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## **Briefing 2420**

# **Brexit and the rural economy**

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## **Summary**

One door has closed firmly and for good. Who knows where the other doors are or what lies behind them? The outlook is still very substantially speculative beyond the short-term market reactions. The future belongs to those who will be the most vigilant and opportunistic.

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This paper gives a first reaction to the referendum 'Brexit' decision from a group of postgraduate students at Harper Adams University who have been studying Land Use and Management. The discussion has been summarised by Charles Cowap here:

<https://charlescowap.wordpress.com/2016/06/24/brexit-and-the-rural-economy/>

The 18 students have worked rapidly in small groups this morning to appraise the impact on different sectors of the rural economy, and the actions that land managers, owners and occupiers should now be considering. Here they are:

## **Agriculture**

The issues here have been well rehearsed. What will replace the Common Agricultural Policy? If anything? On what terms will we trade with the EU, both for sales of our produce and purchase of our inputs? Is there an opportunity in this to open or develop new markets at home or abroad? One paradox is that enhanced regulation of our farming and food industry may add to the quality perception of British food once outside the EU. But our markets may then be open to genetically-modified crops, and it may be possible to accelerate the uptake of GM technology here.

Scale and efficiency look as if they will become even more important and we might expect to see small farms going to the wall and large farms getting larger. On the margins some land may switch from sheep production to forestry if there are shortfalls in support.

Knowledge for farming may take a hit: early pest and disease intelligence from continental Europe may become less accessible, and investment in research and development may fall without access to EU funding. If capital values fall, problems may in turn emerge over borrowing ratios and liquidity.

Labour availability may also limit the production of some higher value crops, even in the short term if seasonal workers choose EU destinations with longer term prospects for free movement of labour.

A wider question over the management of the industry as a whole: will the emphasis on compliance with Basic Payment requirements start to fall away, with what consequences for the wider environment of the countryside?

## **Land and property**

Savills shares saw a 20% drop at one point, wiping £824 million off the value of the company. House builders fared worse. This points to a slowdown in the rate of house construction, exacerbated by the danger of higher input costs and more difficulty in recruitment given the reliance of construction on EU workers. This in turn knocks on to the demand for development land, and its price.

Farmers may still be in the market for land if they see bargains available on which they could expand, but foreign buyers are likely to hold off and investment buyers may be far less confident of their own positions given the impact on financial services.

Could this be good news for new entrants? Even if land prices do drop the prospects of access to land by this route remain unrealistic. A more likely scenario is for the market to go into virtual stasis, and for prices to do no more than tick over in a narrow price band. The clear message here: only sell now if you have to. Rather than sell look at short term options like farm business tenancies.

## **Forestry**

Much of the return on investment in forestry comes in the form of capital appreciation. Will land prices wobble? A weaker pound could push up the cost of the 60% of our timber we import, in turn pushing up prices to the construction industry while stimulating demand for home grown timber. Good news for foresters could be bad news for processors and end users. Although the UK Forestry Standard has a EU origin it is now embedded in UK legislation.

The UK however, has no planting targets but we do know that there will be severe shortages of home grown timber in 50 or 60 years due to a lack of planting now. Might changes in agricultural policy lead to the abandonment of marginal land sheep farming, making this ground available for afforestation? It's hard to see where planting land may come from otherwise.

Forestry disease and pest control may benefit if plant health import regulations can be imposed rigorously. But this will require significant expenditure on plant health inspectors. Will this be a priority for future spending?

## **Renewables, energy and the environment**

Many of our environmental objectives embody wider obligations than the EU alone, for example our membership of the UN, adoption of the Kyoto protocol and the outcomes of the Paris climate talks. But without pressure from fellow EU members to achieve the UK target of carbon reduction of 80% against 1990 levels by 2050, will there be sufficient pressure on the government here to make sure we stick to these obligations?

CAP Pillar 2 environmental and rural development schemes are bound to be tied up with whatever happens to domestic agricultural and environmental policy. The directives on bathing waters and birds and habitat are an EU obligation, but if we stick with the European Economic Area we will still be subject to controls on pollution, industry, energy policy, chemical safety rules and rules on product liability.

The internal energy market in the EU may also become more difficult. More agreements with specific countries are likely to be needed and the overall effect may be to increase the price of new interconnectors. Increased investment costs will in turn push energy prices up. This in turn could foster home production of renewable energy, but companies like Siemens may need to reconsider the

use of the UK as a production base for the EU. The departure of major suppliers could in turn lead to price rises on kit putting further pressure on energy prices.

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Alan Spedding, 27 June 2016

RuSource briefings provide concise information on current farming and rural issues for rural professionals. They are circulated weekly by email and produced by Alan Spedding in association with the Arthur Rank Centre, the national focus for the rural church. Previous briefings can be accessed on the Arthur Rank Centre website at <http://www.arthurrankcentre.org.uk/publications-and-resources/rusource>

RuSource is a voluntary project partly supported by donations and sponsorship.

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