AGRICULTURE AND FOOD DEVELOPMENT AUTHORITY

The Irish Agriculture and Food Development Authority

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Brexit: Potential Implications for the Irish Agri-food Sector

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The Irish Agriculture and Food Development Authority

Outline

- The terms of Brexit
  - Trade policy
  - UK Ag policy
- Current trade relations between
  - UK and EU
  - IRL and UK
- Implications of Brexit for EU
- Implications of Brexit for Ireland's agri-food exports
- Uncertainties ….. And there are many !

So many unknowns

- Brexit is a step into the unknown
- Vote to Remain: Relatively known outcome
  - No impact on future trade
- Vote to Leave: Completely unknown outcome
  - No indication of UK's trade relationship with the world
  - No indication as to what UK ag policy would be
- A comprehensive analysis of Brexit cannot therefore be produced at this time
- But we can provide an assessment of the consequences based on a set of Brexit assumptions

Mechanics of Brexit

- Brexit Vote June 23^{rd}
- If UK votes to Leave then what happens next?
  a) Nothing (paralysis)/ stalling for time?
  b) Further renegotiation and another referendum?
  c) Brussels immediately notified of intention to leave?
- Clock starts ticking once intention to leave is notified
  – prompts a two year negotiation process on exit terms
  – which could be extended with consent of EU
  – preferable for UK to leave on amicable negotiated terms
  – but possible that UK might exit with no trade terms in place

Exit Dates ?

- At the very earliest mid 2018
  – But could be messy as MFF revisions would be required
- Possibly 2020
  – Neater solution as it marks end of current MFF period
- Probably some time after 2020
  – The complexities of Brexit make a later departure more practical than an early one
- However, Eurosceptics may apply pressure for Brexit to occur as soon as possible
  – to ensure it occurs within life of current UK government

What will Brexit require?

- Negotiation of trade relations between EU27 and UK
  - UK application for WTO membership
- Negotiation of trade relations between UK and other WTO members
- Resolution of tariff levels and TRQs
- Past experience shows that trade negotiations are very time consuming
- Concern that UK may lack professional capacity
  - Given that UK trade matters have been dealt with by EU since 1973

Brexit Trade Terms

- Decision required on trade relationship with EU
- Agriculture might be included/excluded from any trade agreement with EU
- Could result in all manner of trade relationships e.g.
  a) No tariffs on EU UK trade
     - i.e. free trade between UK and EU
  b) MFN tariffs
     - UK and EU treat each other as WTO members
  c) Unilateral UK tariff reduction
     - lopsided outcome where UK faces tariffs on its exports to EU but reduces or removes tariffs on imports from EU and other WTO members
- Questions also about what sort of TRQs the UK could establish
  - May not be able to acquire a pro rata share of existing EU TRQs
  - Subdivided UK/EU TRQ limits are less valuable to 3rd country exporters

Suite of Brexit Trade Terms

- 11 possible trade relationship outcomes for agriculture

The UK's relationship with the EU	Agriculture 'in' an agreement	Agriculture 'out'	
		Existing most-favoured-nation (MFN) tariffs	Unilateral tariff reduction by the UK
Customs Union	1	2	3
European Economic Area	4	5	6
Simple Free Trade Area (FTA)	7	8	9
No formal link		10	11

Source: Swinbank (2016)

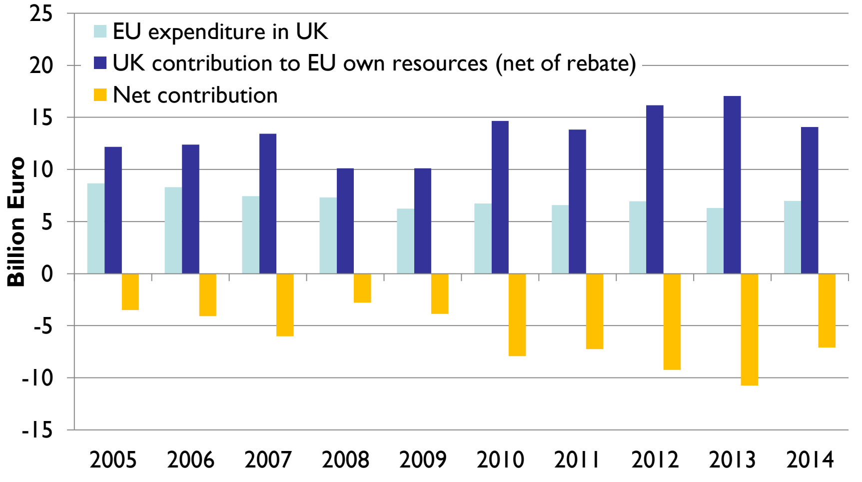
Brexit Trade Terms ?

- Some outcomes more likely than others
- Full UK trade liberalisation in agriculture is unlikely
- Tariff elimination would expose UK dairy and drystock
  - Severe competition from low cost non EU exporters
- UK likely to see dairy and drystock as "sensitive products"
  - Offering only limited or no tariff reductions for these sectors

And to compound matters.... need to decide UK Ag Policy

- UK would also be free to set agricultural policy
- Reform of UK ag policy is likely to be gradual
- In short term
  - Likely that this would be closely aligned to the CAP
  - This would be less disruptive to UK agri-food sector
- In medium term
  - Direct payments unlikely to pass a UK Treasury value for money audit
  - Likely to see a movement away from income support direct payments
  - Progression towards smaller ag payment budget, geared towards environmental considerations

Brexit Implications for CAP Loss of the UK Budget contribution



Source: Matthews (2016)

What will Brexit mean for Irish Trade ?

- The good news
  - Agri-food trade will not cease
  - The UK is too dependent on imports and will not embark on a food self-sufficiency policy
- The bad news
  - Irish exports will face more competition in UK
  - Trade from Ireland will be impeded and
  - Trade will be diverted from UK to other markets

What is trade diversion?

- Simply put, trade diversion is a change in export destination
- It is usually caused by a change in tariffs or other trade costs
  - Which affect the competitiveness of exports
- Country B (Britain) leaves a customs union (EU)
- Exports from country I (Ireland) to country B are reduced
  - Country B import more from country Z (e.g. New Zealand)
  - Country I exports more to country F and country G (EU Member States)
- Trade diversion has a negative outcome for exporting country (I)
  - Prices may be lower in the country that trade is diverted to
  - Transportation and other logistical costs may also be higher
  - Additional costs associated with market development

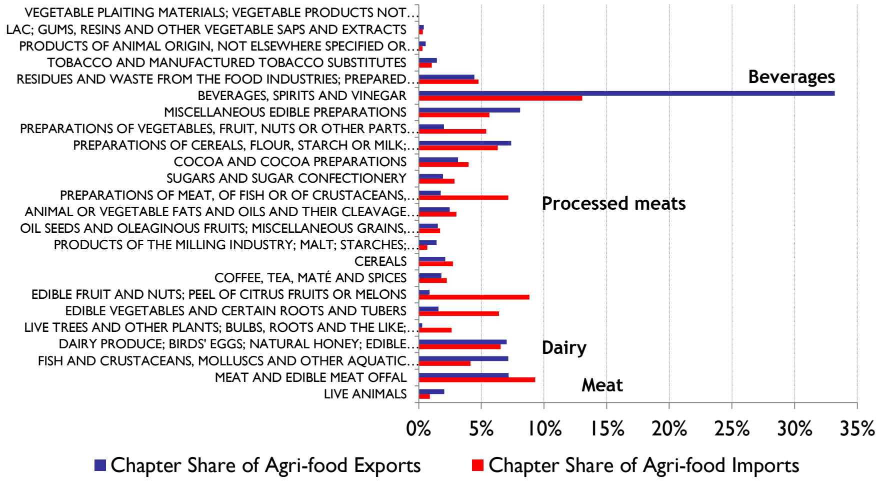
UK Agri-Food Trade

- Second largest economy in EU28
- UK is a major net importer of food
  - Unlike most other large EU member states
- UK has an agri-food trade deficit of €27.6 billion (2014)
  - This trade deficit is mainly with the EU
- UK self-sufficiency higher in some agri-food sectors
  - Net imports of dairy, beef, pig meat, fruit are significant
  - Relatively balanced trade position for cereals & sheep meat
  - Large positive net exporter in beverages

Who are the UK's major agri-food import suppliers

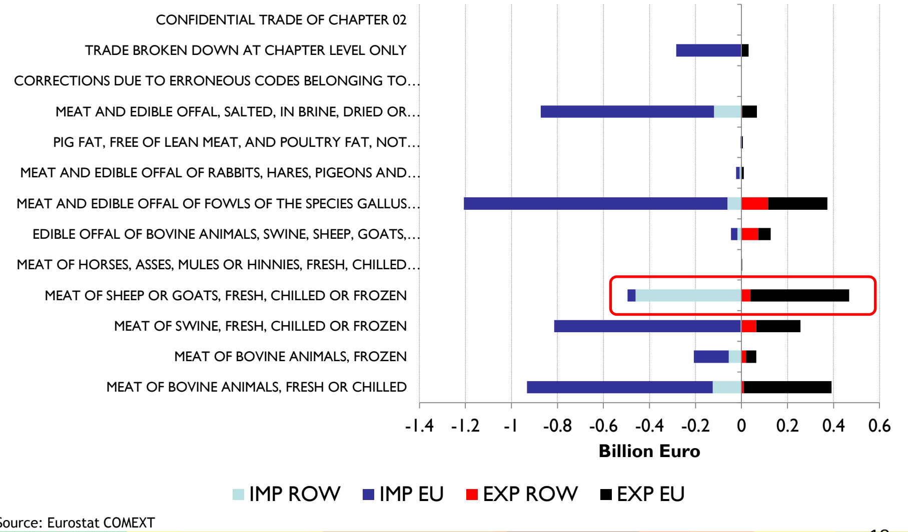
- Main exporters of agri-food to the UK
  - Netherlands, Spain, France, Germany and Ireland
- Beef
  - Ireland
- Dairy
  - Ireland
- Sheep meat
  - NZ and Australia
- Pig meat
  - Denmark, Netherlands, Germany
- Fruit and Veg
  - Netherlands and Mediterranean Member States

UK Trade Shares by HS2 Chapter



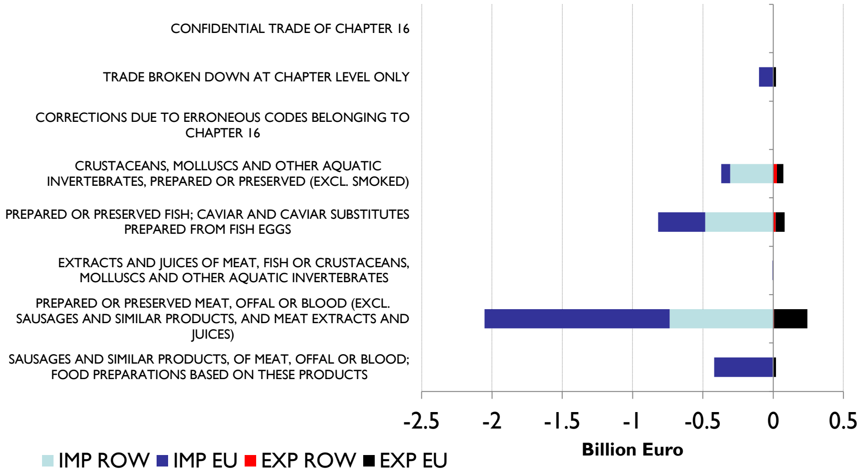
Source: Eurostat COMEXT

UK Meat Trade Balance 2014 (HS4)



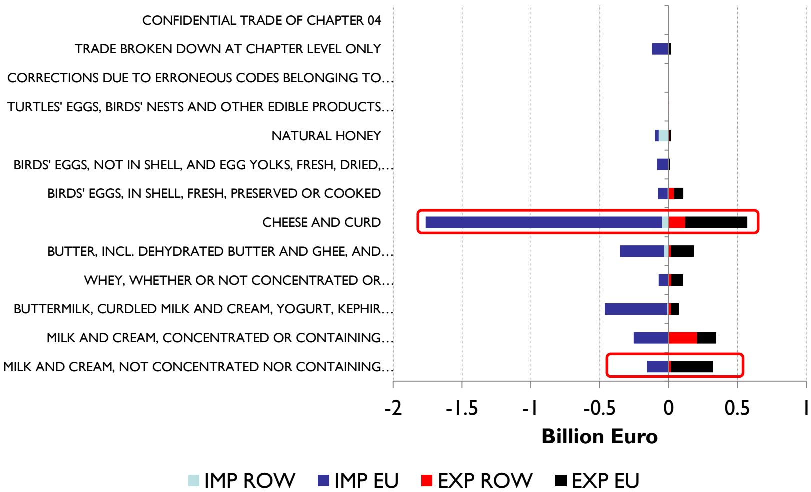
Source: Eurostat COMEXT

UK Trade Meat Preparations 2014 (HS4)



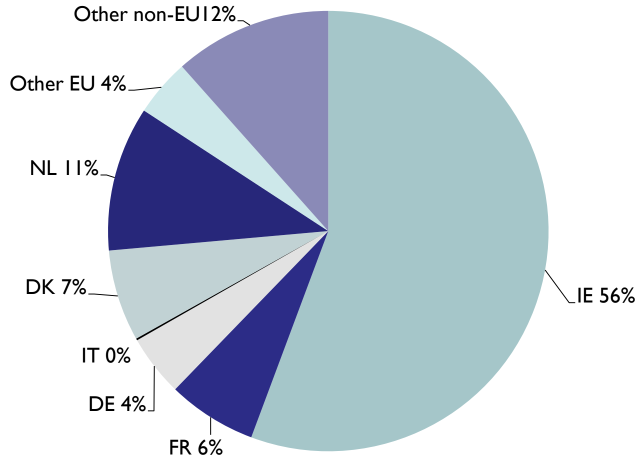
Source: Eurostat COMEXT

UK Dairy Trade 2014 (HS4)



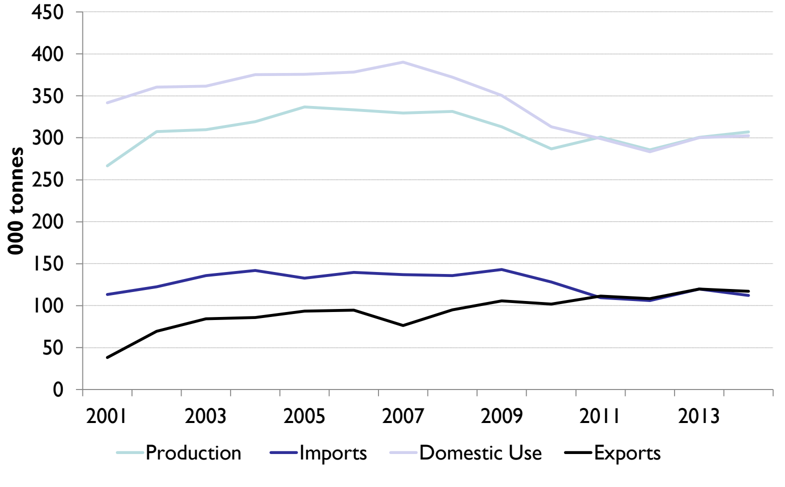
Source: Eurostat COMEXT

UK Fresh Beef Imports (Volume) -2014



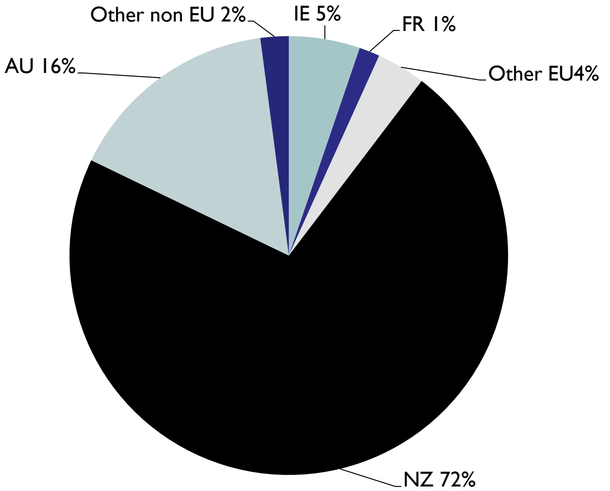
Source: Eurostat COMEXT

UK Sheep Meat Supply & Use Balance (2001-2014)



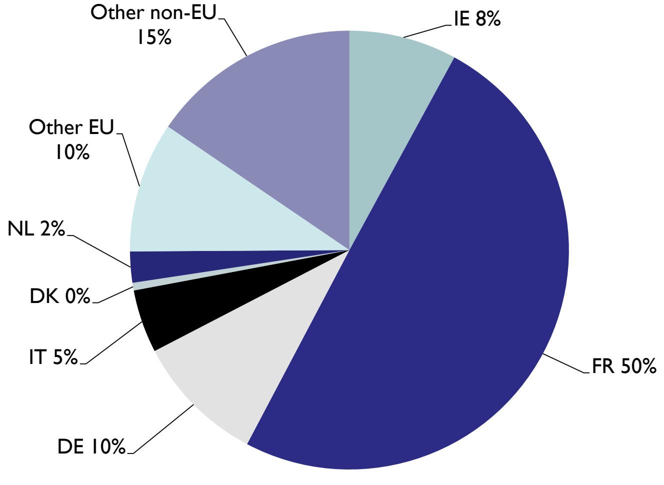
Source: DEFRA (2015)

UK Sheep Meat Imports (volume) - 2014



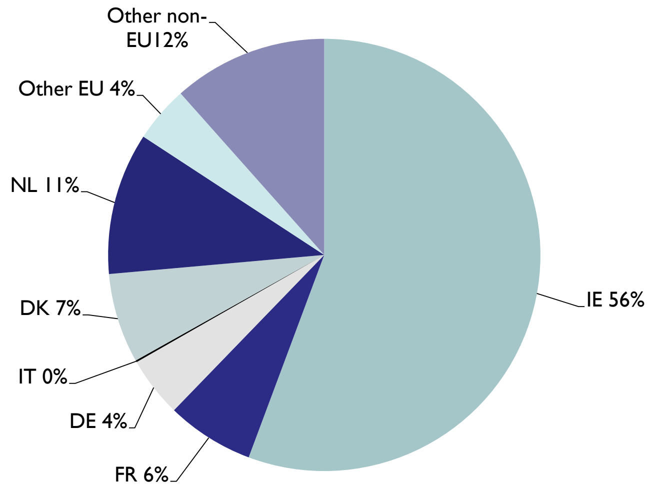
Source: Eurostat COMEXT

UK Sheep Meat Exports (volume) - 2014



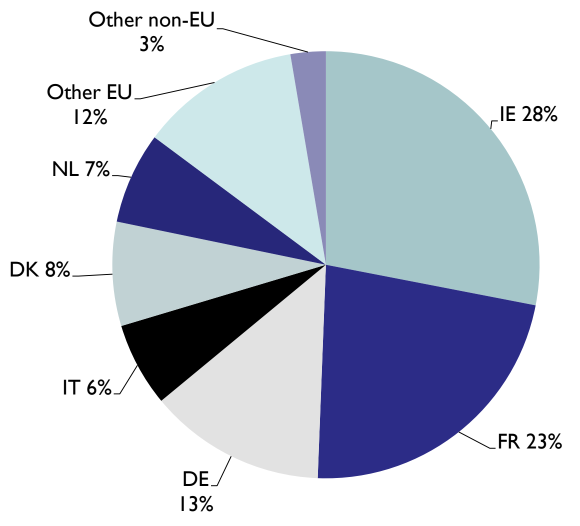
Source: Eurostat COMEXT

UK Butter Imports (volume) - 2014



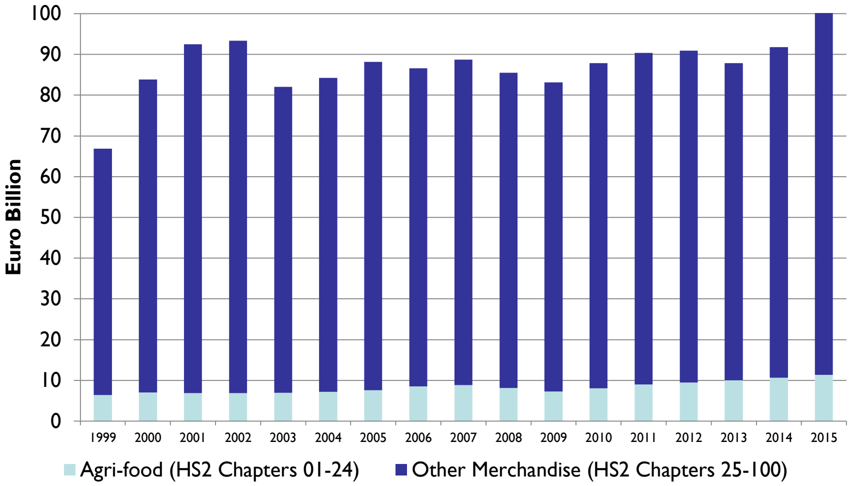
Source: Eurostat COMEXT

UK Cheese Imports (volume) - 2014



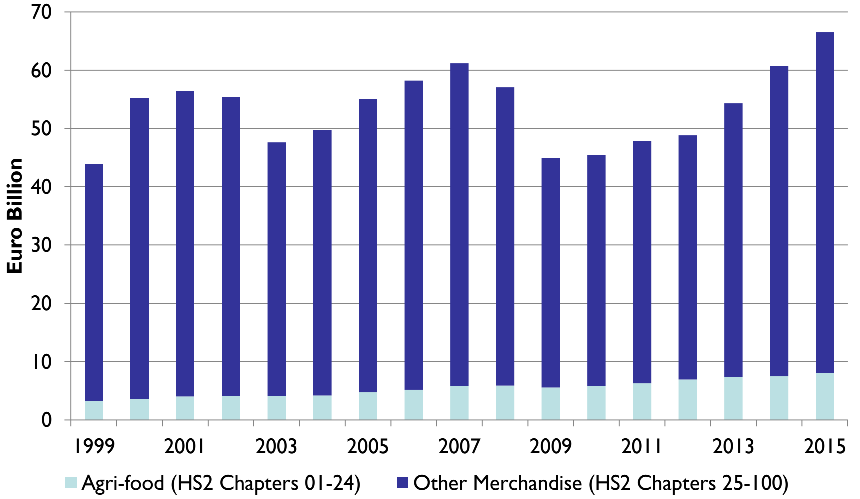
Source: Eurostat COMEXT

Ireland Merchandise Exports (1999-2015)



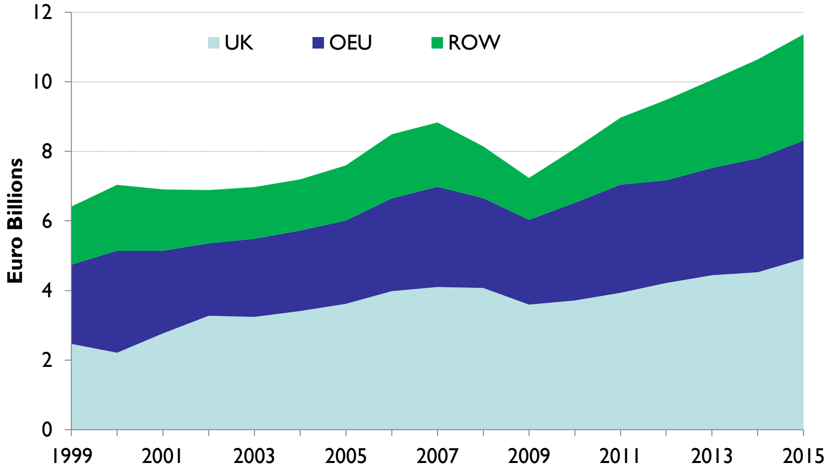
Source: Eurostat COMEXT

Ireland Merchandise Imports (1999-2015)



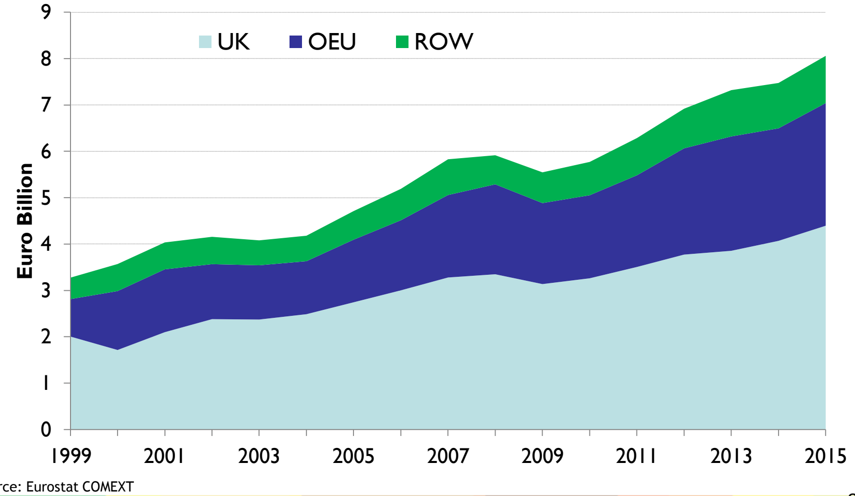
Source: Eurostat COMEXT

Irish Agri-Food Exports by Destination (1999-2015)



Source: Eurostat COMEXT

Irish Agri-Food Imports by Source (1999-2015)



Source: Eurostat COMEXT

Irish Agri-Food Exports by HS2 Chapter and Share of Chapter to UK (2014)

Source: Eurostat COMEXT

Key Brexit Assumptions

- The UK leaves the EU
- The UK joins WTO
- The CAP remains unchanged
- No new trade deals are entered into by the EU
- UK agricultural policy mimics the CAP
  - at least for a transitional period

Brexit Scenarios

	Share of Irish-UK exports that are diverted (%)	Reduction in value of diverted trade (%)
Core Scenario 1	**21.5%**	**-15%**
Scenario 2	56.6%	-15%
Scenario 3	21.5%	-30%
Scenario 4	56.6%	-30%

Impact of Brexit on the Value of Irish Agri-Food Trade (1)

	Share of UK trade diverted (%)	Reduction in value of diverted trade (%)	Value of Exports in 2014	Value of Exports Under Brexit	Change in Value of Exports	% Change
	%	%	€ billion	€ billion	€ billion	percentage
Core Scenario 1: Trade Diversion based on ESRI/Hufbauer and Schott estimate & assumed 15% reduction in value of diverted trade						
UK	21.5	-15	4.52	3.55	-0.97	-21.5
Other EU	21.5	-15	3.28	4.10	+0.83	+24.5
Rest of World	21.5	-15	2.85	2.85	0	0
Total			10.65	10.50	-0.15	-1.4%
Alternative Scenario 2: Larger Trade Diversion based on Hufbauer and Schott estimate for agri-food trade & assumed 15% reduction in value of diverted trade						
UK	56.6	-15	4.52	1.96	-2.56	-56.6%
Other EU	56.6	-15	3.28	5.45	2.18	66.4%
Rest of World	56.6	-15	2.85	2.85	0.00	0.0%
Total			10.65	10.26	-0.38	-3.61%

Source: Authors' Calculations

Impact of Brexit on the Value of Irish Agri-Food Trade (2)

	Share of UK trade diverted (%)	Reduction in value of diverted trade (%)	Value of Exports in 2014	Value of Exports Under Brexit	Change in Value of Exports	% Change
	%	%	€ billion	€ billion	€ billion	percentage
Alternative Scenario 3: Trade diversion based on ESRI/Hufbauer and Schott estimate and assumed 30% reduction in value of diverted trade						
UK	21.5	-30	4.52	3.55	-0.97	-21.5%
Other EU	21.5	-30	3.28	3.96	0.68	20.8%
Rest of World	21.5	-30	2.85	2.85	0.00	0.0%
Total			10.65	10.35	-0.29	-2.74%
Alternative Scenario 4: Larger Trade Diversion based on Hufbauer and Schott estimate for agri-food trade & assumed 30% reduction in value of diverted trade						
UK	56.6	-30	4.52	1.96	-2.56	-56.6%
Other EU	56.6	-30	3.28	5.07	1.79	54.7%
Rest of World	56.6	-30	2.85	2.85	0.00	0.0%
Total			10.65	9.88	-0.77	-7.22%

Source: Authors' Calculations

What about UK agri-food exports to Ireland?

- We have not focused on Brexit impact on agri-food imports
  - 2014 imports of €4.1 bn vs exports of €4.5 bn
- If Brexit reduces UK agri-food exports to Ireland
  - Opportunities for Irish indigenous producers to fill gap in market
  - Alternatively, products could be sourced from elsewhere in the EU27
- Outcome would depend on
  - Capacity of indigenous Irish food producers to scale up production
  - Decisions by Irish retailers to use non UK suppliers, and
  - Irish consumer preferences for Irish products vs EU27 products
- Some Irish agri-food businesses could benefit from Brexit
  - Particularly those with limited exposure to the UK market
  - Brexit could lead due to reduced competition on the Irish market

Caveats and uncertainties

- Post Brexit UK Agri-food policy is unknown
  - Agri-food
  - Trade
- TRQ and Preferential Trade access post Brexit
- Macroeconomic uncertainty and impact of Brexit
  - Exchange rates, competitiveness and GDP growth
- Trade liberalisation and sensitive products
- All island agri-food processing sector integration
- Consumer preferences for food products – where will Irish consumers get their Kit Kat ?

Brexit Conclusions (1)

- Outcome of vote and economic impact highly uncertain
- Post Brexit, UK unlikely to pursue agri-food self-sufficiency
  - Since the Corn Laws the UK has relied on trade
  - No reason to expect volte face
- Reason to expect UK to shy away from unilateral free trade
  - UK recognises that it may be vulnerable in livestock sectors
  - Sensitive product status for livestock sectors ?
- Not credible to imagine agri-food trade between UK and Ireland coming to a stop
- Other Irish agri-food export markets now much more important than historically
  - Dilutes the trade impact of Brexit somewhat

Brexit Conclusions (2)

- Brexit likely to involve at least some additional trade barriers between UK and Ireland
  - Exports from Ireland to UK likely to be reduced
  - Exports diverted to other lower value markets
- Overall Irish agri-food export value reduced
- Export value to non-UK destinations likely to increase
- Magnitude of trade diversion and loss of export value uncertain
  - Trade and ag. policy dependent

Brexit Conclusions (3)

- Core Scenario:
  - Trade diversion based on ESRI analysis
  - Augmented by reduction in value of diverted trade
- Three alternative scenarios
  - Greater diversion of trade
  - Larger reduction in value of diverted trade
- In Core scenario Irish agri-food exports reduced
  - €150 mn per annum (-1.4%)
- Most negative alternative scenario
  - Close to €800 mn per annum (-7.2%)

Brexit Conclusions (4)

- Exposure to UK market is not uniform
  - varies by agri-food product and commodity category
  - Varies by agri-food firm
  - Certain industry/firm specific risks from Brexit likely to be higher
- If the UK votes “leave”
  - Need for further detailed analysis of the impact on Irish agriculture and agri-food industry

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