Brexit Update: Considering the Impact on Irish Farm Incomes

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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”

• Oct 2016: May asserts that article 50 will be triggered
  – by end March 2017

• Nov 2016:
  – High Court holds that UK Parliament must vote on Article 50
  – British government says it will appeal judgement

• Today
  – General uncertainty about when the Brexit negotiations can begin
  – Not to mention when they might conclude!
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 €31.7 billion (2015)
  – 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
Importance of UK to Irish agri-food exporters

• UK is important market for agri-food exports
  – 43% of IRL agri-food exports in 2015
  – >52% of IRL beef exports
  – >43% of IRL dairy exports

• UK is also important export market for
  – Mushrooms
  – Timber
  – Prepared Consumer Foods
Brexit: Long Term and Short Term

• Brexit will affect IE-UK agri-food trade
  – in the form of tariffs and red tape
  – slower growth in Irish agri-food exports
  – weaker farm gate prices for Irish farmers

• Precise Brexit terms unknown
  – creates uncertainty which hinders business planning

• But … immediate impact on competitiveness of Irish exports
  – via sterling v euro exchange rate
A temporary or structural exchange rate adjustment?
Value of Irish Exports to UK 2015 and 2016 (to Sept)

€386 m (-5.5%) lower Jan - Sept 2016

Source: COMEXT Eurostat
Can we develop new markets?

• If Irish exports to UK contract, can we develop new markets for products?
• Depends on a range of factors
• Demand Preferences
  – product characteristics (is there a “taste” for it)
• Supply Logistics
  – product perishability (is shelf life limited?)
  – distance to market (in terms of time)
  – shipping cost (cost/product value ratio)
  – will product need to be shipped via UK? (red tape?)
Future funding of the MFF/CAP

• Implications of UK leaving EU
• UK contribution to EU budget
  – Circa €10 billion annually (~ 10% of total)
• Options for EU budget post-Brexit
  – a. UK continues to contribute?
  – b. Reduced EU budget
  – c. Increased MS contributions
  – or … some combination of a, b and c
• What future % of EU budget will CAP represent?
  – Strong possibility that CAP budget may decrease
Future funding of the MFF/CAP

• Potential dilemma for Ireland
  – Already net contributor to EU
  – Maintaining EU budget to maintain size of CAP?
  – Increase in Ireland’s net EU budget contribution?

• Cost to Ireland to preserve EU CAP budget
  – No guarantee that Irish CAP % share is preserved

• Increased contribution vs. CAP reduction?
  – Net outcome for Ireland increasingly unclear?
  – Would interests of farm lobby and State coincide?
Irish Agriculture and Brexit

• Brexit would have 4 transmission channels via
  – Exchange rate (weak sterling)
  – Tariff and non tariff barriers (if no FTA)
  – Changes in new UK ag policy
  – Change in level of CAP payments to Ireland

• Market (price) and policy (support payments) impacts
  – Different 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

• Price and policy impacts of Brexit will differ by sector
Irish Agriculture and Brexit

• A priori 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 – worst case outcome
  – Caveat - adjustment would take place in medium term
• 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
- 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: Average Irish Dairy Farm

• Dairy has lower exposure to UK market than beef
• EU dairy market has relatively low level of tariff protection compared with beef
  – Irish milk prices assumed to fall 5%
• Dependence of dairy FFI on subsidies is lower than in the case of beef
• Dairy FFI falls by 20%
  – Reflects importance of non-dairy enterprises in output and importance of direct payments to FFI
Brexit: Average Irish Sheep Farm

• Irish sheep markets potential for positive impact
  – UK largest exporter in EU and current competitor on continental EU lamb market
  – How TRQ are allocated post-Brexit will be important
  – Assumed small negative price impact -5%

• “Mainly Sheep” FFI down 21%
  – Driven by high dependence on subsidies and very high output share of beef on “mainly sheep” farm
Brexit: Average Irish Tillage Farm

• Cereals markets likely to be least affected by Brexit (of the 4 farm systems examined)
  – Current low levels of tariff protection
  – UK not a major net importer or net exporter
  – Means cereals price shock likely very small (-1%)

• Tillage FFI down 22%
  – Tillage farm FFI highly dependent on subsidies and significant beef component of Tillage farm output
Brexit Shock: Static Impact on System FFI

- €13k Dairy
- €4k Cattle Rearing
- €5k Cattle Other
- €3k Sheep
- €7k Tillage

Average 2013-2015: Purple
Policy Shock: Red
Price Shock: Black
Price & Policy Shock: Green

The Irish Agriculture and Food Development Authority
Brexit Shock: Static Impact on System FFI

-40%  -35%  -30%  -25%  -20%  -15%  -10%  -5%  0%

Dairy  Cattle Rearing  Cattle Other  Sheep  Tillage


The Irish Agriculture and Food Development Authority
Conclusions

• The UK’s departure from EU may reduce
  – Ireland’s access to the UK market
  – The size of the EU budget (and the CAP budget)

• Brexit will have negative implications for output prices, output value and income at farm level in Ireland

• Lower levels of CAP support are possible
  – Static impact on average FFI of -26%

• Brexit impact unlikely to be uniform across farm types

• Drystock farm incomes most vulnerable to Brexit
Conclusions

• **NB:** Static nature of analysis
  – No account taken of possible supply response

• **NB:** Still no clarity on what Brexit will mean
  – Magnitude of price impacts highly uncertain
  – Implications for EU & CAP budget also uncertain

• **Key Conclusions** for Family Farm Income
  – Brexit a negative for Irish farm incomes
  – Brexit impact magnitude likely to vary by system
  – Likely largest on least resilient farm types