

Welsh Government Environment and Rural Affairs Brexit Scenarios

Background

Over the last few months we have used this approach to facilitate thought leadership in terms of what could the world look like in certain Brexit process scenarios. To facilitate modelling and analysis of potential impacts of Brexit we present 3 basic scenarios for the working group to analyse.

We have developed five scenarios, these are structured around 3 possible Brexit scenarios, with variables for funding, immigration and market access of key competitors for our sector, (for Wales this was Australia and New Zealand). The models are not mirror images of each other but combinations of factors.

The scenarios are:

1. WTO rules and funding available as a reflection of EU funding currently received with deregulation in England and strong restrictions on immigration.
2. WTO rules with the funding provided via the Barnett formula.
3. European based EU FTA with funding available as a reflection of EU funding currently received with some restrictions on immigration.
4. European based EU FTA the funding provided via the Barnett formula.
5. UK Government based where FTA's with the EU and 54 other nations are negotiated within 2 years with strong restrictions on immigration.

Overarching Assumptions

To aid development of the scenarios we identified a number of factors that have already been announced or secured, or are either outside Government influence or outside of Brexit influence. We made these assumptions to control for them. This helped to focus conversations.

The overarching assumptions are made for all of the models:

- Funding is secured as the current UK Government commitments to 2020.
- Consumer habits and preferences do not change significantly.
- Energy costs remain more or less stable on current costs trajectory.
- Transition arrangements are not in place.
- Pound remains at current levels.
- Legislation is maintained and high animal welfare and food standards continue.
- UK continues to meet its international obligations
- To sell to the EU equivalence to EU regulations must be demonstrated.

Comment [HA(-E-L1)]: Only biofuels are subject to WTO tariffs, so energy prices will continue based on current drivers.

Comment [HA(-E-L2)]: This work is to look at the outcomes of the scenarios. Transition arrangements would only influence the rate of change not necessarily the outcome. Transition arrangements and interventions can be discussed in the interventions section of the workshop.

Comment [HA(-E-L3)]: In our view we have seen the devaluation of the pound in response to Brexit already.

Comment [HA(-E-L4)]: This is in the light of the proposals for the great repeal bill.

Comment [HA(-E-L5)]: This is a reminder to participants that these commitments remain.

- Land prices do not change significantly. (There is a lot of conflicting evidence as to the direction of change, which may mean the opposing drivers result in very little change).
- Fisheries Coastal State agreement covering science, fishing opportunities for shared stocks and access arrangements will be negotiated separately from Art 50 process and negotiated with the EU (and possibly Norway and Iceland) each year.

To note, these scenarios have been checked with our central EU transition team, they are broadly in line with the overarching scenarios they are developing, although the funding variables do not have same significance in other parts of the economy.

Comment [HA(-E-L6): Rental prices may vary significantly. If land prices deflate due to loss of subsidies and other factors, it is viewed that new investors enter the market, pushing the price back up. We view the net effect will be prices not changing significantly overall. There may be some significant differentiation and that can be discussed.

Scenarios

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| <p>Scenario 1 - WTO rules and funding available as a reflection of EU funding currently received, with deregulation in England and with strong restrictions on immigration.</p> |
| <p>In this scenario the UK and EU have not been able to agree a trade agreement post Brexit. The discussions have been positive and the economy remains in growth. Moving to WTO trade situation is unlikely to be a long term situation, but even for a short period, the impacts would impact the structure and function of the economy.</p> <p>Additional points:</p> <ul style="list-style-type: none"> • Cost of production increased - import tariffs – soya, wheat, energy - biomass, fertiliser, plant oils e.g. palm oils. We have little understanding on what the increases might be under WTO. • With immigration restricted to these levels, immigrants would not get past London, or other cities, so would result in few, if any, EU workers in the agriculture and food sectors. |
| <p>Assumptions</p> <ul style="list-style-type: none"> • WTO rules and tariffs apply • Immigration is in line is limited (in line with the current approach to outside of EU immigrants and at <100, 000). Detail here. • Equivalent levels of funding available in the current CAP trend of steadily decreasing by 2030. • UK Government pursues a deregulation agenda. • Producers and supply chains focus on UK markets. |
| <p>Scenario 2 – WTO rules with the funding provided via the Barnett formula.</p> |
| <p>This scenario is the most extreme, where discussions with the EU become acrimonious and confidence in the British economy is reduced. This means we are trading on a WTO basis and the Government has limited funds available. With a squeeze of public finances, the UK Government allocates funding to Wales via the block grant calculated on the Barnett formula. This results in limited funding for the ERA sectors as EU funding is not replaced and ERA sectors will be competing with Health and Education within the block grant.</p> <p>In this scenario competitors have unlimited the access to the market of Australia and New Zealand for lamb and dairy products. If food prices are rising rapidly the UK Government may offer favourable FTA's to willing countries in an effort to bring down food prices.</p> |
| <p>Assumptions</p> <ul style="list-style-type: none"> • WTO rules and tariffs apply • The overall funding settlement is based on the Barnett Formula • Immigration is in line is limited (in line with the current approach to outside of EU immigrants and <100, 000). Detail here • Producers and supply chains focus on UK markets. • Key competitors have unlimited access to UK markets through FTA's. |

Comment [HA(-E-L7): We used this to explore with policy teams areas where the UK Government may consider deregulation. It could have been included in any of the scenarios or explored separately.

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| <p>Scenario 3 – European based EU FTA with funding available as a reflection of EU funding currently received with some restrictions on immigration.</p> |
| <p>We have based this scenario on statements made by Germany, France and within the Council’s negotiating guidance that ‘being in the club is not as beneficial as being outside of the club’. We have envisaged this as meaning there may be some trade barriers. We have not explored what these might be, but assumed they increase the costs of trade with the EU.</p> <p>One of the concerns for the EU will be cheap food from outside of the EU being imported into the UK and then labelled as UK produce. To combat this we envisage that the agreement will include a quota (TRQ) set at about the current level of UK exports to the EU. This would constrain growth in exports of food to the EU.</p> <p>Although politicians have announced they wish the UK to be a ‘beacon’ of free trade, we envisage that the UK would have similar levels of barriers for imports from the EU as those for exports to the EU, to ensure an ‘even playing field’.</p> <p>We suggest using barriers of 5%, 10% and 20% to explore tipping points for levels of barriers within sectors.</p> |
| <p>Assumptions</p> <ul style="list-style-type: none"> • Freedom of movement is linked to employment. • Equivalent levels of funding available in the current CAP trend of steadily decreasing to 2030. • Barriers are in place increasing transaction costs by up to 20%. Details here • FTA with Australia and NZ is reached limiting imports to present levels. • Devolution of powers respected (e.g. agriculture, fisheries, regional development end environment). This means standards continue on their current upward trajectory. • Standards benefiting citizens and protecting society as a whole are not eroded. |
| <p>4 – European based FTA the funding provided via the Barnett formula.</p> |
| <p>In this scenario we used the same logic as in scenario 3 in respect of TRQ’s and barriers. We used the same % figures to explore tipping points. This scenario can be used to explore the impacts and changes in the industries with little or no Government support.</p> |
| <p>Assumptions</p> <ul style="list-style-type: none"> • Freedom of movement is linked to employment. • The overall funding settlement is based on the Barnett formula • Barriers are in place increasing transaction costs up to 20% • FTA with Australia and NZ is reached limiting imports to present levels. • UK Government takes responsibility for some areas of regulation. (Welsh devolution |

Comment [HA(-E-L8): This is the proposal outlined in the ‘Securing Wales’ Future’ paper by the Welsh First Minister. He suggests that immigration is linked to having a job offer before entering the country. It is not set at a threshold.

powers are eroded by UK frameworks)

- Standards benefiting citizens and protecting society as a whole are not eroded.

5 – UK Government paper where FTA’s with the EU and 54 other nations are negotiated within 2 years with strong restrictions on immigration.

We assume the UK Government offers equivalent FTA’s to other nations with current FTA’s with the EU. The negotiated EU FTA is close to or equal to membership of the single market.

This scenario looks very like business as usual but with limited immigration.

Assumptions

- New FTA’s do not change current requirements for exports or imports to and from the UK.
- Equivalent levels of funding available in the current CAP trend of steadily decreasing to 2030.
- Immigration is in line is limited (in line with the current approach to outside of EU immigrants and <100, 000). [Detail here.](#)

Government White Paper immigration proposal so far:

The paper examines among other things, considers how suitable the current UK visa system may be in future for or non-UK nationals. The paper considers the current system for non-EU migrants and highlight’s two factors which are relevant to your Environmental and Rural Affairs Portfolio.

- **Skills levels**
The emphasis of the current UK visa system is on attracting highly skilled workers. In Wales, 19 % of migrant workers are employed in “elementary occupations” compared to 12% of UK born workers. These jobs often require a low skill level and attracting low pay levels.
- **Salaries**
The UK visa system has an annual salary threshold for skilled worker visas – currently around £21,000 but rising to around £30,000 in April. When the number of visa applications nears the quota, the salary threshold is increased and used as a basis for prioritisation. Wales has the 2nd lowest average salary levels, on a geographic basis, within the UK.

The last Conservative Government’s commitment was to bring down immigration to ‘10’s of thousands’ we have assumed that this means a maximum of 99,999.

Barrier or Transaction costs

The figure of 20% was derived from evidence that says that non-tariff barriers (NTB's), on average, create 8 - 12% additional costs, from Government papers and WTO website. Agricultural products are likely to higher than average transaction costs, due to inspection rates, wanting express processes to enable quick export and country of origin checks. In addition, RDP costings works use 20% for transaction costs.