Brexit & Agricultural Machinery: What Trade Deal Is Needed? What Are the Risks for Farmers and the Industry?

CEMA calls for a comprehensive trade agreement, continued regulatory cooperation & a balanced UK National Agricultural Policy (NAP).

21 November 2017

Executive Summary

CEMA is greatly concerned by the Brexit and its potentially adverse economic consequences on the agricultural machinery industry and the farming community. Brexit risks to exert a negative impact on:

- the UK's agricultural machinery market;
- incomes of farmers and agricultural contractors in the UK and the EU-27 (and thus on the principal customers of the agricultural machinery industry).

To limit the above-mentioned challenges and risks:

1. CEMA calls for the most comprehensive trade agreement possible to be reached between the UK and the EU

Technically speaking, following the Brexit, the UK will become a 'third country' for the EU, creating numerous uncertainties. As such, the EU and the UK should aim to reach the most comprehensive trade agreement possible and ensure that:

- tariffs on EU-UK trade be avoided at all costs,
- customs clearance procedures remain simple,
- rules of Origin be based on existing provisions with EFTA states.

One issue of major concern is to maintain **Technical/Regulatory Convergence** between the UK and the EU after Brexit. In the EU, 3 major regulations represent between 85-90% of all regulatory costs incurred by the farm machinery industry – with a proven negative impact on its productivity. For the industry, it is therefore of outmost importance that no extra costs be added to these EU regulations by the Brexit and that the future relationship ensures a level playing field for the UK and EU industry, particularly with regards to these 3 major regulations, which are:

1) **Emissions Regulation (EU) 2016/1628**
CEMA urges the UK to keep its future emission legislation as much aligned as possible with the EU and US legislations.

2) **Regulation (EU) 167/2013 on the approval and market surveillance of agricultural and forestry vehicles**

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In CEMA's view, it will be important that:

- Legal uncertainties with regards to the applicability of recently amended Delegated Acts be clarified.
- VCA remains part of the European network of type-approving bodies and that tractors type-approved in EU-27 or the UK could access both markets with a presumption of conformity.
- The British Standards Institute (BSI) to continue its membership in CEN.
- BSI to remain a member of CENELEC and ETSI to define standards related to data access.

3) **Machinery Directive 2006/42/EC**

No major impact by Brexit is anticipated in the short term.

Moreover, it will be important for the UK and the EU to find agreements on:

- a proper arrangement on the mobility of workers; and
- a transition period to avoid potential trade flow disruptions under WTO tariffs.

In addition:

2. CEMA calls for a balanced future UK National Agricultural Policy (NAP)

Direct payments by the EU's Common Agricultural Policy (CAP) make up 62% of farm business income in the UK. After Brexit, it will therefore be important that the UK establishes a new National Agricultural Policy (NAP) along the lines of the CAP. In doing so, it will be important to ensure:

2.1 A well-managed transition from the CAP to the NAP

Before the basic payments will end, the UK Government has a unique chance to give farmers an early notice of what its intentions are and what the future NAP will look like. This early notice is essential for farmers to make appropriate investments in their holdings and in terms of machinery purchases.

2.2 A dedicated focus on Precision Agriculture

To boost competitiveness and sustainability in farming, Precision Agriculture technologies should be eligible for future NAP support.

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Position Paper

Brexit: Risk of Detrimental Effects on the UK's Farm Equipment Market & Trade Distortions

Following the triggering of Article 50 of the Lisbon Treaty on 29 March 2017 by the UK Government, the UK is set to leave the EU by March 2019. Like many other industries, the European Agricultural Machinery Industry represented by CEMA is greatly concerned by the Brexit and its potentially adverse economic consequences. Many of these concerns are related to the inherent uncertainty of the process: at this stage of negotiations, it is difficult to predict what kind of trade agreement will be found between the EU and the UK after March 2019.

The UK's agricultural equipment market is among the largest in Europe, and a solid trade relationship for agricultural equipment exists between the UK and the rest of the EU: *"The value of sales of new farm equipment in 2016 was an estimated £1.5 billion. The UK exports of agricultural and outdoor power equipment in 2016 including parts and used machinery, were valued at just under £2 billion. UK imports were slightly greater in value, at £2.1 billion".*[1] In 2016, 57% of these exports went to the EU (£ 1.1 billion), while 71% of the imports came from it (£1.5 billion)[2].

UK imports and exports of agricultural engineering products

	Exports		Imports	
Product category	Value (£ million, 2016)	Change 2015-16	Value (£ million, 2016)	Change 2015-16
New tractors	813.0	-2%	559.7	+12%
Non-agricultural mowers	186.0	+43%	211.7	+6%
Harvesting and threshing machinery	185.3	+11%	521.8	+6%
Wheeled tractors - used	157.3	+81%	7.2	+15%
Soil preparation and cultivation machinery	76.8	+11%	177.8	+9%
Engines for tractors	72.2	-64%	35.3	-53%
Handtools	35.0	-3%	160.8	-0%
Engines for OPE equipment	5.5	-2%	42.7	+64%
Other agricultural machinery	403.9	+2%	400.8	-1%
Total	**1,935.0**	**+1%**	**2,117.6**	**+4%**

Source: Her Majesty's Revenue & Customs

Brexit has a huge potential to disrupt this solid trade relationship if no comprehensive agreement would be found between the UK and the EU on the conditions to access their respective markets. As such, in the context of Brexit, CEMA members are greatly concerned about the future of their industrial investments in the UK and in the EU.

[1] Source: AEA industry-facts: http://www.aea.uk.com/industry-facts
[2] Source: AEA.

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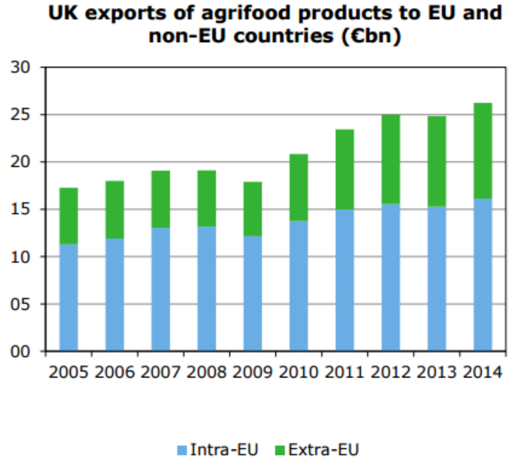
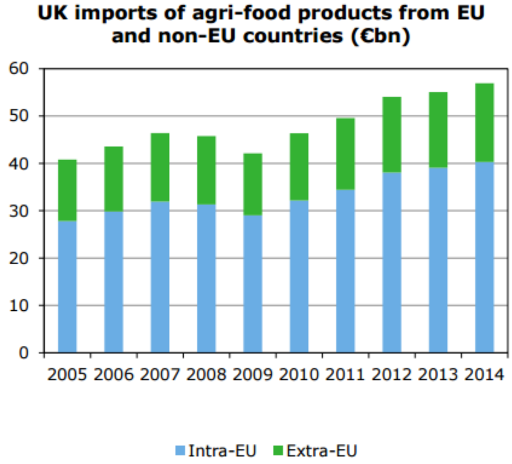
Risk of Detrimental Effects on Farm Incomes: the Free Mutual Access for Agri-Food Products Must be Preserved!

More worrisome, the Brexit could also exert a negative impact on the income situation of the principal customers of the farm machinery industry: farmers and agricultural contractors. With a total export value of €40bn and imports valued at €16bn, the EU is a net-exporter of agri-food products to the UK. The EU27 (EU28 - UK) is the UK's first trading partner. The UK's exports to the EU-27 accounted, in recent years, for 60-65% of its total agricultural exports, and about 70% of the UK's imports come from the EU-27.





Source: EUROSTAT

The above figures underline the critical importance of the UK market for the farmers in the EU-27. To ensure that the investments of EU and UK farmers into their holdings are preserved, the free access to the UK and EU markets for agri-food products must be preserved.

Worst-Case Scenario(s): the Example of Irish Beef

The most anticipated example of a potential displacement of EU agricultural exports into the UK is Irish beef. The Irish Farmers' Association (IFA) "*fears a 'virtual wipe out' of food exports to the UK if there is no early trade deal with the EU. IFA chief economist Rowena Dwyer said trading under World Trade Organisation (WTO) rules would mean punitive trade tariffs would render food exports 'effectively uneconomic'.*[3]

In 2015, Irish beef production was estimated to be 564,000t of which 500,000t were exported (worth approximately €2.41 billion). About 50% of Irish beef exports (250,000 t) went into the UK, 45% went to the rest of the EU. The EU meat market's capacity to absorb significant extra amounts of beef is limited. Therefore, the likely displacement of a large amount of Irish meat into the U.K. market could put beef prices under pressure and destabilize the entire EU beef sector. Such a scenario could have substantial repercussions for the agri-food industry and its key input providers such as the farm machinery industry. Irish beef only represents 5.6% of the EU's total

[3] Irish Times, March 8th, 2017: https://www.irishtimes.com/business/agribusiness-and-food/ifa-warns-hard-brexit-could-almost-wipe-out-uk-food-trade-1.3002591

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agri-food exports to the U.K. A thorough study on the remaining 94.6% export share would certainly show that several other EU agricultural products could negatively be impacted by the Brexit as well. Such displacement risks could also affect farm machinery and the European farm machinery industry.

All EU Member States are exposed to Brexit risks!

As stated in the Global Counsel report on *BREXIT: the impact on the UK and the EU dated* June 2015, all markets, some more, some less, will be impacted.[4]

States ranked by exposure to Brexit
Score based on multiple metrics (see next page)

Rank	Country	Score
1	Netherlands	28
2	Ireland	25
3	Cyprus	23
4	Portugal	17
5=	Greece	16
5=	Malta	16
7	Sweden	16
8	Denmark	15
9	Czech Republic	14
10=	Belgium	13
10=	Latvia	13
10=	Lithuania	13
13	Germany	13
14	Luxembourg	12
15=	Slovakia	12
15=	Spain	12
17	Finland	11
18=	Estonia	9
18=	France	9
18=	Hungary	9
21	Poland	8
22	Bulgaria	7
23	Austria	7
24	Romania	5
25	Italy	5
26=	Croatia	4
26=	Slovenia	4

High exposure	Three countries stand out for having the highest exposure - the Netherlands, Ireland and Cyprus. Ireland is no surprise, given its proximity to the UK. The Netherlands and Cyprus, like Ireland, share very strong trade, investment and financial links with the UK. These countries also tend to be closely aligned with the UK in terms of regulatory and trade policy objectives.
Significant exposure	Several countries have a significant exposure including Germany, Belgium and Sweden. Germany is in the middle of the pack across most metrics, suggesting Berlin will not only be influential, but also a good gauge of the wider EU interest in preventing Brexit. Sweden is particularly vulnerable due to a close policy alignment with the UK, while Belgium has close trade links.
Niche exposure	France and Poland are among a group of countries that are more exposed to Brexit in specific areas. In the case of France mid-level trade, investment and financial linkages are balanced by often conflicting policy objectives with the UK. Poland is most exposed through migration and the EU budget.
Low exposure	Italy is among a small group of states in the south-east of the EU with little direct exposure to Brexit. This reflects their distance and different political cultures, which means there is less alignment of policy interests. Italy in particular may be indirectly affected by the impact of Brexit on political dynamics in the EU.

[4] Global Counsel.co.uk/Special report, Impact of Brexit, June 2015

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To address and limit the above-mentioned challenges & risks of the Brexit:

1. CEMA calls for the most comprehensive trade agreement possible to be reached between the EU and the UK

According to the terms of the letter signed by British Prime Minister Theresa May in March 2017 and the sequence of negotiations, the UK will have to leave the EU's Internal Market and the Customs Union by March 2019 at the latest.

From CEMA's perspective this situation creates lots of uncertainties. Technically speaking, following the Brexit the UK will become a *''third country''* for the EU, regardless of any trade agreement which might be concluded between the two parties.

In April 2019, trading with the UK could therefore imply:

- **Import duties being levied on the equipment and parts that the farm machinery industry manufactures;**
- **Administrative burden and additional costs for getting customs clearance;**
- **Agricultural equipment manufactured in the UK will no longer be of EU origin and might lose the preferential origin.**
- **Diverging applicable technical regulations and standards in the EU and the UK.**

If the EU and the UK are not capable of concluding an FTA before the UK leaves the EU, both trading partners are supposed to fall back to WTO terms. This possibility causes many concerns for CEMA since its consequences for both tariff and non-tariff barriers would be detrimental to EU-UK trade flow.

The MFN principle provides that all WTO members must give each other the same trading terms as they do to their most-favoured trading partner. The AEA's paper: "*Brexit Supplement: What might Brexit mean for the way we do business with the EU*?" underscores what the WTO rules might mean for import tariffs:

"In the event that the UK and EU are unable to agree a preferential trade deal before the UK leaves, WTO rules mean that we would have to trade with the EU on an MFN basis. The most important effect would be that goods traded between the UK and the EU would be subject to import tariffs. For exports from the UK, the tariff rates would be those set out in the EU's WTO schedules. Initially, at least, the UK would probably adopt the same tariff rates as the EU applies. However, over time they might decide to vary (most likely reduce) tariffs to better meet the needs of the UK economy. In many cases, including most machinery, tariffs are relatively low. To give an indication, current EU applied tariffs on some categories of agricultural and outdoor power equipment are given in the table below. Parts are typically charged at the same tariff rates as the products they are intended for, although this isn't always the case".[5]

[5] AEA's Brexit Supplement, Issue 2: What might Brexit mean for the way we do business with the EU? March 2017.

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Product	Tariff rate
Tyres of a kind used on agricultural or forestry vehicles and machines	4.0%
Petrol or diesel engines (depending on size and purpose)	2.7% or 4.2%
Agricultural or horticultural sprayers	1.7%
Machinery for soil preparation or cultivation	Free
Harvesting or threshing machinery, including balers & grass/hay mowers	Free
Milking machines and dairy machinery	Free
Hand-tools with self-contained electric motor	2.7%
Other powered hand-tools (e.g. chainsaws)	1.7%
Single-axle/walking tractors	3.0%
Agricultural and forestry tractors, track-laying or wheeled	Free
Chassis fitted with engine for tractors	6.0%
Bodies (including cabs) for motor vehicles	4.5%
Components for tractors (e.g. brakes, gear boxes, axles, wheels etc)	4.5%
Parts for components of tractors, of closed die-forged steel	4.5%
Other parts of components for tractors	3.5%
Trailers and semi-trailers	2.7%

Source: AEA.

The WTO scenario would also imply that the UK will be able to issue technical regulations fully disconnected from the EU internal market's legislation. According to some most recent academic papers the WTO scenario would be more disruptive than originally thought. For that reason, CEMA also supports a transitional agreement between the UK and the EU so that businesses will have enough lead-time to adapt to the future trading scheme.

Therefore, the EU and the UK should start consulting stakeholders on these issues as soon as possible and should aim at the most ambitious FTA covering all these issues.

1.1 No tariffs on EU-UK Trade

Tariffs on EU-UK trade should be avoided at all costs.

1.2 Needed: simple customs clearance procedures

CEMA welcomes VDMA's suggestion: *"To reduce to the maximum extent possible the administrative expense for supplies to and from the UK, the VDMA urges that self-assessment according to Art. 185 Union Customs Code should be permitted in trade between the EU and UK".*[6]

According to article 185 of the Customs Union Code: *"Customs authorities may, upon application, authorise an economic operator to carry out certain customs formalities which are to be carried out by the customs authorities, to determine the amount of import and export duty payable, and to perform certain controls under customs supervision".*[7]

The spirit of Article 185 should guide the principles of the future trade agreement between the EU and the UK for it sets-up a frame for administrative simplification through self-assessment. Such

[6] VDMA position paper on the Brexit.
[7] Regulation (EU) 952/2013, 10/10/2013, "Laying down the Union Customs Code".

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good customs practices could be established if the UK would be re-joining the European Free Trade Association (EFTA).

1.3 Rules of Origin

According to EU trade rules: *"In order to have preferential origin goods must fulfil the relevant conditions laid down in the origin protocol to the agreement of whichever country is concerned or in the origin rules of the autonomous arrangements. In effect it means that goods must either be manufactured from raw materials or components which have been grown or produced in the beneficiary country or, should that not be the case, at least undergo a certain amount of working or processing in the beneficiary country. Such goods are considered to be "originating".*[8]

These requirements could lead to substantial costs for establishing the value creation chain.

On this issue, CEMA fully supports the proposal by the German Machinery Industry Association VDMA that *"rules of origin should be based on the existing provisions with the EFTA states"*.[9]

1.4 Post-Brexit Technical/Regulatory Convergence

1.4.1 Applicable EU legislation

From a regulatory standpoint, the European agricultural equipment industry is driven by 3 main pieces of EU regulation:

1) **Regulation (EU) 2016/1628** of the European Parliament and of the Council of 14 September 2016 on requirements relating to gaseous and particulate pollutant **emission limits** and type-approval for internal combustion engines for non-road mobile machinery, amending Regulations (EU) No 1024/2012 and (EU) No 167/2013, and amending and repealing Directive 97/68/EC (Text with EEA relevance).

2) **Regulation (EU) 167/2013** of the European Parliament and of the Council of 5 February 2013 on **the approval and market surveillance** of agricultural and forestry vehicles (Text with EEA relevance).

3) **Directive 2006/42/EC** of the European Parliament and of the Council of 17 May 2006 on **machinery**, and amending Directive 95/16/EC (recast) (Text with EEA relevance).

Together, these three pieces of regulations represent between 85-90% of all EU regulatory costs incurred by the farm machinery industry – with a proven negative impact on its productivity. <u>For the industry, it is therefore of outmost importance that no additional costs be added to these EU regulations and that the future relationship ensures a level playing field for the EU and UK industry.</u>

From the exit day onwards, the jurisprudence of the European Court of Justice (ECJ) will only apply to laws passed prior to the exit day (clause 5 of the Repeal Bill). Afterwards, UK laws could start to diverge from EU regulations.

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[8] Source : European Commission, calculation-customs-duties/rules-origin/general-aspects-preferential-origin

[9] VDMA position paper on the exit of the United Kingdom of Great Britain and Northern Ireland (UK) from the European Union ("Brexit"), p.4.

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1.4.1.1 Emissions Regulation (EU) 2016/1628

Regulation (EU) 2016/1628 lays down gaseous and particulate pollutant emission specific requirements for engines for Non-Road Mobile Machinery (NRMM).[10] The emission limits defined as Stage V entered into force in 2016 but will only be applicable from January 2019 to January 2021, according to the engines power category.

For CEMA, this particular case will need legal clarification since the Repeal Bill clearly states that: *EU legislation that is in force but has not been made applicable by the Brexit day will not pass into UK law*. Only the EU legislation that is in full effect will do so. If we correctly understand this provision we might conclude that some parts of this legislation would not be applicable to UK. To get legal certainty, CEMA will check with the relevant UK authorities what their interpretation of regulations (EU) 2016/1628 & 167/2013 is.

CEMA urges the UK to keep its future emission legislation as much aligned as possible with the EU and US legislations. Both the EPA and the European Commission acknowledged that such an alignment is necessary for keeping the transatlantic market and production functioning. In this respect, EU Stage V and US Final Tier 4 emissions limits are almost aligned in spite of some measurement differences.

Here, it should be noticed that the EU-EPA emission regulations were possibly the most resource-demanding ever for our industry. They absorbed about 80% of the industry's R&D budget in order to move from Stage III to Stage V. The European and North American NRRM industries are so well-integrated that it would be entirely uneconomical to split the production between the two markets because of different emission standards. Obviously, the UK is part of this large economic space and should not deviate from it.

1.4.1.2 Regulation (EU) 167/2013: Type-approval and market surveillance of agricultural & forestry vehicles

The second major file is EU Regulation 167/2013 on the type-approval of agricultural and forestry vehicles. It establishes the administrative and technical requirements for the type-approval of all new vehicles, systems, components and separate technical units more specifically: tractors (categories T and C), trailers (category R); and interchangeable towed equipment (category S). It covers multiple aspects of the vehicle's safety, such as: the vehicle structure integrity, steering and braking systems, glazing, mirrors, lighting systems, seat belts, vehicle doors, masses, dimensions, rear protective structures, mechanical couplings and so forth…

EU Regulation 167/2013 comprehends various Annexes and generated several Delegated Acts. In the meantime, some of these Delegated Acts – such as Regulation EU 2015/68 on vehicle braking requirements – are in the process of being amended or have already been amended such as Delegated Regulation (EU) n° 1322/2014 (RVCR) which was amended by Delegated Regulation n°2016/1788 and specifies EU requirements on giving independent operators access to Repair and Maintenance Information (RMI). According to the latter:

[10] REGULATION (EU) 2016/1628 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 September 2016 on requirements relating to gaseous and particulate pollutant emission limits and type-approval for internal combustion engines for non-road mobile machinery, amending Regulations (EU) No 1024/2012 and (EU) No 167/2013, and amending and repealing Directive 97/68/EC. Official Journal of the European Union, 16.9.2016, L 252/56.

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"Annex V is amended as follows: (a) the following point 4.4 is inserted: '4.4. Point 4.1.2 shall apply from 1.7.2021",

"Reprogramming and diagnostics (PC-VCI communication interface) shall be conducted in accordance with either ISO 22900-2, SAE J2534 or TMC RP1210 from 1.7.2021;
However, the first paragraph shall apply from 1.7.2023 to the following manufacturers: manufacturers of vehicles of R- and S-category".[11]

Again, it will be important to clarify what exactly will be the status of these amendments under the Repeal Bill? What would be the consequences if they did not automatically pass into UK law?

Regarding RMI, CEMA calls on the British Standards Institute to continue its membership to CEN. Effectively all the standardized protocols for accessing OBD (On board diagnosis) will be developed under standard CEN TC144.

More generally, CEMA supports VDMA's positions about standardization: *"Harmonised standards play a key role in the internal market for products, and for the mechanical engineering industry in particular, whose products are comprehensively regulated at European level. (…) The transferability of European standards to the global level makes it even more desirable for the UK to continue to participate in European committees. It is therefore essential this continues to be the case"*.

CEMA urges BSI to remain a member of CENELEC and ETSI for they will play a critical role for defining standards related to data access, a key-component of the agricultural equipment market in a near future.

Beyond the issue of the application dates of the EU regulations quoted above and how they will pass into the UK law the question of the whole institutional context of the tractor type-approval remains open. Until now, any tractor being type-approved by an EU Member-State-qualified body can be sold on the European single market without further technical adjustments.

In the UK, VCA is the designated Approval Authority and Technical Service for tractors. After the Brexit, we could question whether VCA would still be recognized as a qualified European body for type-approving tractors. If it would not be the case, would it imply that VCA would be responsible for type-approving tractors according to the UK laws? In CEMA's views it is important that VCA remains part of the European network of type-approving bodies and that tractors type-approved in EU-27 or the UK could access both markets with a presumption of conformity.

1.4.1.3 Machinery Directive 2006/42/EC

The Machinery Directive 2006/42/EC is the third critical regulatory block for the agricultural equipment industry. The Directive aims at the free market circulation on machinery and at the protection of workers and consumers using such machinery. It also relates to the Declaration of

[11] COMMISSION DELEGATED REGULATION (EU) 2016/1788, of 14 July 2016 amending Regulation (EU) No 167/2013 of the European Parliament and of the Council as regards the list of requirements for vehicle EU type-approval, and amending and correcting Commission Delegated Regulations (EU) No 1322/2014, (EU) 2015/96, (EU) 2015/68 and (EU) 2015/208 with regard to vehicle construction and general requirements, to environmental and propulsion unit performance requirements, to vehicle braking requirements and to vehicle functional safety requirements.

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Conformity (DoC) by which manufacturers certify that their product conforms to the applicable EU health and safety requirements of general application. In the short term, CEMA does not anticipate any major impact on trade due to the Brexit in relation to Directive 2006/42/EC.

1.4.2 Unnecessary additional administrative costs should be avoided

The experience gained by our industry in North America and the rest of the world shows that it is reasonable to self-certify and CE mark the products being exported to the EU market. If, as CEMA urges, the UK would agree on an EEA agreement or would remain part of the EEA, all products manufactured in the UK bearing a CE mark will enter both markets with the full *Presumption of Conformity* based on harmonized standards.

If the UK will not remain a member of EEA after the Brexit, our members must still comply with all EU relevant directives including the EC declaration of conformity and CE Marking to be marketable in the EEA. However, in this specific case, CEMA UK-based members will formally be out of the EU and the EEA and will have to carry out further administrative formalities for exporting CE marked equipment to the EEA: they will have to appoint an 'authorised representative' within the EEA, who will assume responsibility for checking whether the products comply with the Machinery directive 2006/42/EC and bring the product for the first time in the EEA market.

In order to avoid this unnecessary administrative burden CEMA suggests the UK to enter into a "Mutual Recognition Agreement" with the EU-EEA. This agreement would most probably imply that the UK will keep the same legal requirements for safety, health and environment as the EU.

1.4.3 Regulatory divergence is a major economic disruptor

In the future, the question is how the UK will deal with amendments of the Machinery Directive 2006/42/EC as the EU Commission signposted in its indicative roadmap. As it appears today, the Directive would be revised in line with the REFIT2 programme and with the aim to be fully aligned to the New Legislative Framework (NLF)[12]. The revision should be discussed in the coming months with a likely publication at the official journal at the horizon 2019-2020, so most likely after the Brexit.

If the UK would set up different safety requirements it could become a technical problem for its national manufacturers which either could not export their products to the EEA market or would have to develop two different lines of products to cover the EEA and domestic markets.

From an economic standpoint, there's little room for such a scenario. Manufacturers operating in the UK are fully integrated in the EU single market and have no means to redesign their production lines to comply with diverging national requirements conceived for a rather limited market.

In CEMA's opinion, avoiding the costs of diverging regulations is an extra reason for the UK to go for a comprehensive trade deal with the EU. Yet, the impact of potential regulatory divergence between the UK and the EU might not be the only one. As mentioned in the beginning, the

[12] EU Commission evaluation of the machinery directive and fitness check

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establishment of a UK National Agricultural Policy (NAP) could be another one for CEMA members.

1.5 A proper arrangement on the mobility of workers

Ensuring a proper arrangement on the mobility of workers is of critical importance for CEMA member companies. Some of these companies produce highly-specialized agricultural equipment on a very low-scale (i.e. potato or sugar-beet harvesters). This type of equipment requires complex services like repair and maintenance which require technicians to travel during the critical time of the harvesting season without delays to the UK. This is especially true for SMEs that do not have the means to invest in a dealership network and organize their aftermarket services from their main production location on the continent.

Various brands also manufacture in the UK such JCB, New Holland, Kellands Agricultural Ltd, Cousins of Emneth Lrd, Warwick Trailers… The larger companies often post staff to their British plants or to their EU factories from the UK. SMEs frequently hire EU citizens with an agricultural engineering background. In addition, major brands like John Deere, AGCO, CNH, Claas, SDF support commercial branches and dealer networks in the UK where posted workers are also a common practice.

1.6 CEMA supports a transitional agreement

On August 15th, UK's Brexit Minister David Davis publicly said that temporary customs arrangements with the EU will be "in both sides' interests". Apparently, David Davis would like to create an interim customs union with the EU to avoid a "cliff-edge" for manufacturers after Brexit. Davis added: "*the transition period would enable business to continue as usual while a number of new systems are put in place transition period*".

Based on Minister Davis' statements, the transition period would be about two years - with the deadline of the next General Election in 2022 as the "absolute maximum".

CEMA supports this transition period to avoid potential trade flow disruptions under WTO tariffs as described in the Lawless et al 2017 studies and their graph below:

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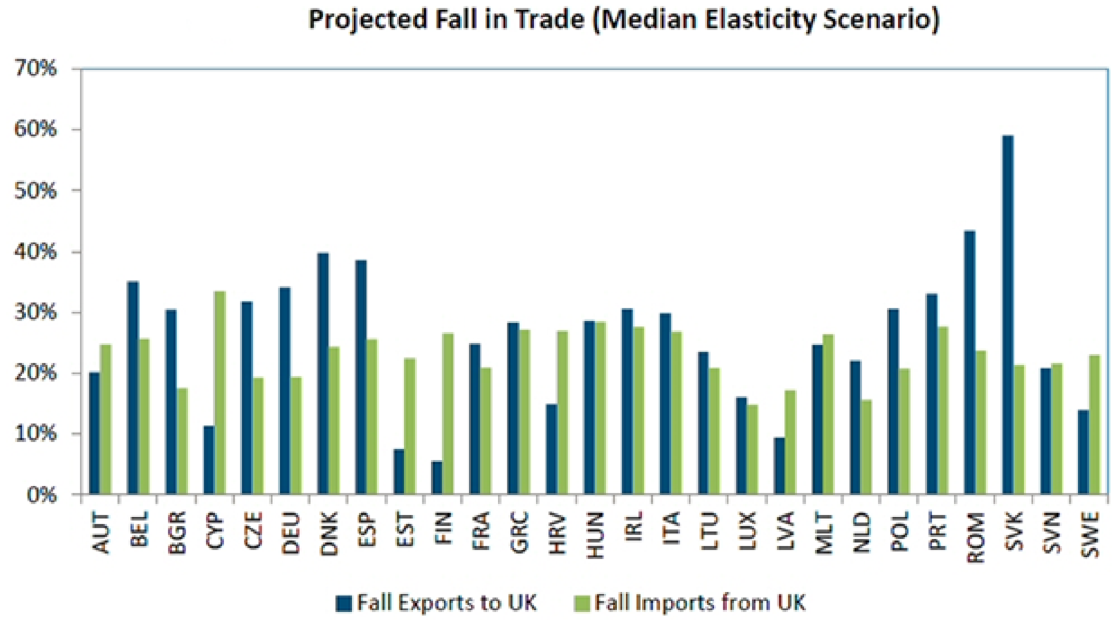

Source: Lawless et all, 2017.

A transitional Customs Union would probably be difficult to negotiate, however, it is a solid option to minimize the costs of trading between the two parties. If such an agreement could not be found, CEMA is of opinion that UK should at least remain part of the EU's VAT union.

Independently from any trade scenario, CEMA sees the need for keeping EU and UK technical regulations closely converging.

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2. CEMA Calls for a Balanced UK National Agricultural Policy (NAP)

For more than 40 years, UK agriculture has been shaped by the EU's Common Agricultural Policy (CAP). This will remain the case until the Brexit will be fully effective. According to Agra Europe, direct payments represent 62% of all UK Farm Business income[13].

Agra Europe's report also says that:

- Nothing is likely to change in UK agriculture policy post-Brexit before 2020
- The shape of post 2020 domestic agriculture and agricultural trading will be important
- Direct income subsidies are likely to be scaled down, possibly to be replaced by some environmental payments and a modest market protection regime through quotas.[14]

The report adds: *"There's no doubt that direct payments impact farm cash-flow and debt levels. For farmers who taken debt against the value of their land, a loss of value could be fatal. The sizeable minority of farmers with levels of liquidity may find it particularly difficult to adjust to lower land prices. DEFRA analysis show that 18% of farms have currents liabilities that exceed current assents. Adjustment to a new lower of subsidization will be painful for a large part of the UK agriculture industry."*[15]

For these very reasons, a UK National Agricultural Policy (NAP) will undoubtedly follow the EU CAP. At this stage, it is too early to anticipate what the content of the future NAP could be. However, CEMA will make three sets of recommendation for the setting-up of a balanced NAP. These recommendations entail:

1) A well-managed transition from the CAP to the NAP,
2) A policy focused on modern technologies and Precision Farming.

2.1 A well-managed transition from the CAP to the NAP

Most likely, the UK will keep the basic payments scheme until the end date of the current CAP in 2020. These payments in their current form will cease at a certain point of time and a new scheme will be put into place. Historical records show that over such transition periods, farmers withhold their investments until they get more clarity on the next subsidy programme and its priorities. It is one of the most recurrent market disruptors experienced by our industry.

Before the basic payments will end, the UK Government has a unique chance to give farmers an <u>early notice</u> of what its intents are and what the future NAP will look like. This early notice is essential for farmers to make appropriate investments in their holdings and machinery. Farmers have always shown to be adaptable to changing economic circumstances, if they are able to anticipate a time horizon when major changes will occur.

However, it should be noted that the Basic Payments scheme could not simply cease overnight for it would endanger all the investments made by UK farmers, during the past 5-10 years. This could lead to serious financial circumstances by which farmers will not be able to reimburse their

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[13] Agra Europe: Impacts on UK and EU and agricultural policy & trade, p. 28, Brexit Analysis © 2016, Informa Agribusiness Intelligence.
[14] Op. cit., p. 25.
[15] Op. cit., p. 28.

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debts and by which the traditional reluctance from the banks to provide financing will be reinforced.

A tapering approach should be part of a sound withdrawal of the EU Basic Payments scheme so that UK farmers will not suffer from significant capital losses due to the Brexit.

2.2 The future NAP should focus on Precision Agriculture

In order to access the EU's and international markets, the future NAP will have to improve UK farm competitiveness by facilitating the uptake of Precision Agriculture technologies.

The times of mountains of beef or butter, lakes of milk or wine seem to be over now, especially in the UK. When the European Commission decided, in January 2009, to buy 30,000 tons of butter from farmers across the EU and 109,000 tons of skimmed milk powder to be stored in silos across the continent with 317,853 tons of unwanted sugar and millions of liters of unwanted wine which the EU already bought up, triggered harsh criticism from the UK media, and senior politicians. One of the most heard argument at that time was: *Taxpayers were hit twice. Not only they were paying farmers to produce the food, but they were seeing their money being spent on produce nobody wanted to buy*.

Assuming that these criticisms still reflect the majority opinion today, it is unlikely to see the future NAP being driven by intervention purchases combined with quotas and export subsidies. Rather, it is foreseeable that the future NAP will keep some of the guiding principles embedded in the current CAP like: sustainability, environmental performance, animal welfare, use of countryside, food safety and security. As such, it is reasonable to think that the future NAP will resemble the next CAP. In this view, CEMA believes the future NAP should focus on:

- Total Factor Productivity (TFP)
- The social importance of agricultural productivity gains,
- Producing more with less,
- Making sure Precision Agriculture technologies are eligible for future NAP support.

2.2.1 Total Factor Productivity (TFP)

TFP is an enabling concept for establishing the future NAP. CEMA advocates to make TFP the main tool to:

- Measure the efficiency of UK's agriculture,
- Evaluate UK's contribution to national and global nutrition security.

2.2.2 The social importance of agricultural productivity gains

It is of critical importance that productivity in farming continues to grow at a reasonable level. Should productivity growth in farming fall behind productivity growth in the rest of the economy in the long run, farmers' living standards will automatically decline with it. Connected to this, the economic attractiveness of agriculture towards the future generations will still weaken. And, the long-term decline in the number of agricultural holdings will also continue.

2.2.3 Producing more with less

Following the COP 21 Climate Agreement, scheduled to enter force in 2020, it became clear that agriculture will also have to limit its environmental and GHG impacts. CEMA therefore anticipates that the environmental measures included in the agricultural policies parties of the agreement will

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be extended by. For CEMA, agriculture is essential for preserving EU natural resources. If agriculture is often perceived as negatively impacting biodiversity, soils and water quality, it could also play a major role to mitigate climate change and other environmental risks. After several years of reflection, CEMA came to the opinion that producing more with less will be the result of the combined effects of many productivity factors including smart farming technologies, agricultural machinery, breeding techniques, fertilizers, managerial skills, infrastructures…In this regard, Precision Agriculture technologies should be eligible to the future NAP supports.

2.2.4 Examples of Precision Agriculture technologies potentially eligible to the future NAP

Progress towards high-precision farming would be part of such a process. Productivity gains require significant investments. Risk-taking attitude should be rewarded so that progress disseminates among farming communities.

For instance, **Big Data and the Internet of things** improve connectivity and make existing products smarter. Smart devices like smart-phones, tablets, software, applications, embarked computers, screens should be part of the technologies to support.

Sensing and monitoring are critical for protecting plants from pest. They are at the core of precision livestock farming improves animal growth and health, and within meat, egg and milk production. Optimal seeding and harvesting increases overall production, while they minimize crop losses.

Global Navigation Satellite Systems (GNSS), proximal sensors on board machinery, and new remote sensing approaches lower the environmental impact of farming. GNSS technologies allow automated steering and headland turns. They reduce soil compaction and the cycle time at headland. They actively contribute to lower fuel consumption and CO2 emissions. Variable Rate Application (VRA) methods and precision spraying. These technologies support efficient and sustainable use of organic and mineral fertilizers with a high level of accuracy and with minimal losses. They also offer considerable potential for cost saving, yield optimization and humus formation in the soil.

Unmanned systems. Drones, robots, autonomous machinery serve many functions described above. As such they also should be eligible to the ASPB. By definition this list is non-exhaustive and doesn't have the ambition to identify all the all technologies which are likely to improve the TFP.

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About CEMA
CEMA (www.cema-agri.org) represents in total 4,500 manufacturers of agricultural equipment consisting of large multinational as well as numerous small and medium-sized enterprises (SMEs). The sector has a total annual turnover of €26 billion and provides employment for 135,000 people directly in the sector and another 125,000 persons indirectly in the distribution and service network.

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