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Brexit – The Farming Perspective

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The Imperatives For Irish Farmers and the Agri-Food Sector

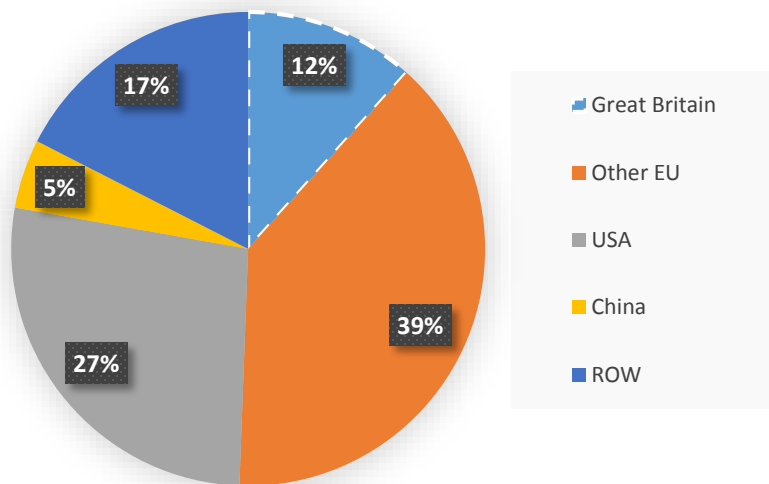
Irish farming & agri-food sector is particularly vulnerable to Brexit

- High dependence on UK market – risk of market loss far exceeds any opportunity
- After Brexit, UK may pursue a cheap food policy cutting tariffs on agricultural products
- Land border with Northern Ireland – potential to disrupt trade flows, and undermine animal health cooperation
- Importance of CAP budget to farm income – UK a net contributor of €10.5b to EU budget

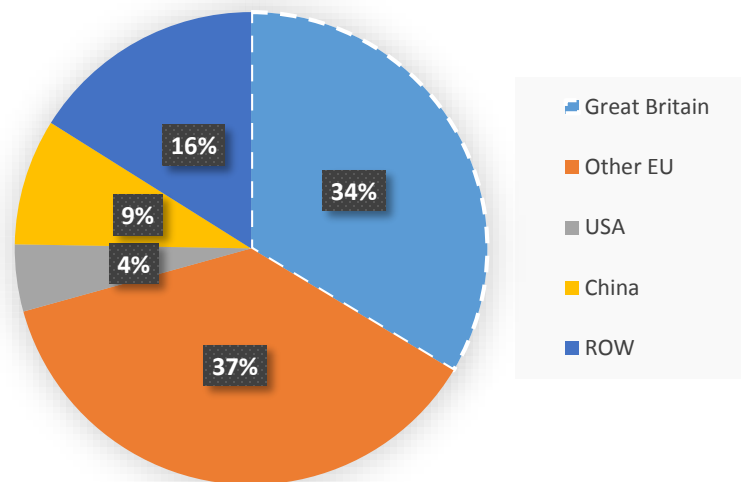
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Importance of UK market for Irish food exports

Goods exports Jan-July 2017



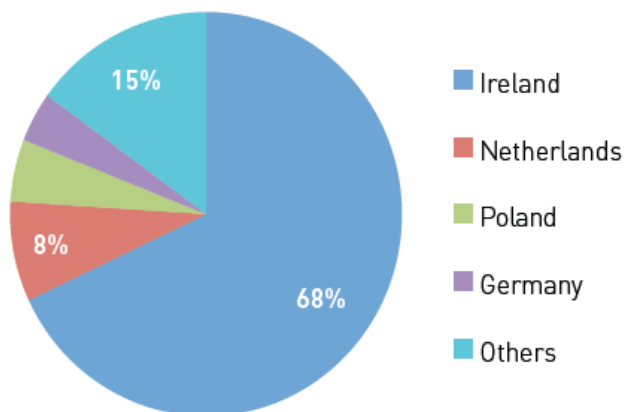
Food exports Jan-July 2017



- Strong export growth in first half of 2017 – overall goods exports up 7%
- Food exports performing very strongly – up by 16%
- **Diversification** occurring in food exports – USA up 43%, ROW up 22%
- However UK remains a very strong market – food exports up by 9%

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Figure 3.4 UK Beef Imports 2015²¹



Key Issues – Beef

- UK is the market for 50% of Irish beef exports
- UK a net importer of beef (65% self sufficient)
- A high value market for beef - prices consistently above EU average.
- Reduction in **access** to and **value** of UK market would have a very negative impact
- Irish exports to UK represent ~10% of the intra-EU beef trade
- Displacement of Irish beef exports to UK could destabilise EU market

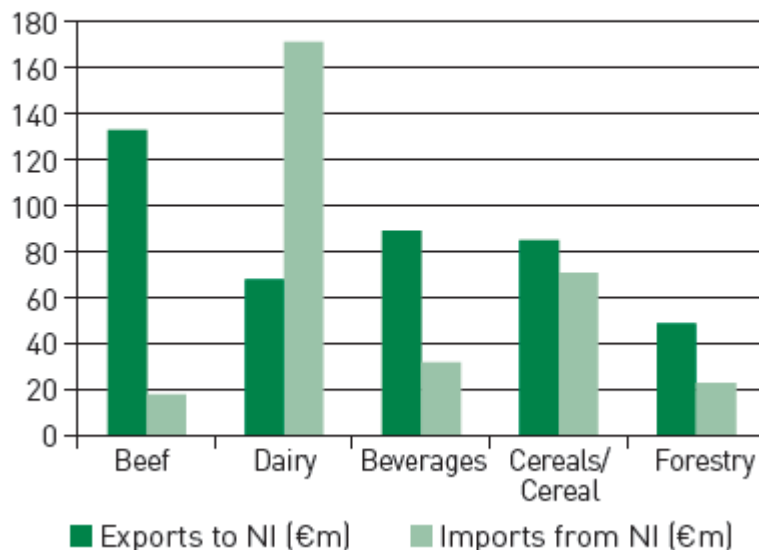
Dairy

- Almost 1/3 of Irish dairy exports go to UK - 53% of our cheese exports
- Product dependence – Irish cheddar cheese - 82% of all UK cheddar imports

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Importance of Ireland-Northern Ireland agri-food relationship

Figure 2.2 Key agricultural products traded between Ireland and Northern Ireland 2015¹⁰



After 45 years, agri-food sector is highly integrated with close cooperation

All-island animal health and welfare strategy – facilitating the free movement of animals on the island

- Food and Live Animals account for 33% of all NI exports to Ireland - £732m
- NI imports of food from Ireland - £796m
(Northern Ireland Trade Data and Statistics, HM Government, August 2017)

- **NB** While food trade within island of Ireland is hugely valuable
- British market for Irish and NI food is worth 3-4 times more than the Irish/NI food trade within the island of Ireland



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UK Customs Position

- Will leave Single Market and Customs Union at end March 2019
- Proposing a transitional arrangement ('implementation period') of up to 2 years after exit – in which terms of trade remain the same as within EU (May's Florence speech), so that businesses would have to plan for one set of changes

UK proposals on future Customs arrangements

- **A highly streamlined customs arrangement**
 - A customs border between the EU and UK (including Ireland & NI)
 - Burden would be minimised by technology, 'trusted trader' agreements and
 - An exemption for all small traders across the Irish border, accounting for 80% of trade
- OR
- **A customs partnership**
 - UK undertake EU's customs procedures for goods entering the UK and destined for EU
 - separately apply UK customs for goods entering the UK and destined for the UK market.
 - suggest that this would remove the need for any border



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UK position on the Border?

- Wishes to avoid a hard border for the movement of goods – this can only be finalised in the context of the future relationship between the EU and the UK.
- Will not accept any physical border infrastructure at the Border
- UK's solutions for this are based upon its customs proposals
- If the UK undertakes the customs and sanitary and phytosanitary (SPS) checks on products coming into a UK port but destined for the EU market on behalf of the EU
- Then, no need for an EU Member State (e.g. Ireland) to then check the product as it entered our market.



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IFA Response to UK position

UK conducting its own independent trade policy would result in two different trading and regulatory regimes on the island of Ireland – border checks required

Why?

- If different tariffs are applied to agri & food products imported into the UK and EU
- If different food safety/animal health/production standards are applied to food produced within the EU and within the UK
- If different food safety/animal health/production standards (e.g. hormones) are applied to imports entering the EU and the UK

If the UK really wants to minimise the need for border checks

- Then UK will have to compromise on their future trade ambitions with third countries in the area of agricultural and food products.

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Impact of Potential Scenarios – Irish Agriculture

Table 6.1 Impact on farm incomes of reduced CAP budget and lower UK prices

Farm Enterprise	Estimated % Reduction in Income	Estimated Reduction in Income (€)
Dairy	-20%	-13,000
Cattle Rearing	-37%	-4,000
Cattle Finishing	-37%	-5,000
Sheep	-21%	-3,000
Tillage	-22%	-7,000

Teagasc

- 10% reduction in CAP budget & reduced import tariffs on UK food prices
- Average Farm Income would fall 26% - National Farm Income down by €700m

ESRI analysis on trade flows of 'hard Brexit' (WTO tariffs)

- Potential reduction in EU trade to the UK of over 60% for dairy and 85% for meat products
- Irish context - value of meat exports to the UK could fall by €1.5b, value of dairy exports could fall by €600m (2015 exports)

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How to respond?



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Or ... Set out clear priorities and get to work influencing





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1st Key Priority - Maintaining ACCESS to & VALUE of the UK Market

EU strategic objective must be the maximisation of the future value of the EU farming and food sector

How?

‘Optimum outcome’ – UK remain within Customs Union & Single Market

- Would address both trade and ‘border’ issues

Next best option - Comprehensive FTA between the EU and UK, with:

- Tariff-free trade for agricultural products and food;
- Maintenance of equivalent standards on food safety, animal health, welfare and the environment; and
- Application of the Common External Tariff for food imports to both the EU and UK.



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Is this allowable?

Article XXIV GATT 1994

- “with respect to a customs union/ free trade area ... the **duties** and other regulations of commerce imposed at the institution of any such union ...
- in respect of trade with contracting parties not parties to such union ...
- **shall not on the whole be higher** or more restrictive than [those] ...
- **applicable** in the constituent territories **prior to the formation of such union**”

Interpretation

- Tariffs and duties on third countries after an agreement (e.g. UK-EU) cannot be higher than tariffs and duties in place before the agreement

***“... flexible and imaginative solutions ...”* Barnier**



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2nd Key Priority – A strong CAP budget post 2020

- Brexit implications for CAP budget – 38% of EU Budget
- No reduction in CAP budget arising from UK exit – net shortfall of €3 - €4b/year
- Critical for farm incomes, farm output and wider economic activity

Background - Debate on Future of Europe

- Brexit happening at a critical time in debate on the future of the EU finances
- MFF 2021-2028 – initial proposals expected by mid-2018
- IFA - Member States should increase % GNI contribution, if required
- Unacceptable that existing common policies, such as CAP & Cohesion would simply be reduced to fund new priorities or make up Brexit gap



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Additional Brexit Priorities

- **Support for Market Disturbance** arising from exchange rate volatility
- pressure on suppliers & producers since UK Gen Election 85p – 92p
- **Flexibility on State Aid rules** for Member States whose competitiveness vs EU trading partners has been undermined
- **Increased support for marketing and promotion** on UK and other markets for state agencies (Bord Bia, Enterprise Ireland)
- **Long Term Structural and Adjustment Aid** for sectors negatively impacted by changes to UK-EU relationship



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Overview of Brexit Negotiations

- UK Art 50 notification 29 March 2017 – 2 year timeframe to ensure UK's orderly withdrawal
 - UK exit on 30 March 2019 (unless unanimously extended by MS)
- Negotiations began June 2017 after UK GE - EU wants them concluded by Oct 2018 to allow for E Parliament ratification
- **In Phase I**, EU requires “sufficient progress” on the ‘divorce bill’, citizens’ rights and Ireland, before moving to ...
- **Phase II** on transitional arrangements and the framework for the future UK-EU relationship
 - after December summit?
- Divorce bill is the major issue to be resolved in Phase I to achieve “sufficient progress”, Ireland is tied into the future relationship, eg border arrangements



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Transition or 'Implementation' Period

- Purpose - to provide stability between UK exit in late March 2019 and completion of negotiations on future relationship
 - In everyone's interests to avoid a cliff-edge, prevent an economic shock & provide more time to adjust to new market conditions
- **EU points out:** agreement on future relationship, including a Free Trade Agreement, can only be concluded once the UK is a third country (& believes it will take years)
- Transition period must be clearly defined, limited in time & subject to effective enforcement mechanisms – could include prolongation of the EU acquis (EU body of legislation)
- **UK wants** agreement on implementation period of around 2 years during which '**access to one another's markets should continue on current terms**' (Florence speech)
- And to have reached an agreement about future partnership by end March 2019.



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Towards a Future Relationship? 1

- **No deal means going over the cliff-edge**
 - Immediate hard border, customs procedures to ensure goods qualify for access, SPS (sanitary & phytosanitary) rules, rules of origin checks, delays, huge costs to supply chains
 - Prohibitive tariffs applied each way – probably default WTO most favoured nation tariffs applied by UK and Common External Tariff by the EU
- **UK opening position** (Florence speech):
 - No longer members of SM or CU – UK will have its own trade negotiations
 - A new balance of rights and obligations – can't have all the benefits
 - A new, deep and special partnership – not based on EEA (EU rules, no vote) or Canada CETA ('we can do so much better')
 - No tariffs, a commitment to high regulatory standards & a strong and appropriate dispute resolution mechanism
- **EU position is not defined** – Oct Summit gave go-ahead for internal EU27 discussions



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Towards a Future Relationship? 2

- **EU position is not defined** – Oct Summit gave go-ahead for internal EU27 discussions
- Yesterday Barnier made his clearest statement yet in Rome on what it means to leave the EU, SM and CU. These choices have consequences.
- It is not possible to be half in and half out of the single market.
- It is not possible to end the free movement of persons, while retaining the free movement of goods, services or capital by means of a generalised system of equivalences.
- It is not possible to leave the single market and continue to set the rules.
- It is not possible to leave the customs union but expect to enjoy frictionless trade with the EU
- There will be no future partnership without common rules. There will be no close trade links without a level playing field.
- Establishing the rules will not be so easy, because ... it will be more a matter of managing regulatory divergence than of encouraging convergence.



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Some Observations I

- If you think Phase I negotiations are difficult, Phase II will be much more difficult
- **UK business needs certainty on Transition** by early 2018 – to avoid triggering contingency plans – UK may have to apply the EU acquis (body of legislation)
- **UK cannot ‘have its cake and eat it’** – the deeper free trade agreement (FTA), the greater the UK loss of control. Difficult trade-offs between:
 - **Close relationship with SM and CU** – with regulatory alignment on standards, supply chains not impacted on goods covered, passporting for financial services retained, but EU budget contributions & limited ability to negotiate trade deals, and
 - **Shallow FTA with zero tariffs**, future UK regulatory flexibility & freedom to negotiate FTAs with 3rd countries, no budget contributions, but costly friction at borders



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Some Observations II

- **UK-USA FTA is seen as a post Brexit priority** – comments by US Commerce Sec Wilbur Ross highlight the UK's dilemma
- US wants UK to deliver continued passporting for financial services from EU, while rejecting EU food standards on GM crops and chlorine-washed chicken to facilitate a UK-US deal post Brexit!
- **UK government is divided** & has not settled on what it wants
- But EU account for 44% of UK exports, US 15%
- **Risk to Irish farming and food sector arises from UK self-harm**



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Conclusions

- Agriculture & Food must remain an absolute priority for Ireland in negotiations
- Influencing EU negotiations, other Member States and UK colleagues remains key
- Ireland needs EU to make agriculture & food one of its priorities
- Minimise uncertainty – ie agreement in December to commence discussions on future EU-UK relationship and Transition



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Thank you for listening