72	£46.1m	£502
Shetland Islands	31,879	0.21	£16.6m	£111
H&I	**386,120**	**0.12**	**£284.1m**	£91
Rest of Scotland	*1,751,214*	*0.57*	*£2,105.5m*	*£691*
Scotland	**2,137,334**	**0.35**	**£2,389.6m**	£388

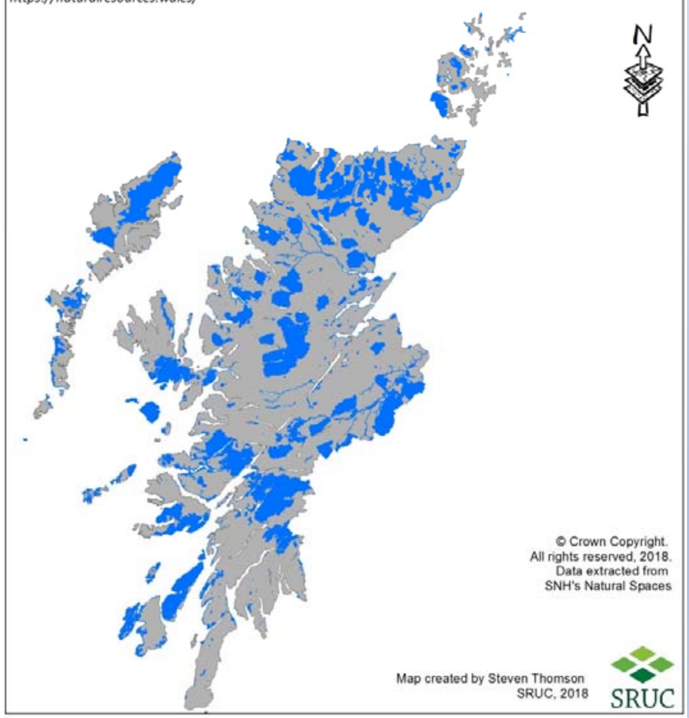
Different aspects of land quality



Land Capability for Agriculture

	Highlands and Islands Councils	Rest of Scotland	Scotland
Arable	1%	16%	8%
Mixed Agriculture	8%	35%	21%
Improved Grassland	16%	22%	19%
Rough Grazing	76%	26%	52%

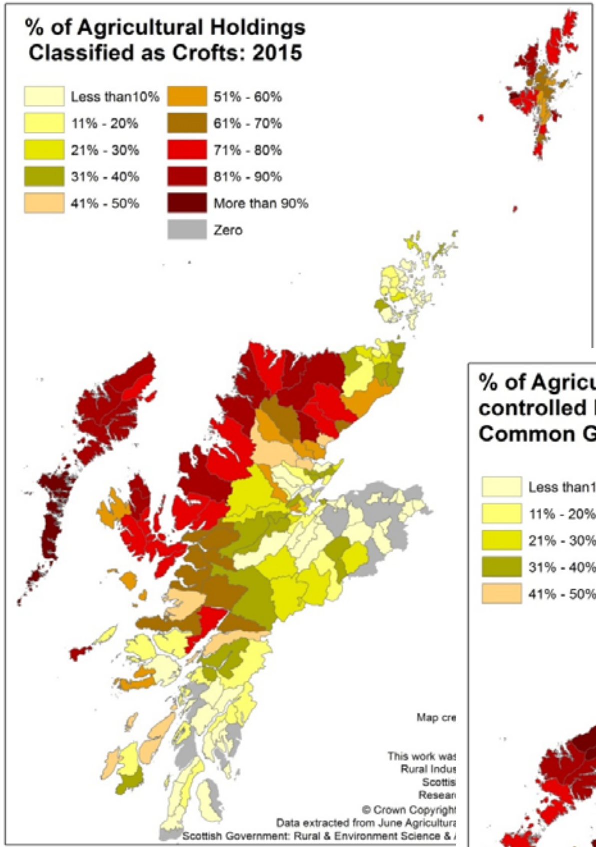


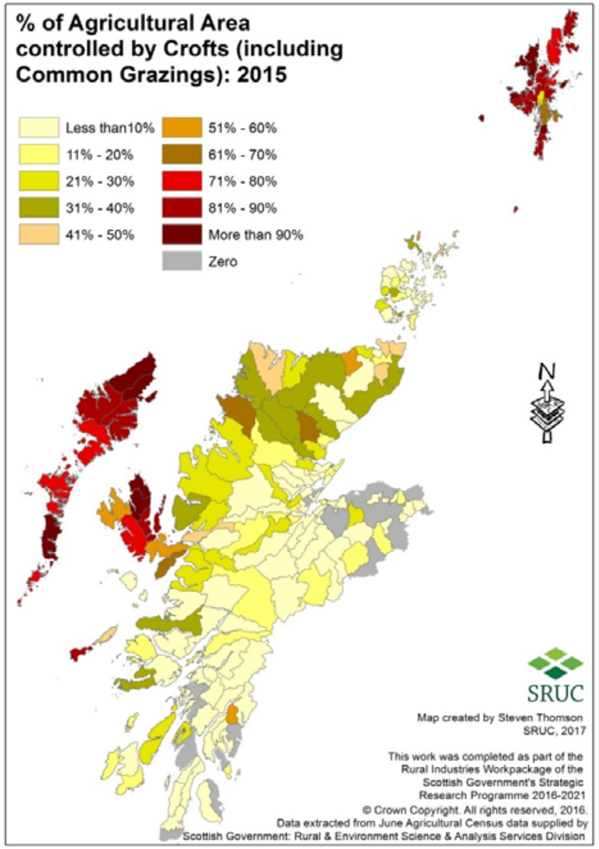


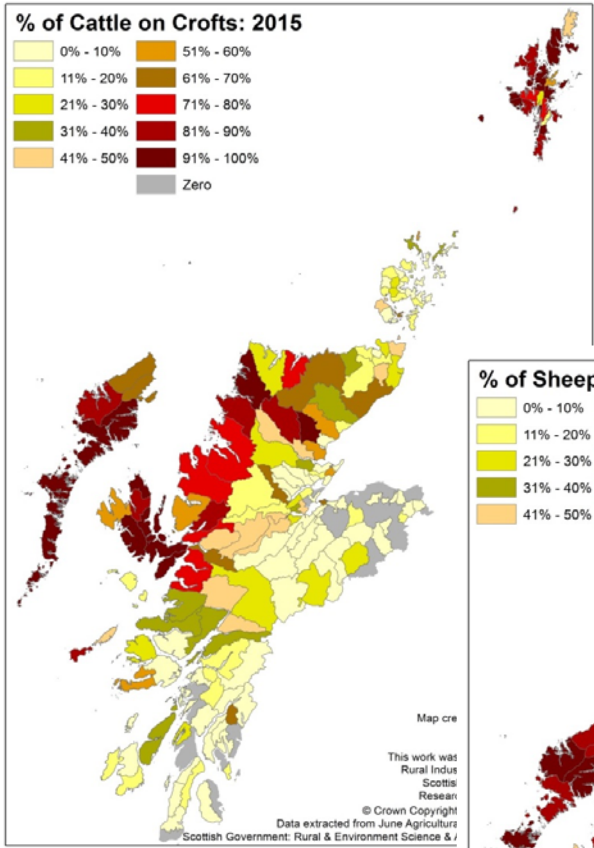
	Ramsar	SPA (Terestrial)	SAC (Terestrial)	SSSI
H&I sites	27	96	125	603
% of Scottish Sites	53%	63%	58%	42%
% of UK sites	18%	36%	20%	19%
H&I Hectares	260,622	1,068,604	539,440	702,858
% Scottish Site Area	80%	82%	73%	69%
% of UK Sites Area	26%	41%	13%	32%
% of H&I area	7%	28%	14%	18%

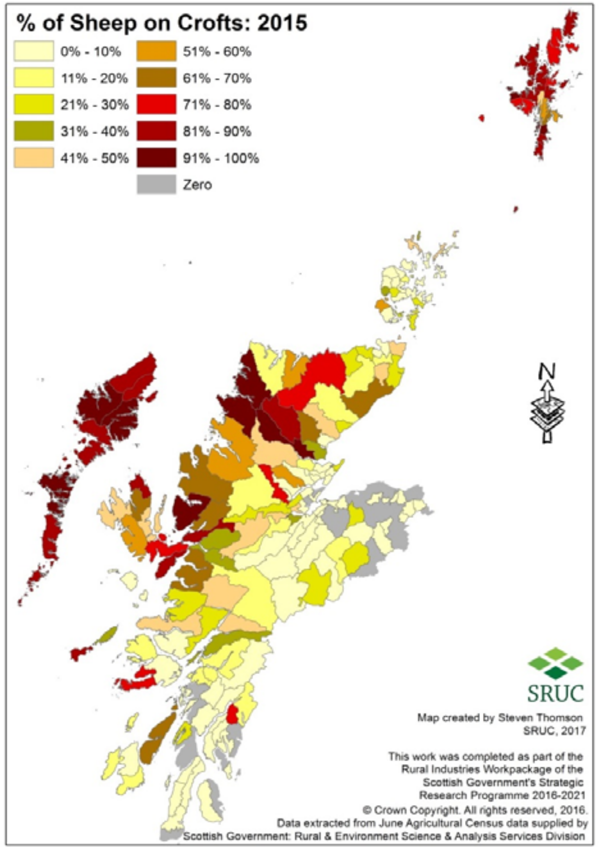
Data: Extracts from https://gateway.snh.gov.uk/natural-spaces, http://jncc.defra.gov.uk/, https://www.daera-ni.gov.uk/, https://naturalresources.wales/

Importance of Crofts

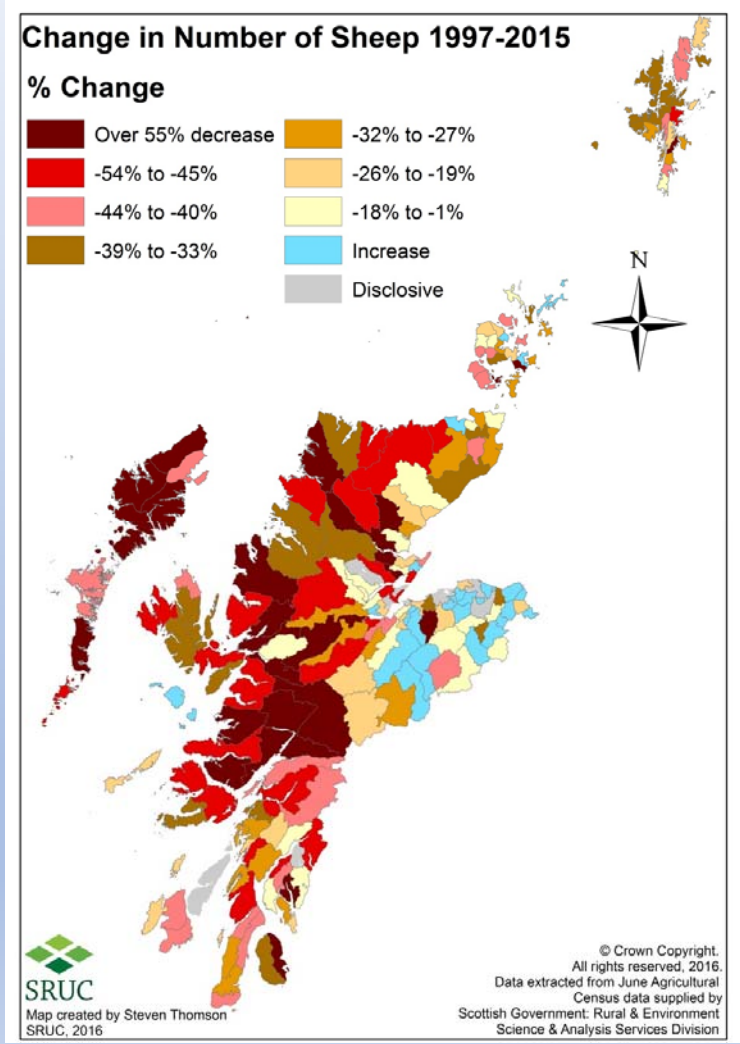


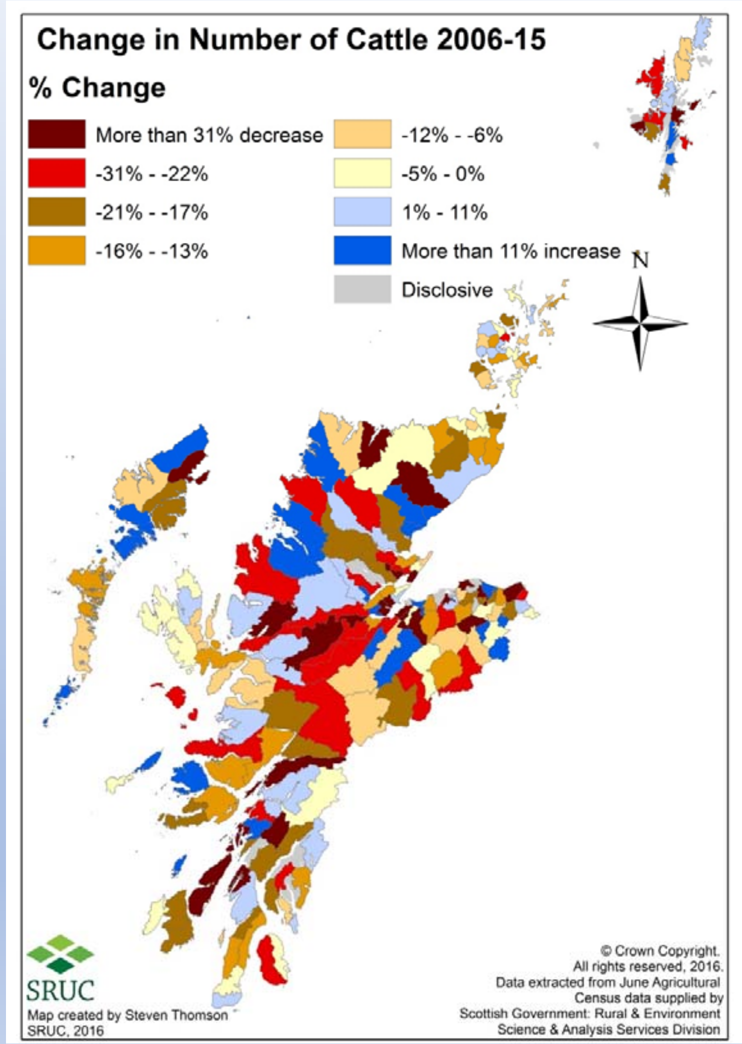






Changing livestock numbers



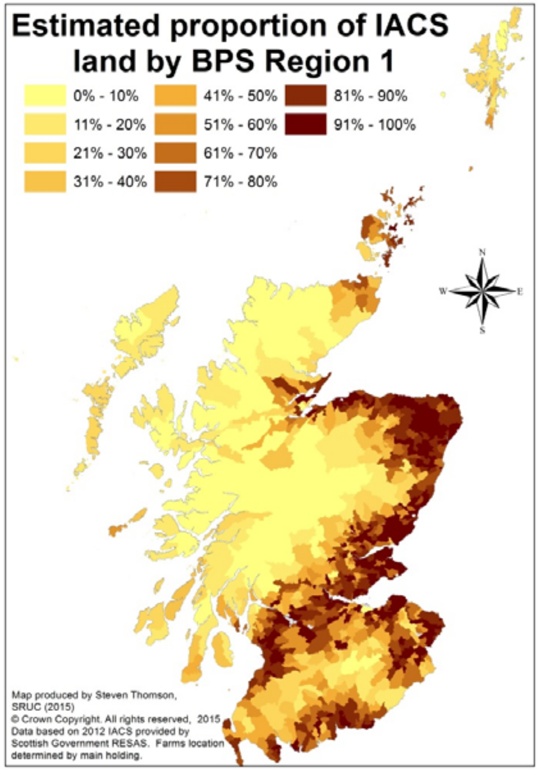


CAP Support Payments 2014 (*public database*)

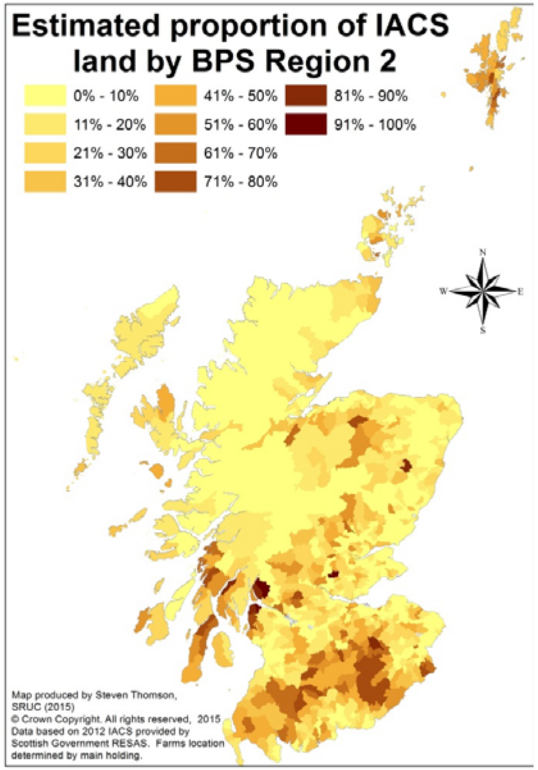
	Pillar I	Pillar II	Total	PII:PI
Na h-Eileanan Siar	£2.9m (0.6%)	£4.6m (3.0%)	£7.5m (1.2%)	158%
Shetland	£4.5m (0.9%)	£4.2m (2.7%)	£8.6m (1.4%)	93%
Orkney	£14.4m (3.0%)	£6.4m (4.2%)	£20.8m (3.3%)	45%
Argyll and Bute	£14.9m (3.2%)	£14.6m (9.4%)	£29.5m (4.7%)	98%
Highland	£38.m (8.0%)	£29.5m (19.0%)	£67.5m (10.7%)	78%
Rest of Scotland	*£398.3m (84%)*	*£95.8m (62%)*	*£494.m (79%)*	*24%*
Scotland	**£472.9m**	**£155.m**	**£627.9m**	**33%**

Basic Payment Regions (RESAS 2015 Estimates)

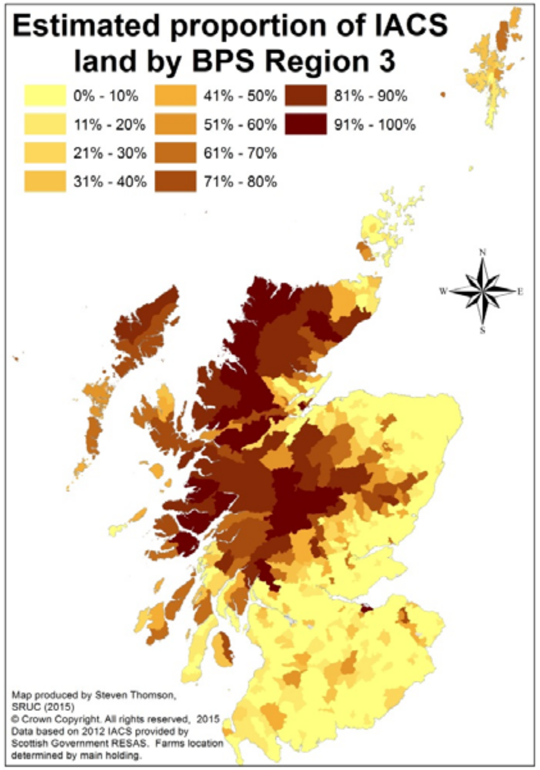
Estimated: €244/Ha
By 2019



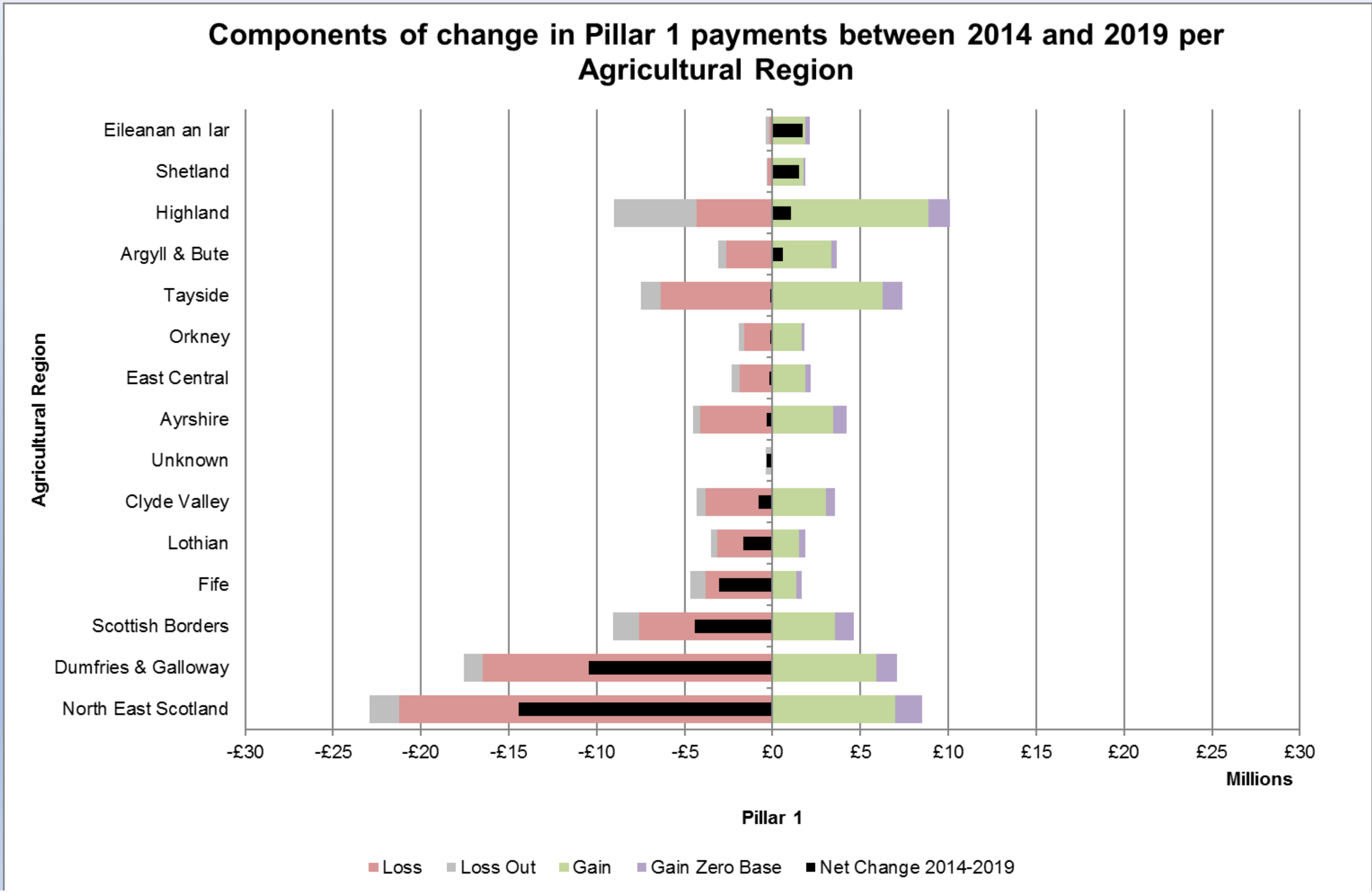
Estimated: €41/Ha
By 2019



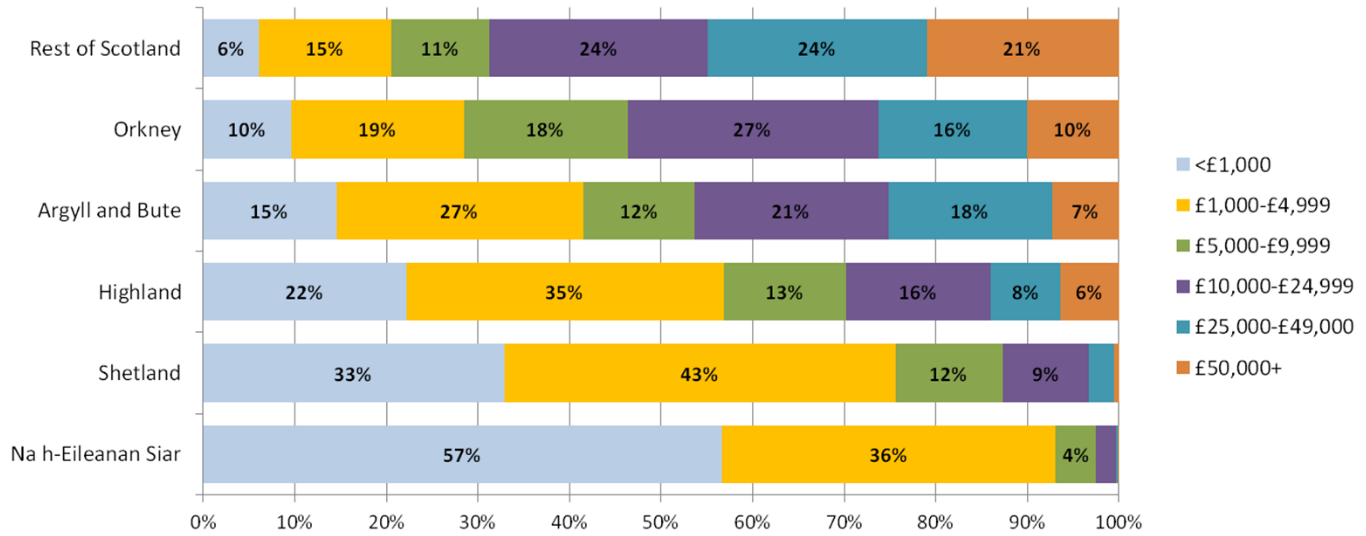
Estimated: €13/Ha
By 2019



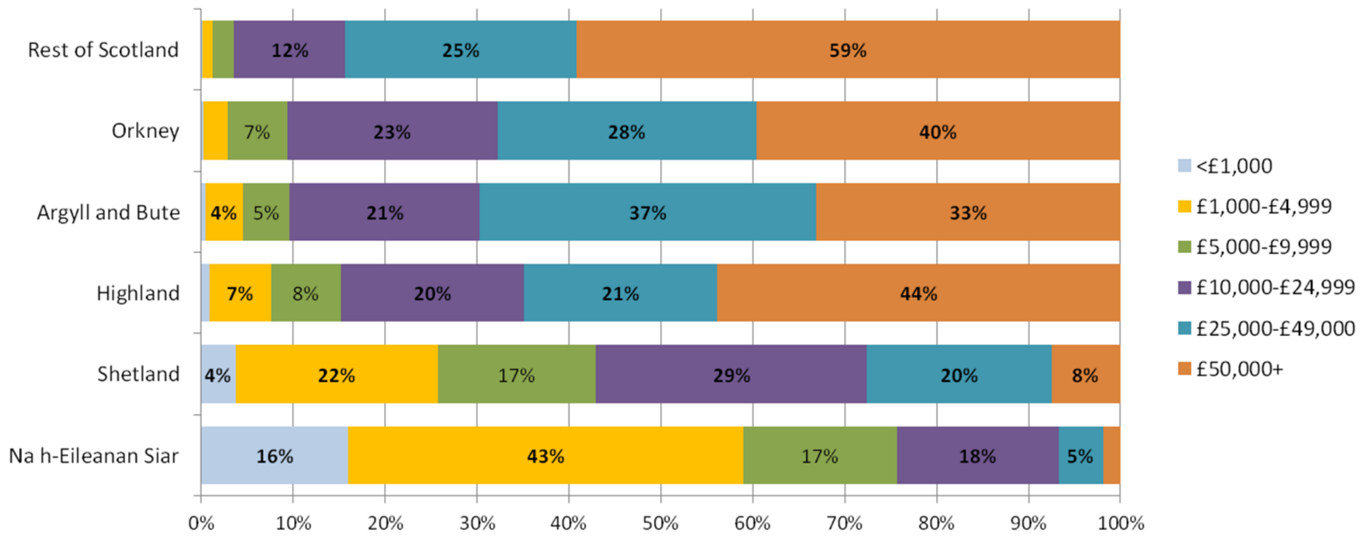
CAP support redistribution by 2019 (JHI Estimates)



Distribution of Direct Payments Recipients by Payment Bracket: 2014



Distribution of Direct Payments (£) by Payment Bracket: 2014



Relative significance of farm jobs, GVA & transfers

Estimate	Shetland	Orkney	Na h Eileanan Siar	Highland	Argyll & Bute
Ag' headcount	1,944	1,825	3978	9,624	2,456
Ag' FTE	994	1,217	1,811	5,660	1,679
All headcount	12,700	12,200	13,200	11,8500	41,000
All FTE	10,900	9,950	11,050	98,250	36,200
Ag' GVA	£4m	£10m	£3m	£32m	£12m
Food GVA	£18m	£13m	£15m	£128m	£70m
Tourism GVA	£13m	£10m	£26m	£197m	£88m
All GVA (income)	£631m	£445m	£460m	£5,274m	£1,736m
CAP transfers	£9m	£21m	£8m	£68m	£30m

Stakeholder views (32 people, 26 conversations)

- Agricultural activities highly vulnerable to price & support reductions
- Very small enterprises may persist; many larger, ‘commercial’ ones will not
- Labour availability is a binding constraint; limited alternative land uses
- Land quality & remoteness limit scope for innovation/structural adjustment
- Environmental aspects dependent on network of resident land managers

Implications…

- Agricultural abandonment, particularly for less accessible land
- Displacement of labour, to other sectors and/or places
- Depopulation risk, loss of critical mass/infrastructure/services
- Loss of current managed habitats, landscape, species
- Multiplier effects (agricultural, food & tourism supply-chains)
- Significant risks to employment, GVA and ecosystem services

Suggested policy responses

- Retain some form of (renamed) PI-type income support
  smaller budget $\Rightarrow$ targeted, tapered and/or capped
  disruption $\Rightarrow$ transitional arrangements

- Use (renamed) PII-type support for other public goods
  heterogeneity $\Rightarrow$ flexibility, local prescriptions, payment-by-results
  loss of PI $\Rightarrow$ need revision of basis for payment calculations

- But, can't be isolated from other policy measures
  e.g. planning, land use strategy, business & community support, welfare, tax….

- And need clarity (and prioritisation?) of policy objectives
  e.g. productivity, ecosystem services, transformational change or status quo

Policy objectives and instruments

- Support to whom, for what? CAP-type support not necessarily best

- Incomes and employment?
  Farm business, farm household or rural household? Non-farm productivity?

- Rural population retention?
  Everywhere? Other sectors? Rural infrastructure and public services?

- Active land management?
  Everywhere? Use and non-use values; Ecosystem services.

- Carrots, sticks and sermons?
  Income support, targeted payments, PES, taxation, regulations, advice & training

Policy constraints

- WTO & EU members' views on level & form of support
  e.g. level playing fields, state aids, decoupling, trade distorting

- WTO rules on agri-env payment rate calculations
  e.g. trade distorting, costs incurred, income foregone

- UK "common framework" on level and forms of support

- Domestic budget(s) and competing demands

- Efficacy relative to long term, background trends
  e.g. incomes, urbanisation, demographics, climate change etc.

Conclusions

- Brexit and (more so) loss of CAP support poses significant risks.
- Need for transitional and longer-term support, but contained domestically & globally
- Also, agriculture generally low in public rankings of spending priorities.
  - $\Rightarrow$case needs to be made for continued funding (c.1p on income tax?)
  - $\Rightarrow$supply-chain effects plus wider ecosystem services; public money for public goods
- Distinctive environmental and cultural characteristics of H&I will test strength of political commitments to remoter rural communities relative to other parts of Scotland.