The Brexit clock is ticking – are you ignoring the alarm?

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With the incoming of the new Prime Minister, Boris Johnson, the prospect of a no-deal Brexit has increased. That is a position that would create confusion and potentially turmoil in the UK agri-food supply chain in the short run at least. Despite over 2 years since the invoking of Article 50 to initiate the UK's withdrawal from the EU many businesses, including farmers, remain uncertain of what the impacts on their business would be – and as a result many have not taken any action to prepare themselves for a worse-case scenario.

The Government is considering what may happen in the worst case scenario – as the leaked operation Yellowhammer made clear, for example border delays and price increases for utilities, fuel and food. It is clear that the Government will be limited in their ability to support affected business sectors, with access to human medicines taking priority, but on important issues such as **workforce access** it is within the UK Government's gift to ensure the whole agri-food supply chain continues to have free access to essential workers – but political ideologies seem to be blocking this.

What is often missed in discussions of business impacts is the impact that a no-deal Brexit would have **on exchange rates** and therefore the cost of imported supplies or exported goods – things that are important in our agri-food supply chains. Further, we know demand for some foodstuffs suffer during **economic recessions** (prime cuts of beef and lamb, for example) meaning if a no-deal Brexit hits the economy hard there could be further knock on effects to the farm-gate price for product – and therefore profitability. A no-deal Brexit would see our exported agri-food products facing pretty draconian **tariffs to enter the EU market**, with reciprocal tariffs for EU products entering the UK set much lower (or at zero for many products) to guard against consumer price inflation.

The business sector, including farmers should be no different when it comes to forward planning for Brexit. If you haven't already, then perhaps it is worth starting to consider the potential impacts that different Brexit issues may have on your business' bottom line and on cashflow, and what would you / could you do if things become tough. I often hear that "there is nothing I can do" but you can start asking yourself some meaningful questions to help you plan a way through whatever comes at you. For, example:

- **How exposed are you to exchange rates?** Do you buy imported inputs (e.g. fertiliser) or capital items (e.g. tractors) that could suddenly become more expensive if Sterling falls further. If fertiliser becomes 20% more expensive could you look to optimise use of any manures or ensure you are spreading at just the levels the crop requires to minimise run-off. If machinery becomes 20% more expensive will you keep tractors for longer and set up a more rigorous maintenance schedule. If fuel and energy becomes more expensive can you look at ways of ensuring you are not wasting money leaving machines running when they are not working, etc

- **Are you exposed to export tariffs?** We know the sheep sector is heavily reliant on the EU market and a no-deal Brexit (and imposition of tariffs) may mean a significant tightening of the amount of lamb and mutton exported that will have knock on effects on farm gate prices. If winter lamb markets are over supplied and prices collapse what would / could you do? Would you have enough winter keep to maintain unsold stock? Thinking further ahead, would you still put all your ewes to the tup in the back-end? Other sectors are less exposed to these markets – but we often forget that carcase balancing occurs for all livestock, and fifth quarter markets are often outwith the UK (British consumers are a fussy bunch).
- **Are you exposed to cheap imports?** Under a no-deal Brexit the UK Government have published their tariff schedule, including any Tariff Rate Quotas (free or reduced tariff access). Mirroring the EU tariff schedule would have afforded protection to UK agriculture and allowed an opportunity to benefit from a larger share of the domestic market and higher consumer prices. However, consumers were clearly in the Government's minds as few agricultural sectors have been afforded tariff protection – although beef is partially protected there is a large (~300,000 tonnes of fresh/frozen/processed beef) amount of tariff free entry from any country meeting our standards that could drive process down. The dairy sector is largely unprotected meaning imported dairy products can keep the squeeze on UK farm gate prices.
- **Are you exposed to the strength of the wider economy?** If there is an economic recession and increasing inflation after a no-deal Brexit - as predicted by many – is your farm/croft exposed to sales of product? Higher end products (steaks / legs of lambs / pork joints, etc) may become beyond the reach of a segment of the market that will have inevitable knock on effects to the market price. Can you change how you do things to make sure you are squeezing all the profit out of your farm /croft that you can?

Overall, these are just a few wee examples of how we can all start thinking about how Brexit might impact on your businesses and how you could make changes to mitigate impacts. Speak to your adviser and bank manager, review your boirrowing position and start thinking about the "what if" scenarios and what it might mean for your business (budgeting) – it isn't pleasant to do, but as all boy scouts know – it is better to be prepared.