

The Impacts of Non-deal Brexit on the UK Vegetable Market

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Key words: Brexit, vegetable market, import, European Union, the UK

Abstract: The paper analyzes the potential impact of Brexit on the UK vegetable market. It concluded that it will exert adverse impact on the overall price level in short term as well as on the government. However, over time the impact will diminish, creating an opportunity for domestic vegetable producers in the UK for new international partnerships.

1. Introduction

Non-deal Brexit refers to cessation of the Brexit agreement between the UK and the EU before March 29, 2019, allowing UK to leave the EU without a transitional period as the agreement shall not have any restriction upon it. Britain has long been planning to leave the EU since 2015 while the EU rejected the proposal. Negotiations and struggling over this issue have been going on for a long time. Based on this background, this paper will analyze the economic impact of UK's non-deal Brexit from the perspective of UK's domestic import market to find out to what extent this deal will influence the economy and local life in the UK, especially UK's vegetable import industry, which is highly dependent on EU market.

To achieve this, the paper is divided into four sections. The first section talks about the past and present situation as the references for further analysis in the form of related data, market surveys and comparisons between situations if Brexit comes into effect or not. The second section discusses the changes that could take place. The third section will look at changes to Britain brought by Brexit along with feasible solutions based on reaction analysis. The last section summarizes major effects on Britain if it leaves EU without the transitional period and proposes the best solution in this situation. Besides, the paper offers a new perspective to view the future trend if an agreement is stricken between Britain and EU.

2. Current Solution

It is widely believed that Britain could not satisfy the demand for vegetables of its citizens on its own. The demand for vegetables is relatively price inelastic since everyone needs to intake vegetables. Meanwhile, it is relatively elastic in terms of import since there are a lot of substitute countries. The lack of barrier to enter this industry and the variety of products make the UK vegetable market a monopolistic one. Based on these assumptions, the paper carries out the following analysis.

In British vegetable market, the vegetable price averages at about 1.46£ [2] with a self-sufficient rate of only 58% from domestic vegetable producers[1]. In 2016, the UK imported food and agriculture products worthy of £47.5 bn [3], of which 71% were from EU countries [5]. Thus it is concluded that EU is a major food exporter to the UK, the cause of which is self-evident in the EU related agreement.

Next, it is assumed that as a member of the EU, Britain take the free movement of goods and production factors between member states as the most important benefit of trade. Since 1967, the EC (EU's predecessor) has implemented a uniform system of tariff rates to foreign countries. And from July 1, 1968, tariffs and quotas on goods were abolished among member states, replaced by a customs union (Britain joined EU in 1973). Thus, the biggest problem of Brexit for vegetable import will be the tax, namely tariff.

3. Impact on Britain

Tariff would be the biggest negative impact of Non-deal Brexit on Britain. After Brexit, the price of food imported from the EU is likely to rise by up to 8% [3], including vegetables. Besides, a Non-deal Brexit would have profound economic, political and logistical consequences for both the U.K and the EU. According to a forecast from the Bank of England, there could be an 8 percent loss to gross-domestic product and an increase of 7.5 percent in the unemployment rate while inflation could rise by as much as 6.5 percent and house prices may decline by 30 percent [4]. Besides, the Brexit may have negative effects on other fronts. The port of Dover, for example, is an important link between Britain and continental Europe, just 20 miles of water from Calais in France. Due to Britain's membership in the single market, current custom check at Dover takes an average of just 2 minutes. However, non-deal Brexit might increase the duration of customs check to 4 minutes, resulting in a queue of 40 miles in length [4].

The market is a monopolistic competitive market. The tariffs could lead to a decrease in supply since the cost of producing the vegetable (import) increases. Therefore, when the price of the vegetable increases, the marginal cost and average total cost also increases on a larger scale.

Negative profits would take place as a result, thus forcing seller companies out of this industry. Thus, there will be constant decreases in the supply of vegetables imported from Europe because of rising prices. In this situation, consumers will switch to vegetables from other resources which are cheaper, but of inferior quality. Finally, vegetables of lower quality and higher market price will strike a long-term equilibrium, forcing the profit back to zero.

In addition, both consumer surplus and producer surplus will decrease, causing deadweight loss. On the consumption side, the demand curve is relatively inelastic, thus relieving the tax burden of the sellers compared with that of the consumers. Brexit, as an externality, has less impact on the domestic market and trade. As a negative externality, this event may reduce demands of the British for European products .

However, vegetable suppliers might have a different attitude. A lot of companies which import vegetables by themselves will face the situation we mentioned above. Another group of suppliers, namely farmers and vegetables suppliers from Britain, has a demand curve on the rising trend since Britain has a self-sufficient rate of about 58% for vegetables in Britain [1]. In this situation, the Brexit may boost the development of domestic vegetable industry, bringing more profits to the market.

Tax is another issue for British government to be deal with after Brexit. to the imposition of export tax by EU on Britain or import tax by Britain on the other side would lead to a decrease for demand, namely the demand for import vegetables from Europe, thus lowering the price and margining profits of the Europe producers. It could forcing the companies out and decrease the supply in the long run while increasing the price in the short and long run. Therefore, the British vegetable industry need to lower reliance on Europe, which accounted for 71% of its imported vegetables. Finally, rising prices caused by tax will be coupled by products of inferior quantity, thus increasing the demand curve of vegetable imported from other countries, indicating increases in the price.

In this situation, Pareto Optimality would be beyond reality, and asymmetric information would make it hard for Britain to ensure the quality of imported products from new sources. The government may even set a price ceiling to avoid soaring prices because of the shortage.

As an international market, the British vegetable import market is relatively elastic due to the presence of sufficient substitutes, so the tax burden on the importers is not as heavy as that of the sellers. However, tax might create the deadweight loss as part of original CS and PS is covered by tax revenue. Another result of the tax is the decrease of Britain's consumer surplus. Also, the utility curve of Britain as a country decreases in the vegetable import market on the Europe side due to relatively lower total income while the utility curve in other countries will reach a higher utility indifferent curve due to increase in the price of their substitute (Europe).

In all, non-deal Brexit will have a great impact on the vegetable market, and will lead to a series of economic and livelihood issues. Based on the analysis, the paper will then focus on the solution.

4. Solutions and Future

The government of Britain may still rely on the EU products in the short run after Brexit, for it is hard to find other reliable resources to support 71% of their vegetable import. In this situation, Britain needs to avoid imposing a large-scale import tax on EU products, but rather generally increase the tax until other resources as well as import companies are in place as a substitute. Trade over EU products would continue or terminate in the short run to avoid negative profit exceeding the fixed cost.

In the long run, both the UK government and the companies will turn to other resources for import while some companies will exit this industry. Except Europe, there are also a lot of countries which have been cooperating with Britain for a long time though they have a much smaller proportion of export to Britain compared with the Europe. During the transition to other import sources, these countries may be the first choice. For example, about one-third of UK retailers now say they are considering sourcing from a different country and 38% expect to see more products sourced from Africa [2].

An alternative could be encouraging British farmers to produce more vegetables in the short run. As mentioned above, the self-sufficient rate of Britain had reached 58%, indicating the possibility for Britain to further improve the self-sufficient rate. The domestic vegetable may be an alternative, yet it is not enough to support Britain in a long time since the latitude and the longitude of Britain limit the quantity and variety of vegetable produced there. Also, the competitiveness of the domestic vegetables is also a consideration in the long-run while it does have the potential in the future.

Apart from the economic impact, Britain need to improve its international reputation in both politics and economy after Brexit. The relationship between EU and Britain may continue to develop on the premise that Britain manages to solve the conflicts between different sides on Brexit.

Currently, it is impossible for Britain to immediately and completely withdraw from EU imports due to geographical limitations on the diversity of its vegetables, and the EU is the nearest vegetable source for rich production in vegetables.

5. Conclusion

If Britain fails to solve the conflict or reach an agreement with the EU, the biggest problem confronting it may be the import and export tax. Non-deal will force the government to shift to other sources, forcing out existing EU exporters and profiting domestic suppliers. Politically, it might be a lose-lose situation for both Britain and EU in terms of transportation and other related fields. The optimal solution for Britain is to continue importing EU products while pressuring on domestic producers and finding other reliable sources in the long run.

In this paper, the vegetable market is considered as a whole without sorting out different vegetables and the conditions of export resources. Instead, the whole country and preferences of the total population is analyzed in the paper, which may cause some errors and deviations from the real situation. If possible, studies on other factors that may influence the vegetable market could be carried out to get a more complete conclusion on the impact. Meanwhile, factors that only occur in certain occasion should be considered based on the specific situation.

The Brexit marks a big event to the international world and economic development, with huge impacts on politics, economy and legislations. Further and deeper research is required to predict the future trend. Of course, if Britain walks away from EU with an agreement, it seems easier for this island country to deal with its vegetable industry, which could be the focus of future researches.

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