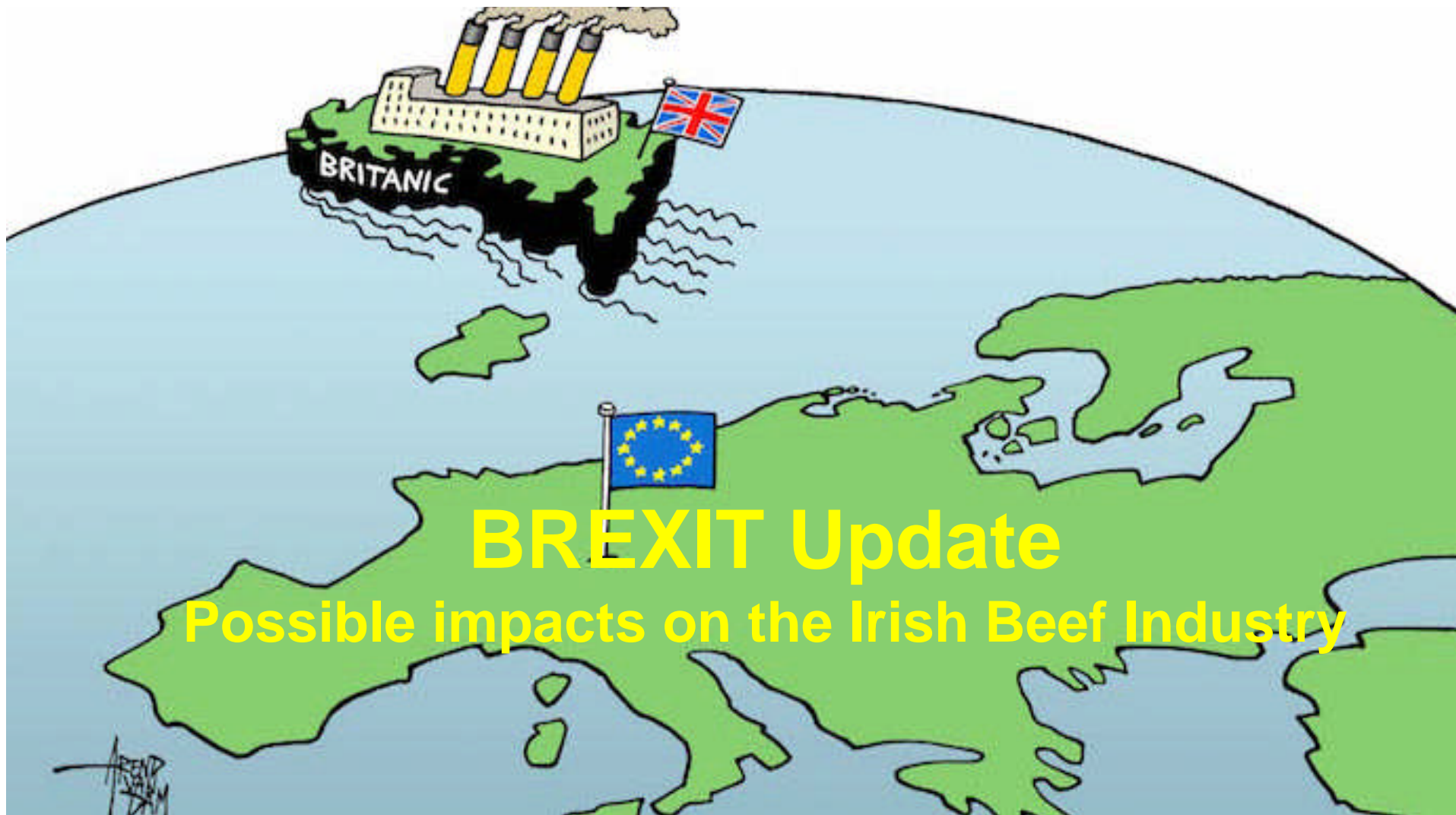




**AGRICULTURE AND FOOD DEVELOPMENT AUTHORITY**

The Irish Agriculture and Food Development Authority



**Dr Kevin Hanrahan, Trevor Donnellan and Dr Fiona Thorne**  
**Teagasc Rural Economy Development Programme**



# Brexit – the Story So Far

- June 2016:
  - Political upheaval due to outcome of referendum
- July 2016:
  - Theresa May appointed as British PM – says “Brexit means Brexit”
  - Michel Barnier appointed EU Chief Negotiator
- Sept 2016:
  - Commission sets up Task Force 50
- Jan 2017
  - Lancaster House Speech
  - Theresa May outlines UK opening negotiating position
- March 2017
  - Article 50 triggered on March 29<sup>th</sup>





# Brexit – the Story So Far

- May 2017
  - European Council negotiations mandate & Two Phase approach
  - Phase 1: Citizens rights, The financial settlement, and the Island of Ireland/GFA – “the Divorce”
  - Phase 2: The Future Relationship & Transition
- June 2017
  - Opening of negotiations
  - Monthly negotiation rounds between UK and EU
- September 2017
  - Theresa May Florence speech
- Latest Round (#5) concluded last week (Thursday Oct. 12)
  - Talks in Deadlock over Divorce issues
    - “nous sommes dans une impasse”
  - Likely to be assessed as insufficient progress required to move to Phase 2 at this weeks EU Council meeting





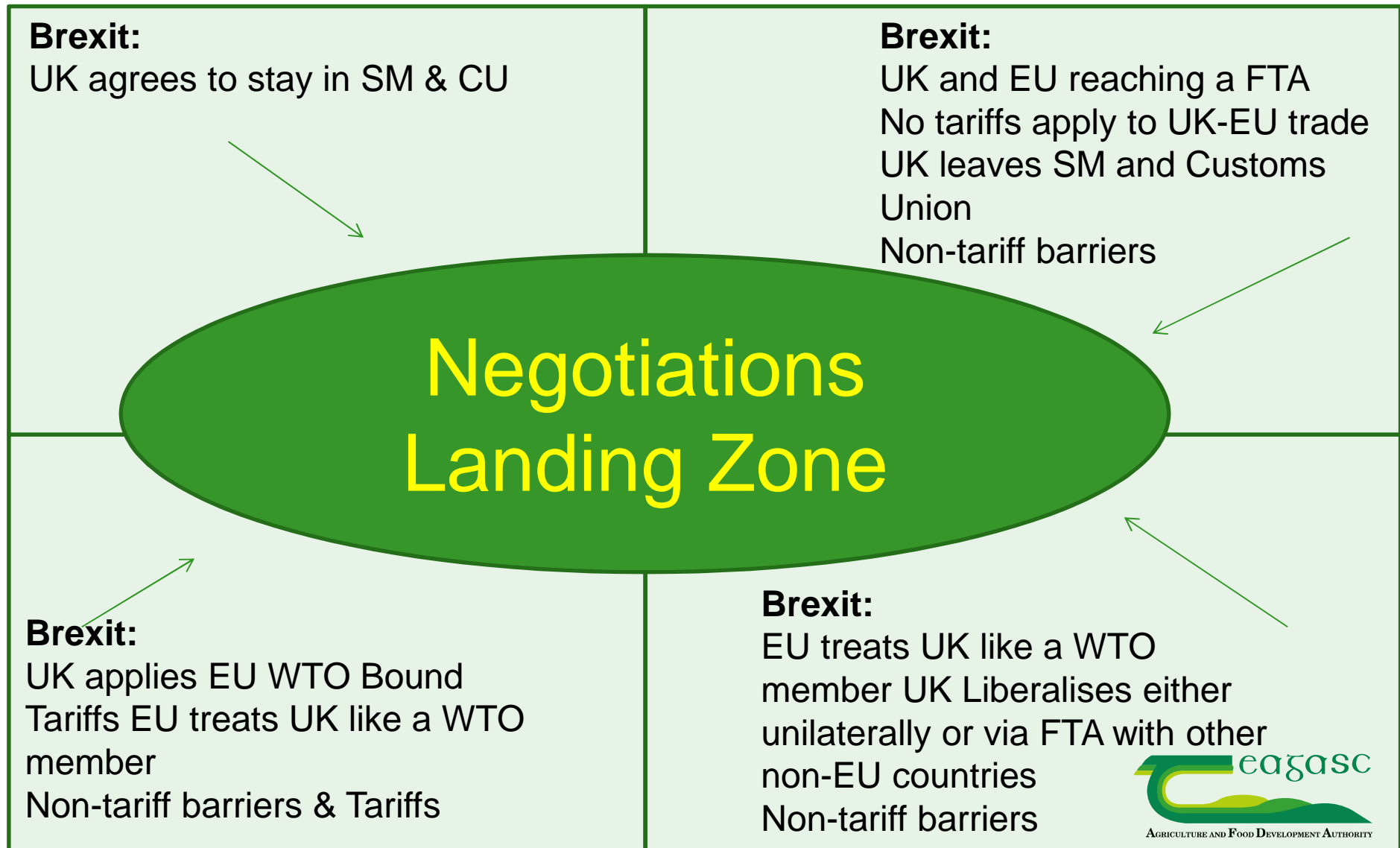
## Brexit – The Unfinished Story?



- “Clock is ticking” – Michel Barnier
- Article 50: 2 years expires in at the end of March 2019
- Need time for ratification by EU Council, European Parliament and possibly MS Parliaments of any agreement reached
  - Implies agreement on Divorce and Future relations needed by mid 2018
- Increasing possibility of a no deal Brexit outcome



# (im)Possible Brexit Outcomes ?





# Where are we now?

## Where are we going?

- Tariff and non-tariff barriers to trade between IE and UK are non-existent
  - » Regulatory frameworks the same
  - » No customs procedures apply to trade
  - » No tariffs levied on trade
- With Brexit
  - Regulatory frameworks will diverge => extra costs
  - UK move outside of SM & Customs Union => extra costs
  - UK exit from EU could => Tariffs

# Brexit

- Channels through which Brexit affects Irish agriculture
  - Immediate impact via exchange rate
  - Future tariff & non-tariff barriers to trade
  - Impact of Brexit on EU budget and CAP
  - Impact of future UK Ag policy on UK self-sufficiency



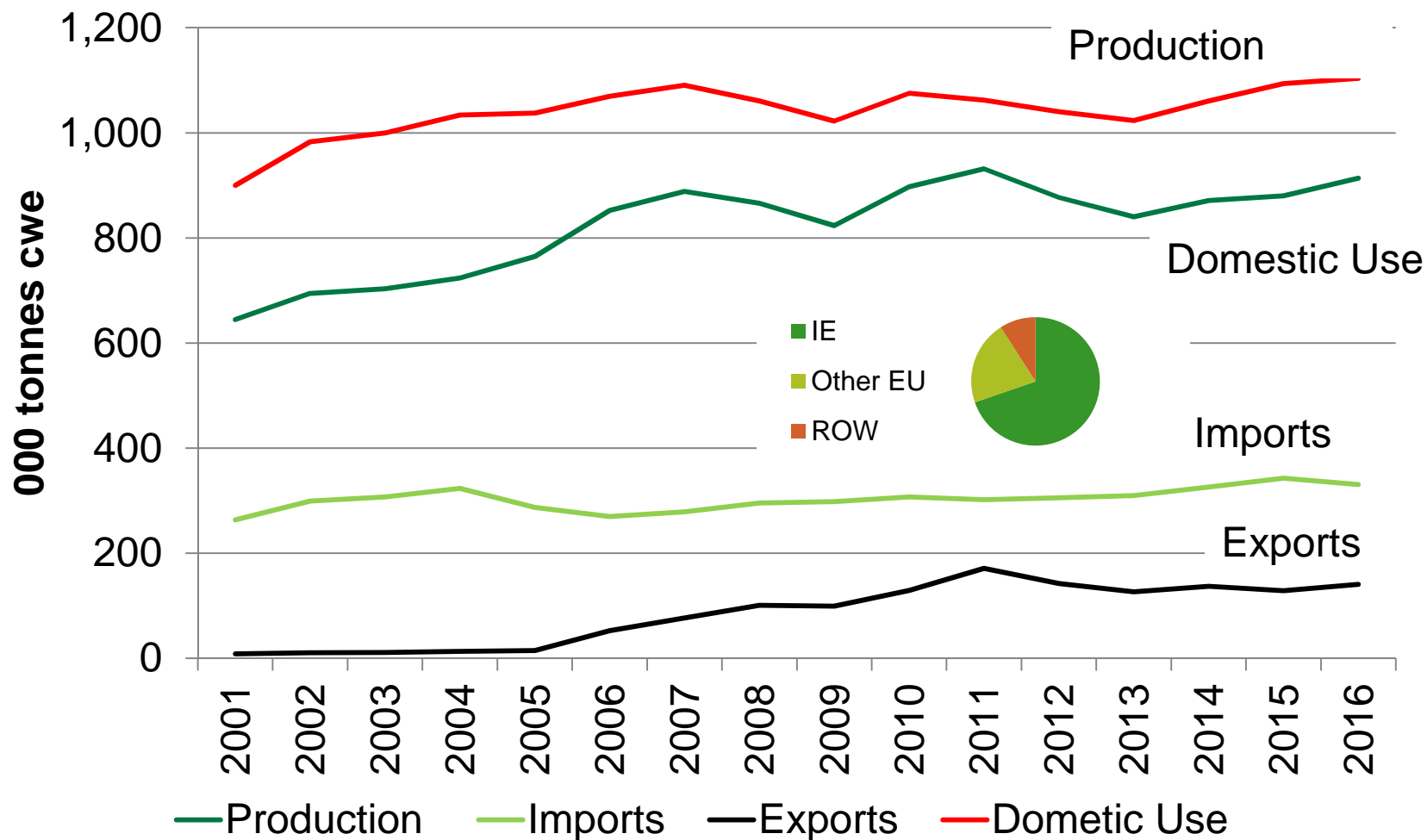
# Irish Agriculture and Brexit

- Market (price) and policy (support payments) impacts
  - Different Irish Ag. sectors vary in their UK exposure
  - Sectors vary in their dependence on market/policy support
  - Sectors vary in the extent of their current tariff protection
- This means that sector price & policy impacts will differ
- Greatest impact on sectors where
  - Large share of output is exported to the UK
  - That have high levels of tariff protection currently
  - That have a high level of income dependence on direct payments
  - Where existing margins from production are small

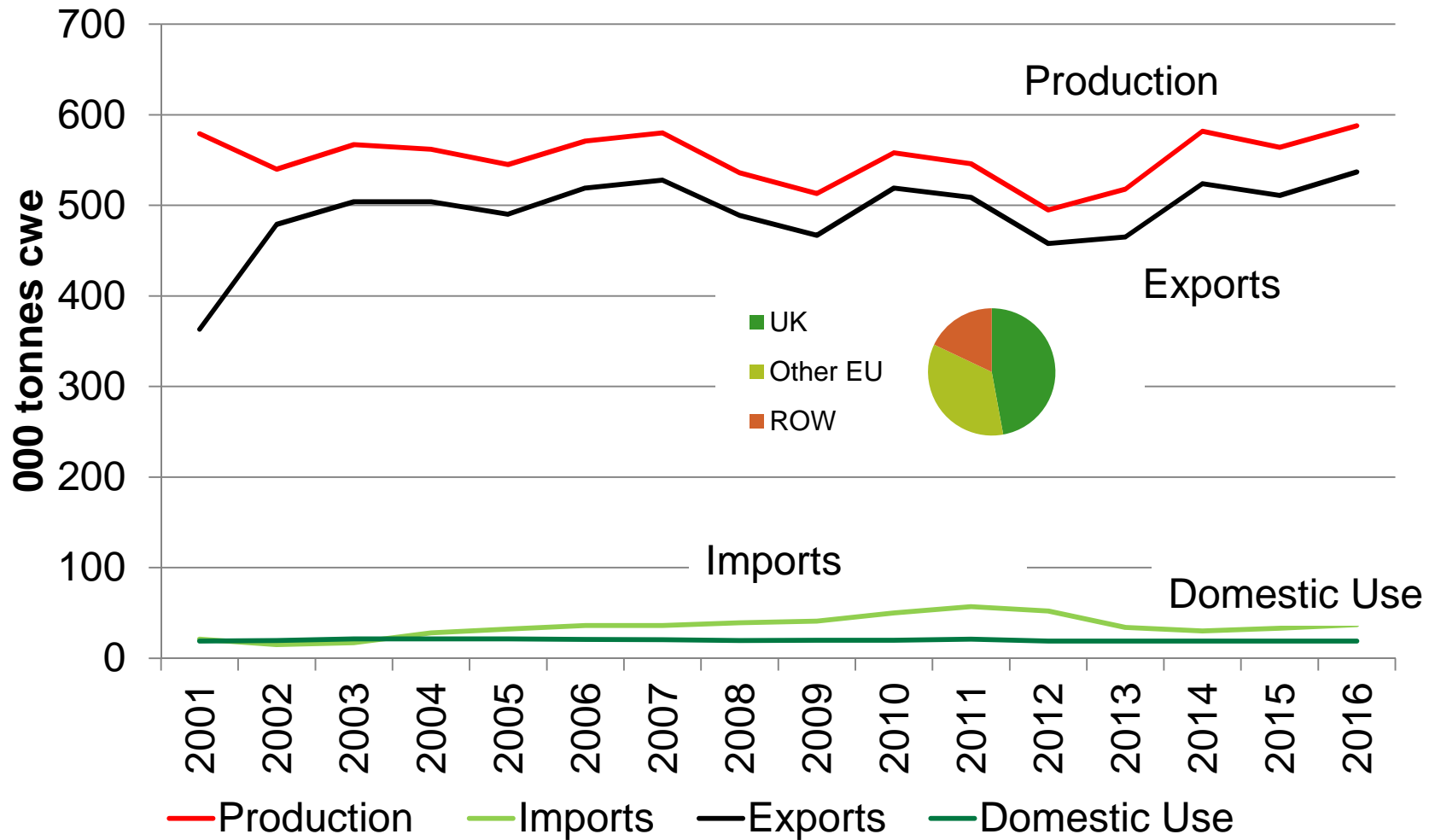
# Brexit, the UK and Irish Beef Sector

- Currently enjoys preferential (tariff protected) access to UK beef market as an EU member
- Ships circa 50% of exports to UK
- Profit margins in beef at farm level are low
- Family Farm Income on beef farms is very dependent on EU Direct Payments
- Adds up to huge negative exposure

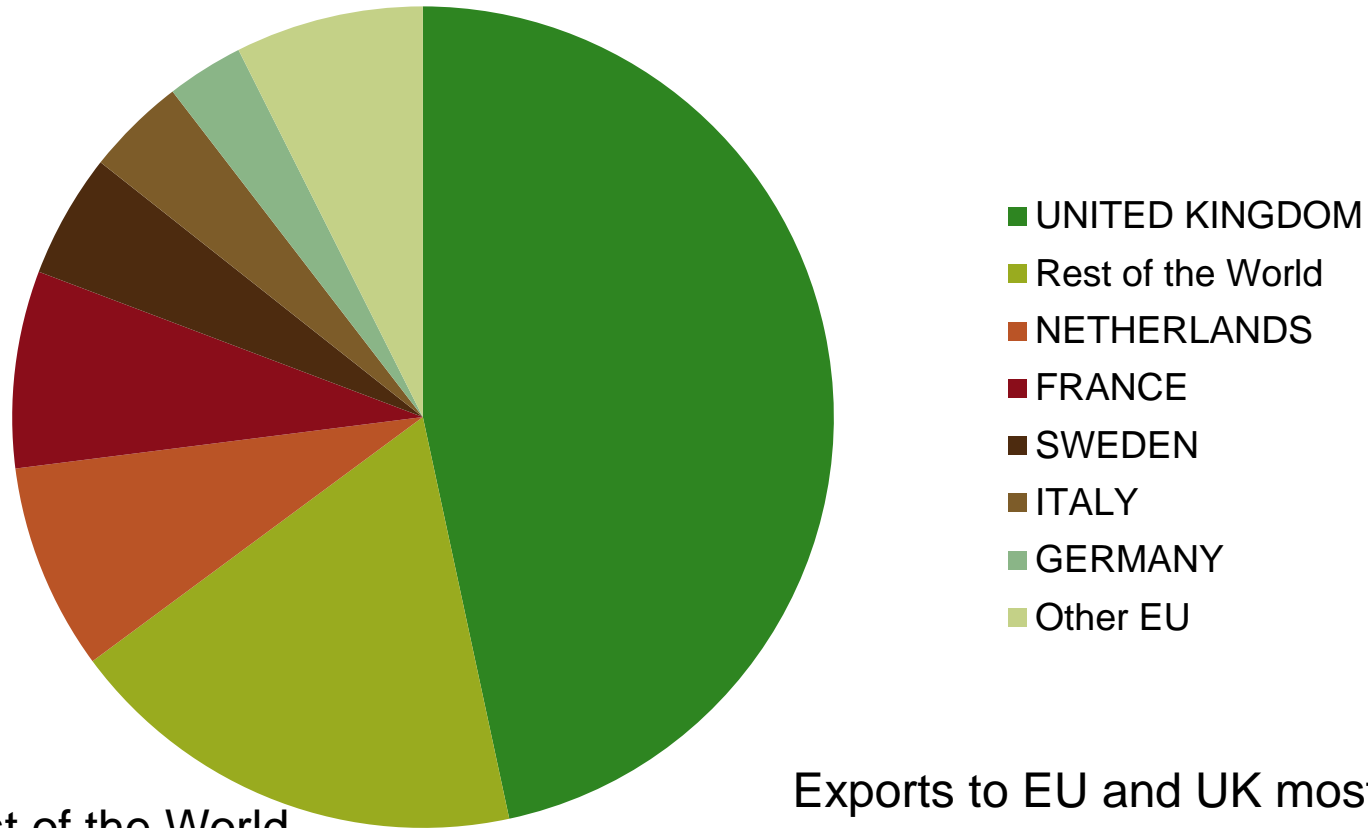
# UK beef supply and use



# Irish Beef Supply and Use



# Where do Irish beef exports go ? (where might they go after Brexit?)



Export to Rest of the World  
mostly Edible Offals to East  
Asia and West Africa

Exports to EU and UK mostly  
Fresh Boneless Beef

# MFN tariffs: EU bindings at WTO

- Maximum level of tariffs Irish exports to UK could face in absence of a “deal”
- UK will inherit tariffs the EU imposes on imports from the rest of the world
- These are the maximum levels the UK could apply
- EU beef tariffs are compound tariffs – they have value component (ad valorem) and a specific by weight component (specific)

# Tariff Example- Fresh Boneless

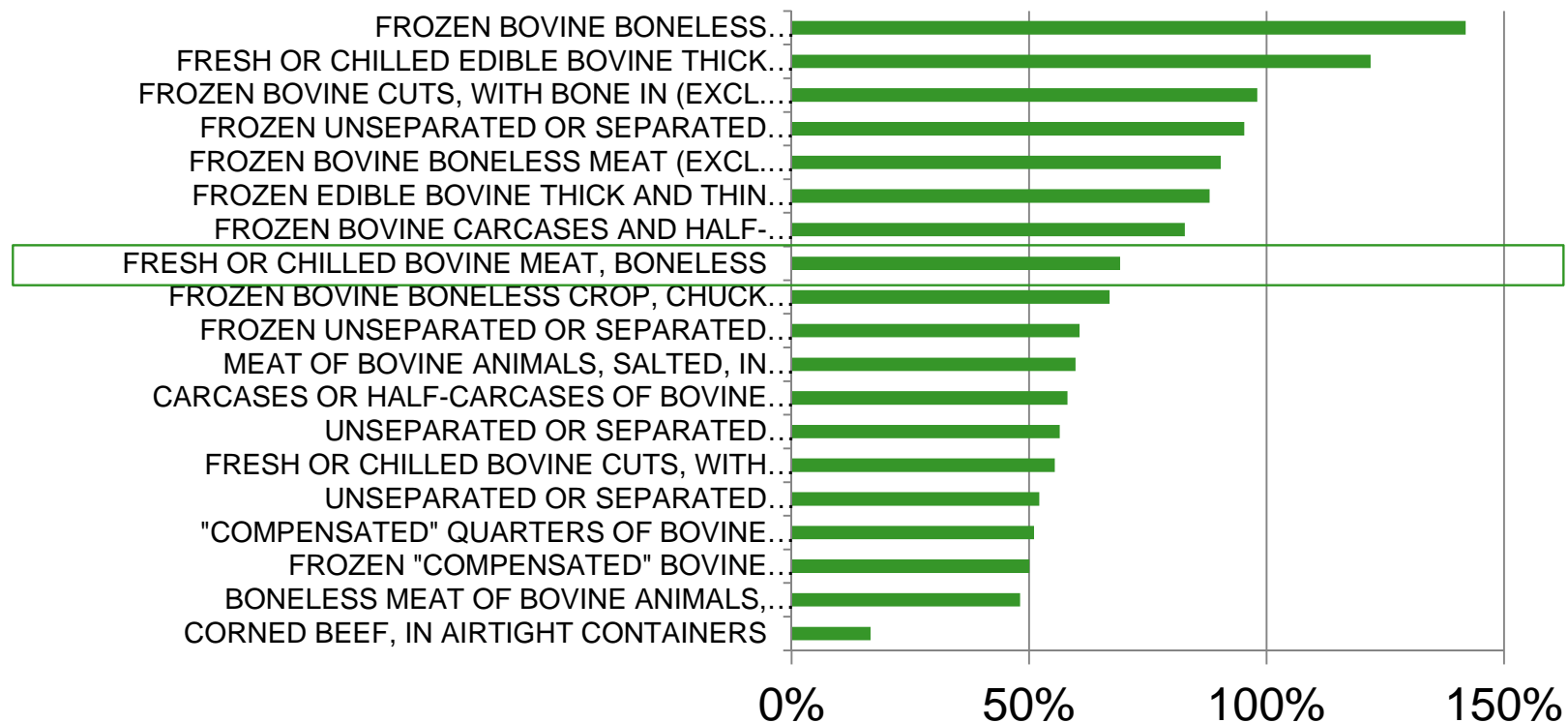
- 02013000 “Fresh or Chilled Bovine Meat, Boneless”
  - Value of UK imports from Ireland in 2016: €600.33 m
  - Volume of UK imports from Ireland in 2016: 93,316 tonnes
  - Average value per 100kg: €643.33/100kg
- EU bound MFN tariff is a compound tariff
  - 12.8% ad valorem **plus** €303.4/100kg
- AVE @ 2015 prices 64.4%
  - $([\text{€}643.3 \times (1.128) + 303.4] / \text{€}643.3 - 1) \times 100 = 59.96\%$



# Beef Tariff Ad Valorem Equivalents

Trade weighted average tariff of 71%

Fresh Boneless tariff of 69%, accounts for 2/3 of beef export value to UK



Based on UK imports from Ireland in 2016 and EU Bound MFN tariffs

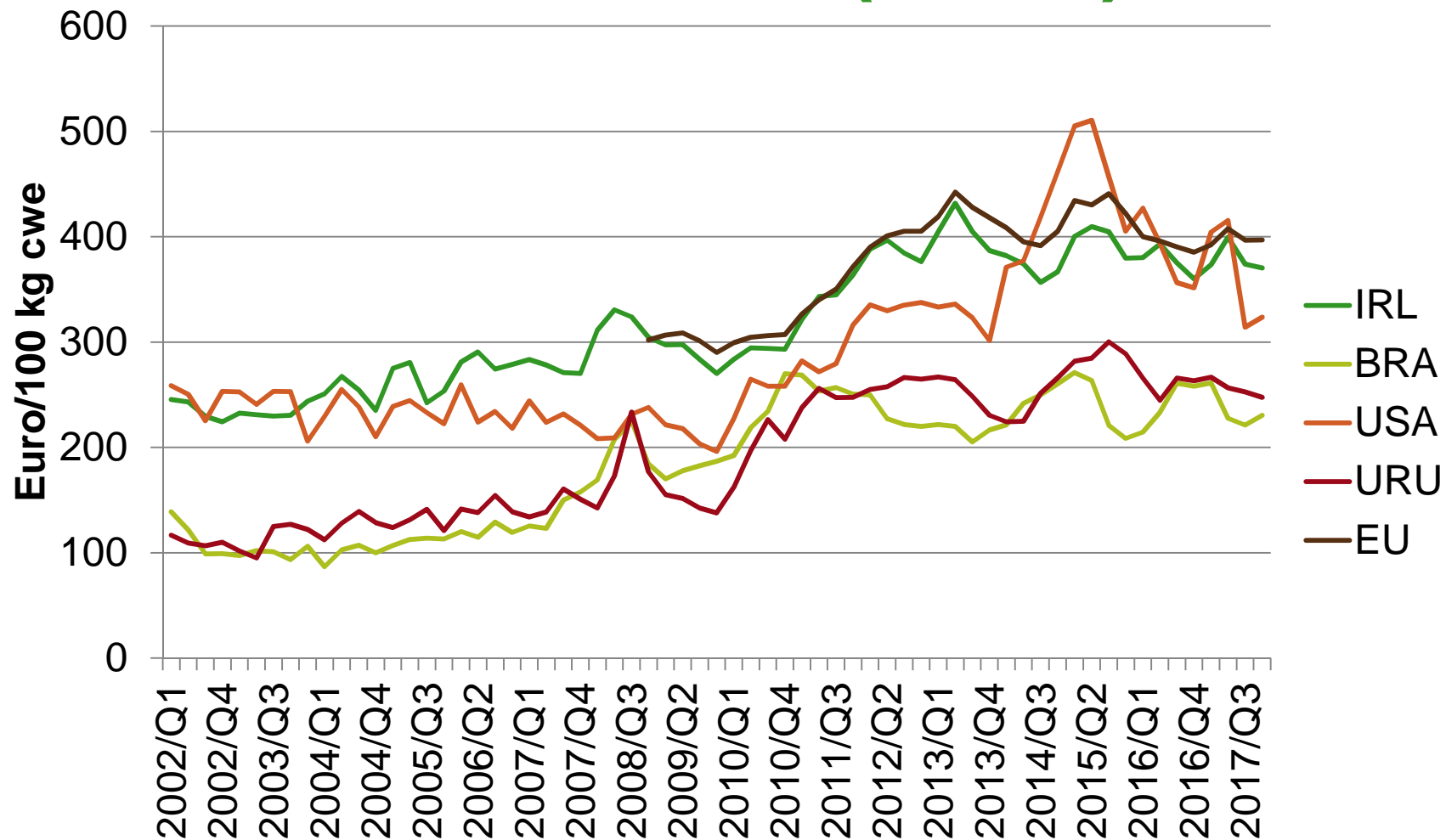
# What would the impact of WTO tariffs be on trade with UK?

- What would happen in the price of Irish beef in the UK increased by 70% ?
- Demand for that product would evaporate
- Irish beef that previously was shipped to the UK would have to find a new market
- Which markets can take 250 kt of Irish beef ?

# Tariff and non-tariff barriers

- If the UK goes for free trade Ireland will face no tariff barriers but will be competing on the UK market at world prices
- Brazilian R3 (equivalent) Price 2017 YTD 36% lower than the Irish Price
- Even with no tariffs in context of either a FTA with the UK or the UK liberalising there will be significant non-tariff barriers
- Regulations on agri-food trade with markets outside Single Market very significant and will lead to additional costs in trade with UK

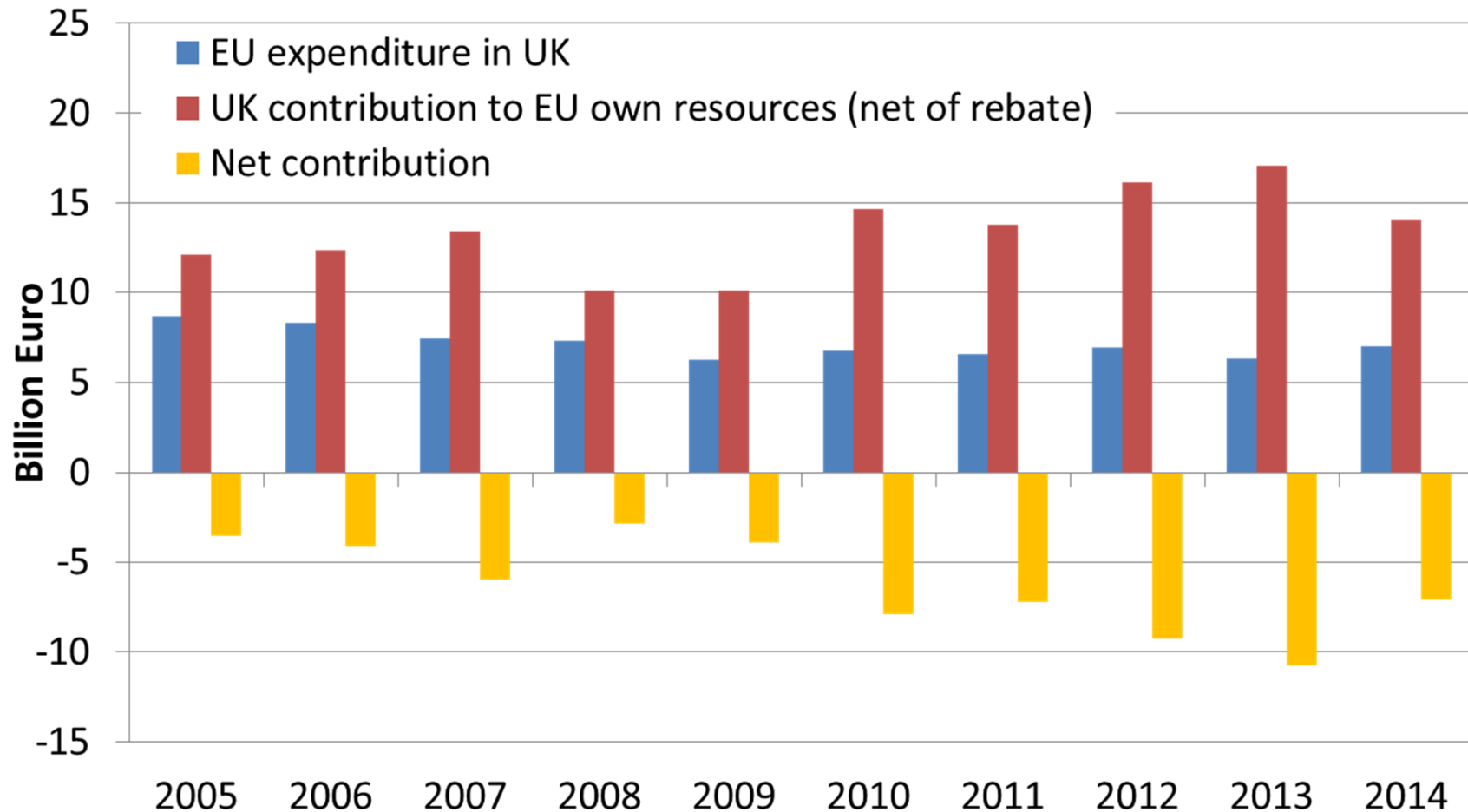
# International Cattle (Steer) Prices



Source: Bord Bia

# Brexit: Negative Implications for CAP

## Loss of the UK Budget contribution



Source: Matthews (2016)

# Irish Agriculture and Brexit

- What determines size of negative impact?
  - Markets with high levels of current tariff protection
  - Sectors with heaviest reliance on exports to UK
  - Sectors where farm incomes are most dependent on CAP direct payments
- What sectors will be most resilient ?
  - Sectors with most profitable (farm & agri-food) supply chains

# A simple static example

- Looking at our four principal sectors
  - Beef, dairy, sheep and tillage
- What are the possible implications for farm incomes
  - Based on market (price reduction) and policy (support reduction)
- Static analysis – short term impact
  - Caveat - adjustment would take place in medium term
  - Lower production would increase negative impact
- Look at the implications of
  - **Sector specific** % output price reduction and
  - 10% reduction in CAP support in **all sectors**



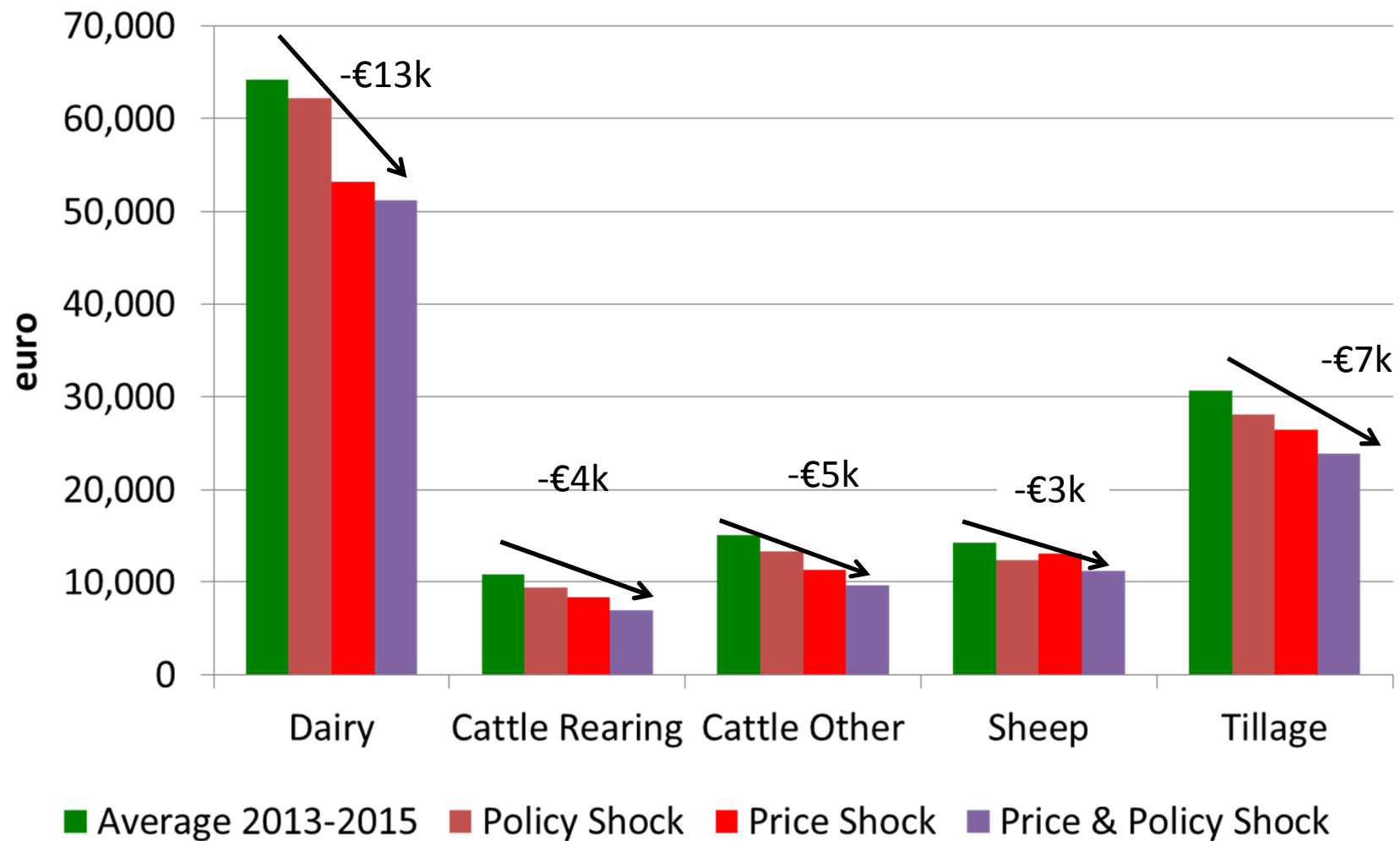
# Something about the assumptions we have to make

- Assumed market price shocks – conservative
  - Based on LEI report for NFU “Brexit -Trade liberalisation scenario”
  - Price impacts reflect Irish level of dependence on UK market
- Assume EU budget hole not filled by remaining EU27
  - 10% cut in EU CAP budget & Irish direct payment receipts
- Static analysis based on average Teagasc NFS Output, Income and Direct Payment data in 2013-2015

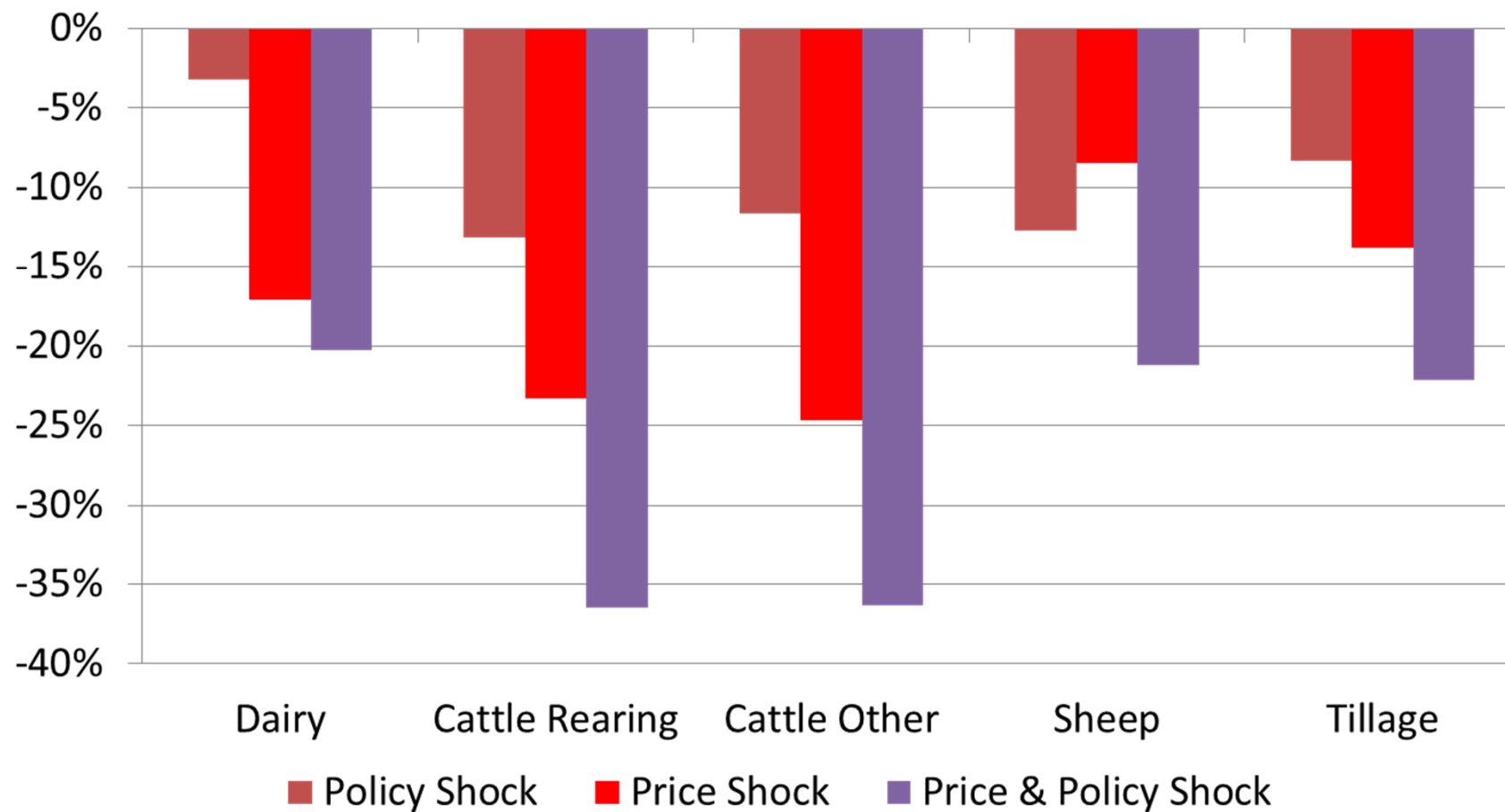
# Brexit: Average Irish Beef Farm

- Biggest % impact of Brexit shock in Irish Ag.
  - High levels of current tariff protection
  - High dependence on UK market
    - » Together imply largest price shock of -10%
  - High dependence on Beef FFI on CAP subsidies
    - » Implies large shock to direct payments income
- Cattle Rearing and Cattle Other FFI down 37%
  - Importance of price and policy shocks differ slightly

# Brexit Shock: Static Impact on System FFI



# Brexit Shock: Static Impact on System FFI



# Mitigating the Negative Impact of Brexit

- MFN tariffs the worst outcome and that which both EU and UK should wish to avoid
- UK lowering its trade barriers post-Brexit would have negative impact for Irish agri-food that approaches that of a “No Deal Outcome”
- The challenge for Government and Industry is
  - Maintain preferential access to UK market
  - Work on developing new markets for beef

# Farm Level Responses to Brexit

- Very little that farmers can do in the face of Brexit
  - Problem of being a price taker
- Technologies that increase the productivity of beef production more relevant than ever
- Maintaining and improving the competitiveness of Irish beef production key to new markets
  - And holding onto those we have already