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A Note on the Implications of Brexit

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Market Report	Year Ago	4 Wks Ago	10-7-16
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	126.88	105.37	102.00
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	212.77	145.42	143.09
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	196.33	138.69	141.27
Choice Boxed Beef, 600-750 lb. Carcass.	203.67	189.47	184.72
Western Corn Belt Base Hog Price Carcass, Negotiated	71.15	57.82	47.08
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	87.02	80.24	72.17
Slaughter Lambs, wooled and shorn, 135-165 lb. National.	159.30	165.13	155.00
National Carcass Lamb Cutout FOB.	358.99	361.80	354.49
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	4.20	2.81	2.62
Corn, No. 2, Yellow Nebraska City, bu.	3.48	2.95	NA
Soybeans, No. 1, Yellow Nebraska City, bu.	8.10	9.14	NA
Grain Sorghum, No.2, Yellow Dorchester, cwt.	5.95	4.54	4.55
Oats, No. 2, Heavy Minneapolis, Mn, bu.	2.60	2.25	2.62
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	180.00	147.50	160.00
Alfalfa, Large Rounds, Good Platte Valley, ton.	75.00	65.00	68.75
Grass Hay, Large Rounds, Good Nebraska, ton.	77.50	*	70.00
Dried Distillers Grains, 10% Moisture Nebraska Average.	116.25	120.50	113.25
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	49.50	34.25	40.50

* No Market

On June 23, 2016, the citizens of the United Kingdom (UK) voted by a narrow margin to withdraw from the European Union (EU) and on October 2, 2016, the recently chosen Prime Minister, Theresa May, announced that her government would invoke Article 50 of the Lisbon Treaty by the end of March 2017 triggering the process of exiting the EU. The purpose of this note is to review the history of the EU and the procedures a country has to follow to withdraw from it. The implications of the British exit, commonly referred to as "Brexit," for US-European trade and the agreement with the EU on the Trans-Atlantic Trade and Investment Partnership (TTIP) will also be addressed.

The six founding countries (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) created the European Coal and Steel Community in 1951 and the European Atomic Energy Community and the European Economic Community (EEC) in 1957. Established by the Treaty of Rome, the EEC was the core institution that would later become the EU. The purpose of these agreements was to unify Europe politically and economically with the hope that greater integration would lead to peace and greater prosperity after half a century of war and conflict, an objective that has clearly been realized. Over the following 60 years, the institutions of the EEC were strengthened and additional European countries joined bringing the current membership to 28 countries (Peterson, 2005). The goal of the EU is to allow free movement of goods and services, capital and people among all its members. It is governed and administered by the Council of Ministers made up of ministers (equivalent to cabinet members in the United States) from all the member states, the European Commission staffed by civil servants appointed from all the member countries, and the European Parliament made up of elected Members of the European Parliament (MEP). The Parliament has limited powers but is the only body that is directly elected by citizens leading many to speak of a "democratic deficit" in the EU. To facilitate the free movement of people, 22 EU countries have joined four non-EU countries in signing the Schengen Agreement of 1985 which eliminated border controls among the signatories. Four EU members are working to join the Schengen Area but Ireland and the UK have opted out (Schengen Visa Information, 2016). In 2002 a common currency, the euro, was launched and in 2009 the Lisbon Treaty was approved to replace earlier treaties that had served as the union's governing texts. The UK, Sweden, Denmark and several Eastern European countries have retained their own national currencies rather than joining the euro area.

The UK is the first country to decide to leave the EU. More than 30 million people voted in June, 2016 which was a 72% turnout with 52% favoring and 48% opposing withdrawal. England and Wales voted for the exit while Scotland and Northern Ireland strongly favored remaining in the EU. Younger, urban voters supported continued EU membership while older, more rural voters favored leaving. Immigration fears were one of the main factors driving the exit vote. Because the UK is not a signatory of the Schengen agreement, Brexit will not affect migration from Africa and the Middle East although it may slow immigration from other EU members such as Romania and Bulgaria. The pro-Brexit campaign argued that membership in the EU undermined UK sovereignty, resulted in costly over-regulation, and subjected the UK to decisions that were not democratically determined as a result of the complicated EU administrative structures. Brexit opponents pointed to the economic benefits of access to the EU's single market, the largest economic entity in the world, which currently absorbs about half of UK exports, as well as financial and other advantages associated with EU membership (Debating Europe, 2016). It is important to note that the EU currently handles a wide range of policies related to agriculture, trade, banking, telecommunications, and security on behalf of the members and Brexit means that the UK government will have to create institutions to replace these services. In addition, the EU has a large number of trade and other external agreements with countries around the world and the UK will have to renegotiate all of these as a result of the Brexit vote.

So what is the next step for the UK? Over the next several months, the UK government will make preparations for invoking Article 50 of the Lisbon Treaty which sets in motion a process for disentangling the UK from the EU that could take up to two years. According to Article 50, any member can withdraw from the EU after notifying the European Council of Ministers, negotiating the conditions of withdrawal, winning a majority vote of the Council and obtaining the consent of the European Parliament. As soon as these processes are completed all the EU treaties will be abrogated in the UK (European Parliament, 2016).

As it will take some time to negotiate the terms of withdrawal, the UK will see no immediate change in policies such as the Common Agriculture Policy (CAP) which applies common agricultural regulations throughout the EU or those related to access to the European market. On the other hand, currency and financial markets have responded quickly to the uncertainties generated by the UK vote. In the days following the decision, the pound depreciated against the dollar by about 11% and then continued to trend downward an additional four percentage points by the time of the Prime Minister's October announcement. Over the longer term, the Brexit vote is likely to have repercussions for the UK economy, the EU, the United States and other trading partners. An example of these impacts is the potential for farmers in Scotland to lose substantial amounts of income from subsidies provided by the EU under the CAP. Agriculture in Scotland is relatively unproductive and many Scottish farmers are likely to go out of business unless the UK government elects to replace the EU subsidies once Brexit is complete (The Guardian, 2016).

The UK is the fifth largest export market for the United States and the sixth largest source of U.S. imports. The U.S. government intends to continue negotiating TTIP with the EU and the President has suggested that a bilateral agreement with the UK once it has left the EU would not be at the top of the U.S. trade agenda. The U.S. Trade Representative has indicated that the UK will face the same tariffs as any other member of the World Trade Organization instead of the special provisions negotiated between the United States and the EU including those created by TTIP if those talks are successful (Wilson, 2016). The UK is the seventh largest export market for U.S. agricultural products and the leading importer of U.S. agricultural products in the EU (see Table 1). Most agricultural trade between the United States, the UK and the EU is in high-value products such as tree nuts, wine, or distilled spirits. Nebraska's agricultural exports to the UK represent only 0.13 percent of its total agricultural exports so the UK is not a significant market for Nebraska agricultural exporters.

It will be many years before the full impact of Brexit is known. Most economic analysts think that the economic impact will be negative in the UK but less significant for the EU or the United States. Beyond the economic impacts, the UK vote is likely to have repercussions for a wide range of foreign policy issues including the unity of the EU, relations between Europe and Russia, and the European response to the global refugee crisis. Because a break-up of this nature has never happened, at least in modern times, there is little precedent to guide predictions about its effects.

Many have argued that the Brexit vote reflected the same anxieties that have fueled anti-globalization movements in the United States, Europe and around the world (Smith, 2016). If that is true, Brexit may be one of the first moves in efforts to unravel the current world order and could signal the coming of a period of increased uncertainty.

Table 1. US Trade with the UK (2015)

	Exports		Imports	
Total US trade of all goods & services with the UK	$123.5 billion		$111.5 billion	
Total US agricultural trade with all countries	$133.1 billion		$113.8 billion	
US-UK agricultural trade	$3.0 billion		$898 million	
	Main US exports to the UK		***Main US imports from UK***	
	Forest products	*$840 million*	*Snack foods*	*$113 million*
	Wine/beer	*$305 million*	*Wine/beer*	*$112 million*
	Distilled spirits	*$231 million*	*Salmon & other fish*	*$114 million*
	Tree nuts	*$206 million*		
Total NE agricultural trade	$3.1 billion		-	
NE-UK agricultural trade	***Main NE exports to the UK***		-	
	Eggs	*$1.6 million*	-	
	Corn	*$0.6 million*	-	
	Prepared foods	*$0.5 million*	-	
	Beef/products	*$0.3 million*	-	

Source: Foreign Agriculture Service, USDA. "Global Agricultural Trade System" at http://apps.fas.usda.gov/gats/default.aspx.

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