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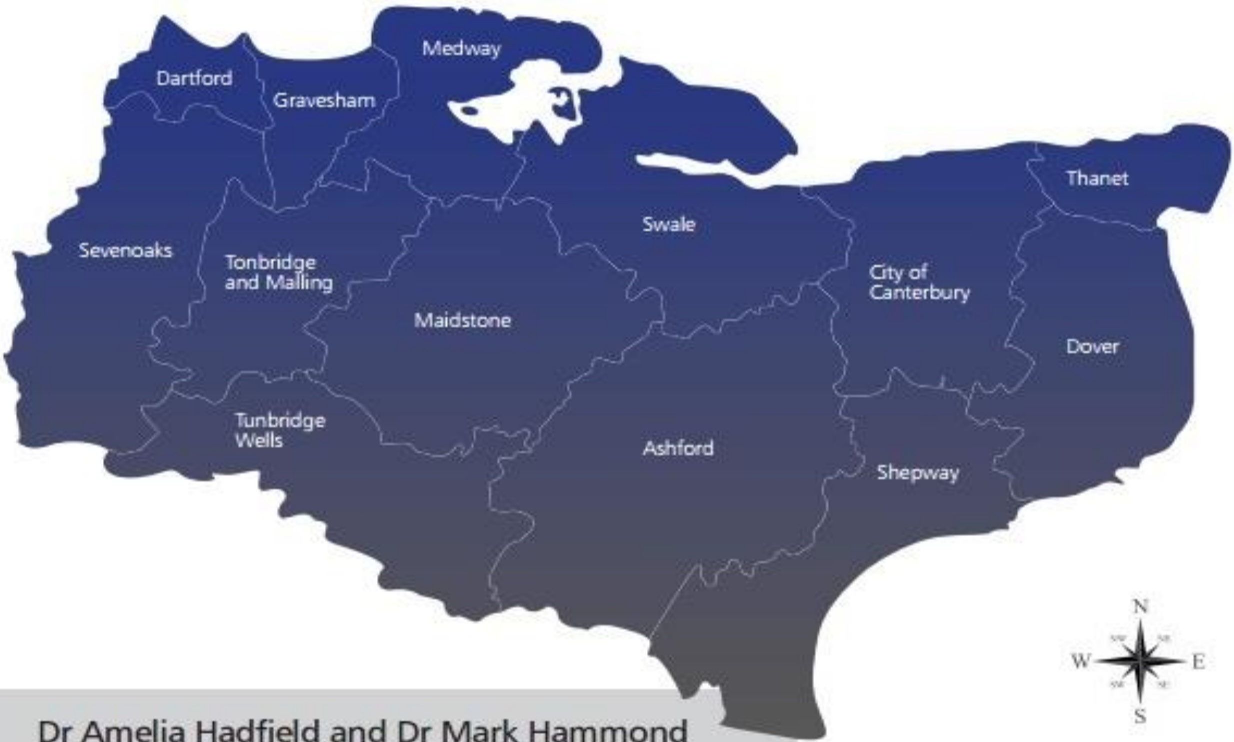
KENT AND MEDWAY:
MAKING A SUCCESS OF BREXIT
A Sectoral Appraisal



Dr Amelia Hadfield and Dr Mark Hammond
Politics and International Relations Programme
Canterbury Christ Church University

Canterbury Christ Church University

Kent and Medway : Making a Success of Brexit
Small and Medium-Sized Enterprises and Rural Economy
Draft Report 27 April 2017

Introduction

1. In December 2016 we published our report on Making a Success of Brexit in Kent and Medway. The report was launched at a reception in Westminster hosted by Helen Whately, MP for Faversham and Md Kent. The launch was attended by many of the individual and organisations who had contributed to the work in preparing the report. As we said at that time

"If we are to make a genuine success of Brexit for all our communities across Kent and Medway we must ensure we take fully into account the various concerns that lie behind the vote for Brexit".

2. The report had a very positive reception from colleagues, policy makers and commentators and the partners involved met together again in January 2017 led by Christchurch Canterbury University, to reflect on the work of the project to date, to take stock of progress and events nationally around Brexit, and to consider how best to take the project forward.

3. There was strong and unanimous support for continuing the project to assess and consider how the different businesses, communities and organisations of Kent and Medway could best make a success of Brexit. In our first report we suggested that we could continue the work by looking in greater detail at the key sectors identified in the initial report. In the discussions at this meeting it was agreed that we should continue to examine the issues and opportunities of Brexit by looking in greater detail at some specific sectors. Given the resources available and the capacity of partners it was agreed to deal with the different possible sectors in batches. For the next phase the group agreed to look in more detail at The Rural Economy, The specific issues affecting Small and Medium Sized Businesses, and Policing and the Border.

4. For this stage of the project the group agreed to establish **3 sub-groups** to manage the work in each theme, and for each of those sub groups to have a lead organization / chair. The sub-sector group on Small and Medium-sized Enterprises (SMEs), is therefore led by Paul Winter of Wire Belt Ltd., the group on Rural Economy is led by Sophie Moate of Rural Plc., while the group on Policing, Security and Law Enforcement is led by D. C. S. Thomas Richards, of the Kent Police. The Centre for European Studies at Canterbury Christchurch University would provide secretariat support to each sub group and help support its meetings and work. The Strategic Steering Group which has overseen the project to date would continue to meet as needed to provide an overall lead for the project and quality assurance for the individual sub groups work.

5. As with the first phase of the work and the initial report, it was clear in the discussions that although the project was intended to be open and inclusive in all the ways it worked, and to base its conclusions on the contributions and expertise of all its partners, the project would remain the responsibility of the University and the Centre for European Studies. As with the first report, while we believe the information here has been sourced accurately and objectively, the use and understanding of that material and all the conclusions drawn are the responsibility of the authors.

6. We embarked on this phase of work in January 2017 with the plan to publish the outcomes in June 2017. The calling of the general election for June 8 has of course affected the plans and timetable, and the ability of some partners to contribute to the work as they might have hoped. However we decided to press ahead with an updated publication before the summer. This was

always intended to be another milestone in the project and not its conclusion and to wait until after the summer would have meant a prolonged gap in the publication. While this seems to us the right decision it has meant some area have not progressed as far as we had first hoped. We will particularly return to the topic of Policing and the Border in September 2017.

7. We hope this report will build on the success of the initial work. It has been clear throughout the work that many colleagues across Kent and Medway share the wish to understand how best to make a success of Brexit. We are tremendously grateful for the contributions of members of the steering group and the many other organisations and individuals who have participated in preparing the reports. This remains we believe a worthwhile and important project which will if we are successful be of assistance to many organisations, and without the partnerships it has been build upon our efforts would certainly not be enough to deliver success.

Dr Amelia Hadfield, Director Centre for European Studies (CEFEUS), Canterbury Christ Church University

Dr Mark Hammond, Visiting Professor, Public Policy, Canterbury Christ Church University

With the assistance of Jack Brooks, CEFEUS Graduate Coordinator, and Noora Virtanen, CEFEUS Undergraduate Coordinator

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Where Are We Now?

8. In our first report, we sought to set out the state of play on our exit from the European Union, at what was then around six months after the referendum. At that stage it is fair to say we did not know a great deal about the government s plans and intentions, and inevitably we had to base our review on different possible scenarios. At that stage too, we were still waiting for the legal system to resolve the question of whether the Executive or Parliament had the right to trigger Article 50.

9. By June 2017, we will be much better informed about the starting point for the negotiations over Article 50, both in terms of the UK Government and the Commission and other Member States of the EU. But of course we still do not know at all how those negotiations will turn out, or indeed whether they will even come to a successful conclusion. However, we are able to use the information and understanding we have to consider in more detail the issues and opportunities which different sectors of the economy and society in Kent and Medway will face in the coming period. And so we can start to also set out the actions which the government and others could take to best Make a Success of Brexit.

10. However, we do have to bear in mind the shift in terms of negotiating attitudes, and priorities, as a result of the **8 June 2017 General Election**, which was called whilst the first part of this report was being constructed. We will need to make sure that the final fortnight of conclusions and recommendations are as contemporaneous as possible with the envisaged outlook of the government.

11. This section of the report tries to set out the key areas of greater information and understanding which we have gained since the first report was published. Here, we have drawn on published reports, (notably the Government's February 2017 White Paper, and to a lesser extent the Industrial Strategy), alongside expert and Parliamentary commentary on the anticipated Great Reform Bill example. One of the immediate issues which the negotiations will address is the so called "divorce settlement", that is the suggestion that the UK will need to make a payment to the EU to cover future liabilities. We need to consider for example the impact (major or marginal?) it would have in Kent and Medway in terms of reducing available public spending, as well as its impact nationally in terms of absolute budget shrinkage or relative redistribution vis-à-vis local government. At present therefore, we have decided to concentrate **four** main sets of issues:

1. **the terms of trade which will emerge as part of the future relationship between the UK and the EU;**
2. **the future of business and trade with countries outside the EU after we have left;**
3. **the rules, standards and regulations which will replace the current EU derived legal framework;**
4. **and the funding arrangements which will be in put in place in succession to current systems whereby EU funds flow.**

12. In addressing these and other issues, and the rather fluid timetable by which they will emerge, the CEFEUS Sub-Sector reports on both SMEs and Rural Economy, this means working on the basis of an (as yet) incomplete understanding of how trade with the EU will work after Brexit, including goods, services, capital and labour. Ambiguity surrounding business and commerce, both locally and nationally, will undoubtedly continue until at least 2019. Despite this, we feel we can continue the approach of the first report in considering **the impacts, opportunities and requirements from government and business** alike, working to facilitate engagement between both sides in mitigating risks and achieving opportunities.

Terms of Trade with the EU

13. The government's letter to the President of the EU triggering Article 50 of the Lisbon Treaty has made clear what many had already concluded, that the UK will not remain a member of the Single Market, nor the Customs Union after leaving the EU. This does not of course mean that we will not be trading with EU countries. But it does mean that the **terms of that trade will be a critical element of the negotiations in our future relationship**. Remaining within the Single Market puts Britain within the remit of the four freedoms, and the jurisdiction of the ECJ, neither of which appear conducive to the **'Hard Brexit'** approach stated by Prime Minister May in the February 2017 Lancaster House Speech. Equally, the government appears opposed to remaining in the Customs Union, on the basis that doing so would prevent the UK from freely negotiating bilateral and multilateral trade agreements with other countries. Again, this means **that the manner and mode** by which British exports move across the new UK-EU border will need to be negotiated and for some goods, fruit for example, the potential for extra time delays from the process that may be involved could be a crucial issue.

14. As some commentators have noted, the negotiations will begin from a position of **zero tariffs and the reduction of all non-tariff barriers.** The **UK will also become the EU's largest export market on the day we leave the EU**. However, the Government has also said in the White Paper that it does not expect to adopt the trade model of any other country that has negotiated terms of trade with the EU in the past (e.g. Canada/CETA or US/TTIP). So at this stage the Government is anticipating a **wholly new and unique British model of trade relations**.

Trade with Countries Outside the EU after Brexit

15. The ability to increase trade with **countries outside the EU** has been identified as one of the major opportunities of Brexit for business both large and small.[1] The new Department for International Trade has been designed to help businesses capitalize on emerging and potential avenues for exports which are expected to open up, both European and international.

16. There are however two important constraints to further progress at this stage:

- First, the UK *cannot enter into* formal negotiations with third party countries as long as it remains a member of the EU, since trade matters are in the competence of the European Commission. This could be as early as March 30th 2019, or longer (in the case of a transitional

[1] Add citation from DIT/D'Exit.

agreement), e.g. 2022, or possibly even beyond. This could alter or delay both our understanding of the **terms and timetable** on new trade agreements in goods and services. Accordingly, having a full understanding the terms and timetable of such trade will be crucial. Businesses in Kent and Medway, large and small, will need to plan ahead in order to guard against shortfall along supply chains, drop-offs in import/exports, all while developing plans for impending trade re-arrangements. We look to clear advice emerging from key business and government actors in this respect, both nationally and regionally.

- Second, the EU currently has trade agreements with many **third countries** which UK business can currently export under. This will cease on the day the UK formally leaves the EU, and it is not known yet whether the terms of trade with any country will be the same, better or worse than the current EU agreement. Again, legal certainty is crucial in identifying the options for businesses in this respect.

The Rules, Standards and Regulations to Replace the Current EU Legal Framework

17. The Great Reform Bill was published by the Government on March 31, 2017 designed to provide a legal bridge by which – whether temporarily or permanently - the entire body of secondary EU law (Regulations and Directives) including a host of rules and standards is rolled into UK domestic law. Parliament must then decide which areas of law, and which provisions within those areas, it wishes to permanently **repeal, replace or amend**. The task is herculean. There is such a vast number and range of laws and regulations that this exercise will occupy Parliamentary time for a solid decade to come.

18. For business this will have two impacts. First, ongoing ambiguity for between 2-6 years regarding which EU laws and their accompanying regulations will remain and which will change. Second, the inevitable focus of the UK government upon this task, rather than necessarily home-based policies like commerce, industry, farming, healthcare, R&D, education etc. An obvious response is for each sub-sector to respond quickly by identifying their own references regarding regulations, standards, certification, etc. This can then be translated, in terms of the sector, and the county as a whole, back to a variety of decision-makers during the critical time of Brexit negotiations.

Funding arrangements

19. CEFEUS is working with a number of agencies to identify likely outcomes on this issue.

Data and Evidence: Missing in Action?

20. One of the compelling issues which has emerged in our recent work is the extent to which data is sufficient to make policy judgments on the best ways of making a success of Brexit. For example as we looked in more detail at the rural economy in Kent and Medway we tried to source data on the breakdown of exports of different agricultural products to the EU or other countries. For SMEs we were looking for detailed figure on employment in different sectors among UK, other EU and other nationalities. In many cases it appears that the **data is not only largely unavailable** regarding SME business in Kent and Medway, but fundamentally lacking the granularity that illustrates those active UK-EU dimensions of Kent business that are likely to undergo that greatest degree of change, both during and after Brexit.

21. It will be essential to invest in work to improve the data available for policy makers to understand the Brexit impacts and opportunities across different parts of the UK. Without data, insights, feedback and an identifiable series of **sector-specific ranked preferences for actions** there is a very real risk that options will not be well understood, and that policy responses will be improperly directed to achieve their objectives. Information was gathered at the two events in April with organisations representing the SME and rural economy sectors through a structured questionnaire and informal exchanges. We have set out the results in the work which follows.

Case Study
Paul Winter, Wire Belt Ltd, Kent and lead for the SME Sub Group outlined the areas where we need further work at the event on April 25.

Q1. **In conversation with Small and Medium sized Enterprises, what levels of preparation for Brexit have been reported?** "At the present time, my interpretation of many conversations is that at this stage preparation by the average company has been minimal. This may seem surprising but it makes the availability of good quality guidance (such as the CCCU research) when it is needed even more important."

Q2. **Wire Belt Company is itself classified as a SME. Is Brexit of any concern to Wire Belt?** "Absolutely, we export in excess of 60% of our output every year to markets worldwide. The EU is important but so are the Americas, India, Asia and Australasia. Also of importance are the Associate members of the EU. All of these areas are likely to be affected by Brexit as indeed are our raw material imports."

Q3. **If Brexit is so important what action has Wire Belt taken so far?** A: "We have completed some worst case scenario planning based on the imposition of financial and logistics barriers. Our business is built upon speed of service and we are already a qualified "Known Consignor" so that our goods are shipped on aircraft without delay. We are considering achieving Authorised Economic Operator (AEO) accreditation which we think will assist with the paperwork support for international shipments post Brexit. We are also planning how we deal with the increase in the costs of raw material which are certain to follow the short term benefit we have received through the weakness of the pound."

Keep Calm and Keep Trading: KENT SMEs

Why do SMEs matter ?

13. SMEs in Kent **broadly reflect the business structure of the UK as a whole**. Out of all businesses some 77% have four or fewer employees and only about 0.33% have more than 250 employees. There are about 59,000 businesses in Kent and yet less than 200 employ more than 250 people. About 60% of the workforce is employed by SMEs.

14. For small and medium size businesses in Kent and Medway, Brexit presents a wide range of issues and futures. It is certainly not sensible or possible to try and draw many conclusions about such a vast range of companies trading in such a range of markets at home and abroad. Indeed one of the important statistics we have found in the work to date is that **perhaps a third of these companies do not currently import or export to the EU or elsewhere and so do not necessarily see any immediate impacts on their business prospects.** There have been some very few studies undertaken to identify how Kent SMEs see Brexit; an exception is the *Kent SME Internationalisation Study* at the University of Kent, by Drs Filippaois and Stone in work funded in part by Kent County Council. This survey included a question **asking whether SMEs understood the impacts of Brexit**. Around one in four said they did not, though given the great uncertainties about what the final impacts will be it may be that in fact three out of four are overestimating their level of knowledge.

15. This uncertainty is also reflected in other survey data such as the valuable two surveys undertaken by Cripps in 2016 and again in 2017, much of which will feature in the final June report, alongside other data that we are able to gather. Companies were asked a variety of questions about their assessment of the various impacts of the referendum decision on their business in the shofrt, medium and long-term. **Around half said there had been no impacts, about a third a negative effect and the remainder some positive impacts**. Going forward, and despite the ongoing ambiguity of so much of the UK-EU negotiations in terms of trade and its impact on business, we will aim for educated hypothesis in the final report regarding the long term impacts at the sectoral level of Kent and Medway.

16. One key area identified in various surveys are the **rules, regulations and regulatory barriers**, and their role in improving or worsening business opportunities and overall performance. Like many other issues, Brexit has raised the prospect of significant change on this point, largely revolving around the prospect of getting rid of 'burdensome' EU regulations and freeing up business in both regulatory and choice-based modes. Again, we will look at this issue specific to the requirements of business itself, as well as the moving target the Great Repeal Act which may impact materially, legally and economically upon the body of EU laws, regulations and standards.

17. For example, where current EU regulations relate to product standards it is very likely that in order to continue to sell the product in question into the EU single market, U.K. companies will need to **continue to conform to the same standards**. For example, repealing an EU regulation in U.K. law will not necessarily be a benefit if it subsequently prevents U.K. producers from trading with the Single Market. Another issue to bear in mind include **labour protection**. Companies in the EU bearing the costs of labour regulations will likely want those costs reflected in U.K. rroducts even if the regulation itself has been repealed in UK law.

18. While some regulatory regimes such as health and safety have been criticized of late as being over-prescriptive or setting too high a standard, there will be serious debates before such standards are lowered in new UK laws. Providing lower environmental standards, or removing employment of other protections from U.K. Citizens will need careful consideration and justification. So companies which believe that their business prospects will be implied by major removals of current regulatory costs may be disappointed.

16. In terms of timetabling, our analysis suggests that it will be important - though difficult - to try and reach policy conclusions on **two** distinct sets of issues. First, there will be a **period of transition**. This will in effect commence now, extend throughout the negotiating period, may possibly beyond 2019 into 2022, with the aim of preventing a sudden stoppage, or 'cliff-edge' imperiling the availability of imports, exports, their transport, transit, and pricing, and instead allowing the current trading relationship to continue up to, and possibly past the point of Brexit itself. During the **Transition Period**, companies may well be able to conduct business broadly as they do now, with the impacts - good and bad - limited to either macro-economic effects on the economy as a whole, or individual results such as other EU workers within a key sector choosing to return to the EU, and/or not returning to the UK before the legal regime for migration has actually changed.

17. At some point between 2019-22 however, the **Transition Period** will come to an and we will then enter the **second stage** when we are working under a **new set of relationships and rules** for our trading relations with the European Union, chartered from the 'outside-in', and as well as with key non-EU states and regions. Government and other agencies will have an important role to play in supporting businesses through the Transition Period, and into the first few years of the 'New Relationship' era. This is likely to be a period of very great change in the short and medium term, accompanied by potential disruption in monetary value, fiscal stability, economic forecasts and investment structures.

18. Ensuring that businesses in Kent, and the UK come though this successfully (namely by anticipating and planning) will lay the foundation for the future success of the UK's post-Brexit economy. Again, planning is key. Government, and other bodies acting to assist both business and decision-makers with those strategic short, medium and ultimately long- term issues seems the right and necessary option at this stage. The Cripps survey, whose key findings are identified below, has helpfully illustrated precisely the kinds of issues that concern business (at least in the short term) and which government can help tackle.

19. Accordingly, the final June report on SMEs in Kent and Medway needs to set out, and analyze in detail, all that we have learnt from working with companies, business organizations and other partners in Kent and Medway regarding the **impacts, opportunities and requirements** (e.g. support and actions) in order to best assist them AND key policy-makers AND business organizations weather both the Transition Period, and the UK's emerging 'New Relationship'. As stated above, there is much more that can and should be done to improve the data and evidence for policy-making around these issues, and we will continue this project to help full those gaps and work with others to provide advice and ideas for future policy decisions.

Conclusion

20. There is much work to be done. Survey work among SMEs in Kent suggests that the **current business support network is neither well understood, nor in many instances seen as particularly effective**. This was well evidenced in the *Kent SME Internationalisation Study* (relevant figures are reproduced here with thanks to the authors). Exporting to the EU as a member of the single market is relatively straightforward. But doing so *outside the Single Market* is likely to be extraordinarily complex, at least in the short-term, and companies will undoubtedly require both additional expertise, and quite possibly financial support to forestall a downturn and/or maintain and increase exports to the EU and beyond after Brexit. This does suggest that there is a real challenge for the **UK Government in achieving a step change in the scale, reach and effectiveness of mechanisms to support business particularly SMEs,** if we are to make the most of the considerable export opportunities which we will have after Brexit. Our future as a great trading nation will depend on motivating and supporting businesses to increase their reach and success in exporting worldwide.

21. Building on the Recommendations from the CEFEUS December 2016 Report, and the further work we have done through the SME Sub group we recommend the following actions as priorities.

For Government:

- All businesses, and SMEs in particular need more and better support to understand Brexit and take full advantage of the opportunities ahead. Now is not the time to penny pinch support or make it difficult to access or too directed by central thinking. Investment now will repay the UK many times in the future. Access to funding for investment and changing business models now will be the difference for the future.
- Some sectors and businesses will need to make greater levels of change and will need more and deeper support to plan and deliver that change. The networks and agencies supporting business need flexibility and freedom to provide what is needed when it is needed.
- Bring business and other experts into the process of developing policies and approaches. The departments in Whitehall are short of staff and expertise. Break the habits of closed door discussion and make use of the willing partners there are across sectors.
- In particular provide enhanced support for SMEs on – trading with the rest of the world, meeting product standards, export financing, language and non tariff barriers, and other areas which SMEs identify as important.

For Businesses

- Don't stand still, and don't expect too much certainty too soon. There are plans and preparations that you can start on now that will be of benefit whatever the detailed outcomes of Brexit.
- Talk to peers and business networks. Develop shared expertise and understanding of the issues, options and solutions.
- Take advantage of the support systems the Government funds and provides. If they are not working for you then raise that with the agencies involved and demand better.

Kent: Frontline Farming

22. Farming is crucial, both locally, and nationally. A brief overview of national statistics makes this clear:

- Agriculture and food production are key to the UK economy; accounting for 3.6% of GDP, 436,000 jobs, 7% of exports, and 10% of imports. (HSBC March 2017)

- Farming underpins the UK's food and drink sector which is worth £108 billion. (NFU 2016)

- 15% of Kent's workforce is in the food industry and there are 15,000 farm jobs in Kent. (NFU 2016)

23. Within Kent however, farming should be understood as a 'frontline activity', for the following three reasons. First: the sector has, since 1973, depended heavily upon EU subsidies, and much of the shape of the current industry is based on this dynamic. Second, farming is dependent upon exporting TO the EU in terms of the majority of its produce. Finally, farming is critically dependent for the production of its goods upon labour FROM the EU.

24. Farming is therefore not an industry upon which Brexit will fall lightly. Indeed, given the possible coincidence of any, or all three of these factors, farming in Kent – and across the UK as a whole – will be profoundly **financially impacted in the short-term**, **materially affected in the medium-term**, and **structurally challenged in the long term**.

25. This suggests a number of scenarios:

- **Soft Brexit/SUBSIDY scenario:** Full government repatriation of CAP funds from 2019/2020 on largely the same basis, at the rates as at present; SAWS-based structure to ensure non-UK labour provision, decent support, tools, provisions to business from government and/or industry.
- **Medium Brexit/ MIXED scenario:** conditional and partial repatriation of CAP funds; conditional upon climate change/environmental requirements; temporary, possibly quota-based, time-limited SAWS structure to permit non-UK labour provision, sporadic support from government and/or industry.
- **Hard Brexit /COMPETITIVE scenario:** non-subsidy structure, new environmental requirements, asymmetric tariff regime; no labour provision for either UK or EU labour, and no support or provisions government and/or industry.

The choice, or MIX, of any one of these scenarios depends upon the role that farming as a sector plays within the British state as a whole, in terms of food security, economy, and business.

26. In terms of the nature of possible UK Government intervention, as Martin Vye has recently suggested, "successive government have decided not to let UK agriculture sink or swim. That is in itself no argument for continuing to aid the industry, but it is proof of the strength of the argument that sustaining it is in the national interest" (2017). Clearly, key economic markers need to be considered *across* these three scenarios including: UK-EU competitive advantage, profitability, margins, and the wider impact of the imposition of an external EU tariff, as well as domestic competition itself, and the reciprocal imposition by the UK of a tariff on EU-produced goods.

27. Given both the pressure on finances, and the ongoing fiscal and economic ambiguity that will inevitably accompany the 2017-19 negotiations, the 2019-22 Transition Period, and the post-Brexit era beyond, the government will likely be minded to drastically reduce the majority of farming subsidies, at all levels, across all farming sectors.

- The **risk** is the short-term insolvency of small-holdings, and those farms already operating on a thin profit margin.
- The **opportunity** (not least to prevent the risk itself) lies in identifying ways in which farming as a business, and the government, can together act as leaders to reconstruct and improve the industry as a whole.

28. In practical terms, the options appear pleasingly unlimited. The point is division of labour.

Government's Tasks include: investing (as with commerce itself) in business advice and training, committing to 'growing' a new crop of 'farmer-entrepreneurs', working them against the backdrop of negotiations to identifying new markets, within the UK, the EU, and beyond.

Farming Industry's Tasks include: farm-specific innovations, from agri-R&D, to 'smart farming' developments including improved yield (e.g. by hybridization; drone-scoping fields; digitized rotation timetables), and cost-saving machinery.

Private Sector/Public Private Consortia Tasks include: designing a whole new sector of agri-finance (from loans to investment to finance) to materially permit farmers to capitalize on emerging markets abroad via improved methods at home.

29. Again, depending on the scenario chosen (hard, mid-range or soft), and the division of labour between government, industry, and public and private sector, the UK farming's current *European-based business model* will by 2019 need to be replaced by some sort of UK-based model.

30. A new **UK farming business model** will require a wholesale reconstruction of the industry from the ground up in terms of the desired modes of production etc., and top down changes vis-à-vis the Government's chosen method of business (subsidized, mixed, complete competition). This will be accompanied not only be a major structural change in subsidies, but against the backdrop of shifting legislation that will be retained, amended or dropped in the Great Repeal Act. This in turn will inevitably have an impact on goods, standards, licensing, and throw up further questions regarding (for example) making and breaking goods contracts due to loss of subsidies. Identifying the intricacies of farming's legal structures. Below are a number of key themes that have arisen in our discussions with Kent and Medway rural economy representatives as key:

Farm Subsidies

31. The farming industry as a whole currently benefits from funding based on EU-derived subsidies via the Common Agricultural Policy (CAP) in the form of **Basic Payment Scheme** (BPS) payments. In addition, further subsidies are available via **Countryside Stewardships** (CS). Both BPS and CS have been guaranteed by the Treasury to continue until 2020. At present, both BPS and CS are key. These payments are extremely important to both small and medium sized farms, many of which consist of

fewer than 500 acres (Kent Agri-Expo 2017). Will subsidies continue, be somewhat cut, made conditional, or be removed completely? The mid-range, conditional options seems most likely.

"If subsidies are to continue they may be geared more to the CS type scheme with the ability to highlight environmental benefits. The argument goes that with fewer subsidies come the opportunity for British farming to come into its own and drive changes towards "buy British" which some say was lost with the availability of cheaper imported goods." (Mike Startup, Wilkins Kennedy LLP, 2017, Kent Agri-Expo)

32. Risks: However, even if subsides are only partially altered rather than completely removed, for both small and large farms alike, the impact could be very great, ranging from total insolvency to increased borrowing, and reworked additional finance, to farm expansion. For most, the issue of **raising, and then servicing farm debt** is critical. This in turn connects to the costs of borrowing (with inflation, interest prices may rise, making borrowing more expensive). In terms of size, small holdings may be disproportionately more reliant on subsidies than larger ones; may be more vulnerable to changes in the market and feel the impact more profoundly. [Future study: Areas which the final report should aim to explain could include which TYPES of goods/yields are more/less vulnerable, as well as size. Larger holdings for instance may be asset rich, but yet cash poor.]

33. Going forward, we'd like to work out the implications of hard/mid-range/soft subsidy options, and in doing so, gather the ideas and suggestions from across Kent and Medway by which to Brexit-proof the rural economy sector:

- Should **farmer-specific finance packages** with lending tailored to yield ratios be in idea?
- **Role of tax incentives and tax breaks** for the sector; both for traditional yield and more innovatively in helping diversification into renewable energy (the latter generally 100% relief in the first year through advanced allowances)
- The **ratio** of income / relief / investment / returns
- The 'look' of a broader package of repatriated funding
- Understanding the business cash flow and cost base, including machinery (buy vs. lease)

Reminder: that at present, farmers can still apply for funding via the Rural Development programme for England (RDPE), which is designed to assist with projects such as diversification in the form of grants and loans.

Labour

34. Labour is key to agriculture and horticulture; and migrant labour in particular. From pig and poultry units to soft-fruit growers, from dairy to flowers, migrant labour provides UK farms and growers with a 'flexible, temporary and mobile' labour force (FWI 2016). While EU-born workers account for 5% of the country's workforce as a whole, that number jumps to 65% within agriculture, which does *not* include seasonal workers (Office for National Statistics 2016).

SAWS: Under the now defunct Seasons Agricultural Workers Scheme (SAWS), more than 22,000 EU citizens from Romania and Bulgaria worked temporarily on UK farms. Restrictions on the entry of Romanian and Bulgarian citizens were lifted in 2012 however saw the bulk of that labour force move to other sectors, causing a shortage in agriculture (following the trend of migrants generally becoming more skilled and English-proficient, moving on, or upwards into management). UK-based workers continue to disregard agri-based labour as an option, generally requiring permanent jobs, a clear career path, or simply oppose the hard physical labour entailed in farming.

35. Labour shortages therefore remain a sector problem, and Brexit could temporarily worsen this situation. NFU stats illustrate the issues:

- **2015:** 29% growers experienced problems recruiting enough labour across the UK

2016-17: Kent-Specific Picture: Helen Whately, MP for Faversham and Mid-Kent 2017

Organisations that recruit seasonal workers, such as AG Recruitment in my constituency, have told me that there are *four times fewer people looking for jobs than last year*. The NFU surveyed seasonal worker recruitment companies, and nearly half said that between July and September 2016 they were unable to meet the demands of the sectors they were supplying. That compares with nearly 100% being able to recruit enough workers in January, February and March this year.

On the scale of the problem, in the picking season, farmers in my constituency need thousands of extra workers. A single large farm needs about 1,000 extra workers in the peak picking season. Across my constituency, between 5,000 and 10,000 seasonal workers are needed, and it is a pretty long season because strawberries can now be grown from March to October. However, in my constituency, only a few hundred people are on jobseeker's allowance, so there is a big gap between the scale of the demand and the number of people looking for work.

One farmer in my constituency, Tim Chambers, has told me that normally he would expect around 80% of his workers to ask for a place next season as they leave. So far this year, it has been only 50%. David Figgis, another local farmer, says that compared with last year the number of seasonal workers he has been able to recruit to start in the new year has halved. There is already a problem recruiting workers, before we have even left the European Union. Another farmer in my constituency, Simon Elworthy, has told me that there is a genuine risk of British fruit going unpicked next year because of a shortage of labour.

2017-18: 66% expect reductions in labour availability by this date

36. Labour Impacts: Brexit has complicated further the categories of labour, entry/exit, migration and border security. Despite the links to seasonal labour requirements, many within the farming community felt migration as a whole was a problem, and accordingly voted 'leave'. But the problem of UK access to labour remains, whether it be seasonal or permanent, farming, or beyond. The issue therefore is of a steadily reduced, or potential severe drop-off of EU-sourced seasonal/permanent workforce, with soft fruit going unpicked and a subsequent drop-off in UK agricultural exports.

37. Labour Requirements: a continued ability across the Kent and Medway farming sector to source a seasonal workforce. As Colin Hall suggested, "we have already seen a reduction in potential EU workers coming forward post June 2016, and surely need to trial a Seasonal Agricultural Permit Scheme now, proving that it is a functional migrant scheme where workers return home. This has to be the right model for the future, as it has been (under the Seasonal Agricultural Workers Scheme) in the past." (BTF Partnership, 2017, Agri-Expo leaflet). Helen Whately, MP for Faversham and Mid-Kent concurs, suggesting that "SAWS had robust entry and exit checks, which meant that more than 98% of those who came to work in the UK returned home when their work was complete. For that reason, those coming to Britain under SAWS did not count towards immigration figures." Cited in the 2016 FWI report, Robert Pascall, a soft fruit grower in Kent argued that 'SAWS was better than the current set-up because people knew exactly what they were coming for, and you knew exactly how many people you were getting as an employer'.

38. Options? The options range between a scheme for temporary workers vs permanent migrant labour to support the needs of the sector. **Access** itself rests upon the trade-based choice made by the UK Government, in disengaging from the EU Single Market (and likely, the Customs Union). Options for a European Economic Area/European Free Trade Area seem unlikely now, primarily because both are premised on the free movement of people.

39. Bilateral deals with the EU as a whole, or with a number of EU (and non-EU) states means that all workers entering the UK would of course be subject to domestic law, which would require them to apply for viasas. This in turn allows the government to control (e.g. increase or restrict) the **number of visas** (quota), **their criteria** (skills) and **timing** (temporary, seasonal, contract-based, permanent). Identifying a workable solution will need to be both politically palatable, and sectorally practical. Far more suggestions from the industry are therefore needed as to what sort of scenario best meets the widest number of needs.

Reskilling/ Farming Innovations

40. Reconstructing the sector is going to be key. Economic imperatives however will underwrite - and possibly undermine – initial efforts at wholesale change, including a weak pound, and the potential of increased inflation. For Kent, two key issues include the land market, and productivity; both presenting a mixed picture.

- **Land market** : "With the current 32-year low in the value of sterling, foreign purchase interest in the land market may be renewed. Good quality North Kent fruit belt land continues to trade at up to £10,000 per acre and more with competitive bidding, while clay soils in the Kent and Sussex Weald are under more pressure now at £7,000-8,000 per acre for bare arable land despite competitive bidding from neighbours or those with rollover funds." (Colin Hall, 2017)

- **Productivity:** "While recent yields have been good and the volume of strawberries sold in the UK has increased dramatically, around half of fruit farms are making less than a 2% margin and fruit farmers' incomes have fallen by 43% over the past five years. The British Growers Association estimates that the horticulture industry employed 80,000 seasonal workers this year and forecasts that that need will increase to 95,000 by 2019. It is getting harder for farmers to recruit seasonal workers. The National Farmers Union's end of season labour survey found that in 2015, nearly a third of growers had experienced problems recruiting workers. Some 69% of growers expect the situation to get worse by 2018." (**(Helen Whately, MP for Faversham and Mid-Kent 2017)**

- **Waste Reduction**: Particularly helpful for smaller farms, using waste reduction may permit simple cost-effective measures that could go a long way.

EU Responses : Farm Europe

41. On **24 April 2017, Michel Barnier**, the European Commission lead Brexit negotiator, participated in a breakfast-debate organized by Farm Europe on the challenges of Brexit to the EU at large, and in particular to the EU agri-food sector. In addition to bringing about a 3 billion euro net cut to the CAP budget, Brexit will have a powerful impact on the EU agri-food sector, on the basis of any number of trading scenarios (http://www.farm-europe.eu/travaux/brexit-and-trade-a-double-challenge/).

42. Currently, the EU 27 **enjoys a large trade surplus vis-a-vis the UK,** in excess of 20 billion euros per year. On the basis of comprehensive **Free Trade Agreement (FTA)** favourable to a long-lasting trade relationship between the EU 27 and the UK, the EU 27 will continue to benefit from a tariff-free access to the UK market for most of its agri-food exports. Equally however, the **EU 27 will face new and increased competition from all the other countries** with which the UK will also strike Free Trade Agreements (e.g. with the US, and the Commonwealth, both of which are reliable producers of agriculture and food products), which is highly likely given the governments 'global Britain' approach. In particular the EU's beef, dairy and wine sectors "would face severe headwinds from these new competitors who would benefit from the same conditions of access to the UK market as the EU 27'. However, the negative impact to the EU could be even stronger if the UK becomes a platform for exporting products from these countries **to** the EU 27, benefiting from the free trade provisions of the EU 27-UK FTA. That could be case for sugar products, using the UK refining capacity on sugar cane imports, and for many other products if appropriate safeguards are not put in place. To prevent anomalies in trading, it is likely that **rules of origin** will be tightened to prevent a massive diversion of agri-industrial capacity from the EU to the UK on the back of access to cheaper raw materials and to the single market.

43. If the **Brexit negotiations fail to produce agreement** on the future trade relationship, the EU 27 would face a tariff barrier on its exports to the UK identical to that which third countries today face in exporting to the EU. The tariff level in **agri-food products is substantially higher** than in other sectors, and particularly high in meat and dairy products. If, as expected the UK would sign new FTAs with other countries, that scenario would **spell the end of EU agri-food exports to the UK on a number of key sectors and cause severe disruption of trade across the board**. Further difficulties could arise in the (temporary or prolonged) absence of agreement on rules and standards, and the lack of equivalency agreements.

44. Brexit respresents a huge change for the UK's rural economy industry. And the EU agri-food sector fully understands the importance of a suitable result of the Brexit negotiations for the future of the Union. But it is equally important that EU negotiators and decision-makers understand the high-stakes of Brexit for the future of farming and of a food sector that represents 15% of the EU GDP.

Sectoral Requirements

45. There are of course a host of other issues to be considered, going forward. Trade modes, and their accompanying trade demands (tariffs and non-tariff barriers) are central, as they quickly divide the sector into winners and losers. To be avoided is **worsening the UK's current high dependency upon imports** of agricultural and food products (with imports in key sectors more than twice as high as its export sector).

46. Globally, renegotiating the currently **high** (China, Thailand, India and new Zealand) and **moderate** (Canada, US, Brazil, Argentina and Vietnam) agri-tariff agreements from countries who currently undersupply the UK could for example constitute an option (HSBC 13 March 2017)

47. In terms of **EU negotiations**, the UK government should bear in mind those EU Member States whose current generous EU-member terms of access to the UK market will vanish with Brexit (Poland, Denmark, Latvia, and above all Ireland), and who currently constitute a disproportionate amount of agri/food produce supply to the UK.

48. In sum, Brexit will profoundly alter the current landscape by changing its trade base, altering its tariff structures, and shifting its export/import composition. In response, a number of farming bodies have of late set out the requirements for steering UK rural economy through the volatilities of the Transition Period, into a post-Brexit future. The NFU, in its January 2017 Portcullis meeting for instance proposed the following four principles:

- The best possible access to trade with Europe
- Access to a competent and reliable workforce
- Government policy recognition of agriculture as a key industry in a post-Brexit Britain
- A period of transition to allow farm businesses to adapt to any changes to trading relationships or agricultural policy

49. In identifying opportunities for reframing food, farming and environmental policy, the CLA too suggested (2016) that the UK focus on 'agricultural productivity, competitiveness and resilience', which in a diverse sector of large, medium, small and microbusinesses means:

- **A productive, competitive** farming and forestry sector: permitting UK farmers to be competitive in EU and international markets by driving sectoral professionalism and increasing skills;
- **Food Security**: using innovative and sustainable ways to increase production;
- **Enhancing the Environment**: providing farmers and land managers with tools and support to meet environmental challenges;
- **A dedicated UK agri-budget**: UK Government to provide sufficient funds for the totality of sector requirements across the UK;
- **Value for money**: UK Government policy must itself deliver value for money in its implementation and outcomes;
- **Clear, proportionate regulation**: simple, transparent regulations alongside regulatory responsibility to support business via a proportionate risk-based approach

Data Annexes

As illustrated, there are many reasons why companies either do not export, or export very little to the EU.

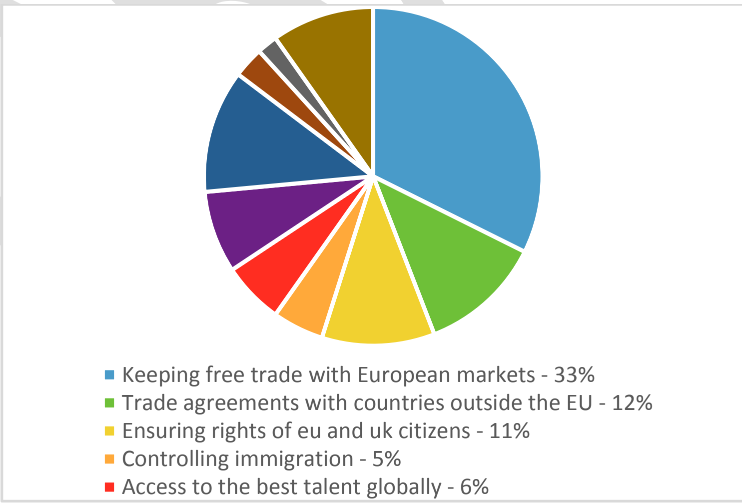
Cripps Survey 1 (September 2016)

- **62%** of businesses think maintaining **access to the single market** should be the biggest priority for the UK government in the negotiations.
- 51% of businesses think they will be **worse off with the restriction of freedom of movement**.
- 66% of businesses think they will be **worse off without access to the single market.**
- 23% of businesses think leaving the EU will be good for their business.
- **Key Business Concerns**: a recession, fluctuating or increasing exchange rates, limited/reductions in international trade.

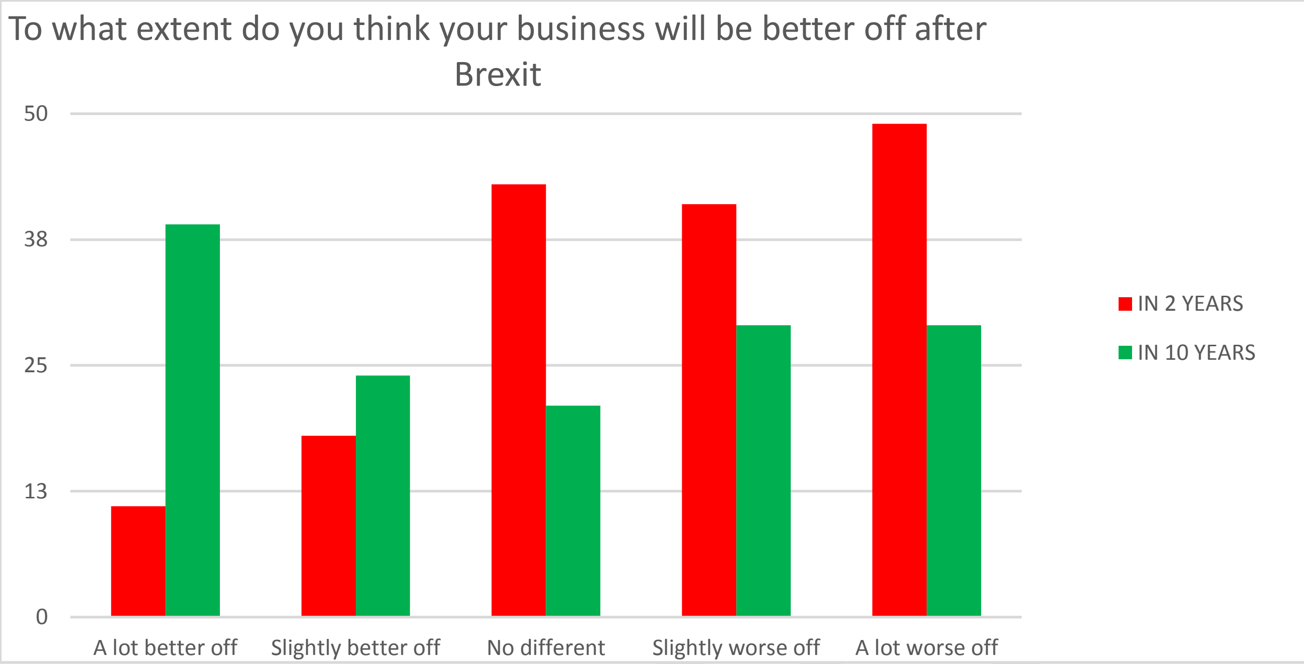
Cripps Survey 2 (28th March 2017)

- 2.1% of respondents said they wanted continued funding to their sector.
- **Brexit as a business opportunity: 31.0% saw no opportunities, 29% removing ourselves from EU regulation, while 1.4% greater control over workers' rights.**
- 39.5% of businesses: Leaving the EU has visibly impacted upon their business strategy
- 30.3% of businesses: Leaving the EU has decreased their revenue, 11.2% increased their revenue; 49.3% no effect.
- 57.2%: employ EU nationals

Q: What strategy is your business adopting in response to Brexit ?



Q: To what extent do you think your business will be better off after Brexit?



Kent SME Internationalization Study, 2016-7, Dr Filippaois and Dr Stone, University of Kent

- About 1 in 4 Kent businesses have little to no understanding of how Brexit will affect their business, with many of these businesses being importers or exporters.
- **44.73% of businesses think Brexit will have a negative impact on their businesses; 39.47% don't know; 15.79% think it will have a positive impact.**
  - **Exporters**: 58.91% think negative, 26.03% don't know, 15.07% think positive.
  - **Importers**: 51.06% think negative, 38.30% don't know, 10.64% think positive.
- More businesses want *free movement of labour* MORE than control of immigration
- 42.33% of Kent businesses think **access to markets** is the most important factor in the upcoming negotiation. This rises to 67.12% in terms of exporters, and 61.71% for importers.
- 60% of businesses feel likely to be affected by Brexit-related uncertainty. Most strongly felt in: trade, construction, info and communications, agriculture, and 'unclassified' sectors.

Key export markets:	**Key Import markets**
• 84.5% : EU	• 71.1% : EU
• 42.8% : USA	• 42.3% : USA
• 21.4% : UAE	• 5.0% say UAE
• 14.2% : China	• 35.5% say China

42.8%: The *Department for International Trade (DIT)* **had not been at all effective** at helping them to internationalize their business.

CEFEUS April Survey

During the soft launches of the SME and the rural economy report, CEFEUS itself is asking 7 key questions to attendees:

1. Percentage of work force from other EU countries
2. Options regarding unavailability of EU workers
3. Percentage if business based on exports to the EU
4. Options if exporting to the EU proves unprofitable post-Brexit
5. Ranked importance to business regarding availability of funding for investment, labour, support from Government bodies, support from business organisations (e.g. CBI, FSB, Chambers of Commerce).
6. Ranked importance to business regarding barriers preventing export: finance (e.g. export credit guarantees), understanding product standards and regulations, understanding other countries' boarder culture/ attitudes, tariffs (e.g. paying more to export to/ import from other countries), non-tariff barriers (e.g. quotas, standards, licensing).
7. Key Brexit negotiating points for HM Government to bear in mind vis-a-vis SMEs / rural agriculture in Kent.

The responses will be configured into the final June 2017 report.