

Inquiry into EU reform and the EU referendum: implications for Scotland

National Farmer's Union of Scotland

Executive summary

- Scottish and UK agriculture is currently facing unprecedented difficulties, due to a complex myriad of factors depressing commodity prices, bad weather and uncertainty prevailing over support payments. During this sustained period of low market returns and volatility, NFUS Scotland (NFUS) is keen to see political energy focused on implementing the measures that will secure a sustainable future for food production.
- NFUS recognises that the debate on the position of the UK and Scotland within the European Union is gathering pace, as we enter a period of renegotiation between the UK Government and the European Member States.
- The interest of agriculture in the European debate is clear, with nearly 40 per cent of the European budget being dedicated to the agriculture sector. NFUS therefore considers it vital that politicians recognise the considerable concerns of farming within this debate, and focus on securing the best future for agriculture.
- Whilst NFUS has not offered a definitive position on an 'in' or 'out' stance in the European debate, it does consider that the overall benefits of EU membership outweigh the costs. NFUS is clear that a robust debate must be had, so that its 9,000 members can make an informed decision in the forthcoming referendum. This paper sets out the primary concerns of NFUS in the European debate.

Introduction

NFUS Scotland (NFUS) welcomes the opportunity to respond to the Committee's examination of the promised referendum on membership of the European Union.

It is without doubt that the EU has been extremely significant in shaping the Scottish agricultural policies and farming and environmental systems that are present today. The Common Agricultural Policy (CAP) forms nearly 40 per cent of the European budget, and the European single market allows tariff-free trade amongst all Member States. The European negotiating position has also allowed international trade agreements to be opened with some 50 partners in recent years, opening up new markets for Scottish produce. At the same time, Europe is also responsible for a large volume of regulation which many farmers would consider to be top-down, proscriptive red tape that is a barrier to sustainable development. These ideas will be developed further within the body of this response.

The Scottish agricultural industry's interests in Europe are therefore clear, and the primary concern of NFUS is that a robust debate must take place ahead of the possible referendum on EU membership to allow our farming members to make an informed decision. There is also a case to suggest that the UK Government's renegotiation agenda could be used for the benefit of the agricultural industry ahead of the likely referendum on membership before the end of 2017.

A referendum on EU membership before the end of 2017 will be the fifth time in as many years that the Scottish electorate have voted in an election or referendum. NFUS took a neutral stance in the lead-up to the 2014 independence referendum due to it being an emotive issue which split its membership. However, NFUS considers that the issues informing voters' decisions in the likely future European referendum to be based more on a business and economic case than previous referenda. In this sense, NFUS foresees the possibility that it could come off the fence in this debate if no clear assessment or analysis is provided for what the UK outside the EU would look like. In particular, the conditions under which our farmers would be expected to operate in the case of an EU exit must be clarified.

Process – UK renegotiation and future referendum

In its response to the 2014 Smith Commission consultation on the devolution of further powers to Scotland, NFUS recognised that the current Scottish Government has for some time called for direct Scottish representation at an EU level, most recently during the negotiations over CAP reform in 2013. Since the outcome of the Smith process, NFUS understands that the UK Government has begun to implement changes to its system of engaging with the devolved administrations ahead of negotiations, by developing the Joint Ministerial Committee structure and placing a requirement on ministers to clarify whether there will be any impact on devolved administrations resulting from a particular devolved administration.

This is positive progress in strengthening Scotland's position within the EU and NFUS supports the development of improved working partnerships as far as possible to secure the best possible outcomes from negotiations. NFUS is however concerned that uncertainty over the UK's position within the EU during the negotiation process may cast doubt on Scotland's negotiating position in this respect.

NFUS understands that the Prime Minister will seek as quick a deal as possible on European negotiation, with an initial milestone fast-approaching in the form of the European Council meeting in December. However, NFUS and our partner farming unions elsewhere in the UK suggest that the renegotiation process could be used to redress some of the imbalances within the EU which can act as a barrier to the sustainable and profitable development of agriculture across the Member States.

With specific regard to the Prime Minister's stated aim of "stemming the flow of new regulations [and reducing] the burden from existing regulations"¹, NFUS considers that there are various areas where a successful negotiation could enhance the operating environment of UK farmers.

Specific examples would be as follows:

¹ David Cameron letter to His Excellency Donald Tusk, 10 November 2015: http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/10_11_15_donaltduskletter.pdf

- Simplification and sovereignty of the application of the greening rules within the Common Agricultural Policy. A one-size-fits-all approach is not appropriate for the vastly disparate farming systems and climates across the EU, and will not meet environmental aims.
- Roll-back of precautionary principles to allow decisions to be based on risk as opposed to hazard. Sound science-based decision-making can only lead to the development of innovation and competitiveness amongst the European Member States.
- Amalgamation of policy decisions for environmental aims – for example, combining the Nitrates Directive with the Water Framework Directive would harness better regulatory powers whilst cutting out burdensome and ineffective bureaucracy. Member States should have the flexibility to introduce their own measures as appropriate, including industry-led voluntary action.
- Ensuring compliance across the board with the implementation and enforcement of EU animal welfare legislation amongst the Member States.

Issues at play in European debate

Common Agricultural Policy

The CAP accounts for a substantial proportion of the total annual EU budget; in excess of €58 billion or just under 39 per cent. Whilst it was originally introduced to control markets for agricultural products, the new, ‘decoupled’ system that has been adopted over the last decade instead seeks to deliver support to allow farm businesses to remain productive (via Pillar 1 funds), whilst also delivering on environmental outcomes (Pillar 1 greening and Pillar 2 rural development funds).

Total Scottish farm income in 2014 was £823 million². Of this figure, 68 per cent (£560 million) was subsidy (support) and grants, demonstrating how significant public funding is to income. However, comparing the £560m support with output, the picture is more complex. Scottish agricultural output in 2014 amounted to £3.15 billion; costs were £2.85 billion. Therefore, the average farm support equated to 18 per cent of eventual output.

A breakdown across the commodities shows that:

- **Beef** - Support is 42 per cent of output, and over 200 per cent of income
- **Sheep** – 34 per cent of output / 240 per cent of income
- **Dairy** – 9 per cent of output / 50 per cent of income

In the 2014-2020 spending round, Scotland will receive £4,096 million in Pillar 1 funding and £478 million in Pillar 2 revenues – 16.3 and 18.5 per cent of the UK budget allocations respectively. NFUS has clearly communicated its disappointment that the reformed CAP in this spending round is technocratic, driving support away from the areas that need it most in Scotland and burdening farmers with regulation.

² ‘Total Income From Farming, Estimates for Scotland 2012 to 2014’, Scottish Government, 2015: <http://www.gov.scot/Resource/0046/00469120.pdf>

However, the CAP remains an essential support payment for Scottish farmers and crofters, delivering stability for primary producers and allowing them to invest for the future when global prices are good, or providing insulation when prices take a sustained downturn. Farmers would prefer to farm without the financial support they receive from the EU but the reality is that most farms don't make enough from the market for this to be possible.

The role of direct support in overall Scottish farm incomes is therefore complex but clearly invaluable. As demonstrated by the figures above, the 'subsidised' pounds given to Scottish farmers and crofters tend to be spent elsewhere in the rural economy, underpinning ancillary industries and multiplying the value of that support elsewhere. Any drop in, or removal of, direct support could lead to a number of farm businesses in Scotland's most marginal areas going out of business, which will have significant downward harmonisation on the rural economy and environmental stewardship of the land.

The outcome of the Government's renegotiations will be critical for some on whether they see the brighter future as being part of the EU. NFUS will call upon those campaigning for an EU exit to provide a serious and detailed analysis of how the UK could replicate this essential support system if it were to leave the UK.

Indeed, NFUS suggests that it cannot be guaranteed any UK Government would uphold the amount of funding that the EU currently provides to the CAP budget, which could lead to a huge restructuring of Scottish and UK agriculture.

Access to markets

Scotland's food and drink industry is rapidly growing, with exports amounting to a worth of £5.1 billion in 2014 and targets continuing to be exceeded.

Whilst issues within domestic supply chains are currently hindering primary producers' ability to receive an equitable share of the profit that is above the true costs of production and cross-compliance, it is vital that we continue to build on the prominence of Scottish food and drink in key export markets both inside and outside of the EU, and indeed enhance trade with our neighbours in the rest of the UK.

Scottish agriculture, forestry and fishing exports to the EU amounted to £125 million in 2013; and exports to non-EU countries had a value of £135 million. Approximately 73 per cent of the UK's total agri-food exports were destined for other European member states in 2014³, and UK agri-food exports totalled €122 billion in 2014.

Access to the European single market removes bureaucracy from Scottish and UK traders by establishing common rules and standards and removing burdensome tariffs and border controls. The interest of the European market in the Scottish food and drink offering is therefore clear.

³ UK Food and Drink Export Performance, Food and Drink Federation <http://www.fdf.org.uk/exports.aspx#item2>

A further issue is the impact that the European debate could have on Scotland's strength as an exporter to international markets. Internationally, total Scottish exports increased by £10 million between 2010-13⁴. The USA is Scotland's top international export destination, with an estimated top value of £3.9 billion worth of exports from Scotland. It could be argued that, without the exclusive competence of the European Union to negotiate bilateral trade deals with international export destinations, the UK could lose prominence in accessing new and emerging international markets. It also stands to question whether non-EU importers would gain from lower tariff access to a UK outside of the EU, flooding the domestic market and therefore pushing Scottish and British producers out of the frame.

Finally, the EU's 'geographic indicators' (GIs) that identify the origin of products, such as Scotch whisky, Scotch beef, and Scotch lamb offer valuable protection that gives prominence to Scottish product, enforces higher standards and is enforced across the EU single market. NFUS argues that it is in the interests of Scottish food producers to ensure GIs receive the necessary levels of protection in the European debate. A comprehensive impact assessment on the likely consequences for the Scottish label would therefore be desirable.

Access to labour

With the UK's resident workforce displaying a preference for permanent employment, the agricultural industry relies heavily on non-UK born seasonal workers who will come to the UK for a specified period of time to work as, for example, pickers in the fruit and vegetable industries. The food and drink manufacturing industry also depends upon migrant labour. Imposed restrictions on the movement of labour in and out of a UK outside of the EU could therefore have significant consequences for the agricultural industry.

The restrictions on and eventual wind-up of the UK Government's Seasonal Agricultural Workers Scheme in 2012 has already exemplified the impact on the agricultural industry in restricting access to non-UK labour, as presented by the huge difficulties in 2008 for the industry in getting hold of summer pickers. Indeed, take-up of the scheme's quota between 2008 and the end of the scheme in 2012 remained very high, at 98 per cent in 2012. More recent data from the Office of National Statistics suggests that in 2014 there were close to 35,000 non UK-born workers employed in the UK's overall agriculture sector, of which 65 per cent were born in the EU.

NFUS is therefore concerned that any restrictions on the movement of labour in the EU could be very damaging to the sector, which depends heavily on the availability of migrant and seasonal workers.

⁴ Scotland's Global Connections Survey 2013 – Estimating Exports from Scotland <http://www.gov.scot/Resource/0046/00469028.pdf>

Alternatives

Article 50 of the EU Lisbon Treaty (4) states that any Member State withdrawing from the European Union “shall not participate in the discussions of the European Council or Council or in decisions concerning it”.

NFUS has concerns that a vote to leave the European Union would lock the UK out of vital negotiations on the terms of its exit, leaving a question mark over key issues in the transition period between the referendum result and the eventual completion of withdrawal. Until the vote takes place, it is not possible to predict whether the UK could continue to trade within the European single market during this time without incurring tariffs, or whether the intervening time would allow the UK capacity to kick-start negotiations on joining existing European trade groups such as the European Free Trade Association (EFTA) or European Economic Area (EEA).

NFUS cannot speculate on possible free trade agreements that a UK outside of the EU could secure in the future. However, again there are concerns that Scottish and UK producers could incur higher customs tariffs to gain access to the EU market whilst also needing to comply with strict European regulations and restrictions, which would add costs.

Currently, the EFTA and EEA agreements do not cover the agricultural sector and both require non-EU members to adopt some or all of the EU laws with no effective power to shape it. In addition, EFTA members are required to make payments for EU enlargement costs and contribute to ongoing development. Members of the EEA, meanwhile, have to comply with EU competition law, consumer protection and environmental policy.

The ‘Swiss Model’ – whereby Switzerland is in EFTA and Schengen but is not a member of the EU or the EEA – means that it doesn’t have to adopt the EU’s relevant legislation, but it does have to apply equivalent forms of regulation when trading with the EU, and make financial contributions to enlargement costs.