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Implications of Brexit for food and agriculture in developing countries

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Abstract

Brexit (the UK's exit from the European Union) will have important repercussions for the agri-food trade of developing countries because of the UK's size (it is the sixth largest economy in the world) and its important role as an importer of agri-food products (it accounts for 12% of the EU's imports from developing countries). These effects will occur through a variety of different channels: the consequences of higher trade costs on UK-EU27 trade; possible changes in future UK tariff and trade policy after Brexit; possible changes in UK and EU27 agricultural policy; impacts on UK agricultural production capacity; and macroeconomic channels such as changes in future UK economic growth and the value of sterling. This paper reviews the potential significance of these changes, and makes recommendations as to how developing countries might respond to these changes.

JEL: F13, F63, Q17

Implications of Brexit for developing countries' agri-food trade

Introduction

The United Kingdom (UK) notified the European Union (EU) on 29 March 2017 that it intended to withdraw from its EU membership. The process of agreeing the terms of the UK's exit from and its future relationship with the EU is currently ongoing.[1] The UK will cease to be an EU Member State on 29 March 2019.[2] The UK is the EU's second largest economy in terms of GDP and third largest in terms of population. It is also a significant net importer of agri-food products, being only 60% self-sufficient, so this event will have significant consequences not only for the UK itself and the remaining EU Member States (EU27), but also for third countries. This paper assesses the possible consequences for the agri-food trade of developing countries. Because little is known at the time of writing this paper (March 2018) about the likely nature of the future relationship, the paper is largely speculative and no definite conclusions can be drawn. However, the framework of analysis presented should assist in identifying potential gains and opportunities, as well as threats, for developing countries.

The withdrawal process

The **process of withdrawing from the EU** is set out in Article 50 of the Treaty of the European Union (TEU).[3] This article states that "*In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union*." The European Council guidelines agreed in June 2017 set out a two phase approach to the negotiations, giving priority to the first phase to secure an orderly withdrawal.[4] The first phase of negotiations should settle the disentanglement of the UK from the EU and from all the rights and obligations the UK derives from commitments undertaken as a Member State. The withdrawal agreement should address, in particular, reciprocal rights for British and EU citizens, the UK's long-term financial commitments to the EU, as well as arrangements to avoid border controls between Ireland and Northern Ireland. An overall understanding of the framework for the future relationship would be negotiated in the second phase.

In December 2017 the European Council accepted on the basis of a Joint Report from the negotiators of both parties (Joint Report 2017) that sufficient progress had been made in the negotiations on the first phase issues. It then agreed guidelines for the next phase of the negotiations on a possible transition arrangement. The need for a transition arrangement has been accepted by both parties.[5] A future trade

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[1] In this paper, the term European Union or EU refers to the current EU of 28 Member States. We use the term EU27 to denote the EU after the UK has withdrawn where there might otherwise be confusion.

[2] Article 50 TEU provides that the withdrawal date should be specified in the withdrawal agreement but does not specify what that date should be. If there is no agreed date, then the default withdrawal date is two years following the notification to withdraw, or 29 March 2019. It is also possible for the parties to agree to extend this two-year period in order for the negotiations on a withdrawal agreement to continue, but this requires the unanimous support of the EU27 and the UK. In any event, the UK government has insisted on numerous occasions that it intends to withdraw on 29 March 2019.

[3] The withdrawal process and the positions of both parties as announced up to October 2017 are described in full detail in Matthews (2017).

[4] All EU negotiating documents to do with the Article 50 process can be found at https://ec.europa.eu/commission/brexit-negotiations/negotiating-documents-article-50-negotiations-united-kingdom_en.

[5] The UK makes reference to an 'implementation period'. This assumes that agreement can be reached on the details of the future trade agreement before March 2019 and it is just a question of phasing in these arrangements.

agreement between the UK and the EU27 can only be negotiated once the UK has left the Union and become a third country. The negotiation of this agreement could take some time, during which both parties want trade to continue on the same basis as today before the terms of any future trade agreement could take effect. The transition arrangement is intended to secure this objective.

The withdrawal agreement as envisaged by the EU will thus take the form of an agreement settling the separation issues and setting out the legal basis for the transition arrangements, supplemented by a political declaration setting out the objectives for the negotiations on the future framework of relationships.

On 15 March 2018 the EU Commission forwarded a draft Withdrawal Agreement to the UK as the basis for further negotiation. This largely set out in legal language what had been agreed in the Joint Report on separation issues but it also included a section on transition arrangements. According to the draft Agreement, the UK would continue to participate in the EU customs union and single market (including all four freedoms) during the transition period.[6] The Union acquis should continue to apply in full to and in the UK as if it were a Member State. Any changes made to the acquis during this time should automatically apply to the UK. However, because the UK will no longer be an EU Member State as of 30 March 2019, it will no longer participate in Union institutions, agencies, bodies and offices. The transition period is scheduled to end on 31 December 2020.

At its meeting on 23 March 2018 the European Council welcomed the progress on the Withdrawal Agreement and adopted guidelines for the negotiation on the future framework of relations. It is hoped that this negotiation can be concluded by October 2018 to allow time for ratification by both parties according to their respective procedures before the actual exit date of 29 March 2019. It should be recognised that there are risks, both that the negotiation on the Withdrawal Agreement breaks down (where particularly the way in which a physical border on the island of Ireland can be avoided is proving difficult to resolve) or, if there is a Withdrawal Agreement, that it may not be ratified by both parties.

The **UK's objective** is a bold and ambitious free trade agreement with the EU, while respecting its four 'red lines' of ending the jurisdiction of the European Court of Justice, controlling immigration from the EU, ending most contributions to the EU budget, and being able to strike trade deals with third countries.[7] The **EU's position** on the framework of its future relationship with the UK agreed by the European Council in its March 2018 guidelines is that a non-member of the Union, that does not live up to the same obligations as a member, cannot have the same rights or enjoy the same benefits as a member.[8] It views the four freedoms of the single market as indivisible and rules out "cherry picking" through participation based on a sector-by-sector approach, that would undermine the integrity and proper functioning of the single market. The EU has proposed a free trade agreement covering all goods, including agriculture, but with limited

[6] Article 2 of the draft Withdrawal Agreement provides that the UK is no longer an EU Member State when the Agreement comes into force. Article 122(1) provides for a transition period from the entry into force of the Agreement until 31 December 2020. Article 122(2) provides that Union law shall be applicable to and in the UK during the transition period. Article 122(6) provides that any reference to Member States in Union law during the transition period shall be understood as including the United Kingdom.

[7] The UK's position was set out in a series of speeches by the Prime Minister, at Lancaster House in January 2017, in Florence in September 2017 and at the Mansion House in March 2018. All the UK documents regarding the negotiations are gathered at the Department for Exiting the European Union website "Article 50 and negotiations with the EU", available at https://www.gov.uk/government/collections/article-50-and-negotiations-with-the-eu.

[8] The European Parliament, which must give its consent to any Withdrawal Agreement, adopted a similar position in its resolution of 14 March 2018 on the framework of the future EU27-UK relationship.

market access for services, common disciplines on sanitary and phytosanitary standards as well as a framework for voluntary regulatory cooperation.[9]

The choice third countries must make when negotiating a free trade agreement with the EU is the amount of domestic regulatory autonomy (including over trade policy and contributions to the EU budget) they are prepared to give up in order to gain improved access to the EU market. The greater the degree of regulatory and policy autonomy that the UK seeks to achieve, the greater will be the additional trade costs that are imposed on UK-EU27 trade in the future trading relationship. By ruling out a customs union with the EU as well as membership of the single market, the UK has decided to maximise its regulatory and policy autonomy. The consequence will be the imposition of significant additional transactions costs on UK-EU trade.

These **additional trade costs** can take different forms. Once the UK becomes a third country, normal customs procedures (documentary checks, fiscal requirements and some risk-based physical inspections) will apply. As the UK does not wish to join a customs union with the EU27 but just a free trade agreement, there would be a requirement for rules of origin and a requirement for documentary evidence to show origin. As the UK does not want to remain part of the single market, then even if it maintains the same regulations as the EU27 there will be a requirement for UK exports to the EU to show that they meet EU standards, and vice versa, in the absence of mutual recognition agreements. Regulatory compliance would be a particular issue in agri-food trade, particularly for animal products (meat, dairy, eggs) and fisheries products where the requirements to show compliance and the need for physical inspections at border points are particularly severe (Matthews 2017). Services firms, including both the financial sector and transport firms (particularly important for agri-food trade) would no longer have the ability to trade in each other's markets in the absence of specific agreements. These non-tariff barriers would represent a significant additional cost on trade between the UK and EU27 which does not exist today. Where the UK withdraws without a future trade agreement with the EU trade would take place on 'WTO terms', meaning that both sides would in addition apply MFN tariffs to each other's exports. The re-introduction of tariffs, in addition to non-tariff barriers, would represent very substantial additional trade costs in the agri-food sector, as discussed in more detail below.

There are a number of 'models' for the **future long-term trade relationship** between the UK and the EU27. These include the 'Canada', 'Turkey', 'Ukraine', 'Swiss' and 'Norway' models (Matthews, 2017). These models differ in the extent to which they avoid the potential additional trade costs identified in the previous paragraph. At the one extreme are countries that are part of the European Economic Area (the EEA countries are Norway, Iceland and Lichtenstein). They enjoy duty-free access for non-agricultural products and full participation in the EU single market in return for full acceptance of the single market 'four freedoms', agreeing to implement the relevant EU legislation into their domestic law (without having any direct say in the formulation of this legislation) and making budgetary contributions to the EU's cohesion policy. At the other extreme are the deep and comprehensive free trade agreements the EU has recently signed with Korea and Canada which provide for duty-free access for all goods (with some restrictions on sensitive agricultural products) but which make very limited provision for greater access for traded services. On the other hand, they have minimal requirements for regulatory alignment, do not require freedom of movement and do not require any budgetary transfers. In a chart prepared for the December 2017 European Council meeting which was widely circulated, the EU chief negotiator Michel

[9] The European Council (Art. 50) guidelines adopted at its meeting 23 March 2018 can be found at http://www.consilium.europa.eu/media/33458/23-euco-art50-guidelines.pdf.

Barnier indicated that, taking the UK's red lines into consideration, the 'Canada' model was the only model which the EU could offer to the UK.[10]

Given the importance of its financial sector and financial service exports to the EU, a Canada-style trade agreement which ignored market access for financial services would not be attractive to the UK. The UK has insisted that it is seeking a 'bespoke' trade agreement, i.e. one different to and more ambitious than any that the EU has signed to date.[11] It argues this should be possible given the proximity and close relationship between the UK and the EU27, as well as the fact that the UK will be in the unique position of negotiating a free trade agreement from the starting point that it will have exactly the same regulatory rules as the EU27. It argues that the need for customs barriers arising from different trade policies can be avoided by the use of 'smart customs' procedures, while barriers due to regulatory divergence can be avoided by the mutual recognition of the equivalence of different standards as providing the same overall level of safety or environment or consumer protection, even though both parties use different instruments or measures.

The EU side to date has described the UK position as one of 'having one's cake and eating it', meaning that it sees the UK argument as an attempt to enjoy the benefits of single market and tariff-free access without the corresponding obligations. At the time of writing (March 2018), there is no indication what the final compromise might be. This makes attempts to estimate the consequences of Brexit both for the UK and EU27 countries, as well as for third countries, a highly speculative exercise.

If the parties cannot agree or fail to ratify the Withdrawal Agreement, the consequences would be a 'hard' Brexit in March 2019. Trade between the UK and the EU27 would take place on WTO terms. Each party's MFN tariffs would apply to the other party's exports and customs and regulatory checks would be required for goods crossing borders as for any other third country. These additional trade costs would be significant in themselves, but the lack of preparedness on both sides for this eventuality a mere 12 months from now (the lack of space at ports for physical inspections, the inability of customs authorities to manage the sudden and dramatic increase in customs declarations) would result in substantial disruption to trade flows for a period (the 'cliff-edge' impact).

Assuming that the Withdrawal Agreement is ratified both parties would have until December 2020 to negotiate a 'softer' Brexit in which some of the costs of a 'hard' Brexit could be avoided. For example, a free trade area would avoid the re-introduction of tariffs, although customs checks would still be required to prove the origin of goods. Agreement on regulatory alignment in some areas could avoid the need for regulatory checks when goods enter the customs territory of either party. The shape of these future trade arrangements will not be known until the negotiations to take place during the transition period are successfully concluded. However, if the UK maintains its 'red lines' that it will not be part of a customs union and will not sign up to be part of the single market, additional trade costs on trade between the UK and the EU27 cannot be avoided after 2020.

In the subsequent discussion, we assume that the Withdrawal Agreement is ratified and that the UK remains *de facto* an EU Member State and part of the Customs Union and single market until the end of the transition period on 31 December 2020. However, there is still a risk that an Agreement cannot be reached

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[10] https://ec.europa.eu/commission/publications/slide-presented-michel-barnier-european-commission-chief-negotiator-heads-state-and-government-european-council-article-50-15-december-2017_en.

[11] This has been colourfully described by David Davies, the UK Secretary of State for Exiting the European Union, as 'Canada plus plus plus'. See Morales, A. (2017), "U.K. Seeking 'Canada Plus Plus Plus' EU Trade Deal, Davis Says", 19 December, Bloomberg News, available at https://www.bloomberg.com/news/articles/2017-12-10/u-k-seeking-canada-plus-plus-plus-eu-trade-deal-davis-says.

or will not be ratified. In that eventuality, the UK would leave the EU in a disorderly manner on 29 March 2019, with the consequences of a ‘hard’ Brexit and a ‘cliff edge’ to follow.

Implications for agri-food trade

Most trade scenario analysis considers the implications of trade liberalisation (unilateral or multilateral) or trade integration (preferential trade agreements). Brexit represents the opposite – a case of trade disintegration, in which the scale of disintegration will depend on the type of Brexit deal that may eventually be negotiated with the EU27. The trade effects of Brexit will thus be the opposite of what would be observed in the classic Vinerian analysis of the formation of a preferential trading area with its distinction between trade creation and diversion (Viner, 2014). Brexit will lead to trade destruction and diversion. In addition, we should take into account the impacts of possible subsequent changes in UK and EU trade policies and domestic agricultural policies following Brexit.

The impacts of these changes on developing countries will depend, first, on their existing trade relationship with the EU. Three categories of developing countries can be distinguished: those that trade on MFN terms, those with non-reciprocal preferential access to the EU market, and those that trade under a free trade agreement with the EU. The impacts will also depend on whether developing countries are primarily exporters/importers of products that are competitive with the temperate zone agricultural commodities traded between the UK and the EU27, or whether they are mainly exporters of tropical commodities including agricultural raw materials. The general framework for analysis is shown in Table 1. First, the general nature of these impacts will be discussed. In a second step, the potential direction and orders of magnitude of likely changes are evaluated. The implications for fish and fishery products are not specifically considered in this paper.

Table 1. Classification of Brexit impact channels on developing countries

Expected channel of impact
Trade destruction and diversion
Unilateral trade policy changes
Agricultural policy changes
Changes in agricultural production capacity
Macroeconomic changes
Relevant characteristics of developing countries
Does it have access to EU market solely on MFN terms?
Does it have non-reciprocal preferential access to EU market (preference recipient)?
Does it have access to EU market under a free trade agreement (preference recipient)?
Significance of agri-food products competitive with UK or EU27 producers in external trade

Source: Own tabulation

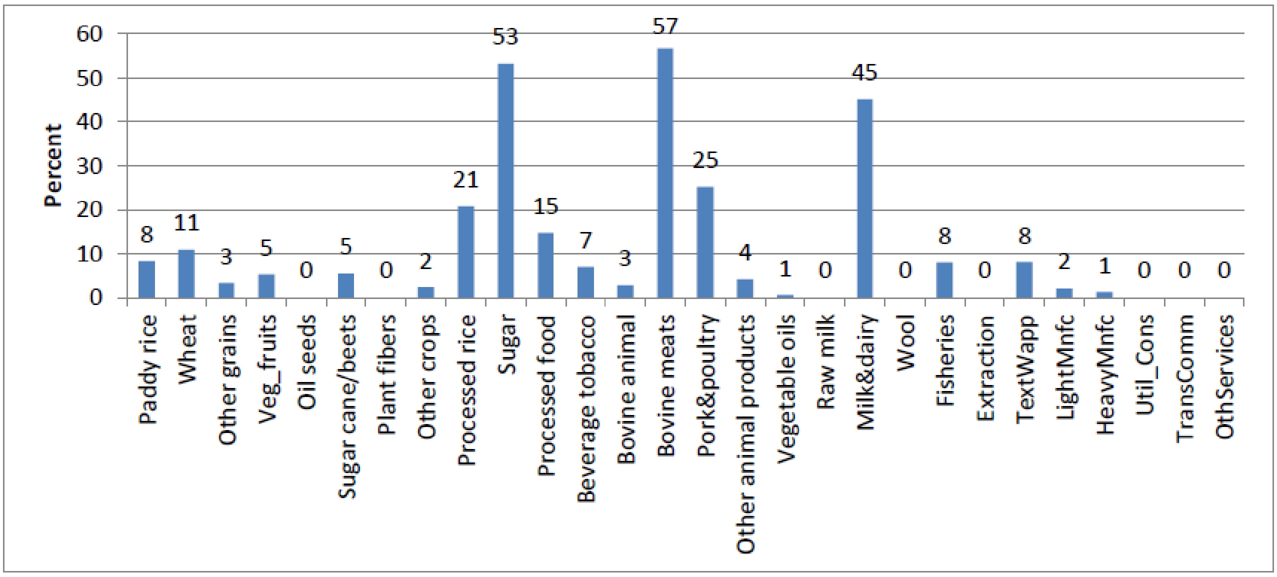
Trade destruction and diversion

When two countries decide to abandon a preferential trade agreement (PTA), the reintroduction of trade barriers (whether tariffs or of a non-tariff nature) makes each other’s exports less attractive. Other things remaining equal, bilateral trade will fall. The rise in protectionism results in **trade destruction** (the opposite of trade creation in the Vinerian analysis) between the parties previously linked in the PTA. Market prices in both markets for products that are imported will rise and for products that are exported will fall.

There will also be a **trade diversion** effect. Whereas this is negative for third countries in the Vinerian analysis of the formation of a trade agreement, it will be positive in the case of Brexit. Brexit improves the relative competitiveness of third country exporters in both markets. For example, the EU (and the UK as an EU Member State) currently has an applied MFN tariff of around 60% in ad valorem equivalent on imports of prime beef cuts from third countries. Imports from the EU27 to the UK and from the UK to the EU27 are currently duty-free. If as a result of Brexit, importing EU27 beef into the UK becomes more expensive, this will create additional market opportunities for third country exporters in the UK market.

The size of the tariffs that UK exporters would face in exporting to the EU market (and which EU exporters would face in exporting to the UK market if the UK maintains its tariffs at the EU MFN level) is shown in Figure 1. The highest tariffs would be faced on bovine meats, sugar, dairy products, other meats and processed rice. These tariffs would apply in a 'hard Brexit' WTO scenario. They would not apply if there is a future FTA between the UK and the EU27 which also covers agriculture, although additional transactions costs due to non-tariff barriers would still arise. The size of these non-tariff costs for the food and drink sector is estimated at 8% of trade values for countries in an EEA-type arrangement (that is, inside the EU single market but outside the customs union) and 17% in a WTO scenario (House of Commons 2018b).

Figure 1. EU MFN tariffs on agri-food imports



Source: Yu et al. 2017, based on the MAcMap database of tariff protection. The ad valorem equivalent of specific tariffs is taken into account. The numbers are the averages of the individual tariff lines in each product category, weighted by the value of imports from the main EU MFN trade partners.

Unilateral trade policy changes

Future UK trade policy

The conclusions of this classical analysis of the trade effects of PTAs are based on the assumption of a homogeneous trade policy towards all third countries. In practice, the EU has a series of PTAs with developing and other third countries. How preferential trade partners will be affected by Brexit will thus also depend on whether the UK replicates or improves on these preferential trade terms, as well as on its overall trade policy stance, after Brexit. There is the potential for **preference erosion** as well as trade destruction and diversion depending on the future trade policy the UK decides to pursue.

If the UK were to leave and maintain its existing EU-level tariffs but not seek to replicate the EU's PTAs, preference-receiving developing countries would clearly suffer negative effects. According to one study, approximately £1bn in additional taxes could be added to imports from developing countries (UK NGOs 2017; Grady 2017). This would significantly increase the costs of their products, potentially pushing some of their farmers into poverty.

The main **non-reciprocal preferential trade arrangement** is the EU's Generalised System of Preferences, which includes two more favourable arrangements, the GSP+ scheme for countries that implement core international conventions on human and labour rights, environmental protection and good governance, and the Everything but Arms Scheme (EBA) for Least Developed Countries (LDCs). The UK has already announced that it intends to replicate the EU's EBA scheme, but to date it has not announced its intentions regarding the other elements of the GSP. Its press release in July 2017 stated that "*On leaving the EU, the UK Government will also explore options to expand on relationships with developing countries such as Jamaica, Pakistan and Ghana – all of which currently benefit from a mixture of reduced or zero tariffs on the goods they export to the UK – as well as maintaining existing trading arrangements and avoiding costly tariffs*".[12]

The UK in addition may decide **to change its tariff schedule** following Brexit. As a WTO Member, the UK must establish its own schedule of bound tariff commitments as this is currently part of the EU schedule. The UK's announced intention is to post the same schedule as the EU one. This has a certain logic, but it is not without practical challenges and would still have to be approved by other WTO Members.[13] In the case of agri-food trade, EU (and thus UK) applied MFN tariffs are the same as bound tariffs for most commodities (though there are important exceptions including cereals and fruits and vegetables where the EU effectively maintains a form of variable import tariff policy). However, it would be open to the UK to lower its applied MFN tariffs after Brexit. This could be for purely practical reasons. The UK will no longer be able to apply the EU's entry price system for certain fruits and vegetables as it will no longer have access to the EU price data necessary to implement it.[14] Why would the UK wish to maintain the EU applied MFN tariff on oranges, for example, when it has no domestic citrus fruit industry? The UK may also decide to lower its applied tariffs as part of a policy-driven move to a more free trading regime (the 'Global Britain' model).[15] To date, signals from UK policymakers on future tariff policy for agri-food products are mixed. If there is a further drop in the value of sterling following Brexit, leading to further upward pressure on domestic food prices, there would be strong political pressure to mitigate some of these pressures by lowering applied tariffs on food imports (Swinbank 2017).

Even if the UK maintains its applied MFN tariff at the current EU level, it could still move to liberalise its post-Brexit trade policy through an extensive policy of **free trade agreements with third countries**. The effect would be to lower the returns that preference-beneficiaries earn on their exports to the UK market, particularly for products currently protected by high EU tariffs (Figure 1). UK policy-makers have indicated that they see a wide-ranging network of free trade deals substituting to some extent for the loss of access

[12] https://www.gov.uk/government/news/government-pledges-to-help-improve-access-to-uk-markets-for-worlds-poorest-countries-post-brexit.

[13] Note that the absence of a WTO certified schedule would not have any implications for the UK's ability to trade and to apply tariffs to imports. It would be up to an aggrieved WTO Member to make a complaint under the WTO's dispute settlement system if it felt that its market access opportunities had been diminished by the UK's post-Brexit applied tariff schedule.

[14] The entry price system establishes a minimum import threshold price for certain fruits and vegetables. Consignments which enter below the threshold price face an additional import duty.

[15] "By leaving the EU we will have the opportunity to strike free trade agreements with countries around the world. We will be champions of free trade driving forward liberalisation bilaterally, as well as in wider groupings, and we will continue to support the international rules based system" (HM Government 2017b, 51).

to the EU27 market. These will take time to materialise, although the EU negotiating guidelines for the transition period allow the UK to negotiate and sign new agreements but not to implement them, unless with the express permission of the Union. Third countries may be reluctant to conclude trade agreements with the UK until they know the final shape of the future EU-UK trade relationship. There are also limits on the UK's trade negotiating capacity, meaning that the UK Department of International Trade will need to prioritise the trading partners it wishes to negotiate with first. There are fears that, in particular, more vulnerable developing countries such as those in sub-Saharan Africa may not be given priority on this list.

A more immediate issue is what might happen to **trade with the UK that currently takes place under EU preferential trade arrangements**. On the assumption that the UK will remain a member of the EU Customs Union by virtue of the Withdrawal Agreement for the duration of the transition period, developing country exporters that export under preferential arrangements will continue to enjoy the benefit of these preferences during this period.[16] The EU has 36 FTAs with 65 countries in this category. However, the UK's participation in these agreements will lapse at the end of the transition period. The UK intends to reach agreement with these FTA partners to roll-over the EU's FTAs. It assumes that this will be mainly a cut-and-paste job or require a simple exchange of letters (House of Commons 2018a). It assumes that it is in the interests of the beneficiary countries to continue to offer access to their markets in return for maintaining the current level of access that they enjoy to the UK market.

The possible difficulty with this option is that the beneficiary countries may well want to use the opportunity to improve on the terms they managed to negotiate with the EU (Gasiorek and Holmes 2017) (see Box 1 for a case study on EPAs). There is no automatic coherence between the balance of advantages in a free trade agreement between the EU and a beneficiary country and between the UK and a beneficiary country. Developing countries which currently trade with the UK on the basis of an EU-wide FTA should start to consider whether they are willing to roll over these agreements or whether they would seek to improve on them, with the risk that this could lead to a period when they lose preferential market access to the UK market. There is a particular window of opportunity which would have to be exploited prior to 29 March 2019 whereby developing countries with FTAs with the EU could potentially seek to trade their agreement to allow UK exporters continued access to their markets during the transition period against a promise to offer improved conditions in the FTAs that the UK would want to sign with them to maintain preferential trade flows after the end of the transition period on 31 December 2020.

Box 1. Case study on Economic Partnership Agreements with sub-Saharan African, Caribbean and Pacific countries

Under the (full or interim) Economic Partnership Agreements (EPAs) signed with various countries in Africa, the Caribbean and Pacific, the EU grants duty-free and quota-free access to all exports including agri-food exports to its market. Many of these exports are destined for the UK market. Assuming that the UK remains in a customs union with the EU27 after Brexit for the duration of the transition period, this would maintain market access for EPA exporters until the end of 2020 but it might not guarantee reciprocal access to EPA signatories for UK exports if the EPA partners are unwilling to recognise the UK as a continuing party to these agreements (House of Commons 2018a; Lowe 2018). The draft Withdrawal Agreement states that "*The Union will notify the other parties to these agreements that during the transition period, the United*

[16] There is some uncertainty whether the EU's FTA partner countries will be obliged to continue to offer reciprocal references to UK exporters during this period. The draft Withdrawal Agreement states that "*The Union will notify the other parties to these agreements that during the transition period, the United Kingdom is to be treated as a Member State for the purposes of these agreements.*" See Matthews, A. (2017), "Brexit Withdrawal Agreement forward to UK", 16 March 2018, available to http://capreform.eu/brexit-withdrawal-agreement-forwarded-to-uk/.

Kingdom is to be treated as a Member State for the purposes of these agreements." However, it will be up to the EPA signatories to decide if they are willing to agree to this.

If the UK opts not to stay in a customs union with the EU in the longer-term, which is its stated intention, then the EPA countries will need to negotiate separate FTAs with the UK to take effect from 1 January 2021. Beneficiary countries might otherwise face a tariff increase on key exports like beef (from Botswana) and grapes, citrus fruits and wine (from South Africa) if current market access terms were not replicated in new agreements. Negotiations will be possible during the transition period, but new FTAs will not be able to enter into force until the UK has left the EU customs union.

The simplest form of negotiation would seek to replicate the existing EU EPAs in the new FTAs. However, the EPAs have been controversial, particularly in Africa, and not all beneficiary countries feel they are well served by these agreements. Reciprocity has been a central and very contentious element of the EPAs. Thus, in negotiating new FTAs with the UK, the ACP beneficiaries could try to extend or substantially reform the relationship that the UK has with Africa under current EU arrangements. The UK may also have offensive interests by seeking agreements that include not just trade in goods but also trade in services as well as some of the new trade issues such as investment and competition rules. However, the UK has made it clear that its immediate priority is 'roll-over' and that requests for renegotiation are something that will take place only a later stage.

An alternative possibility has been broached by some UK development groups recognising that the current EPAs in Africa are a patchwork that do not necessarily coincide with other regional groupings on the continent. They call on the UK to offer unilateral duty and quota free access to its market to all African countries (and not just LDCs). This would require a waiver from the WTO's MFN provisions which would be difficult to obtain.

Exploring these options will take time, and there is limited time available even with a transition period until the end of 2020. The EPA countries must quickly decide on their strategy with regard to the conclusion of new FTAs with the UK, and whether they are willing simply to replicate the provisions of the EU agreements or if they will seek to improve on them.

Trade flows would also be affected if the UK were to **liberalise its sanitary and phyto-sanitary (SPS) standards** on imports from developing countries compared to those it enforces as an EU Member State. One example is the EU's strict controls in relation to the fungal infection citrus black spot, which have been seen as a controversial protectionist measure by South African citrus exporters.[17] How far the UK will wish to diverge from EU SPS standards after Brexit is not yet known, but there are two factors which will limit the extent of this divergence.

The first factor is that changes to the UK food safety regime could create new trade barriers with the EU. Brexit is in part motivated by the UK desire to regain control over setting its own standards. However, as we noted earlier, there is a trade-off between exercising greater regulatory autonomy and the likelihood of non-tariff barriers on UK-EU27 trade. **The UK has proposed that the UK and the EU27 should aim at regulatory equivalence on agri-food measures after Brexit** (HM Government 2017a). This proposal was put forward in the context of avoiding a hard border on the island of Ireland, but it would have to apply to all

[17] The pathogen which causes the disease has never been found in Europe and it is classified as a quarantine plant pest in the EU. For background on the citrus black spot controversy, see the WTO Specific Trade Concern 356, "EU phytosanitary measures on citrus black spot", http://spsims.wto.org/en/SpecificTradeConcerns/View/356. The EU relaxed its rules on the consequences of border interceptions of citrus black spot in June 2016. Two-thirds of cases intercepted were from South Africa in 2017.

UK-EU27 trade after Brexit.[18] The WTO SPS Agreement (Article 4) puts an obligation on WTO Members to "a*ccept the sanitary or phytosanitary measures of other Members as equivalent, even if these measures differ from their own or from those used by other Members trading in the same product, if the exporting Member objectively demonstrates to the importing Member that its measures achieve the importing Member's appropriate level of sanitary or phytosanitary protection*." The EU has signed a number of SPS regulatory equivalence agreements with third countries but, with the exception of the EEA countries and Switzerland which are embedded in a much deeper network of trade relations with the EU, none of them provide the degree of frictionless access to the EU market that the UK currently enjoys. Regulatory equivalence on food standards needs to be distinguished from Mutual Recognition of Conformity Assessment Agreements (MRAs) which allow exporting countries to use their own agencies to certify that their products meet EU standards at the point of production, thus avoiding the need to check products at the border. If the UK were to begin to diverge from EU27 SPS regulations and these divergences were not recognised as equivalent, MRAs would allow the UK food safety agency to certify that UK food firms that wished to export to the EU27 did in fact meet EU27 standards, and vice versa.

The second factor which may militate against a loosening of UK SPS standards on imports from third countries is public opinion within the UK. Flashes of the difficulties that may arise if the UK sought to dilute its food safety regulations were already visible in the reaction to US demands that any future FTA with the US would have to allow access to US poultrymeat treated with a chlorine wash process and hormone-treated beef, as well as revise its protection of geographical indications.[19] While the Secretary of State for International Trade Liam Fox has indicated his willingness to look at these issues in the context of a trade deal, the Secretary of State for the Environment, Food and Rural Affairs Michael Gove has stated that the Cabinet is agreed that there should no compromise on high animal welfare and environmental standards after Brexit.[20] Within the EU, the UK has been more in favour of relying on science in setting SPS standards and less enthusiastic about the EU's use of the precautionary principle. On this basis, it is possible that the UK may be prepared to review some of the EU's SPS standards after Brexit. While this potential softening of SPS standards might be welcomed by developing countries, there are also costs in having to adjust to two different sets of rules when exporting to Europe, especially when developing country exporters have invested heavily to comply with EU regulations. In many cases, the standards that developing country exporters must meet are set by their supermarket customers, and these are often more demanding that what official standards prescribe.

Future EU trade policy

Within the EU Council of Ministers, the UK has generally been in favour of ambitious free trade agreements. The absence of its voice around the table could lead the EU27 to take a more cautious approach to future FTAs, particularly where specific farm sectors may be adversely affected. For example, in the ongoing negotiations with Mercosur on a free trade agreement with the EU, one of the sticking

[18] *"One option for achieving our objectives could be regulatory equivalence on agri-food measures, where the UK and the EU agree to achieve the same outcome and high standards, with scope for flexibility in relation to the method for achieving this. An agreement on regulatory equivalence for agri-food, including regulatory cooperation and dispute resolution mechanisms, would allow the UK and the EU to manage the process of ensuring ongoing equivalence in regulatory outcomes following the UK's withdrawal from the EU. Providing the UK and the EU could reach a sufficiently deep agreement, this approach could ensure that there would be no requirement for any SPS or related checks for agri-food products at the border between Northern Ireland and Ireland."* (HM Government 2017a).

[19] Partington, R. "Trump adviser Ross says UK-US trade deal will mean scrapping EU rules", The Guardian 6 November 2017, https://www.theguardian.com/business/2017/nov/06/trump-ross-says-uk-us-trade-deal-eu-brexit-chlorinated-chicken.

[20] O'Carroll, L., "Gove: UK would not compromise with US on food standards", The Guardian 20 December 2017, https://www.theguardian.com/politics/2017/dec/20/gove-uk-would-not-compromise-with-us-on-food-standards.

points has been the size of the Tariff Rate Quota the EU will offer to Mercosur for exports of beef. The EU has gradually reduced the proposed amount of beef it would accept from Mercosur – from 100,000 tonnes per year in 2004 to 78,000 tonnes in 2016 to 70,000 tonnes in 2017. Much of this beef would have been destined for the UK market prior to Brexit, but after the UK leaves, it can only be sold on the EU27 market. Brexit thus increases the likelihood of disruptive effects on the EU27 beef market and makes the EU less willing to improve its TRQ access offer for beef. Brexit also makes the EU a somewhat less attractive potential partner, and may make it more difficult for the EU to negotiate as favourable terms in future trade deals as it might otherwise have done.

There will be some inevitable consequential changes following Brexit for EU trade policy which can have implications for developing countries. One of the issues will be to decide **how the EU's WTO tariff rate quota (TRQ) commitments (for example, on import access) and concessions it has obtained (for export sales) should be apportioned between the UK and the EU27**. Where the EU has obtained dedicated export rights (for example, through pre-allocated quantities in a bilateral tariff rate quota (TRQ)), changing this would require the consent of the importing country which seems an unlikely expectation. In these cases, the most likely outcome is that the TRQ would remain with the EU27 and the UK would lose its market access under that TRQ following Brexit.

In a letter to WTO Members from the EU and UK Permanent Representatives in October 2017, they noted their intention "*that the future EU's (excluding the UK) and the UK's (outside the EU) quantitative commitments in the form of tariff-rate quotas be obtained through an apportionment of the EU's existing commitments, based on trade flows under each tariff-rate quota. In doing so, we propose to follow a common approach, inter alia to data and methodology, and to engage actively with WTO Members on these.*"[21] The basic idea behind this proposal is to reduce the EU's quotas, with Britain taking over the vacated share; the argument being that the rest of the world will "*maintain the existing levels of market access*" after Brexit. However, a letter from seven major agricultural exporters - the US, Canada, New Zealand, Brazil, Thailand, Argentina and Uruguay – rejected this approach.[22] It argued that partitioning the EU quota into two would not maintain the value of existing market access. Two fixed quotas, with no possibility to shift product from one market to the other in the light of market developments, is by definition less valuable to an exporter than a single TRQ covering all EU28 markets. Because TRQ exporters currently have the right to ship all of their TRQ quantities either to the UK or EU27 markets alone, some exporters argue that the UK and the EU27 should both replicate the current EU TRQ quantities if market access is to be maintained.

These discussions on the TRQs included in the EU's WTO schedule of commitments are ongoing at Geneva. These discussions do not cover the separation of the EU's TRQ quantities that were granted in the context of FTAs. For example, South Africa has TRQs for its exports to the EU for strawberries, wine, frozen orange juice, skimmed milk powder and sugar under the SADC-EU EPA. The EU has not indicated whether it would intend to seek a similar renegotiation of these FTA TRQs at the end of the transition period. Future market access to the UK under these bilateral TRQs will be decided in the context of negotiations on 'rolling over' these trade agreements with the UK as discussed previously.

Future changes in agricultural policy

Future UK agricultural policy

[21] https://ec.europa.eu/commission/sites/beta-political/files/letter_from_eu_and_uk_permanent_representatives.pdf.
[22] http://im.ft-static.com/content/images/ec0a64b2-a95f-11e7-ab55-27219df83c97.pdf.

There is greater clarity on the likely future UK agricultural policy after Brexit. The scope for changes in UK agricultural policy will be determined by **the UK's schedule of domestic support commitments** that it posts at the WTO. As for other quantitative elements in the EU's schedule the proposed UK approach is to extricate these from the EU's schedule on the basis of an agreed allocation key. This process may be less contentious that for TRQ quantities because it will lower the EU27's Bound Total Aggregate Measurement of Support (BTAMS). This is the ceiling that the EU has committed to observe with respect to the amount of trade-distorting support it can give to its farmers (so-called amber box). Reducing the EU27's BTAMS implies less water in its BTAMS than at present. However, various technical issues in deciding on the UK's appropriate share of the EU's BTAMS will have to be resolved.[23] Also, some WTO Members may argue that the UK's schedule of domestic support commitments should be established on some other basis, e.g. that the UK should be treated as an acceding Member and should negotiate a Bound Total Aggregate Measure of Support (BTAMS) on this basis.

Given the direction in which UK agricultural policy is likely to move after Brexit, whatever schedule of UK domestic support commitments is agreed is not likely to be a constraint. In the UK, agricultural policy is a **devolved responsibility** in the three constituent administrations (Scotland, Wales and Northern Ireland) while agricultural policy for England is made in the UK Parliament. At present, the devolved administrations exercise their powers within the constraints of the common EU agricultural policy. After Brexit and the repatriation of these EU-level responsibilities, the UK must decide which powers will be retained at Westminster and which powers will be devolved.

Pending the publication of a White Paper on future agricultural policy later in 2018, the UK government has given two specific commitments to date. First, it has stated that the current level of support will be guaranteed to UK farmers until the end of the current Parliament, that is, 2022. Second, Secretary of State Michael Gove has indicated his intention in England to move away from paying a uniform decoupled payment per hectare (now called the basic payment), which UK farmers currently receive under Pillar 1 of the EU's CAP. He wants to transition farmers from the current system of subsidy to a new approach of public money for public goods over time. During the Article 50 transition period, the UK will continue to implement the CAP as it does today, although with a derogation that it can devise its own system of direct payments for the calendar year 2020. The Secretary of State has indicated that, in England, he intends to reduce spending on per hectare payments, first by reducing the largest payments either by capping or on a degressive basis, over a further 'agricultural transition' period. After this transition period, money would only be paid to farmers for the provision of public goods, widely defined to include the environment, provision of ecosystem services, protection of natural capital, support for investment in skills, technology and infrastructure, public access and rural resilience.[24] The impact of this change for developing countries will depend, in part, on the balance between expenditure on environmental public goods which might be expected to reduce UK agricultural output, and spending on innovation and technology, which might be expected to increase UK agricultural output.

The three devolved administrations will be much less enthusiastic to eliminate income support through the basic payment given its importance in overall farm incomes in those regions. Part of the settlement with the devolved administrations following the repatriation of EU-level powers will be a new funding model in the UK which will determine the ability of the devolved administrations to continue to support their farmers. If, as seems more likely than not, the UK government makes less money available overall for

[23] Brink, L. (2016), "UK Brexit and WTO farm support limits", 13 July 2016, available at http://capreform.eu/uk-brexit-and-wto-farm-support-limits/.

[24] Gove, M., "Farming for the next generation", Speech to Oxford Farming Conference 2018, 5 January 2018, available at https://www.gov.uk/government/speeches/farming-for-the-next-generation. See also the DEFRA consultation paper on future UK agricultural policy (DEFRA 2018).

agricultural policy after 2022 and, at least in England, that money is used to pay for public goods rather than food production, the overall outcome will be lower support for UK farming and thus a lower level of self-sufficiency, creating market opportunities for third country exporters.

Future EU agricultural policy

Brexit will also influence the future course of EU agricultural policy (Matthews 2016). The EU has embarked on a further stage of reform of its Common Agricultural Policy (CAP) with a White Paper published in November 2017 following a lengthy period of public consultation (European Commission 2017). Legislative proposals are expected to be put forward at the end of May 2018 shortly after the Commission proposes a Multiannual Financial Framework (MFF) for the EU budget for the period 2021-2027. The negotiations on the MFF proposal within the European Council and with the European Parliament which must give its consent will determine the amount available for EU expenditure on agricultural policy during this period. The exit of the UK, which is the second largest net contributor to the EU budget, will leave a significant hole in the EU finances and **will result in some reduction in the resources allocated to the CAP after 2020**. The CAP proposals must also be approved by the co-legislature (the Council and European Parliament) and here the absence of the UK voice on the Council and UK MEPs in the Parliament may have an impact on the outcome. However, it is too early to say if the EU will move towards greater regulation of EU agricultural markets as a result of Brexit or not.

Changes affecting UK agricultural production capacity

The UK agriculture and food industries are very dependent on non-UK workers. In food manufacture, around one-third of all workers are immigrants from outside the UK, and around 25% of employees were born in other EU countries. Around 6% of full-time agricultural workers are estimated to come from EU countries, but this does not take into account the industry's use of seasonal workers, estimated at around 67,000. The vast majority of these come from EU countries, and most are involved in horticulture. In addition, around 95% of official veterinarians in the meat hygiene sector come from other EU countries. These officials are important for domestic animal health and welfare as well as for market access (by certifying export health certificates for animal products).

Workers from 25 EU Member States (the older EU-15 and the 12 Member States which acceded in 2004) enjoy free access to the UK labour market. Access to the UK labour market for nationals from Bulgaria and Romania was restricted until 31 December 2013. However, permits were issued under the Seasonal Agricultural Workers Scheme (SAWS) which permitted recruitment of seasonal workers from these countries. The SAWS was ended in 2013 when the restrictions on access to the UK labour market for these workers were removed.

Control of migration, including from other EU countries, was a defining issue in influencing the outcome of the Brexit referendum in the UK. The UK Prime Minister campaigned in the UK general election in May 2017 with a pledge to reduce net migration from all sources to below 100,000, where the figures have generally averaged around 300,000 annually, though increasing to 400,000 in 2014-15.[25] Net migration from EU countries averaged zero until the new Member States joined the EU in 2004, and has averaged around 100,000 annually since then, although peaking in 2015 at nearly 200,000 when it equalled non-EU net migration for the first time. Generally, net migration from non-EU countries (which also includes asylum seekers) has been greater than net migration from EU sources but the numbers have been falling since the peak in 2004.

[25] For data on net migration to the UK, see https://www.migrationwatchuk.org/statistics-net-migration-statistics.

Brexit will therefore lead to changes in UK immigration policy with respect to EU citizens once the Article 50 transition period comes to an end. The UK government has not formally announced the immigration policy that it will pursue, although a leaked draft of a Home Office policy document in September 2017 provides some clues.[26] Free movement for EU citizens will end, and future policy towards EU migration will be driven by a government view of the needs of the economy, rather than leaving the decision up to those who want to migrate to the UK and employers. There are several different labour migration models that could potentially be implemented, from modified versions of free movement to different kinds of work permit systems. Under a work permit system, the Government would need to make a series of decisions about which jobs, workers and employers would be eligible for work permits, as well as the terms and conditions of the permit such as how long workers can stay.

The UK farm unions have highlighted the reliance of particular sectors of UK agriculture on migrant labour, including seasonal labour, from other EU countries. Without a replacement scheme similar to the SAWS, UK agricultural production in some sectors particularly horticulture could be adversely affected. Again, the UK government has not yet indicated its position on this issue. The agricultural sector fears that, because the workers it needs are generally seen as unskilled, it could lose out in a points-based work permit scheme designed to attract skilled workers to the UK. If, because of problems in attracting labour, the UK horticultural sector contracts after Brexit, this could open some opportunities for developing country exporters of certain fruits and vegetables which until now have been grown in the UK.

Macroeconomic effects

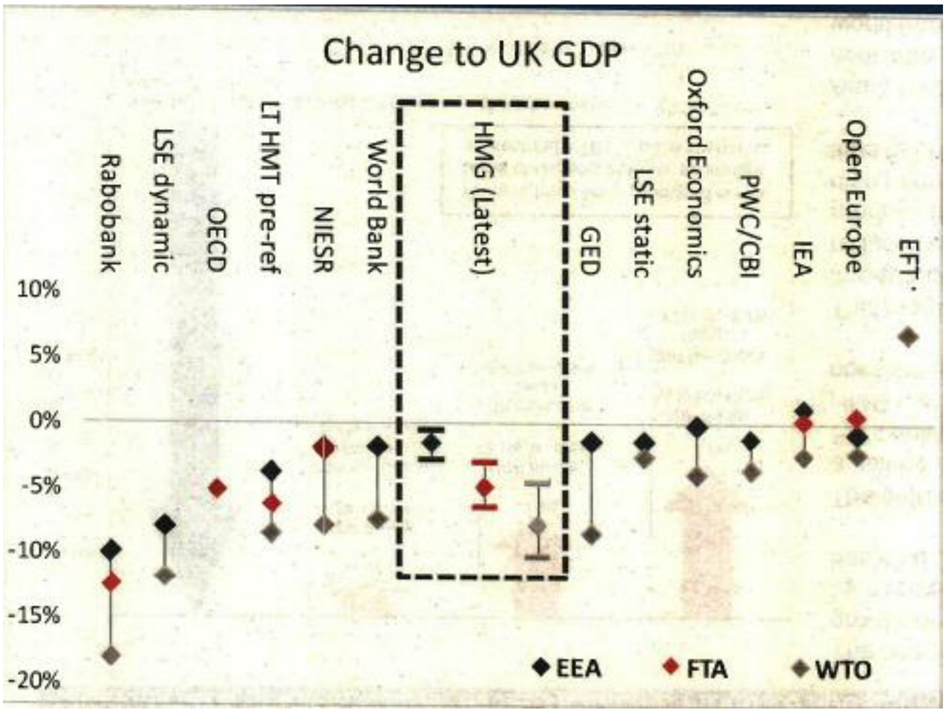
A number of quantitative studies have estimated the potential **macroeconomic effects** of Brexit on the UK and the EU27. The studies are based on hypothetical scenarios which, of their nature, are based on highly simplified assumptions. They range from 'soft Brexit' scenarios, meaning a moderate increase in trade barriers between the UK and EU27 after Brexit, to 'hard Brexit' scenarios, that assume the future trading relationship between the UK and the EU27 would be conducted on WTO terms with tariffs bound at MFN rates.

Due to differences in approach, scenario assumptions and data used, the studies provide a broad range of estimated Brexit impacts. The estimated costs to UK GDP growth by 2030 in the selection of studies shown vary between reductions of -18% to an outlier of +5% in GDP relative to the pre-Brexit baseline. Studies which take into account a possible fall in foreign investment in the UK after Brexit and assume that this would have long-term negative consequences for the growth of UK productivity (e.g. Rabobank (2017) are at the higher end of the range. Studies which assume substantial de-regulation and the unilateral elimination of tariffs after Brexit suggest that the Brexit impacts could even be positive. The studies generally show that a 'hard' Brexit would generally cost more in terms of GDP foregone than a 'softer' Brexit in which both parties concluded a free trade agreement. The cost of Brexit is estimated to fall disproportionately on the UK, but some EU27 member states with close ties to the UK are projected to suffer GDP losses similar in proportion to those which the UK would suffer. The projected slower economic growth in the UK after Brexit projected by the great majority of studies would translate, other things equal, into lower demand for imported agri-food products, including those exported by developing countries. However, over a twelve-year period the scale of the negative effects could be swamped by other factors affecting UK economic growth.

[26] The document is available on the Guardian website https://www.theguardian.com/uk-news/2017/sep/05/the-draft-home-office-post-brexit-immigration-policy-document-in-full.

Not all these models take into account possible exchange rate effects of Brexit. Since the referendum in June 2016 the effective exchange rate of the pound sterling has fallen by almost 9% which has had a negative effect on household purchasing power.[27] Financial markets may well take the view, particularly in the event of a 'hard' Brexit, that a further depreciation in the value of the pound sterling would be warranted. By reducing household purchasing power and by raising the cost of imported goods relative to domestic production, a further depreciation in sterling would have a further negative impact on the demand for agri-food imports from developing countries.

Figure 2. Effects of Brexit on UK GDP in 2030



Source: House of Commons (2018b) based on HM Treasury analysis.

Summary: Brexit implications for agri-food trade

Brexit will impact agri-food trade flows with developing countries through a number of different channels which are summarised in Table 2. No attempt is made to provide a ranking of the likely relative importance of these effects because their magnitude will be very dependent on the scale of the policy changes implemented. For example, unilateral liberalisation of UK agricultural trade policy could potentially open significant opportunities for new trade creation, but the size of those opportunities will depend on the scale of the tariff liberalisation – a minor reduction in UK applied MFN tariffs will have much smaller effects than a move to zero tariffs across the board.

The potential significance of Brexit changes

As noted, developing countries may have diverging interests regarding their preferred stance for future UK agricultural trade policy. For those facing MFN tariffs, the lower the future UK applied tariff, and the more extensive the future network of UK trade agreements, the greater the potential benefit from Brexit. However, assuming that the UK decides to replicate EU non-reciprocal tariff preferences, particularly for the least developed countries, then a more liberal UK agricultural trade policy post-Brexit will imply

[27] https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/timeseries/bk67/mret#.

Table 2. Different channels for trade impacts after Brexit

Channel for trade impact	Observations
UK-EU27 trade cost change	Higher trade costs will reduce UK-EU27 trade flows and create the potential for increased market opportunities in the UK and EU27 markets through trade diversion to non-EU third countries including developing countries. The height of post-Brexit MFN tariffs as well as regulatory barriers will determine the extent to which these trade diversion opportunities can be exploited.
UK trade policy change	Unilateral liberalisation (either by setting low applied MFN tariffs on agri-food imports or entering ambitious free trade agreements with competitive agricultural exporters) would lead to significant reductions in UK agricultural output and create additional market opportunities for developing country exporters of temperate zone commodities not currently benefiting from preferences.
UK and EU agricultural policy change	Possible switch from decoupled area-based payments under the CAP to more targeted payments for public goods could have an ambiguous impact on UK agricultural output, depending on the public goods supported. Greater support for innovation and knowledge transfer could reduce export market opportunities for developing countries, while greater support for environmental public goods and the protection of natural capital could lower UK agricultural output and create export market opportunities
Changes in agricultural production capacity	In the UK, greater difficulties in accessing farm labour from other EU Member States as a result of stricter controls on EU migrants after Brexit could lower potential production, especially in the horticulture sector, and create market opportunities for developing countries.
Macroeconomic effects	The expected slowdown in UK economic growth post Brexit, plus possible further depreciation of the UK pound sterling against other currencies will limit the expected growth in demand for third country imports in the UK, and in the short-run (depending on a 'hard' or 'soft' Brexit and the reaction of foreign exchange markets) could even result in a fall in UK import demand for agri-food commodities. This will be the most important channel of impact for exporters of tropical agricultural commodities.

Source: Own compilation.

preference erosion for these countries on the UK market. "*Permitting duty free entry of sugar from Swaziland or Mauritius, or bananas from Ghana or Cameroon would not do much to safeguard their export production aimed at the UK market if the MFN tariffs paid by Brazil or Ecuador are eliminated or overly reduced*" (Laurent 2016). This section provides some quantitative data to give a first estimate of the likely importance of these different categories. Data on developing country agri-food exports to the UK and EU27 are presented, and recent impact studies of Brexit are also reviewed for potential insights.

UK- developing country agri-food trade

The UK is the world's sixth largest economy. Changes in its economic situation and in how it interacts with the rest of the world can thus have a significant impact. It accounts for around 15-16% of the EU's Gross National Income (GNI). The importance of the UK within the EU as a destination for third country exports is shown in Table 4. EU agri-food imports (including HS03 fish) amounted to €129.5 billion in 2016, of which

76% originated in developing countries and 24% in developed countries. For the UK alone, imports amounted to €16.0 billion, of which 26% came from developed countries and 74% from developing countries. UK imports accounted for 12.1% of total EU imports in that year, a little less than its share of EU GNI.[28]

Table 4 also shows the sectors **where the UK plays a disproportionate role as an import market for developing country agri-food exports**. For HS16 Preparations of meat and fish, the UK is the destination for 27.5% of all developing country exports to the EU; for HS22 Beverages and spirits, its share is 26.1%; for HS 19 Cereal preparations it is 22.1%; for HS08 Fruits and nuts, its share is 18.5%; for HS07 Vegetables its share is 17.7%; and for HS17 Sugar and sugar preparations, its share is 17.5%.

What is also of interest are the terms on which these developing country agri-food exports enter the UK. Broadly, imports enter under either MFN or preferential terms. Preferences can be non-reciprocal (where imports enter under the EU's Generalised System of Preferences (GSP), of which the Everything but Arms arrangement within the GSP for the least developed countries is particularly important for the countries concerned) or under reciprocal free trade agreements or Tariff Rate Quotas. MFN tariffs can be zero or non-zero, and similarly preferential tariffs can be zero or non-zero. There are thus six different import tariff regimes (MFN zero and non-zero, GSP zero and non-zero, and Preferences zero and non-zero, and in addition an unclassified category) which apply to agri-food imports from third countries, including developing countries. Note that the tariff regime requested and applied for imports may be different to the tariff regime for which that import flow may be eligible. For example, a particular import from a developing country may be eligible for preferential treatment but if the MFN duty is zero, there is no point in requesting that import regime treatment. Indeed, if an import flow is eligible for an MFN zero duty, Eurostat classifies imports as MFN zero, regardless of the tariff regime requested (Nilsson 2011). Similarly, a particular export product may be eligible for a reduced rate of duty under a TRQ, but if the TRQ is fully utilised, then the MFN tariff rate would be applied.

The importance of different import regimes for UK imports of agri-food products from developing countries is shown in Table 5. The importance of preferential schemes is underlined as nearly two-fifths of UK imports (38%) make use of this tariff regime, although the great majority of these imports only receive a duty preference but not tariff-free entry.[29] The GSP scheme is not very important for imports of agri-food products, and less than 7% of imports made use of the GSP import regime in 2016.[30] More than half of imports enter under the MFN tariff regime. For the 27% which enter under the MFN zero tariffs, this is not surprising, as all imports that are eligible for a zero MFN tariff are registered as such. More surprising is that just over a one-quarter (26%) of developing country exports enter under the MFN non zero tariff regime. These are likely to be exports from competitive agricultural exporters that are no longer eligible for the EU GSP scheme,[31] and where the MFN tariff is likely to be relatively low, so that even if exports are eligible for GSP preferences, it may not be worth the while of the exporter to seek this status.

[28] The total value of UK imports from developing countries may be under-estimated because of what is known as the Rotterdam-Antwerp effect. If imports from a developing country first enter into free circulation in the EU in another EU country and are subsequently imported into the UK, they would be classified as intra-EU and not extra-EU trade.

[29] For products with mixed tariffs (an ad valorem plus a specific amount), often only the ad valorem part is removed in the EU's preferential trade agreements. Also, in the case of imports under Tariff Rate Quotas, the preferential duty is lower than the MFN duty but rarely set to zero.

[30] The EU GSP scheme (except for the arrangement for least developed countries) generally excludes unprocessed agricultural products. For processed agricultural products, only the duty element applicable to the processing is removed.

[31] The EU reformed its GSP with effect from 1 January 2014. There were two major changes to the scheme. First, all high- and upper-middle income countries are no longer eligible for GSP trade preferences (they are 'graduated' from the scheme). Second, it became easier for an eligible country's more competitive product 'sections' (or categories of

Based on this analysis, **the developing countries most vulnerable to Brexit are those that currently export to the EU using a preferential regime** (e.g. the customs union with Turkey, imports from the African, Caribbean and Pacific countries under Economic Partnership Agreements, imports from Mediterranean countries such as Tunisia and Morocco under the EuroMed Agreements, and imports from Chile and Mexico under their bilateral free trade agreements). It is worth highlighting that, even where overall trade levels may not be significant, several small developing countries depend heavily on the UK market for their exports – beef, bananas, sugar, rum.

Impact assessments

Only a small number of impact assessments have been published to date that project the likely impact of Brexit on agricultural trade flows, production, consumption and prices (Anderson and Wittwer 2017; Bellora et al. 2017; Davis et al. 2017; van Berkum et al. 2016; Yu et al. 2017). The usefulness of these exercises in helping us to understand possible implications for developing countries is very limited, for two main reasons.

First, because the terms of Brexit are not yet known, modellers have been forced to design scenarios which are inevitably crude. Most studies model a 'hard Brexit' outcome in which trade would take place on 'WTO terms', meaning that only the WTO principle of non-discrimination would apply and tariffs would be re-introduced on agri-food trade between the EU and the UK. However, while the tariffs that the EU would apply to UK exports in that scenario are known (they are the existing EU Common Customs Tariff), assumptions must be made about the level of applied MFN tariffs the UK would choose to apply on its agri-food imports. All studies assume that the UK would continue to apply the existing EU tariffs in that situation, but there is no inevitability about this. The UK tariff schedule will only be announced at a later stage.

Second, the studies are mainly focused on the implications for intra-EU trade. None of these studies has a particular focus on developing countries, and there is little information available to draw inferences on what might happen to trade flows generally. We have already underlined that whether developing countries mainly benefit from trade diversion and lower MFN tariffs, or are mainly hurt by preference erosion, depends critically on the future of UK agricultural trade policy. These studies do not model the trade policy and access arrangements faced by individual developing countries. Nor do they take into account the role played by TRQs (both WTO and FTA TRQs) in facilitating developing country exports to both UK and EU27 markets.

Table 3 provides a summary overview of the main findings of these studies. The studies all confirm that Brexit will lead to trade destruction between the UK and the EU27, particularly where the two sides fail to agree a free trade agreement and trade takes place on WTO terms and the UK maintains tariff protection at the EU level. Also taking higher trade facilitation costs on UK-EU27 trade into account provides additional protection to UK agriculture (the impact on EU27 agriculture is minimal because of the small value of UK exports of agri-food products to the EU27). So a number of studies conclude that, **in the UK, net agricultural trade will fall, but we expect this to occur entirely on trade flows with the EU27, which will be partially counterbalanced by an increase in imports from third country suppliers.** But this question was not the focus of any of the studies reviewed, and no answers are given as to the likely effects on third country exporters.

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products collectively entitled to preferences) to be 'graduated' as a result of changes to the formula by which such graduation is undertaken.

Conclusions

This paper has reviewed the various channels whereby Brexit could potentially impact on agri-food exports of developing countries. The paper has emphasised the impossibility of drawing any definitive conclusions at this stage, as there no clarity around the long-term trade relationship between the UK and the EU27 at the time of writing (March 2018). Following a transition, we expect the UK to be out of a customs union and out of the EU single market and in a free trade agreement. But crucial issues which will determine the likely impacts on developing countries such as the shape of UK agricultural trade policy after Brexit and the future outlook for exports which currently enter the UK under the EU's free trade agreements remain unclear.

A number of conclusions can, however, be drawn:

- The UK currently accounts for around 12% of all developing country agri-food exports to the EU. Of these, more than half enter the UK under MFN terms (including MFN zero tariffs), one third enter under preferential trade agreements (PTAs) and a small share (around 7%) enter under the EU's Generalised System of Preferences (GSP), which includes the duty-free quota-free Everything but Arms scheme for the least developed countries (LDCs). However, for the countries concerned (particularly the LDCs), this volume of exports may still be important to them.
- The UK's withdrawal from the EU (including both the customs union and the single market) will lead to increased trade costs for UK-EU27 agri-food trade. This will lead to a process of trade destruction and trade diversion in which third countries become more competitive in both markets relative to UK and EU27 exporters. The principal potential beneficiaries will be those developing country exporters of competitive agricultural products (those grown in temperate zones) that export to the UK and EU27 on MFN terms.
- Developing countries may wish to try to influence the future shape of UK agricultural trade policy, either to seek lower applied MFN tariffs or preferential access to the UK market through bilateral agreements. However, for preference recipients among developing countries, preferences are only valuable if the preferential margin calculated against the applied tariff imposed on exporters without preferences remains significant. Thus, even if the UK agrees to continue the EU schemes of non-preferential access, these beneficiaries could still experience preference erosion if other exporters (including developing country exporters) receive better access terms under the UK's future agricultural trade policy than they enjoy at present.
- A high share – almost 35% - of developing country agri-food exports enter the UK under preferential arrangements (FTAs and TRQs) negotiated by the EU. The UK will no longer be party to these free trade agreements once it is no longer in a customs union with the EU after the end of the Article 50 transition period. The UK is certainly aware of the devastating impacts the loss of these preferences would have on bilateral trade flows. It is therefore seeking the agreement of these trading partners to 'roll over' these agreements in such a way that the UK remains a partner. It envisages that this will be a relatively simple process, possibly involving just an exchange of letters. Developing country partners may see an opportunity to try to build a more advantageous trade relationship with the UK than they feel they enjoy with the existing EU FTAs, but they should be aware that the UK's priority (given its limited capacity for trade deals) will be to roll these agreements over with no change, leaving further renegotiation to a subsequent stage. Developing country FTA partners with the EU will need to decide if they are willing to do this.
- Developing countries will also be concerned with the way the UK and the EU27 propose to treat bilateral TRQ quantities, given their importance in ensuring market access to both markets faced with high MFN applied tariffs. These TRQ quantities include those scheduled in the EU's schedule of WTO commitments, where the joint UK-EU27 proposal to apportion these quantities in proportion

to recent historical imports shares has been rejected by major exporters. They also cover TRQs in the EU's own FTAs. The EU has not indicated whether it will seek to renegotiate these TRQ amounts once the UK leaves. In rolling over these agreements to include the UK as a non-EU Member State, it will be important to ensure that the value of these TRQs is not reduced and, if possible, improved.

- Developing countries might look forward to the UK after Brexit pursuing a more science-based approach to SPS regulation where the EU has increasingly emphasised the precautionary principle. If this were to happen, this might reduce some of the non-tariff barriers in exporting to the UK market after Brexit. However, the EU27 will still remain the major outlet for developing country exports (in 2016 the UK only accounted for around 12% of their total exports to the EU). The costs of complying with two different sets of standards might outweigh the benefits of less restrictive standards in the UK market.
- Most serious macroeconomic models project a slowdown in UK economic growth as a result of Brexit, and the harder the Brexit, the greater the slowdown. This will have a negative impact on developing country exporters to the UK. It is possible that this will be a transitional phase and that, after an adjustment period, the UK can perform perfectly well as a non-EU Member State with a looser trading relationship with the EU. However, model studies which take into account the impact on investment flows and their link to longer-term productivity growth suggest that the trend rate of growth as well as its level may both be lower after Brexit. This will be the main channel of impact for developing country exporters of tropical products which do not currently face significant tariffs in accessing the EU market.

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Table 3. Main findings of empirical studies of the impact of Brexit on agri-food trade

Model	Model type	Scenarios	Main results
LEI Wageningen UR for UK National Farmer's Union (van Berkum et al. 2016)	CGE MAGNET model	Free trade agreement between UK and EU27, trade facilitation costs of 5%	UK farmgate prices tend to rise by 5% across the board, mainly due to trade facilitation costs. Positive production response in all sector, except net exporting ones. UK net imports fall, but the published results do not provide a breakdown between imports from EU27 and third country suppliers
		WTO terms, so EU tariffs apply to UK-EU27 trade, and trade facilitation costs on UK-EU27 trade increased to 8%. Assumes that EU TRQs remain with EU27 so UK loses access to TRQ imports	Similar but greater price and production consequences as the FTA scenario. Larger price and production increases for sugar, poultry, sheep meat and butter because of assumed loss of access to EU TRQs. UK's net trade position further improved compared to FTA scenario, but again no published information is available on the breakdown between imports from EU27 and third country suppliers.
		UK trade liberalisation – UK tariff reduced by 50% compared to WTO scenario, trade facilitation costs on UK-EU27 trade increased to 8%	Producer prices for cereal crops and dairy products little affected as these are currently close to world market levels (once increased protection due to trade facilitation costs factored in). Major adverse impact on sugar and meat prices, which has knock-on effect on profitability of dairy products (by-product value) and cereals (because of its use as a feed input).
FAPRI-UK (Davis et al. 2017)	Partial equilibrium of UK only; coverage of dairy, beef, sheep, pigs, poultry, wheat, barley, oats, rapeseed and biofuel sectors.	Free trade agreement with EU27, UK applies EU MFN tariffs, 5% additional trade costs	Limited UK production and price effects in UK
		WTO terms, existing EU tariffs applied to EU27 and rest of world imports, 8% additional trade costs	Significant positive and price effects in UK for covered imported products, significant negative price effects in UK for covered exported products Significant decline in imports from EU27 but increase in imports from non-EU27 exporters for covered import commodities (beef, dairy), reverse for covered export commodities (cereals, sheepmeat)
		Unilateral trade liberalisation – zero tariffs applied on imports from EU27 and rest of world, 8% additional trade costs	Significant negative production and price effects in UK for all covered commodities. Total UK imports increase, imports from EU27 disappear and switch to imports from non-EU27 third countries.
CEPII (Bellora et al. 2017)	CGE MIRAGE model Focus is on impacts in the EU27, no results published for trade flows to and from the UK	WTO terms, existing EU tariffs apply to EU27-UK trade, restrictiveness of NTMs increased by loss of two-thirds of its preferential access to single market	Intra-EU trade will decrease by 62% in both directions on WTO terms Some of that is compensated by an increase in intra-EU27 trade and by increased EU27 exports to third countries. Despite the sizeable impacts on trade flows, overall agri-food production and value-added in EU27 falls by a relatively small 0.8%, because of the importance of domestic demand in total demand, agricultural value added in the UK increases by 2%.
Yu et al. (2017)	GTAP CGE model with focus on UK-Denmark trade	WTO and FTA scenarios. Estimated non-tariff barrier costs vary across products, but are assumed between 15% and 25% for agri-food products.	Bilateral trade flows would be hard hit under WTO scenario, but overall impact on Danish exports to UK will be limited because of redirection of Danish exports elsewhere in the EU.
Wine market (Anderson and Wittwer 2017)	Partial equilibrium model of world's wine markets	Bilateral tariffs on UK-EU27 wine trade Exogenous shock of projected lower income growth in UK after Brexit Exogenous shock of projected change in value of sterling over the adjustment period	Wine tariffs are low compared to average excise and 20% VAT in UK Percentage impacts outside the UK will be minor compared with others developments on world wine markets Inside the UK, the effects of Brexit on incomes and the pound may well have a much more significant impact on the domestic wine market than changes in bilateral wine tariffs.

Source: Own compilation

Table 4. EU agri-food imports from developed and developing countries, 2016, € million

PRODUCT	EU27 Developed countries	EU27 Developing countries	UK Developed countries	UK Developing countries	UK share of developing country exports to EU28
01 - LIVE ANIMALS	143.7	42.6	74.0	18.5	30.3%
02 - MEAT AND EDIBLE MEAT OFFAL	1,120.1	2,054.9	459.5	250.5	10.9%
03 - FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTEBRATES	7,871.2	10,044.8	554.9	1,128.7	10.1%
04 - DAIRY PRODUCE; BIRDS' EGGS; NATURAL HONEY; EDIBLE PRODUCTS OF ANIMAL ORIGIN, NOT ELSEWHERE SPECIFIED OR INCLUDED	493.8	356.9	63.9	51.0	12.5%
05 - PRODUCTS OF ANIMAL ORIGIN, NOT ELSEWHERE SPECIFIED OR INCLUDED	192.0	924.3	24.3	42.6	4.4%
06 - LIVE TREES AND OTHER PLANTS; BULBS, ROOTS AND THE LIKE; CUT FLOWERS AND ORNAMENTAL FOLIAGE	199.2	1,330.4	4.3	169.7	11.3%
07 - EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS	593.7	3,136.2	233.5	674.9	17.7%
08 - EDIBLE FRUIT AND NUTS; PEEL OF CITRUS FRUITS OR MELONS	3,180.5	12,781.3	377.0	2,902.0	18.5%
09 - COFFEE, TEA, MATÉ AND SPICES	1,477.4	8,157.5	49.1	916.9	10.1%
10 - CEREALS	955.9	3,223.1	164.2	314.4	8.9%
11 - PRODUCTS OF THE MILLING INDUSTRY; MALT; STARCHES; INULIN; WHEAT GLUTEN	32.5	120.2	16.4	24.0	16.7%
12 - OIL SEEDS AND OLEAGINOUS FRUITS; MISCELLANEOUS GRAINS, SEEDS AND FRUIT; INDUSTRIAL OR MEDICINAL PLANTS; STRAW AND FODDER	3,919.7	5,812.9	169.9	321.3	5.2%
13 - LAC; GUMS, RESINS AND OTHER VEGETABLE SAPS AND EXTRACTS	190.3	633.8	24.9	53.6	7.8%
14 - VEGETABLE PLAITING MATERIALS; VEGETABLE PRODUCTS NOT ELSEWHERE SPECIFIED OR INCLUDED	6.4	174.2	2.2	14.8	7.8%
15 - ANIMAL OR VEGETABLE FATS AND OILS AND THEIR CLEAVAGE PRODUCTS; PREPARED EDIBLE FATS; ANIMAL OR VEGETABLE WAXES	579.1	7,713.8	74.6	381.9	4.7%
16 - PREPARATIONS OF MEAT, OF FISH OR OF CRUSTACEANS, MOLLUSCS OR OTHER AQUATIC INVERTEBRATES	305.3	3,519.8	205.3	1,335.0	27.5%
17 - SUGARS AND SUGAR CONFECTIONERY	200.9	1,490.2	63.0	317.2	17.5%
18 - COCOA AND COCOA PREPARATIONS	613.7	6,405.9	45.4	335.7	5.0%
19 - PREPARATIONS OF CEREALS, FLOUR, STARCH OR MILK; PASTRYCOOKS' PRODUCTS	459.4	739.1	103.1	209.3	22.1%
20 - PREPARATIONS OF VEGETABLES, FRUIT, NUTS OR OTHER PARTS OF PLANTS	422.5	4,619.4	64.1	430.8	8.5%
21 - MISCELLANEOUS EDIBLE PREPARATIONS	1,280.7	1,217.0	319.3	250.5	17.1%
22 - BEVERAGES, SPIRITS AND VINEGAR	2,093.9	2,093.8	937.9	740.4	26.1%
23 - RESIDUES AND WASTE FROM THE FOOD INDUSTRIES; PREPARED ANIMAL FODDER	916.5	7,685.9	161.4	847.2	9.9%
24 - TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES	169.1	1,773.0	3.8	90.1	4.8%
1-24 TOTAL AGRI-FOOD	**27,417.4**	**86,051.0**	**4,196.0**	**11,821.0**	**12.1%**

Source: Own tabulation based on Eurostat COMEXT database. Based on data for Statistical Regime 1 which refers to normal imports of goods for final use in the EU. Small amounts of imports for outward and inward processing are excluded.

Table 5. UK imports of agri-food products from developing countries, 2016, classified by import regime

IMPORT_REGIME	Import value 2016 € million	MFN zero	MFN nonzero	GSP non zero	GSP zero	Prefer-enes zero	Prefer-ences non zero
PRODUCT							
01 - LIVE ANIMALS	18.5	86.4%	13.5%	0.0%	0.0%	0.0%	0.0%
02 - MEAT AND EDIBLE MEAT OFFAL	250.5	7.0%	67.3%	0.0%	0.0%	25.7%	0.0%
03 - FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTEBRATES	1,128.7	14.7%	22.9%	11.8%	11.8%	36.2%	2.5%
04 - DAIRY PRODUCE; BIRDS' EGGS; NATURAL HONEY; EDIBLE PRODUCTS OF ANIMAL ORIGIN, NOT ELSEWHERE SPECIFIED OR INCLUDED	51.0	0.0%	78.8%	1.7%	1.7%	1.0%	16.8%
05 - PRODUCTS OF ANIMAL ORIGIN, NOT ELSEWHERE SPECIFIED OR INCLUDED	42.6	68.7%	0.1%	0.0%	0.0%	0.0%	0.0%
06 - LIVE TREES AND OTHER PLANTS; BULBS, ROOTS AND THE LIKE; CUT FLOWERS AND ORNAMENTAL FOLIAGE	169.7	0.5%	2.7%	8.1%	8.1%	76.3%	4.3%
07 - EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS	674.9	8.3%	15.2%	9.0%	9.0%	49.3%	9.1%
08 - EDIBLE FRUIT AND NUTS; PEEL OF CITRUS FRUITS OR MELONS	2,902.0	12.5%	14.8%	0.4%	0.4%	55.4%	16.5%
09 - COFFEE, TEA, MATÉ AND SPICES	916.9	88.4%	2.0%	4.1%	4.1%	1.3%	0.0%
10 – CEREALS	314.4	29.1%	54.1%	5.0%	5.0%	6.8%	0.0%
11 - PRODUCTS OF THE MILLING INDUSTRY; MALT; STARCHES; INULIN; WHEAT GLUTEN	24.0	0.0%	69.9%	2.9%	2.9%	24.4%	0.0%
12 - OIL SEEDS AND OLEAGINOUS FRUITS; MISCELLANEOUS GRAINS, SEEDS AND FRUIT; INDUSTRIAL OR MEDICINAL PLANTS; STRAW AND FODDER	321.3	98.2%	0.5%	0.3%	0.3%	0.7%	0.0%
13 - LAC; GUMS, RESINS AND OTHER VEGETABLE SAPS AND EXTRACTS	53.6	96.8%	2.4%	0.4%	0.4%	0.0%	0.0%
14 - VEGETABLE PLAITING MATERIALS; VEGETABLE PRODUCTS NOT ELSEWHERE SPECIFIED OR INCLUDED	14.8	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
15 - ANIMAL OR VEGETABLE FATS AND OILS AND THEIR CLEAVAGE PRODUCTS; PREPARED EDIBLE FATS; ANIMAL OR VEGETABLE WAXES	381.9	7.8%	35.9%	4.6%	4.6%	47.1%	0.0%
16 - PREPARATIONS OF MEAT, OF FISH OR OF CRUSTACEANS, MOLLUSCS OR OTHER AQUATIC INVERTEBRATES	1,335.0	0.5%	69.1%	2.7%	2.7%	24.9%	0.0%
17 - SUGARS AND SUGAR CONFECTIONERY	317.2	15.8%	15.8%	0.0%	0.0%	60.8%	7.5%
18 - COCOA AND COCOA PREPARATIONS	335.7	38.7%	3.8%	0.1%	0.1%	56.9%	0.4%
19 - PREPARATIONS OF CEREALS, FLOUR, STARCH OR MILK; PASTRYCOOKS' PRODUCTS	209.3	0.8%	65.7%	4.7%	4.7%	15.6%	8.4%
20 - PREPARATIONS OF VEGETABLES, FRUIT, NUTS OR OTHER PARTS OF PLANTS	430.8	4.9%	37.8%	5.9%	5.9%	42.5%	3.0%
21 - MISCELLANEOUS EDIBLE PREPARATIONS	250.5	3.7%	71.3%	2.6%	2.6%	19.7%	0.2%
22 - BEVERAGES, SPIRITS AND VINEGAR	740.4	29.3%	25.6%	1.4%	1.4%	42.3%	0.0%
23 - RESIDUES AND WASTE FROM THE FOOD INDUSTRIES; PREPARED ANIMAL FODDER	847.2	86.8%	12.3%	0.2%	0.2%	0.4%	0.0%
24 - TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES	90.1	1.2%	37.6%	14.2%	14.2%	32.7%	0.0%
1-24 TOTAL	11,821.0	27.2%	26.0%	3.3%	3.3%	34.6%	5.5%

Source: Own tabulation based on Eurostat COMEXT data. Based on data for Statistical Regime 1 which refers to normal imports of goods for final use in the EU. Small amounts of imports for outward and inward processing are excluded. The column showing the percentage of imports not classified by import regime is omitted as the percentage is 0.1% or less except for HS05 where the percentage is 31.2%.