Brexit: The Imperatives for Irish Farmers & the Agri-Food Sector

IFA Policy Paper
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FOREWORD

Brexit presents the most serious threat to Irish farming and our agri-food sector in the history of the State. With 40% of our food exports going to the UK, no other Member State and no other sector is as exposed in these negotiations. The short-term uncertainty has led to the depreciation of sterling, putting serious pressure on Irish farmgate prices and exports.

The UK is a high value market, sharing similar consumer preferences to Irish consumers. Irish farmers and processors have developed systems of production and specifications to match market requirements in the UK. Both producers and processors have invested significant resources in meeting the EU’s world-leading standards of production.

Ireland is the only Member State to share a land border with the UK, and every year thousands of animals and huge volumes of agricultural produce cross the border with Northern Ireland for further finishing or for processing, as part of a complex supply chain. These trading links have built up over many years and are critically important for farmers and processors on both sides of the border.

IFA is clear that farming and food must be at the top of the Brexit agenda, not only in Ireland but at EU level. The key priorities for the agriculture sector in these negotiations are:

- the maintenance of the closest possible trading relationship between the UK and EU, while preserving the value of the UK market; and
- the provision of a strong CAP budget following the UK’s departure, which is critical for farm incomes, farm output and economic activity in rural Ireland.

The purpose of this document is to set out for political leaders in Ireland and the EU the critical issues for Irish farming and the food sector in the negotiations and identify the outcomes that must be delivered to secure the interests of this vital sector in the years ahead. Over the coming months, IFA will be engaging with stakeholders in the Oireachtas, Government Departments, European Parliament and European Commission on these issues. We will also be engaging with the wider agri-food industry and with farming organisations across Europe to secure support for IFA’s position and cooperation on key issues.

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GLOSSARY OF TERMS

**Single Market**
The Single Market refers to the EU as one territory without any internal borders or other regulatory obstacles to the free movement of goods and services. It encompasses the 'four freedoms' – that is the free movement of people, goods, services and capital.

**Customs Union**
A Customs Union eliminates customs duties in bilateral trade and establishes a joint customs tariff for foreign importers. The EU customs union is a single trading area where all goods circulate freely, whether made in the EU or imported from outside. Duty on goods from outside the EU is generally paid when they first enter the EU.

**European Court of Justice (ECJ)**
The ECJ (Court of Justice of the European Union (CJEU)) interprets EU law to make sure it is applied in the same way in all EU countries, and settles legal disputes between national governments and EU institutions.

**Common Customs Tariff/ Common External Tariff**
The 'Common Customs Tariff' (CCT) applies to the import of goods across the external borders of the EU. It is common to all EU members, but the rates of duty differ from one kind of import to another depending on what they are and where they come from. The rates depend on the economic sensitivity of products. The tariff is the name given to the combination of the classification of goods and the duty rates which apply to each class of goods. In addition, the tariff contains all other Community legislation that has an effect on the level of customs duty payable on a particular import, for example country of origin.

**Free Trade Agreement (FTA)**
A Free Trade Agreement is a reciprocal preferential trade agreement between two or more partners which seeks to remove or reduce customs tariffs in bilateral trade.

**Country of Origin**
Origin is the ‘economic’ nationality of goods traded in commerce. The nationality, the value and the tariff classification of goods must be determined in order to know which duties and charges apply to them, as well as any customs restrictions or special requirements.

**Rules of Origin**
Where a country is part of a preferential agreement with the EU (e.g. a FTA) and intends to export a product into the EU, it is not enough that the product is exported from that country. The product needs also to be originating in that country. Rules of origin determine if a product may be considered originating in that concrete country and therefore receive the preference.

Regional Trade Agreement (RTA)
Refers to any reciprocal preferential trade agreements between two or more partners. These can take the form of a Customs Union or Free Trade Agreement. Generally speaking, RTAs must cover substantially all trade and help trade flow more freely among the countries in the RTA without raising barriers to trade with the outside world.

Tariff Rate Quotas (TRQs)
A Tariff Rate Quota (TRQ) is an import quota that allows a certain volume or value of imported product to enter a country/trading bloc at a reduced, or nil, tariff rate.

World Trade Organisation (WTO)
The World Trade Organization (WTO) is the global international organisation dealing with the rules of trade between nations. It is a forum for governments to negotiate trade agreements, a place for them to settle trade disputes and it operates a system of trade rules.\(^4\)

Most Favoured Nation (MFN)
Most Favoured Nation tariffs are what countries promise to impose on imports from other members of the WTO, unless the country is part of a preferential trade agreement (such as a free trade area or customs union). This means that, in practice, MFN rates are the highest (most restrictive) that WTO members charge one another.\(^5\)

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\(^4\) [https://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm](https://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm)

EXECUTIVE SUMMARY

Introduction
The decision by UK voters in June 2016 that the country will exit the EU is already having a negative impact on Irish agriculture, particularly in terms of currency fluctuations and investment uncertainty.

Agri-food exports were an estimated €570m less than they otherwise would have been in 2016, due mainly to the weakening of sterling. This had a direct and negative follow on impact on product prices and farm incomes, with beef farmers taking a hit of €150m from this alone.

Irish farming and the agri-food sector are particularly vulnerable to Brexit for a number of reasons.

- Ireland’s agri-food sector has a high dependence on the UK market. Disruptions to this market, through the imposition of tariff barriers, border checks, certification requirements, or other regulatory changes could all render this trade uneconomic.
- High EU tariff protection applies to products of major importance to Irish farmers, namely beef, dairy products and lamb. In the event of a significant reduction in import tariffs by the UK for other exporting countries post Brexit, the competitive positioning of Irish products on the UK market will be undermined.
- The existence of the land border between Ireland and Northern Ireland creates an additional challenge, with the potential to disrupt the highly integrated trade flows in agri-food products and to undermine the strong cooperation that exists on animal health and welfare.
- Finally, as a net contributor to the EU budget, the UK exit from the EU creates uncertainty on the size of the EU and CAP budgets post 2020. A reduction in the CAP budget post 2020 would directly and negatively impact on Irish farm incomes across all sectors.

Importance of the Ireland-UK agri-food trading relationship
The UK is Ireland’s largest market for food and drink, accounting for 37% of all food and drink exports in 2016, or over €4.1b.

Ireland is also a significant importer of food, with a high dependence on the UK and EU markets for its food imports. In 2016, Ireland imported almost €7b of food and live animals, of which almost €2.8b was sourced from the UK.

The shared land border between Ireland and Northern Ireland has resulted in the development of a highly integrated agri-food sector, with large volumes of trade annually in live animals, finished products and products requiring further processing. Overall, in 2015, exports of agricultural products from Ireland to Northern Ireland (including food, drink, forestry and animal by-products) were €750m, with imports from Northern Ireland of €567m.

A key element supporting the trade flows between Ireland and Northern Ireland is the significant cooperation in the area of animal health and welfare. The objective of the All-Island Animal Health and Welfare Strategy is the development of policies which facilitate free movement of animals on the island.

6 References to farming include the forestry sector throughout this report
The UK market is a hugely important market for Irish goods and exports in general. By comparison with the agri-food sector, however, there is a much lower dependence on the UK market across other sectors in the Irish economy, with Ireland exporting €15.6b of total goods exports (13.9%) and €18b (18%) of services to the UK.

Overall, the Irish farming and food sector has a higher dependence on the UK market when compared with other sectors in Ireland, and is therefore the most exposed sector to any negative economic impact of the UK Brexit decision.

**Structure of the UK Agri-Food market**

At 61% self-sufficiency, the UK is a significant net importer of food, with €38b of food imports in 2015, compared with exports of £18.1b.

Nine of the top ten countries of origin for UK food imports are in the EU, with a total import value from these countries of over £25b, while seven of the top ten destinations for UK food exports are in the EU (totalling £9b of UK exports, of which Ireland is the destination for £3b).

Other EU countries for which the UK is an important destination for food exports are the Netherlands (£4.7b of exports in 2015), France (£3.9b, similar to Ireland) and Germany (£3.5b). However, for all of these countries, dependence on the UK as an export market for food products is much lower than Ireland, with the UK representing between 7-10% of their food exports, compared to 37% for Ireland.

The following provides some key information on the importance of the UK market in sectors of strategic importance for Irish farming and food.

**Beef**

- With 65% self-sufficiency, the UK is a net importer of beef. Ireland is the main import supplier, accounting for almost 70% of UK beef imports.
- The UK is the market for 50% of Irish beef exports, with a further 45% going to the EU market.
- The UK is a high value market for beef, with prices consistently above the EU average.
- Overall, a reduction in access to and the value of the UK market would have a very negative impact on the Irish beef sector, and potentially on the overall EU beef market.
- As a mature market, the capacity of the EU beef market to absorb increased imports is low. Irish beef exports of 270,000 tonnes to the UK represent almost 10% of the intra-EU beef trade. The displacement of these exports would therefore have a destabilising effect on the overall EU market.

**Dairy**

- In 2016, 34% of Ireland’s dairy exports went to the UK, representing 53% of cheese exports, 29% of butter and 12% of SMP (Skim Milk Powder).
- Exports of cheddar cheese were 78,000 tonnes, representing 82% of all cheddar imported by the UK in 2016. Ireland is the only significant exporter of cheddar to the UK market and the UK market is the only market of significance for Irish cheddar.
- For Milk and Cream, the UK is a significant net exporter. In 2016, Ireland imported over 800m litres of milk from Northern Ireland for processing. Of this amount, approximately 120m litres were sold as fresh milk, accounting for 25% of the Ireland’s fresh milk market.
- Retention of tariff-free access to the UK market is critically important, particularly for Irish cheddar exports. Overall, the loss of or disimproved access to the UK market could have a destabilising impact on the overall value of the Irish dairy sector.
In addition, the uncertainty surrounding the future trading relationship between the UK and EU presents a particular threat to the current highly integrated all-island milk processing structures.

Sheep
- Ireland exported 13,000 tonnes of sheep meat to the UK in 2016.
- In the UK market, almost 90% of UK lamb imports come from outside the EU (New Zealand and Australia), while UK exports go predominantly to four EU Member States, with France accounting for 50% of these.
- The key issue for the sheep sector will be the decisions taken on the division of the large EU TRQ for New Zealand lamb– any displacement of NZ lamb imports, which currently go to the UK market, could have a negative impact on the overall value of the EU lamb market.

Pigmeat and Poultry
- There is significant bilateral trade between Ireland and the UK in pigmeat and poultry products, which has been built up over many years. The disruption to existing trade flows, through tariff barriers, or other increases in costs, would reduce the overall value of these markets.
- In addition, the continuation of cross-border trade of pigs for processing is a critical issue, reflecting the overall processing capacity of the sector on the island of Ireland.

Tillage
- In the tillage sector, Ireland is a net importer of grains. The geographical closeness to Northern Ireland results in some grain farmers exporting their product to Northern Ireland, rather than selling to more distant parts of Ireland.
- The imposition of tariffs on UK imports would potentially result in a re-sourcing of imports from the EU, with increased transport costs.
- On the inputs cost side, the exit of the UK from the EU presents a significant threat of increased costs and reduced availability for plant protection products and animal health remedies.

For the Mushroom sector, the UK represents 90% of the value of Irish exports, or over €80m. Barriers to trade, through tariffs, or other additional costs would undermine significantly this sector.

Finally, the Forestry sector has a high reliance on the UK market, and has experienced major growth in exports to the UK in recent years doubling its UK market share of sawn softwood timber since 2007, while 65% of panel products produced in Ireland are exported to the UK.

For Irish agriculture, it is clear that almost all sectors would be impacted negatively by changes to the trading relationship with the UK, whether through reduced access and/or a reduction in the value of the UK market. The potential redirection of significant volumes of Irish food exports onto the EU market is likely to result in a reduction in the value of these markets, affecting Irish and EU producers.

EU Membership and structures
In order to analyse the potential implications of Brexit, it is necessary to understand the level of integration that has been achieved within the EU, and the different structures that operate.
Through the combination of the Customs Union and Single Market, which form the Economic Union, the EU is built on what are known as the ‘Four Freedoms’, i.e. the free movement of people, goods, services and capital.

In certain policy areas, the EU operates common policies such as the Common Agricultural Policy (CAP) and Common Fisheries Policy. Common policies involve a higher degree of integration for those sectors throughout the union, together with common financing of the policy from the EU budget.

The European Court of Justice interprets EU law to make sure it is applied in the same way in all EU countries, and settles legal disputes between national governments and EU institutions.

Trade between EU countries and the rest of the world is governed by the rules of the World Trade Organisation (WTO). The EU operates as a unit within the WTO, with the European Commission responsible for conducting negotiations on behalf of Member States.

The EU budget finances various activities which underpin its policies, including agriculture (CAP), structural and cohesion funding, research, fisheries and education. It is financed by contributions from each Member State, and the UK is a net contributor of approximately €10.5b annually, to a total budget of €150b.

The UK exit will, therefore have implications for the EU budget, and the CAP budget, which comprises 38% of the overall EU budget. A UK exit, with no further contributions to the EU budget could reduce the CAP budget by up to €3b annually, or 5%.

Irish farming receives over €1.5b annually through Basic Payments and the Rural Development Programme, with direct payments accounting for 65% of farm income across all sectors. A reduction in the CAP budget, with no other changes in prices, or input costs, will directly and negatively impact on farm incomes, and, in turn, on the wider rural economy.

The Brexit Process
The UK intention is to trigger Article 50 of the Treaty on the European Union, the legal mechanism for withdrawal from the EU, by the end of March 2017. The UK Government’s broad political priorities include the ability to control its borders against inward migration, the return of law-making from the EU to Westminster, a significant reduction in financial contributions to the EU budget, negotiation of a favourable degree of future access to the EU 27 market, and negotiation of new trade agreements with non-EU countries.

The indications are that the key priorities for the EU in the exit negotiations are:

- What the UK will have to pay to leave (i.e. its share of any remaining financial commitments);
- The movement of EU institutions that are currently located in the UK;
- Agreement on the UK environmental obligations;
- The rights of EU citizens already living in the UK and UK citizens already living in the EU; and
- The special situation concerning land boundaries between the EU and UK, specifically Northern Ireland and Gibraltar.

The EU strategy on the negotiations with the UK, as indicated in statements from the European Council, Commission and Parliament in the months since the referendum, is that the UK must first activate Article 50 before any negotiation takes place, and the focus of discussions will primarily be on the exit negotiations. The UK will be negotiating with the EU as a whole, and not with individual countries - any agreement between Ireland and the UK in relation to Northern Ireland, for example, would require overall EU agreement.
The UK will withdraw from the EU in one of three circumstances:

- Within two years, with agreement on a deal.
- At the end of two years, with no agreement.
- After more than two years, with the unanimous agreement to an extension by all Member States.

It is unclear at this stage whether the withdrawal agreement will contain some broad principles of agreement on the future political and trading relationship between the EU and the UK, and when negotiations on the future arrangements between the EU and UK will commence.

The UK is a member of the WTO, but its membership terms are currently incorporated with the EU’s. Aside from the complex task of attempting to negotiate and agree a new relationship between the EU and the UK, other issues that must be resolved include:

- The process for re-establishing the UK’s status in WTO in its own right, and the tariff regime that it may adopt or inherit – with the potential for high MFN tariffs on products (e.g. a tariff rate of 12.8% + €303.40/100kg for high quality beef).
- The division or disentanglement of the UK from existing EU trade deals with third countries, and the potential share out of TRQs allocated to third countries (e.g. New Zealand lamb).
- The formation of new trade relationships with third countries – likely to be impacted significantly by the negotiations on the new trade relationship with the EU.

Overall, it is recognised that a balance must be found in the negotiations to ensure the maintenance of a strong EU into the future, and that the UK withdrawal arrangements do not allow it to retain all of the rights and benefits of EU membership. Notwithstanding these concerns, it is critical from an Irish farming and food perspective that:

- A Withdrawal Agreement is reached;
- Negotiations commence on the future relationship between the EU and UK within a short period of time, and;
- If required, a transition arrangement is put in place which will bridge the gap between the UK exit and final agreement on a new EU-UK trading relationship.

Future arrangements between the UK and the EU

With discussions between the EU and UK yet to commence, it is unclear at present what the future trading relationship will be between the EU and UK. However, the UK has clearly outlined the following:

- As it wishes to take full control over the movement of people entering the UK and remove itself from the jurisdiction of the ECJ, it no longer wishes to remain part of the EU Single Market.
- It wishes to be allowed to negotiate new trade agreements with non-EU countries and to no longer be bound by the EU common external tariff. Therefore, it would no longer retain full Customs Union membership.
- It wishes to negotiate a Free Trade Agreement (FTA) with the EU.

In the event that the UK leaves the EU’s Custom Union, the effect will be that Ireland’s border with Northern Ireland will become the EU’s external border. The implementation of a land border, as opposed to a border at Ireland’s ports and airports heretofore, will be a significant challenge, with the potential that a ‘hard’ customs border will be introduced for trade between Ireland and Northern Ireland.
Reduced access to the UK market through tariff barriers, a diminution of the value of the UK market through increased imports from lower cost countries, and the potential reduction in the CAP budget post Brexit all present significant threats to the future growth and development of the Irish farming and food sector.

In a scenario where there is a 10% reduction in the CAP budget and a reduction in UK food prices, arising from reduced tariffs on imports, Teagasc have estimated that farm incomes could fall by 26%. Applying this to the National Farm Income figure of €2.55b in 2016, would mean a reduction in farm incomes directly of almost €700m.

The worst impacted sector in this analysis is the low income beef sector. Cuts of 37% to cattle farm incomes would gravely undermine the viability of suckler beef production in Ireland, and substantially reduce the size of the 1m suckler cow herd. This would jeopardise the livelihoods of the 100,000 farmers involved in livestock and beef production resulting in thousands of job losses and losses in export earnings.

Analysis undertaken by the ESRI (Economic and Social Research Institute) on the impact of a ‘hard Brexit’ on trade flows (i.e. WTO trading rules apply following the UK exit) showed a potential reduction in EU trade to the UK of over 60% for dairy and 85% for meat products. Translating this to an Irish context, the value of meat exports to the UK could fall by €1.5b, while the value of dairy exports could fall by over €600m.
PRIORITIES

Maintaining access to and value of the UK market
The retention of tariff-free access to and maintenance of the value of the UK market is a key priority for Irish farming and the food sector in the Brexit negotiations. In addition, the potential disruption to trade flows between Ireland and Northern Ireland, with their highly integrated agri-food sector and complex supply chains, must be minimised.

The imposition of tariffs on EU agri-food exports to the UK could make this trade uneconomic. In addition, an increase in low cost food imports that undermines the value of the UK market would have a devastating effect on the Irish agri-food sector and on other EU agri-food exporters for whom the UK is an important trading partner. The value of EU agri-food exports cannot be undermined by an increase in low cost food imports into the UK market, which do not meet the high food safety, animal welfare, health and environmental standards that are required of EU producers.

Overall, the displacement of Irish food exports from the UK market could create a serious market disturbance on the EU market, potentially destabilising the EU market balance. The retention of access to and maintenance of the value of the UK market is critically important, therefore, not just for the Irish farming and food sector, but for food producers and the food industry across the EU.

IFA believes that the EU must set as a strategic objective in the Brexit negotiations the maximisation of the future value of the EU farming and food sector.

To achieve this, the optimum outcome for Irish farming and the agri-food sector is that the UK would remain within and fully compliant with the Single Market and Customs Union.

If this outcome is not possible, the EU must seek to negotiate a Comprehensive Free Trade Agreement between the EU and UK, which would include the following specific elements for agriculture and food:

- 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 imports to both the EU and UK.

A strong CAP Budget Post 2020
A strong CAP Budget post-2020 is critical for farm incomes, farm output and wider economic activity. A reduction in spending power for Irish agriculture arising from a cut in direct payments to farmers would have a significant and negative knock on impact on the demand for goods and services in the rural economy.

EU solidarity with farmers requires that there must be no reduction in the CAP budget arising from the UK exit. Options to make up any shortfall in the EU budget must include contributions from the UK withdrawal payment and from the remaining Member States.
Support for Market Disturbance
The volatility of the euro-sterling exchange rate during the Brexit negotiations presents a clear threat to the competitiveness of Irish agri-food exports with the potential to undermine the viability of primary producers, processors and exporters.

Direct support for farmers through CAP Market Support or other measures must be made available in the event that sterling further depreciates during exit discussions, impacting negatively on farm incomes and livelihoods.

Flexibility on State Aid rules
The market disturbance caused by the sterling depreciation is impacting unequally on different Member States and different sectors, depending on their exposure to trade with the UK. Ireland, and the Irish agri-food sector in particular, are hugely impacted by the exchange rate movements that have occurred as a result of the UK referendum.

EU State Aid limits must be extended in Member States that have been disproportionately impacted by the depreciation of sterling, and whose competitiveness versus their EU trading partners has been undermined.

Increased support for marketing and promotion
As an export dependent sector, increasing market access remains critical for the growth of the Irish farming and food sector. This challenge has been intensified by the UK Brexit decision and the uncertainty it creates for access to the UK market.

Increased funding, at both Irish and EU level, must be provided to Bord Bia and other state agencies, to support the promotion of agri-food exports on the UK market and the diversification of products into new markets.

Minimising uncertainty during the negotiation process
The exit of the UK from the EU is an unprecedented event, and with no previous experience of a withdrawal negotiation, has led to considerable economic uncertainty, with the potential for significant economic damage to both the EU and UK economies.

In order to minimise economic uncertainty and the potential for major economic damage for exposed sectors, discussions on the future EU-UK relationship must be commenced early in the negotiating process.

In addition, there must be a commitment to implementing a transitional arrangement, if necessary, between the UK exit and agreement on the future EU-UK relationship. This must be implemented to minimise disruption and damage to trade and farmers’ livelihoods in that time period.

Providing Structural and Adjustment Support
Any changes to the trading relationship between the EU and UK that reduce market access, and increase barriers to trade, have the potential to disrupt trade flows, reduce the value of exports, and, ultimately negatively impact on farm incomes and employment in exposed sectors.

The EU must make available structural and adjustment funding to the farming and food sectors that are negatively impacted due to changes in the relationship that is negotiated between the EU and the UK.
INTRODUCTION

The decision by UK voters in June 2016 that the country will exit the EU is already having negative implications for Irish agriculture, particularly in terms of currency fluctuations and investment uncertainty. The weakening of sterling due to the referendum significantly reduced the value of the UK market for the Irish agri-food sector. Agri-food exports were an estimated €570 m less than they otherwise would have been in 2016, due mainly to the weakening of sterling. This had a direct and negative follow on impact on product prices and farm incomes, with beef farmers taking a hit of €150m from this alone.

The Irish agri-food sector is particularly vulnerable to Brexit for a number of reasons. Ireland’s agri-food sector has a high dependence on the UK market, with almost 40% of agri-food exports going to the UK. It is a high value market, and Irish farming and food production has adapted over many years to meet the consumer preferences in the UK. Disruptions to this market, through the imposition of tariff barriers, border checks, certification requirements, or other regulatory changes could all render this trade uneconomic.

In addition, high EU tariff protection applies to products of major importance to Irish farmers, namely beef, dairy products and lamb. In the event of a liberal agriculture policy in the UK post Brexit, with a reduction in import tariffs for other exporting countries, the competitive positioning of Irish products on the UK market will be undermined, with major potential for a reduction in value of the UK market.

The existence of the land border between Ireland and Northern Ireland creates an additional challenge, with the potential to disrupt the highly integrated trade flows in agri-food products between the two jurisdictions, with the additional potential to undermine the strong cooperation that exists on animal health and welfare, through the All-Island Animal Health and Welfare Strategy.

Finally, as a net contributor to the EU budget, the UK exit from the EU creates uncertainty on the size of the EU and CAP budget post 2020. A reduction in the CAP budget post 2020 would directly impact on Irish farm incomes across all sectors.

This IFA policy paper seeks to set out clearly the issues of most concern to Irish agriculture in the Brexit process through providing an:

- Overview of the Irish-UK trading relationship for agri-food
- Analysis of the UK agri-food market, including supply balance and trade flows
- Overview of existing EU membership arrangements and structures
- Outline of the likely Brexit process; and
- Exploration of the potential future relationships between the EU and UK and the implications arising for the Irish agri-food sector

Based on this analysis, IFA has identified the key priorities for the Irish farming and food sector and has outlined the required measures to counter the threats posed by Brexit. Over the coming months, IFA will be engaging with stakeholders in the Oireachtas, European Parliament and European Commission on these issues. We will also be engaging with the wider agri-food industry and with farming organisations across Europe to secure support for IFA’s position and cooperation on key issues.

7 Bord Bia, Export Performance And Prospects 2016 - 2017
2 IMPORTANCE OF THE IRELAND-UK AGRI-FOOD TRADING RELATIONSHIP

2.1 Importance of the UK Market for Ireland’s Agri-Food Exports

The UK is Ireland’s largest market for food and drink, accounting for 37% of all food and drink exports in 2016, or over €4.1b. This figure represented a decline in value from 2015, where exports to the UK were €4.5b, or 41% of total exports. The decline in value between 2015 and 2016 reflects the significant weakening of sterling, of 13%, in the year, directly resulting from the UK referendum.

Trade between Ireland and the UK is currently undertaken within the EU Single Market; that is a single territory without any internal borders or other regulatory obstacles to the free movement of goods and services.

The table below provides an estimate of the distribution of Irish food exports between the UK, EU and Rest of World destinations. It shows quite clearly the importance of the UK market as a destination for all food and drink categories, while also demonstrating the variation in this figure, and giving a first indicator of the sectors that will be most impacted by changes to the trading relationship between the UK and Ireland.

<table>
<thead>
<tr>
<th>Destination</th>
<th>UK (€m)</th>
<th>EU (€m)</th>
<th>Rest of World (€m)</th>
<th>Total (€m)</th>
<th>UK as a % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy products and ingredients</td>
<td>825</td>
<td>890</td>
<td>1,665</td>
<td>3,380</td>
<td>25%</td>
</tr>
<tr>
<td>Beef</td>
<td>1,180</td>
<td>1,080</td>
<td>120</td>
<td>2,380</td>
<td>50%</td>
</tr>
<tr>
<td>Pigmeat</td>
<td>345</td>
<td>100</td>
<td>170</td>
<td>615</td>
<td>56%</td>
</tr>
<tr>
<td>Sheep</td>
<td>55</td>
<td>175</td>
<td>10</td>
<td>240</td>
<td>23%</td>
</tr>
<tr>
<td>Poultry</td>
<td>235</td>
<td>20</td>
<td>20</td>
<td>275</td>
<td>85%</td>
</tr>
<tr>
<td>Live exports</td>
<td>110</td>
<td>25</td>
<td>15</td>
<td>150</td>
<td>73%</td>
</tr>
<tr>
<td>Edible Horticulture and Cereals</td>
<td>195</td>
<td>35</td>
<td>-</td>
<td>230</td>
<td>85%</td>
</tr>
<tr>
<td>Seafood</td>
<td>70</td>
<td>340</td>
<td>145</td>
<td>555</td>
<td>13%</td>
</tr>
<tr>
<td>Prepared foods</td>
<td>740</td>
<td>565</td>
<td>620</td>
<td>1,925</td>
<td>38%</td>
</tr>
<tr>
<td>Beverages</td>
<td>380</td>
<td>300</td>
<td>720</td>
<td>1,400</td>
<td>27%</td>
</tr>
<tr>
<td>Total</td>
<td>4,135</td>
<td>3,530</td>
<td>3,485</td>
<td>11,150</td>
<td>37%</td>
</tr>
</tbody>
</table>

8 IFA estimate, derived from Bord Bia Export Performance and Prospects 2016-2017
2.1.1 UK Food imports on the Irish market
Ireland is also a significant importer of food, with a high dependence on the UK and EU markets for its food imports. In 2016, 83% of food and live animal imports came from the EU market (including the UK). In total, Ireland imported almost €7b of food and live animals in 2016, of which almost €2.8b was sourced from the UK, with a further €2.8b coming from the rest of the EU. The US accounted for €250m, or 4% of the rest of the food imports, with a further €900m of food imports sourced from the Rest of the World.

The main imported food products were fruit and vegetables, which accounted for €1.2b of imports, cereals & cereal preparations accounting for just over €1b, and meat products, accounting for €950m of imports.

2.1.2 Agri-food trade between Ireland and Northern Ireland
Within the UK, Northern Ireland provides a very important trading partner with Ireland in food and drink products. The shared land border and geographical closeness has resulted in the development of a highly integrated agri-food sector, with large volumes of trade in both finished products and products requiring further processing. Over 400,000 pigs are exported live to Northern Ireland for processing annually, with almost 400,000 lambs imported from Northern Ireland for processing. Over 800m litres of milk are imported from Northern Ireland annually, much of which is processed and exported from Ireland.

Overall, in 2015, exports of agricultural products from Ireland to Northern Ireland (including food, drink, forestry and animal by products) were €750m, with imports from Northern Ireland of €567m. The larger categories of traded products are outlined in Figure 2.2.

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9 Source CSO Trade Statistics Jan-Dec 2016
10 Note, these figures exclude the import of beverages and tobacco, for which imports of over €900m in 2016 (€824m beverages, €96m tobacco) show a similar trade dependence, with 35% of imports from the UK, and 44% from the rest of the EU.
11 CSO Trade statistics Jan-Dec 2015
Box 2.1: Cooperation in Animal Health and Welfare
A key element supporting the trade flows between Ireland and Northern Ireland is the significant cooperation in the area of animal health and welfare. The need for a high level animal health and welfare status throughout the island led the North/South Ministerial Council (NSMC) to commission in late 2001 a programme of work to develop closer co-operation and joint strategies for the improvement of animal health on both sides of the border. It was recognised that cooperation in these areas would maintain and protect the highest standards in animal health and maximise the economic returns from agriculture and food in both jurisdictions. The ultimate objective of the All-Island Animal Health and Welfare Strategy is the development of policies which facilitate free movement of animals on the island.

2.2 Importance of the UK for Ireland as a trading partner across all goods and services

2.2.1 Exports
The UK market is a hugely important market for Irish goods and exports in general. By comparison with the agri-food sector, there is a lower dependence on the UK market across other sectors in the Irish economy. In 2015, Ireland exported €112.4b of goods and €15.6b (13.9%) of these goods went to the UK\textsuperscript{12}. In the services sector, Ireland exported €101.8b in services in 2014 and €18b (18%) of these exports went to the United Kingdom\textsuperscript{13}.

![Figure 2.3 Value of goods exports and agri-food exports to the UK 2015\textsuperscript{14}](image)

2.2.2 Imports
Imports of goods from the UK in 2015 were valued at €18b. This accounted for 25.7% of our total goods imports of €70.1b. For services, UK imports of €11.4b in 2014 accounted for just over 10% of total services imports of €109.4b.

2.3 Conclusion
Across all traded goods and services, the UK is a hugely important market for Ireland, as an export destination, and for imports. However, it is clear that the Irish agri-food sector has a higher dependence on the UK market when compared with other exporting sectors in Ireland, and is therefore the most exposed sector to any negative economic impact of the UK Brexit decision.

\textsuperscript{12} CSO, Brexit, Ireland and the UK in Numbers, 2016
\textsuperscript{13} Ibid
\textsuperscript{14} ROW: Rest of World
3 STRUCTURE OF THE UK AGRI-FOOD MARKET

3.1 Introduction
The UK is not self-sufficient in food production. In 2015, UK food self-sufficiency was calculated as 61% for all food\textsuperscript{15}, and 76% for indigenous food products\textsuperscript{16}.

3.2 UK agri-food trade with the EU \textsuperscript{17}
The UK is a net importer of food, with total food imports valued at £38bn in 2015, and exports of £18.1bn. The UK provides about 52% of its food supply, with the remaining 48% supplied by imports. Of this amount, 29% comes from the EU. The remaining 19% comes for a number of countries, with no one country supplying over 4%.

Table 3.1 Origin of food consumed in the UK 2015\textsuperscript{18}

<table>
<thead>
<tr>
<th>Country</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>52</td>
</tr>
<tr>
<td>EU</td>
<td>29</td>
</tr>
<tr>
<td>Africa</td>
<td>4</td>
</tr>
<tr>
<td>North America</td>
<td>4</td>
</tr>
<tr>
<td>Asia</td>
<td>4</td>
</tr>
<tr>
<td>South America</td>
<td>4</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>2</td>
</tr>
<tr>
<td>Australia / NZ</td>
<td>1</td>
</tr>
</tbody>
</table>

3.2.1 Destination of UK food exports
The UK exported £18.1bn worth of food and drink exports in 2015. Of this amount, over £9bn was destined for seven EU countries, with Ireland accounting for over £3bn of UK food exports alone. Seven of the top ten destinations for UK food exports are in the EU.

\textsuperscript{15} Defined as the farm gate value of raw food production, including that produced for exports, divided by the value of raw food for human consumption
\textsuperscript{16} Food Statistics Pocket Book 2016, Section 3.2 UK Food Production to Supply Ratio, DEFRA 2016
\textsuperscript{17} Figures quoted in Section 3.2 are in Pounds Sterling (£)
\textsuperscript{18} Food Statistics pocket book 2016, Section 3.1, Origin of food consumed in the UK 2015, DEFRA 2016
3.2.2 Origin of UK food imports
Total food imports into the UK in 2015 were valued at £38b. Nine of the top countries of origin for UK food imports are in the EU, with a total import value from these countries of over £25b.

3.3 Trade flows on the UK market for major Irish food products
The following section provides information on the volumes of agriculture and food imports and exports for the UK market in selected sectors, which are of strategic importance from an Irish agricultural exports perspective. The purpose of this section is to highlight the importance, or otherwise of the UK market for Irish exports, and the products for whom the UK is a significant exporter to the EU, identify other EU Member States for whom trade with the UK is important in these products, and to identify the issues of specific concern for sectors, if access to the UK market is significantly reduced in volume or value.

3.3.1 Beef
A major concern for Irish agriculture is the potential impact on the UK beef market as a consequence of Brexit.

The beef sector is Ireland’s largest agricultural sector, with over 100,000 farmers involved in beef and livestock production. In addition, there are an estimated 20,000 people employed in beef processing and the services sectors such as livestock marts, distribution, transport, merchants, input supplies etc. These jobs are located in rural areas generally, contributing to economic activity across all parts of the country. The beef and livestock sector in Ireland is valued at over €2b, with over 500,000 tonnes of beef exports to European markets.

However, at farm level, it is a low income sector, with average farm incomes ranging from €10,000 to €15,000 depending on the enterprise type. Analysis by Teagasc has identified that 40% of farms in the cattle sector are economically vulnerable.

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Within the EU market, beef is considered a highly sensitive product as the costs of production are greater than almost all other markets internationally (smaller farm size, greater costs of compliance).

The UK remains the market for 50% of Irish beef exports, or an estimated 270,000 tonnes\(^{21}\) in 2016. 45% of beef exports went to the EU, with the market for Irish beef outside of the EU representing only 5% of total exports. In addition, the UK is a high value market with prices consistently above the EU average. Ireland’s grass based production system, producing steers and heifers, is geared towards the UK market, with different market requirements (e.g. bull beef) for the continental EU market.

**Figure 3.3** Comparison of cattle prices in the UK vs EU 15\(^{22}\)

Currently, the UK market is only 65% self-sufficient in beef. Ireland is the main import supplier accounting for almost 70% of UK beef imports. The UK is a relatively small exporter of beef, with the main export destinations being Ireland and the Netherlands.

**Figure 3.4** UK beef imports 2015\(^{23}\)

**Figure 3.5** UK beef exports 2015\(^{24}\)

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\(^{21}\) Refers to 270,000 tonnes Carcas Weight Equivalent [weight before bone-out]  
\(^{22}\) [Link to cattle prices](http://www.bordbia.ie/industry/farmers/PriceTracking/Archive/cattle/Pages/Prices.aspx)  
**Key issues for beef**

The import-export figures for beef clearly show the huge importance of the UK market as a destination for Irish exports. With exports of 270,000 tonnes in 2016, the retention of tariff free access to the UK for Irish beef is critical.

The value of the UK market is also critical for the beef sector, with a consistently higher market price than the average EU. A reduction in the value of the UK beef market through lower cost imports would have a direct and negative impact on beef prices, with displacement of Irish beef from the UK market.

Overall, a reduction in access to and the value of the UK market would have a very negative impact on the Irish beef sector, and potentially on the overall EU beef market. As a mature market, the capacity of the EU beef market to absorb increased imports is low. While EU beef production is between 7.5 and 8m tonnes annually, EU consumption has remained stable, at about 7.3m tonnes. Intra-EU trade in beef is approximately 3m tonnes\(^{25}\). The potential displacement of 270,000 tonnes of Irish exports from the UK market (or almost 10% of the total intra-EU trade) could therefore have a destabilising effect on the overall EU market.

### 3.3.2 Dairy

In 2016, 34% of Ireland’s total dairy exports went to the UK, with 53% of all Irish cheese exports, 29% of butter and 12% of SMP (Skim Milk Powder) exports going to the UK in that year. There are significant trade flows between the UK and Ireland in the different dairy products. This is outlined in Table 3.2.

**Table 3.2** UK dairy import and export data by major product category (2016)\(^{26}\)

<table>
<thead>
<tr>
<th>2016 (mt)</th>
<th>UK Imports</th>
<th>Ex Ireland</th>
<th>% to EU27</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk &amp; Cream</td>
<td>144,184</td>
<td>72,222</td>
<td>50%</td>
</tr>
<tr>
<td>Milk Powders</td>
<td>107,209</td>
<td>25,674</td>
<td>24%</td>
</tr>
<tr>
<td>Cultured products</td>
<td>344,295</td>
<td>20,498</td>
<td>6%</td>
</tr>
<tr>
<td>Whey products</td>
<td>59,638</td>
<td>21,772</td>
<td>37%</td>
</tr>
<tr>
<td>Butterfat</td>
<td>93,749</td>
<td>61,995</td>
<td>66%</td>
</tr>
<tr>
<td>Of which: Butter</td>
<td>64,885</td>
<td>40,688</td>
<td>63%</td>
</tr>
<tr>
<td>Cheese</td>
<td>489,875</td>
<td>125,669</td>
<td>27%</td>
</tr>
<tr>
<td>Of which: cheddar</td>
<td>95,116</td>
<td>77,651</td>
<td>82%</td>
</tr>
</tbody>
</table>

In 2016, Ireland exports of cheddar to the UK were 78,000 tonnes, representing 82% of all cheddar imported by the UK. Ireland is the only significant exporter of cheddar to the UK market, and the UK market is the only market of significance for cheddar. In other words, the UK has a high dependency on Irish imports for cheddar products, and the Irish cheddar sector is highly dependent on the UK market, with almost no alternative market options.


\(^{26}\) Eurostat
For **Butter**, the UK imported 65,000 tonnes in 2016, of which almost 41,000 tonnes, or 63% of the total, came from Ireland.

By contrast, for **Milk and Cream**, the UK is a significant net exporter. In 2016, Ireland imported 813 million litres\(^{27}\) of milk from Northern Ireland for processing. Of this amount, approximately 120m litres was sold as fresh milk, accounting for 25% of the Ireland’s fresh milk market.

**Key issues for Milk**
Retention of tariff-free access to the UK market is critically important, particularly for Irish cheddar exports, almost all of which are destined for the UK market, and for which there is almost no alternative market. The loss of or disimproved access to the UK market would have a destabilising impact on the overall value of the Irish dairy sector, which would affect all components of the sector, including liquid milk.

In addition, the uncertainty surrounding the future trading relationship between the EU and UK and the application of rules of origin presents a particular threat to the current highly integrated all-island milk processing structures, whereby large volumes of milk from Northern Ireland are processed in Ireland.

### 3.3.3 Pigmeat
Ireland exported 88,000 tonnes of pigmeat to the UK in 2016, representing 38% of the total volume of pigmeat exports. The EU accounted for just over 21% of pigmeat exports, with international markets accounting for 95,000 tonnes, or over 40% of total volume.

UK trade data for the pigmeat sector is divided into trade in ham & bacon and trade in pork, with significant import volumes of both products. Ireland does not represent a significant source of imports for the UK market in ham & bacon, and accounts for just under 10% of UK imports for pork. Denmark, the Netherlands and Germany account for over 90% of ham & bacon imports in the UK, and 60% of pork imports.

Over 80% of UK pork exports are destined for four EU Member States. These are Germany, Netherlands, Ireland and Denmark.

**Figure 3.6** UK pork imports 2015

**Figure 3.7** UK pork exports 2015

Key issues for Pigmeat
There is significant bilateral trade between Ireland and the UK in pigmeat products, which has been developed over many years. The retention of tariff free access to the UK is very important for the pigmeat sector as the disruption to existing trade flows, through tariff barriers, or other increases in costs, would reduce the overall value of these markets. In addition, the continuation of cross-border trade of Irish pigs for processing is a critical issue, reflecting the overall processing capacity of the sector on the island of Ireland.

3.3.4 Lamb
In 2016, Ireland exported 13,000 tonnes of sheep meat to the UK. It is our second largest market, after France, which accounts for 33% of total exports, or 16,000 tonnes.

The distinguishing feature of the UK lamb market is the significant volumes of imports from outside the EU (with New Zealand and Australia accounting for almost 90% of lamb imports). In addition, the UK is the largest EU sheep meat exporter. Almost 85% of its exports go to four EU Member States, with France accounting for over 50% of its exports alone.

**Figure 3.8** UK lamb imports 2015

**Figure 3.9** UK lamb exports 2015

### Key Issues for Lamb
The key issue for the sheep meat sector will be the decisions that are taken on the division of the large EU Tariff Rate Quota (TRQ) for lamb that is available to New Zealand. Any displacement of New Zealand lamb imports, which currently go to the UK market, would have a negative impact on the overall value of the EU lamb market.

3.3.5 Key issues relating to UK market for other Irish food products
For the Mushroom sector, the UK remains the only market of significant value, with estimated exports in 2016 of over 27,000 tonnes, worth €82m, or 90% of total. Exports to the rest of the EU accounted for only 10% of total. Barriers to trade with the UK market would have hugely negative implications for this sector. This is outlined in table 3.3.

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30 IFA Estimate, based upon CSO detailed trade data Jan-Nov 2016
For the **Poultry** sector, there is significant trade between the UK and Ireland in poultry meat and poultry meat products. Over 80% of a total volume of 95,000 tonnes of Irish exports in 2016 were destined for the UK market. A high proportion of these exports are offal-type products, which are redirected to international markets once they reach the UK\(^31\).

The UK exports a significant volume of poultry meat (43,000 tonnes) and poultry meat products (20,000 tonnes) to Ireland\(^32\). In other words, the exports and imports of poultry and poultry meat products between the UK and Ireland are closely balanced.

For the **Tillage** sector, Ireland is a net importer of grains. The imposition of tariffs on imports would therefore result in an increase in the cost of UK grain imports, with the likely re-sourcing of imports from the EU and increased transport costs. In addition, the geographical closeness of Northern Ireland for some grain producing counties results in the exporting of their product, including straw, to Northern Ireland, rather than more distant parts of Ireland.

On the inputs costs side, Ireland benefits from the mutual recognition of plant protection products and animal health remedies, which are registered in the UK. This significantly reduces the costs and increases the availability of these products on the Irish market. The exit of the UK from the EU presents a significant threat in this area, both from an increased cost and reduced availability perspective.

In the **Forestry** sector, roundwood production is forecast to double to 7.9m m\(^3\) by 2035, with almost all of the increase being harvested by farmers, who will require structured support to develop the efficiencies required to achieve these production targets. In addition, continued access to the UK market will be critical for the continued growth of the sector. Ireland’s market share of the UK sawn softwood timber market has more than doubled from 3.3% in 2007 to 7.0% in 2014, with exports of over 6.3m m\(^3\) of sawn timber products. In 2015, 65% of the panel products produced in Ireland were exported to the UK and Northern Ireland. Barriers to trade and increases in the cost of trading forest products to the UK would have significant negative implications for the sector and the achievement of production targets.

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3.4 Conclusions

At 61% self-sufficiency, the UK is a significant net importer of food, with 70% of its food imports being sourced from the EU. The EU provide a very important market for UK food exports also, with Ireland providing its largest export market, and seven of its ten largest markets are in the EU.

There is a strong incentive for the UK to retain free trade on agricultural products with the EU post-Brexit to ensure that the costs of imports, and therefore consumer prices, are not artificially increased. However, the UK may also seek to provide free or low-tariff access to the UK market for food products from other countries.

For Irish agriculture, it is clear that almost all sectors would be impacted negatively by changes to the trading relationship with the UK, whether through reduced access, or a reduction in the value of the UK market.

The most vulnerable sector is the beef sector, accounting for 68%. As a mature market, the capacity of the EU beef market to absorb increased imports, in the event that Irish beef product is displaced on the UK market, is low. The redirection of significant volumes of Irish food exports onto the EU market is likely to result in a reduction in the value of these markets, affecting both domestic EU producers and other intra-EU exporters.

In the dairy sector, the product most impacted by Brexit will be cheddar, of which almost all of Irish exports go to the UK. It should be noted, however, that the UK does not have any other significant market from which it imports cheddar. Similarly, for other sectors, such as the mushroom and forestry sectors, the dependence on the UK market for current exports and potential export growth is a major concern.

For a number of sectors, such as pork, poultry and the liquid milk sector, UK exports to Ireland are very close to, or exceed Irish exports to the UK. A very negative outcome for these sectors would be if the UK were to retain free access to the EU (and Irish market), but, through other trade deals, were to source lower priced products for import onto the UK market.

For the Irish agriculture sector, retention of as free as possible access to the UK market is critical, however, retaining the value of the UK market is equally of importance.
4 EU MEMBERSHIP AND CURRENT STRUCTURES

4.1 Economic Integration in the EU
In order to analyse the potential implications of Brexit, it is necessary to understand the level of integration that has been achieved within the EU, and the meaning of the different arrangements/relationships. This is briefly summarised here.

When Ireland and the UK became members of the then EEC in 1973 they joined a Customs Union. A customs union is an agreement whereby the participating countries abolish customs tariffs on trade in goods between the countries, and operate a Common Customs Tariff against imports of goods from outside the union.

By the mid-eighties it was clear that, while internal tariff barriers had been eliminated, a range of non-tariff barriers (such as different technical standards and different indirect tax rates) were preventing the creation of a genuine ‘common market’. The programme to reduce or eliminate these barriers was completed in 1992 and the Single Market was created.

Through the combination of the customs union and the Single Market, which form the Economic Union, the EU is built on what are known as the ‘Four Freedoms’, i.e. the free movement of people, goods, services and capital.

In addition, for the 19 Member States which have adopted the single currency, Economic and Monetary Union (EMU) has been achieved.

In certain policy areas, the EU operates common policies such as the Common Agriculture Policy (CAP) and Common Fisheries Policy. Common policies involve a higher degree of integration for those sectors throughout the union, together with common financing of the policy from the EU budget.

The Court of Justice of the European Union (CJEU) interprets EU law to make sure it is applied in the same way in all EU countries, and settles legal disputes between national governments and EU institutions. It can also, in certain circumstances, be used by individuals, companies or organisations to take action against an EU institution, if they feel it has somehow infringed their rights.

4.2 Regulation of Trade between the EU and the Rest of the World
Trade between EU countries and the rest of the world is governed by the rules of the World Trade Organisation (WTO). The WTO currently has 164 members which between them account for 95% of world trade. WTO is a negotiating forum for agreement on world trade rules, and an organisation to oversee how the rules are implemented. For trade in agricultural products, WTO agreements put limits on import tariffs and on domestic support, and also agree on sanitary standards to prevent the spread of disease in livestock and crop products.

The EU operates as a unit within the WTO, with the European Commission responsible for conducting negotiations. In recent years, there has been more focus on bilateral or limited multilateral trade.

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negotiations, aimed at achieving **Regional Trade Agreements**. The most notable of these recent agreements was the Comprehensive Economic and Trade Agreement (CETA), ratified in early 2017, between the EU and Canada. It is the first comprehensive trade deal between the EU and a G8 member.

### 4.3 The EU Budget

Article 311 of the Treaty on the Functioning of the European Union provides for a European Union budget to finance the various activities which underpin its policies. These include agriculture (CAP), fisheries, structural & cohesion funding, research, education, infrastructure, competitiveness for SMEs, EU external actions, citizenship and security actions and a range of other activities. In addition, the EU budget covers the administration costs associated with running the EU institutions.

The Multi-annual Financial Framework (MFF) sets out annual maximum amounts (ceilings) for EU expenditure as a whole and for the main categories of expenditure (headings) for a period of at least five years. The EU budget is then adopted on an annual basis within the overarching expenditure limits (ceilings) set out by the MFF. The EU budget for 2016 sets the total level of commitments at €155b, with payments of €144b.

The EU’s expenditure is financed by own resources contributions from each member state. These comprise:

- ‘traditional own resources’ – principally customs duties collected on behalf of the EU with 75 per cent of the amount collected paid over to the EU. The balance is retained by the member state to fund the costs of collection and administration;
- a VAT-related payment;
- a payment based on a percentage of each member state’s Gross National Income (GNI)\(^34\).

The UK is a net contributor to the EU Budget. In an analysis undertaken in late 2016, Professor Alan Matthews estimated that the average net contribution of the UK over the previous 4 years was €10.5b, taking account of the UK rebate, and monies received from the EU budget by both the UK public and private sector\(^35\). The UK exit will, therefore, have implications for the EU budget.

Simply put, if the UK no longer contribute, or make a smaller contribution, to the EU budget, and if the remaining Member States do not increase their contribution to address this gap, the EU budget post 2020 will be smaller as a result of Brexit. As the Common Agricultural Policy (CAP) accounts for almost 40% of the total EU budget, a simple reduction in the EU budget would result in a cut in the CAP budget. The CAP budget for 2014-2020 is approximately €60b/year. It has been estimated that the cut to the CAP budget arising from the UK exit could be between €1.2b and €3b (up to 5% of total)\(^36\).

#### 4.3.1 Importance of the CAP Budget for Irish agriculture

In Ireland, the impact of any reduction in the EU budget arising from the UK exit would be felt primarily in the agriculture sector. Approximately 90% of money received by Ireland from the EU budget comes through the CAP (Common Agricultural Policy), with annual funding of over €1.5b through direct payments and the Rural Development Programme (RDP).

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4.3.2 Importance of Direct Payments to Farm Incomes

Farm Incomes in Ireland, and in the rest of the EU, are hugely dependent on support received through EU direct payments. A reduction in the CAP budget, with no other changes in prices, or input costs, will directly impact on farm incomes. Table 4.1 illustrates the importance of direct payments across the different farm enterprise types.

Table 4.1 Direct payments as a % of farm income 2015$^{37}$

<table>
<thead>
<tr>
<th></th>
<th>Dairy</th>
<th>Cattle finishing</th>
<th>Cattle rearing</th>
<th>Sheep</th>
<th>Tillage</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Farm Income (€)</strong></td>
<td>62,141</td>
<td>16,319</td>
<td>12,660</td>
<td>16,137</td>
<td>34,303</td>
<td>26,303</td>
</tr>
<tr>
<td><strong>Direct Payments (€)</strong></td>
<td>20,039</td>
<td>15,851</td>
<td>13,148</td>
<td>17,609</td>
<td>24,385</td>
<td>17,168</td>
</tr>
<tr>
<td><strong>Payments as a % of farm income</strong></td>
<td>32%</td>
<td>97%</td>
<td>104%</td>
<td>109%</td>
<td>71%</td>
<td>65%</td>
</tr>
</tbody>
</table>

The importance of the direct payments to Irish farmers’ incomes means that any reduction in the CAP budget, arising from the UK exit, would have a direct and negative impact on farm incomes, particularly for the lower income drystock and tillage sectors.

$^{37}$ Teagasc National Farm Survey 2015
5 THE BREXIT PROCESS

5.1 The UK Government actions to date

In the months since the referendum the UK Government has been working to translate the decision of the people to leave the EU into a set of objectives for the negotiations. The UK Prime Minister, Theresa May, has appointed (Hon) David Davis as Secretary of State for Exiting the European Union. The UK intention is to trigger Article 50 of the Treaty on the European Union, the legal mechanism for withdrawal from the EU, by the end of March 2017.

It is intended that a ‘Great Repeal Bill’ will be introduced, which will remove the European Communities Act 1972 from the UK statute book. It will preserve EU law where it stands at the moment before it leaves the EU, following which the Parliament will decide which elements of EU law to keep, amend or repeal. The bill will also provide for the removal of the jurisdiction of the European Court of Justice (ECJ) in the UK.

The UK Government’s broad political priorities include the ability to control its borders against inward migration; the return of law-making from the EU to Westminster, a significant reduction in financial contributions to the EU budget, negotiation of a favourable degree of future access to the EU 27 market, and negotiation of new trade agreements with non-EU countries.

The Prime Minister, in a speech of 17th January 2017 outlined 12 principles which are to guide the Government in delivering on the UK vote to leave the EU. These are:

1. Providing certainty and clarity;
2. Taking control of our own laws;
3. Strengthening the Union;
4. Protecting our strong historic ties with Ireland and maintaining the Common Travel Area;
5. Controlling immigration;
6. Securing rights for EU nationals in the UK and UK nationals in the EU;
7. Protecting workers’ rights;
8. Ensuring free trade with European markets;
9. Securing new trade agreements with other countries;
10. Ensuring the United Kingdom remains the best place for science and innovation; and
11. Cooperating in the fight against crime and terrorism; and
12. Delivering a smooth, orderly exit from the EU.

On 3rd February 2017, the UK published its White Paper on Brexit, entitled The United Kingdom’s exit from and new partnership with the European Union. This sets out the basis for setting out these 12 priorities and the broad strategy for delivering the new strategic partnership the United Kingdom and the EU.

5.2 The EU’s actions to date

At EU level, Article 50 of the Treaty of the European Union provides a framework for the exit by a Member State from the EU. This outlines the process for notification and withdrawal, stating that a ‘Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.

The EU strategy on the negotiations with the UK, as indicated in statements from the European Council, Commission and Parliament in the months since the referendum, is that the UK must first activate Article 50 before any negotiation takes place, and the focus of discussions will primarily be on the exit negotiations.

The EU has announced its lead Brexit negotiator. Michel Barnier will be the European Chief Negotiator and head of the Commission Task Force for the negotiations. As per Article 50, his negotiation will be informed by guidelines provided by the European Council, that is the Heads of Government of the EU Member States. He is a former Minister in the French Government and has served two terms as a member of the European Commission.

5.3 The Negotiating Process, Timetable and Transition Arrangements

5.3.1 The Exit Negotiation Process

The UK will be negotiating with the EU as a whole, and not with individual countries. One implication is that any agreement between Ireland and the UK in relation to Northern Ireland, for example, would require overall EU agreement.

The objective of the EU negotiators will be to get unanimous or strong consensus agreement in the European Council on the withdrawal agreement. If that is not possible, the Treaty states that the EU can agree by a ‘qualified majority’ vote i.e. 72% of member states [19 out of 27], and 65% of the combined population of the 27 states. As a result, no member state will have a veto over the withdrawal agreement with the UK. The withdrawal agreement must have the consent of the European Parliament, by a simple majority, before the European Council adopts the decision.

The EU is expected, as a key element of the exit negotiations, to require a substantial financial contribution from the UK to the EU budget. This is to cover the UK share of EU financial liabilities, and certain ongoing commitments (such as future pensions of British nationals working in EU institutions). A recent paper has put this figure at anywhere between €24.5b and €72.8b39.

39 The €60 billion Brexit bill: how to disentangle Britain from the EU budget, A. Barker, Centre for European Reform, http://www.cer.org.uk/sites/default/files/pb_barker_brexit_bill_3feb17.pdf
Article 50 also outlines the timeline for withdrawal, stating that, ‘The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period’.

The timetable issue was further clarified by the EU Chief Negotiator, Michel Barnier, in early December when he stated that if Article 50 is triggered by the end of March 2017, the negotiations need to be concluded by October 2018. The remaining months will be required for the ratification process by the European Parliament and Council.

In summary, therefore, the UK will withdraw from the EU in one of three circumstances:

- Within two years, with agreement on a deal,
- At the end of two years, with no agreement,
- After more than two years, with the unanimous agreement to an extension by all Member States.

In the event that there is no withdrawal agreement after two years, and Member States do not unanimously agree to extend the negotiation discussions, the implications are that the UK is no longer a member of the EU.

5.3.2 Negotiation of a new arrangement between the EU and the UK

It is unclear at this stage whether the withdrawal agreement will deal only with the withdrawal issues, or whether it will at least contain some broad principles of agreement on the future political and trading relationship between the EU and the UK. It should be noted that Article 50 appears to provide some scope for this, stating the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union.

It is also unclear when negotiations on the new arrangements between the EU and UK will commence. As per Article 50, the negotiations between the UK and the EU on any new arrangement following exit will be conducted under Article 218 (3) of the Treaty on the Functioning of the European Union. However, while the exit negotiations are to be concluded within two years, the negotiations on the new arrangement between the EU and the UK are likely to take much longer than this. There is no timetable in the EU Treaties for the conclusion of such negotiations.

5.3.3 WTO implications of UK exit

The UK is a member of the WTO, but its membership terms are currently incorporated with the EU’s. There is major uncertainty for the UK and EU regarding their shared WTO commitments arising from the UK decision to leave the EU. Aside from the complex task of attempting to negotiate and agree a new relationship between the EU and the UK, other issues that must be resolved include:

- The process for re-establishing the UK’s status in WTO in its own right, and the tariff regime that it may adopt or inherit
- The division or disentanglement of the UK from existing EU trade deals with third countries
- The formation of new trade relationships with third countries
Re-establishing WTO status
On the first issue, it is most likely that, unless the UK and EU 27 were to agree on some form of customs union that would operate immediately after exit, then the WTO MFN (Most Favoured Nation) tariff rates may apply between the two parties.

In other words, if the UK were to leave the EU and no agreement were to be reached through a bilateral trade arrangement, they would face significant tariffs on their food exports to the EU. For EU exports, the possible scenarios are that the UK would inherit the EU’s tariff commitments, or establish its own schedule of import tariffs, with the result that Irish exports to the UK could face significant tariffs.

The average EU tariff on agricultural products imported from outside the EU is almost 15% for WTO countries. It is much higher for certain agricultural products. For butter imports for example, the external tariff is €189.60/100kg, while for high quality beef, the tariff rate is 12.8% + €303.40/100kg. Table 5.1 outlines the number of agricultural products for whom tariffs apply on imports into the EU, and the range of tariffs that apply to goods in the different sectors.

Table 5.1 EU ad valorem import duties for agriculture and food products, by product group

<table>
<thead>
<tr>
<th>Commodity Group</th>
<th>Number of Lines</th>
<th>Simple Average %</th>
<th>Tariff Range %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Animals and livestock products</td>
<td>351</td>
<td>20.4</td>
<td>0 - 192.1</td>
</tr>
<tr>
<td>Dairy products</td>
<td>152</td>
<td>31.7</td>
<td>1.5 - 164.8</td>
</tr>
<tr>
<td>Fruit, vegetables, plants</td>
<td>501</td>
<td>13.3</td>
<td>0 - 197</td>
</tr>
<tr>
<td>Coffee, tea, cocoa and preparations</td>
<td>47</td>
<td>11.6</td>
<td>0 - 18.7</td>
</tr>
<tr>
<td>Cereals and preparations</td>
<td>230</td>
<td>18.1</td>
<td>0 - 94</td>
</tr>
<tr>
<td>Oilseeds, fats, oils and products</td>
<td>174</td>
<td>7.5</td>
<td>0 - 154.1</td>
</tr>
<tr>
<td>Sugars and confectionary</td>
<td>44</td>
<td>25.4</td>
<td>0 - 135.3</td>
</tr>
<tr>
<td>Beverages, spirits, tobacco</td>
<td>303</td>
<td>14.2</td>
<td>0 - 196.3</td>
</tr>
<tr>
<td>Cotton</td>
<td>6</td>
<td>0</td>
<td>0 - 0</td>
</tr>
<tr>
<td>Other agricultural products</td>
<td>259</td>
<td>5.6</td>
<td>0 - 83.5</td>
</tr>
<tr>
<td>Total agricultural products</td>
<td>2,067</td>
<td>14.8</td>
<td>0 - 197</td>
</tr>
</tbody>
</table>

Division of exiting trade deal arrangements
The EU currently has agreed trade arrangements with over 50 countries [e.g. customs unions, free trade agreements, partnership agreements], many of which apply different, more preferential customs tariffs to the general EU tariff rates\(^\text{41}\). In addition, as part of some of these agreements, tariff free or reduced duty Tariff Rate Quotas (TRQs) are in place, which give preferential access for specified volumes of goods and services. In the agriculture sector, the EU currently administers 128 TRQs on agri-food imports, accounting for approximately 6% of the value of the EU’s agri-food imports\(^\text{42}\).

\(^\text{40}\) Source: WTO EU Trade Policy Review, 2013, Table 3.3
\(^\text{41}\) http://ec.europa.eu/trade/policy/countries-and-regions/agreements/#_europe
\(^\text{42}\) World Trade rules and the policy options for British agriculture post Brexit, Alan Swinbank, January 2017
Box 5.1: New Zealand lamb
An example of the potential difficulty in relation to the potential division of TRQs between the UK and EU post Brexit is the current New Zealand sheep-meat quota, whereby New Zealand can export almost 230,000 tonnes to the EU each year without any tariff. The tariff free quota has its origins in the trading arrangement the UK had with New Zealand upon accession. However, different trading patterns have developed over the years, with the UK a significant exporter of lamb to the EU, and New Zealand exporting 69,000 tonnes of lamb to the UK in 2015. All three parties involved - the EU, UK and New Zealand - may have conflicting positions as to how that preferential quota should be allocated post-Brexit.

New UK trade agreements with third countries
Finally, the pursuit of new trade agreements by the UK with third countries outside the EU is likely to be impacted significantly by the negotiations on the new trade relationship with the EU. In the case of agricultural products, for example, it is very probable that the provision or not of tariff-free access by the EU to its market will be heavily influenced by the behaviour of the UK in relation to other trade deals it may pursue with agri-food exporting countries.

Box 5.2: Division of EU Climate Change commitments
EU Member States, including Ireland and the United Kingdom have agreed to achieve specific environmental obligations, including to reduce greenhouse gas emissions and to increase renewable energy use.

By 2020, the European Union has agreed to:
- A 20% reduction in EU greenhouse gas emissions from 1990 levels,
- Raising the share of EU energy consumption produced from renewable resources to 20%, and,
- A 20% improvement in the EU’s energy efficiency.

In January 2014, the EU agreed subsequent 2030 targets, which increased the 2020 agreed targets to:
- A 40% reduction in EU greenhouse gas emissions from 1990 levels,
- At least a 27% share of EU energy consumption produced from renewable resources, and
- At least a 27% improvement in the EU’s energy efficiency, to be reviewed by 2020 potentially raising the target to 30% by 2030.

The UK’s emissions reduction targets out to 2030, as the EU’s second-biggest emitter of greenhouse gases are at the upper range for Member States, at 37%.

As part of the UK exit negotiations, it must be agreed that the UK will continue to deliver on its environmental targets and obligations, which were negotiated and agreed while a member of the EU. This must safeguard the principles of the international Paris climate agreement 2015 and the October 2014 EU Heads of Government decision, which clearly states that food production should not be compromised when addressing the climate challenge.
5.3.4 Transition Arrangements
A key concern for both the EU and UK economies and citizens is that, if the UK exits the EU before a new relationship has been agreed, there is the potential for serious economic shocks and potential long-term economic damage.

UK Prime Minister, Theresa May has addressed that concern on a number of occasions, outlining in her speech of the 17th January 2017 her wish that the EU and UK will have reached an agreement about their future partnership by the time the two years of negotiation on withdrawal from the EU are concluded. She has also suggested that there should be a phased process of implementation to the new relationship.

5.4 Conclusions
The process for the UK to exit the EU is very complex, requiring decisions and agreement on budgetary matters and international trade obligations, among other issues.

There is potential for serious disruption to trade flows and long term economic damage to both the EU and UK economies if the UK leaves the EU without a withdrawal agreement, and, in the absence of any agreement on the future relationship between the EU and UK.

It is recognised that a balance must be found in the negotiations to ensure the maintenance of a strong EU into the future, and that the UK withdrawal arrangements do not allow it to retain all of the rights and benefits of EU membership. Notwithstanding these concerns, it is critical from an Irish farming and food perspective that:

- A Withdrawal Agreement is reached;
- Negotiations commence on the new relationship between the EU and UK within a short period of time, and;
- If required, a transition arrangement is put in place which will bridge the gap between the UK exit and final agreement on a new EU-UK trading relationship.
6 FUTURE RELATIONSHIP BETWEEN THE UK AND THE EU?

6.1 The future trading relationship between the EU and the UK

With discussions between the EU and UK yet to commence, it is unclear at present what the future trading relationship will be between the EU and UK. However, the UK has clearly outlined the following:

- As it wishes to take full control over the movement of people entering the UK and remove itself from the jurisdiction of the ECJ, it no longer wishes to remain part of the EU Single Market.
- It wishes to be allowed to negotiate new trade agreements with non-EU countries and to no longer be bound by the EU common external tariff. Therefore, it would no longer retain full Customs Union membership.
- It wishes to negotiate a Free Trade Agreement (FTA) with the EU.

Box 6.1: EU-UK free trade agreement

A Free Trade Agreement between the EU and UK would require UK acceptance of EU rules and regulations in the sectors under the FTA. Furthermore, in the absence of the ECJ, some new legally based dispute settlement mechanism will have to be put in place. In addition, if the UK is no longer bound by the EU common external tariff under a new FTA, then the EU will apply its ‘Rules of Origin’ to imports from the UK, in order to prevent products which originate mainly outside the UK from entering the EU at no or reduced tariffs.

It is also possible that the UK and EU will not reach a future trade agreement. In this scenario, the UK will face the EU’s external tariff on goods and services, including agricultural goods. For the UK, the options available may include:

- Maintaining the tariff rates that they assume upon exit from the EU with all its trading partners.
- Applying a new tariff schedule, and potentially lowering tariff rates to all trading partners on certain goods and services.
- Negotiating Free Trade Agreements with third countries, which provide more favourable access (lower tariffs or large Tariff Free Quotas) on certain goods and services to these countries, while maintaining the higher tariff barriers on imports from all other countries with whom they have no agreement.

6.1.1 The EU External Border Following the UK Exit from EU

In the event that the UK leaves the EU’s Custom Union, the effect will be that Ireland’s border with Northern Ireland will become the EU’s external border. The implementation of a land border, as opposed to a border at Ireland’s ports and airports heretofore, will be a significant challenge.

It should be noted that, in its White Paper on Brexit, the UK Government has explicitly committed to the maintenance of the Common Travel Area between the UK and Ireland.
In this scenario, the maintenance of an all-Ireland free trade area would appear to require Northern Ireland remaining within the EU customs union and single market, while leaving the EU in all other aspects. This would mean that imports into Northern Ireland, including imports from mainland Britain, would be subject to EU import controls at the ports and airports of Northern Ireland.

The potential risk is that a ‘hard’ customs border will be introduced for trade between Ireland and Northern Ireland. The EU requires its Member States to implement customs procedures. In a presentation to the UK Parliament Northern Ireland Affairs Committee in early February, customs experts44 highlighted the requirement for an EU member (Ireland) to implement customs procedures on goods imported from a non-EU country / a country outside the Customs Union. Customs controls are necessary to implement EU customs tariffs, EU health and safety regulations, VAT payments and EU ‘rules of origin’.

6.2 The future trading relationship for agricultural products and food
A major concern for the Irish agri-food sector is the future trading arrangements for agriculture and food products between the EU and the UK. This concern is largely based upon the historic UK food policy, and more recent Government statements on the type of agriculture sector it wishes to achieve.

When Britain joined the EEC in 1973 it replaced its national agricultural policy with the CAP. Its previous national policy can be described as a ‘cheap food’ policy, i.e. food prices were set at below the cost of production equivalent for farmers in Britain. Whereas the EU’s Common Agricultural Policy (CAP) has sought to balance the interests of producers and consumers, and has given priority to food security, UK agri-food policy prior to EEC accession was less concerned about domestic food security, and was more concerned about achieving low prices for consumers. The shortfall in the food market was supplied by imports at low or zero tariff levels, while incomes of British farmers were supported by Government direct payments, known as ‘deficiency payments’.

In its 2013 ‘Fresh Start Policy’, the Government clearly outlined that it believed that direct payments to farmers in the form of income supports should be phased out, along with a parallel reduction in red tape and regulation, to ensure a globally competitive agricultural sector. Payments would be provided mainly for environmental stewardship of marginal land.

6.2.1 Free Trade Agreement with the EU on agriculture and food
In its White Paper on Brexit, the UK indicated that it wishes to retain strong market access between the EU and UK for food and drink products. As a net food importer, with a tradition of prioritising the availability of low cost food for the UK consumer (‘cheap food policy’), the imposition of high tariffs on UK food imports is not a very likely policy option for the UK.

6.2.2 Reduction in the value of the UK food market – reduced import tariffs for third countries
A major concern is the potential likelihood that the UK will wish to provide favourable access for food imports from countries outside of the EU. Currently, the EU tariff levels for a number of important agricultural products are relatively high, particularly for beef, lamb and a number of dairy products. This provides a significant level of competitive advantage for EU exports within the EU market currently, which could be undermined by reduction of import tariffs for other exporting countries, with a knock on impact of the value of the UK market.

44 Michael Lux and Eric Pickett, EU customs and international trade lawyers addressing the UK Parliament Northern Ireland Affairs Committee, 1 February 2017
A reduction in import tariffs for non-EU countries could occur in a range of scenarios:

- No trade agreement between the EU and UK on agriculture and food, and a general reduction in import tariffs to the UK on selected food and agricultural products.
- Free Trade Agreement between the EU and UK, with a general reduction in import tariffs on selected food and agricultural products for all other non-EU countries.
- Free Trade Agreement between the EU and UK, and FTAs between the UK and other non-EU countries, containing agreed reductions in import tariffs on food and agricultural products.

Overall, a general reduction in import tariffs, resulting in an increase in imports from lower-cost non-EU countries would result in a reduction in product price on the UK market, and a fall in the value of the UK market for EU and Irish exports.

6.3 The EU and CAP Budgets

Another key issue for the agriculture sector, for which there is significant uncertainty at present, is the future of UK payments to the EU, and the implications of this for the EU budget and CAP budget. The UK is a net contributor to the EU budget of approximately €10.5b.

The UK position in early 2017 is that, as the UK would no longer be part of the Single Market, there would be no requirement to contribute large sums to the EU budget. Any contribution would be appropriate, and based upon specific European programmes in which the UK wished to participate.

6.4 Implications of different ‘Brexit’ scenarios for the Irish farming and food sector

Reduced access to the UK market through tariff barriers, a diminution of the value of the UK market through increased imports from lower cost countries, and the potential reduction in the CAP budget post Brexit all present significant threats to the future growth and development of the Irish farming and food sector. The uncertainty about the potential outcome of both withdrawal negotiations and agreement on a new EU-UK relationship make it impossible to estimate the real impact at this point. However, analysis undertaken by economists both at the ESRI and in Teagasc illustrates the potentially devastating impact on farm incomes and the value of food exports under different ‘hard Brexit’ scenarios. A reduction in trade value and in farm incomes would result in a loss of export earnings, employment along the food supply chain, and in economic activity in the rural economy, in particular.

6.4.1 Impact of a reduced CAP budget and UK trade liberalisation on farm incomes in Ireland

In the event of a reduced EU budget post 2020, there will be significant pressure on all EU funded programmes, including the CAP. For Irish farmers, this would have a direct and negative impact on farm incomes. At its 2017 Outlook conference, Teagasc economists estimated the impact on farm incomes arising from a 10% reduction in the CAP budget and a reduction in the price of UK food prices, arising from a reduction in tariff rates for all agricultural products. For some of the sectors, such as sheep, the main negative impact arose from the reduction in direct payments, while for the beef sector, the combination of a reduction in direct payments and a significant reduction in the value of their product resulted in a huge drop in income. Based on this scenario, farm incomes would fall across all farm enterprise types, ranging from a drop of 20% for dairy farmers, with a 37% income loss for cattle farmers.

45 Based upon the ‘Trade liberalisation Scenario’ outlined in LEI Wageningen study for the NFU, Implications of a UK exit from the EU for British agriculture, May 2016
Table 6.1 Impact on farm incomes of reduced CAP budget and lower UK prices

<table>
<thead>
<tr>
<th>Farm Enterprise</th>
<th>Estimated % Reduction in Income</th>
<th>Estimated Reduction in Income (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy</td>
<td>-20%</td>
<td>-13,000</td>
</tr>
<tr>
<td>Cattle Rearing</td>
<td>-37%</td>
<td>-4,000</td>
</tr>
<tr>
<td>Cattle Finishing</td>
<td>-37%</td>
<td>-5,000</td>
</tr>
<tr>
<td>Sheep</td>
<td>-21%</td>
<td>-3,000</td>
</tr>
<tr>
<td>Tillage</td>
<td>-22%</td>
<td>-7,000</td>
</tr>
</tbody>
</table>

The average fall in farm incomes was estimated at 26%. Applying this to the National Farm Income figure of €2.55b in 2016, this would mean a reduction in farm incomes directly of almost €700m.

6.4.2 Impact of a hard Brexit on the value of Irish agri-food trade

Analysis undertaken by the ESRI on the impact of a ‘hard Brexit’ shows the potentially devastating impact of tariff barriers on trade flows between Ireland and the UK. Their analysis is based upon a scenario whereby WTO tariffs apply following the UK exit.

The ESRI report shows that the combination of potentially high tariff barriers on food exports between the EU and UK, and the elastic response of trade to price changes in these sectors, would have a hugely negative impact on trade between the UK and EU for many food products.

The report shows that EU trade with the UK for food products would be absolutely devastated in this ‘hard Brexit’ scenario, with a reduction in trade of over 60% for dairy and 85% for meat products. Translating this to an Irish context, and based upon current export values, the value of meat exports to the UK could fall by €1.5b, while the value of dairy exports could fall by over €600m.

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7 PRIORITIES FOR THE IRISH FARMING AND AGRI-FOOD SECTOR

7.1 Introduction and Overview
Brexit presents a major threat to the Irish farming and food sector, both from the perspective of the potential disruption to and diminution of the value of trade with the UK market, the displacement of exports from the UK, and the threat to the CAP budget. This purpose of this document has been to set out for political leaders in Ireland and the EU the critical issues for Irish farming and the food sector in the negotiations and identifies the outcomes that must be delivered to secure the interests of this vital sector in the years ahead. IFA is clear that the Irish Government must adopt these priorities as key strategic objectives for Ireland and seek to achieve support for the proposals at EU level.

7.2 Maintaining access to and value of the UK market
The retention of tariff-free access to and maintenance of the value of the UK market is a key priority for Irish farming and the food sector in the Brexit negotiations. In addition, the potential disruption to trade flows between Ireland and Northern Ireland, with their highly integrated agri-food sector and complex supply chains, must be minimised.

The imposition of tariffs on EU agri-food exports to the UK could make this trade uneconomic. In addition, an increase in low cost food imports that undermines the value of the UK market would have a devastating effect on the Irish agri-food sector and on other EU agri-food exporters for whom the UK is an important trading partner. The value of EU agri-food exports cannot be undermined by an increase in low cost food imports into the UK market, which do not meet the high food safety, animal welfare, health and environmental standards that are required of EU producers.

The loss of value of the UK food market to Irish and other EU exporters would result in a loss of employment in the affected sectors, and significant damage to the rural economy.

Overall, the displacement of Irish food exports from the UK market could create a serious market disturbance on the EU market, potentially destabilising the EU market balance. The retention of access to and maintenance of the value of the UK market is critically important, therefore, not just for the Irish farming and food sector, but for food producers and the food industry across the EU.

IFA believes that the EU must set as a strategic objective in the Brexit negotiations the maximisation of the future value of the EU farming and food sector.

To achieve this, the optimum outcome for Irish farming and the agri-food sector is that the UK would remain within and fully compliant with the Single Market and Customs Union.

If this outcome is not possible, the EU must seek to negotiate a Comprehensive Free Trade Agreement between the EU and UK, which would include the following specific elements for agriculture and food:

- 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 imports to both the EU and UK.
7.3 A strong CAP Budget Post 2020
A strong CAP budget post-2020 is critical for farm incomes, farm output and wider economic activity. A reduction in spending power for Irish agriculture arising from a cut in direct payments to farmers would have a significant and negative knock on impact on the demand for goods and services in the rural economy.

*EU solidarity with farmers requires that there must be no reduction in the CAP budget arising from the UK exit. Options to make up any shortfall in the EU budget must include contributions from the UK withdrawal payment and from the remaining Member States.*

7.4 Support for Market Disturbance
The volatility of the euro-sterling exchange rate during the Brexit negotiations presents a clear threat to the competitiveness of Irish agri-food exports, with the potential to undermine the viability of primary producers, processors and exporters.

*Direct support for farmers through CAP Market Support or other measures must be made available in the event that sterling further depreciates during exit discussions, impacting negatively on farm incomes and livelihoods.*

7.5 Flexibility in State Aid rules
The market disturbance caused by the sterling depreciation is impacting unequally on different Member States and different sectors, depending on their exposure to trade with the UK. Ireland, and the Irish agri-food sector in particular, are hugely impacted by the exchange rate movements that have occurred as a result of the UK referendum.

*EU State Aid limits must be extended in Member States that have been disproportionately impacted by the depreciation of sterling, and whose competitiveness versus their EU trading partners has been undermined.*

7.6 Increased support for marketing and promotion
As an export dependent sector, increasing market access remains critical for the growth of the Irish farming and food sector. This challenge has been intensified by the UK Brexit decision and the uncertainty it creates for access to the UK market.

*Increased funding, at both Irish and EU level, must be provided to Bord Bia and other state agencies, to support the promotion of agri-food exports on the UK market and the diversification of products into new markets.*

7.7 Minimising uncertainty during the negotiation process
The exit of the UK from the EU is an unprecedented event, and with no previous experience of a withdrawal negotiation, has led to considerable economic uncertainty, with the potential for significant economic damage to both the EU and UK economies. The Irish agri-food sector will be hugely impacted by the UK exit, and by economic sentiment during the negotiation processes.
In order to minimise economic uncertainty and the potential for major economic damage for exposed sectors, discussions on the future EU-UK relationship must be commenced early in the negotiating process.

In addition, there must be commitment to implementing a transitional arrangement, if necessary, between the UK exit and agreement on the future EU-UK relationship. This must be implemented to minimise disruption and damage to trade and farmers’ livelihoods in that time period.

7.8 Providing Structural and Adjustment support
Any changes to the trading relationship between the EU and UK that reduce market access, and increase barriers to trade, have the potential to disrupt trade flows, reduce the value of exports, and, ultimately negatively impact on farm incomes and employment in exposed sectors.

The EU must make available structural and adjustment funding to the farming and food sectors that are negatively impacted due to changes in the relationship that is negotiated between the EU and the UK.
Brexit: The Imperatives
for Irish Farmers & the Agri-Food Sector
Acknowledgement
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