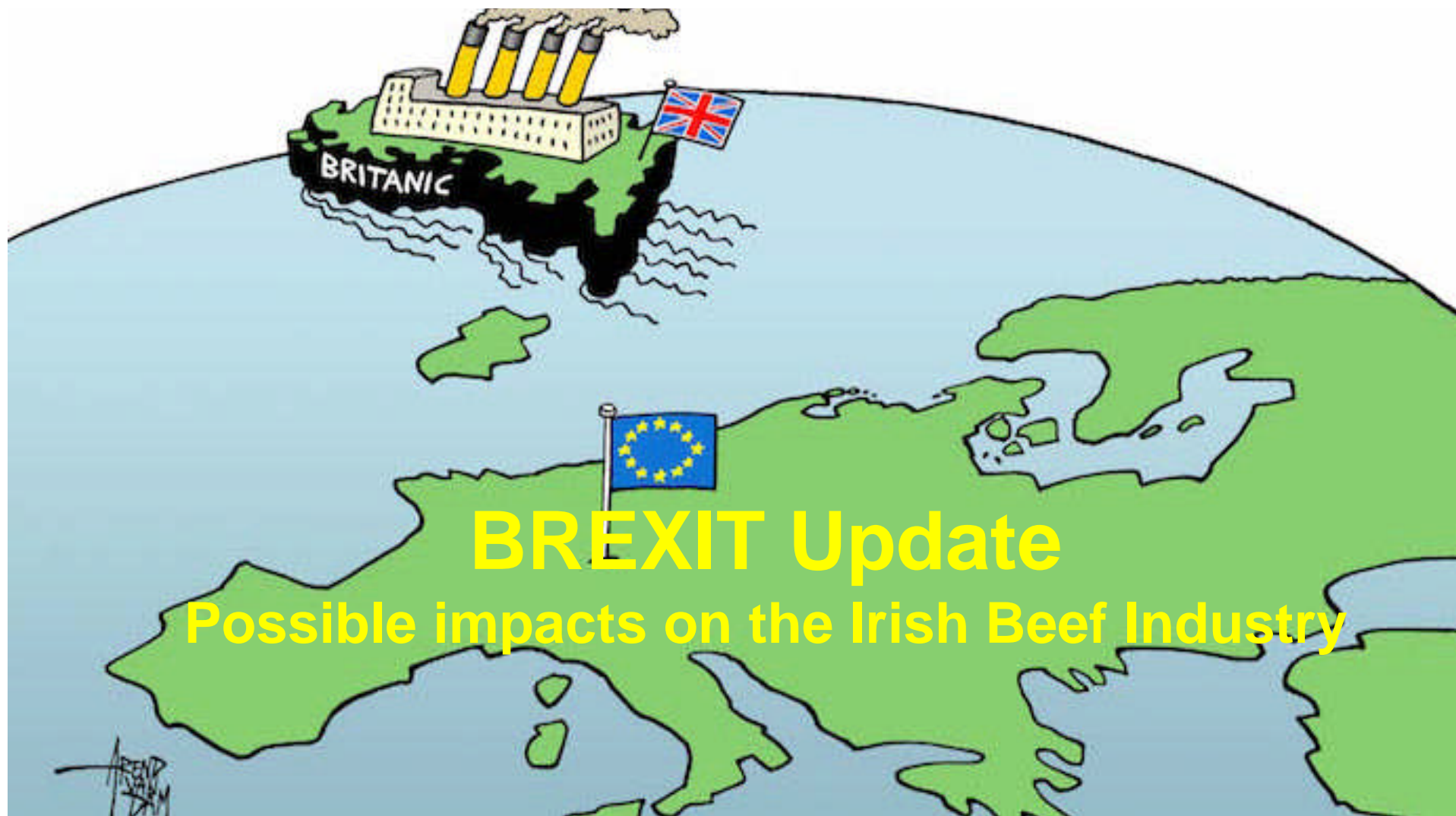




The Irish Agriculture and Food Development Authority



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 29th





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





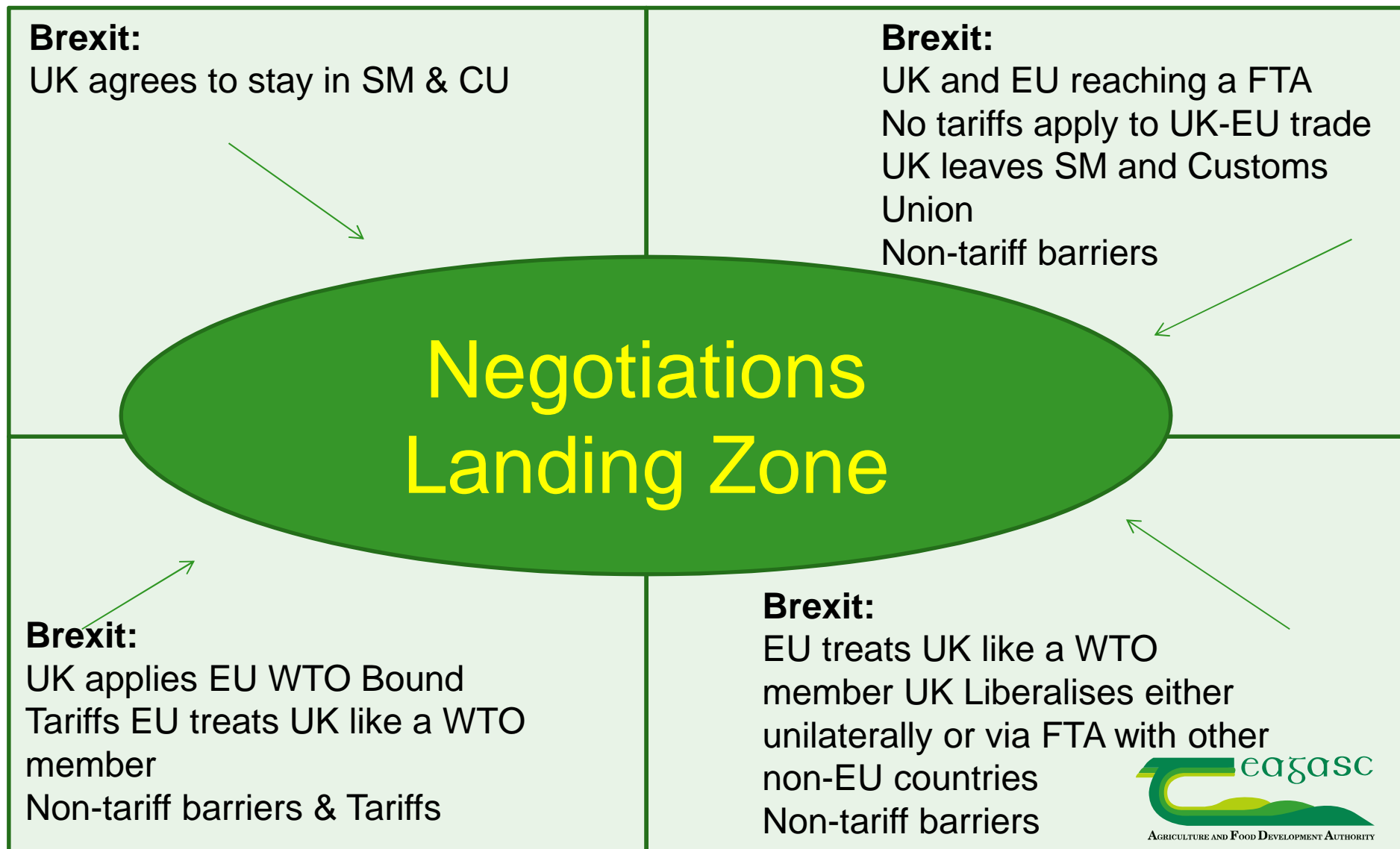
Brexit – The Unfinished Story?



- “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

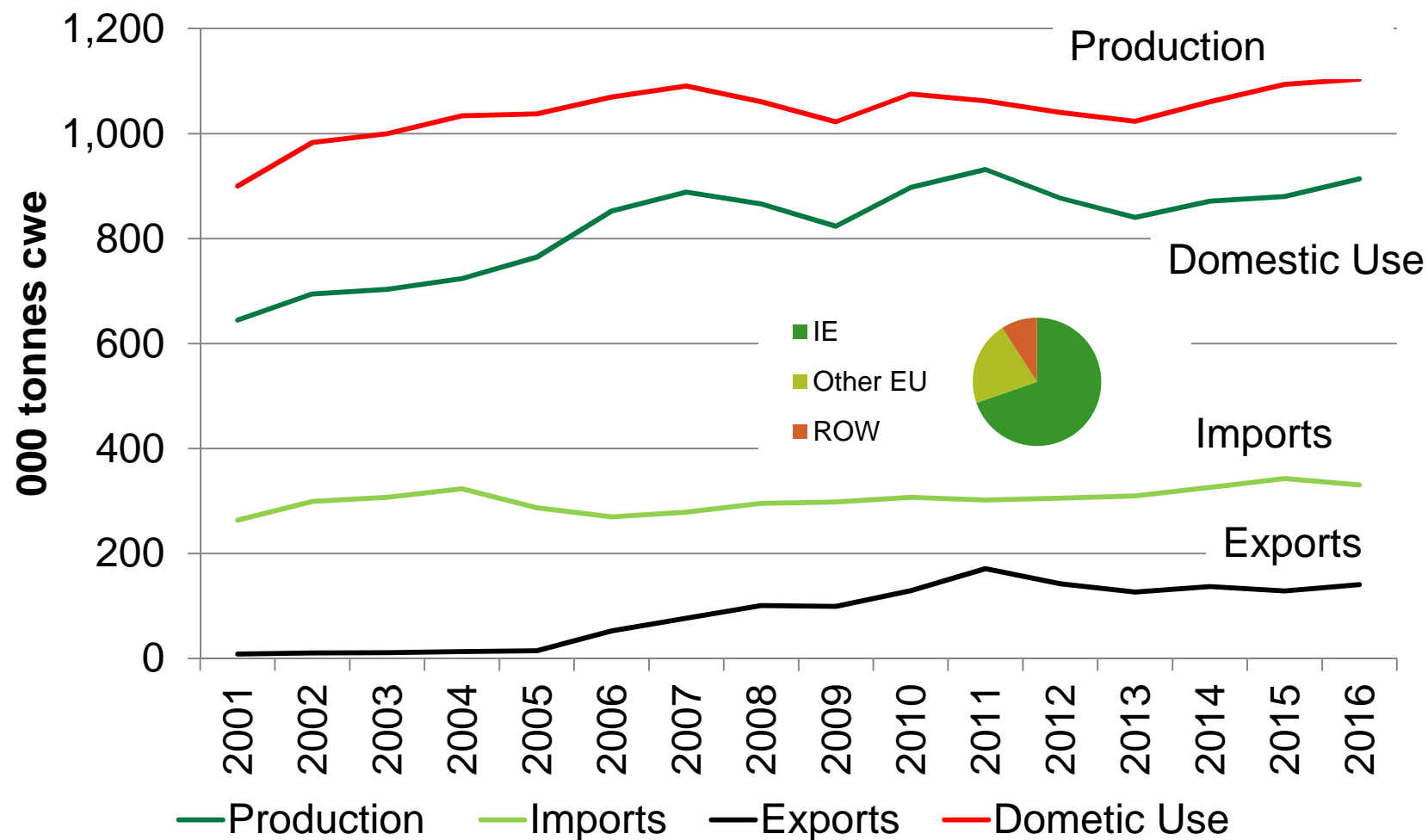
Irish Agriculture and Brexit

- 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

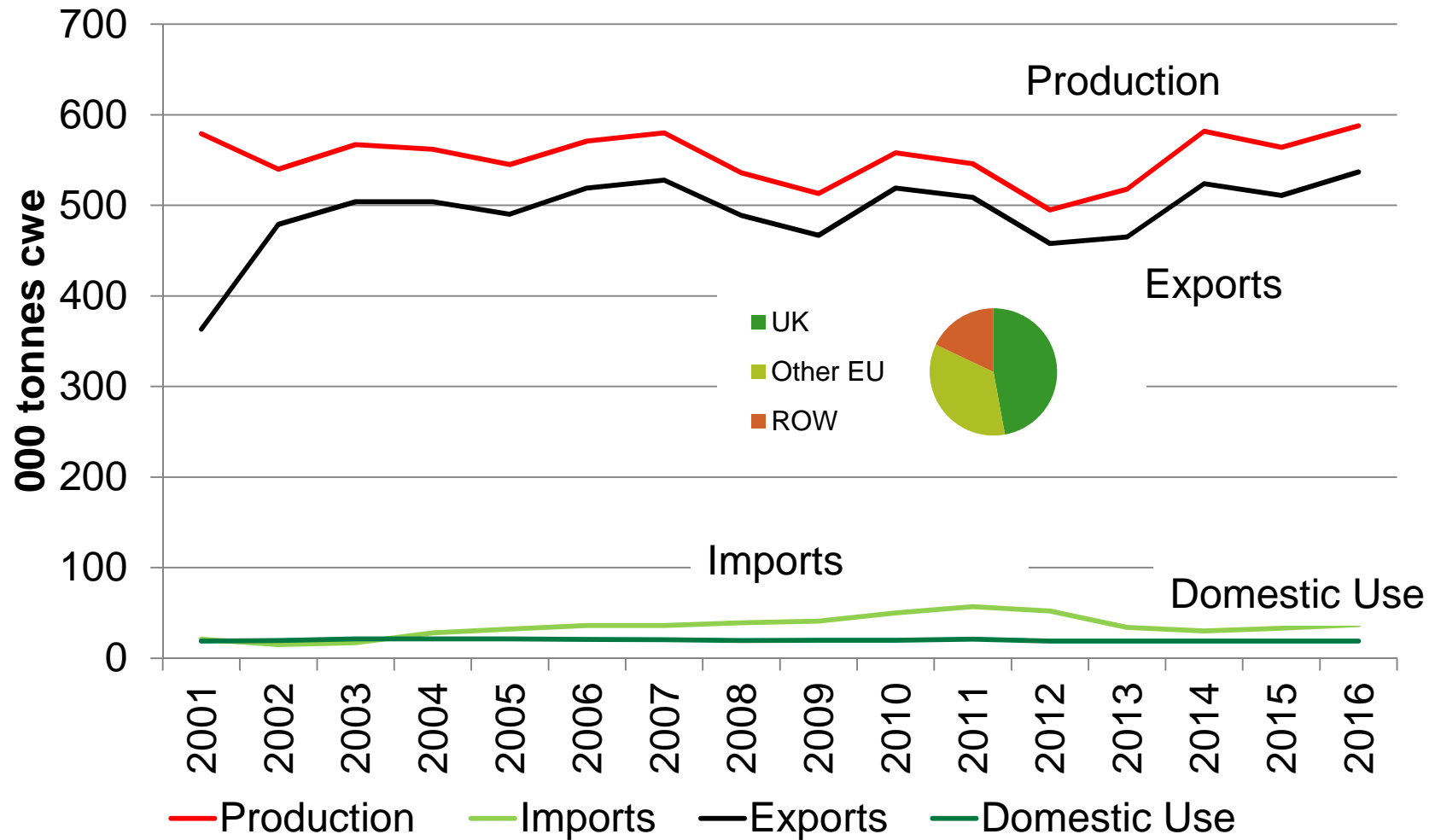
Brexit, the UK and Irish Beef Sector

- 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

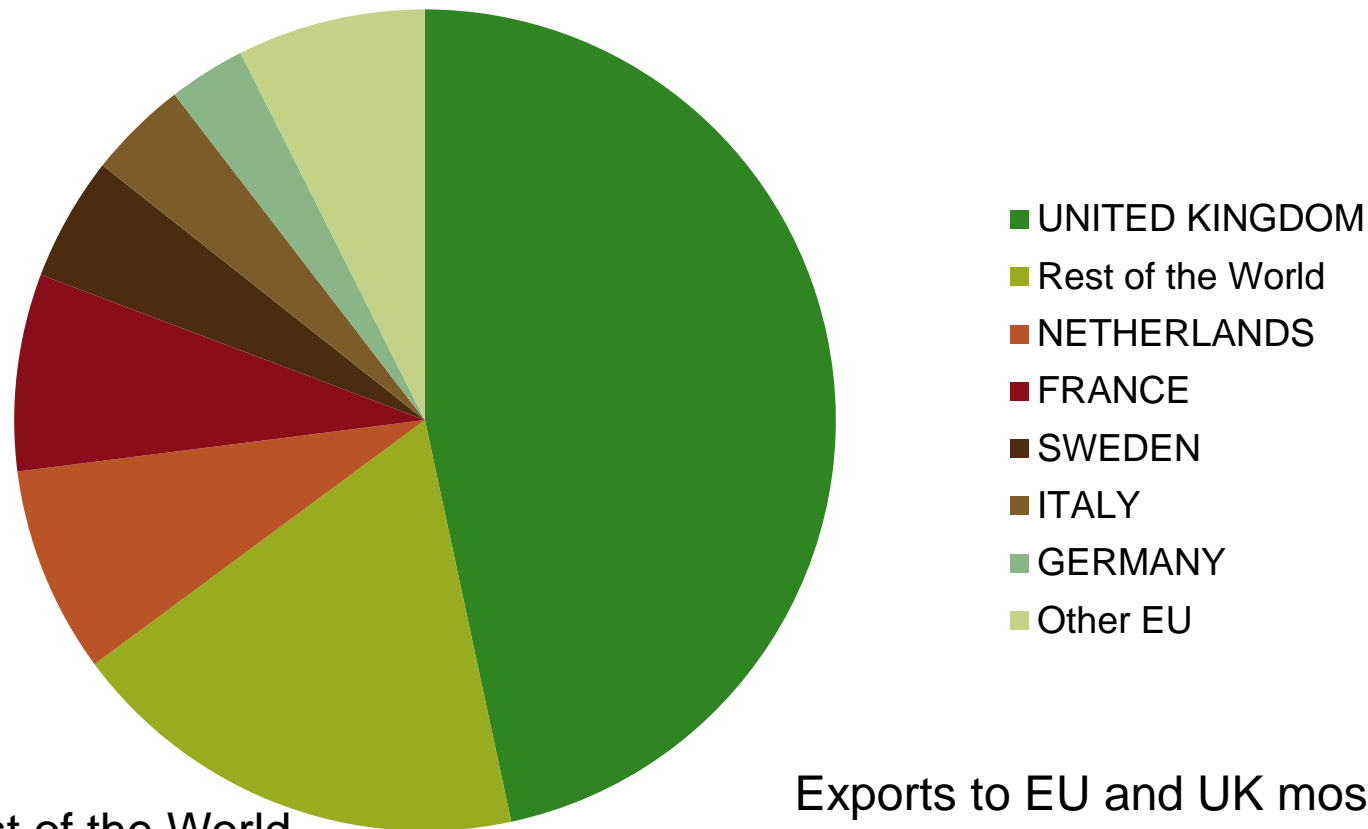


Irish Beef Supply and Use



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)

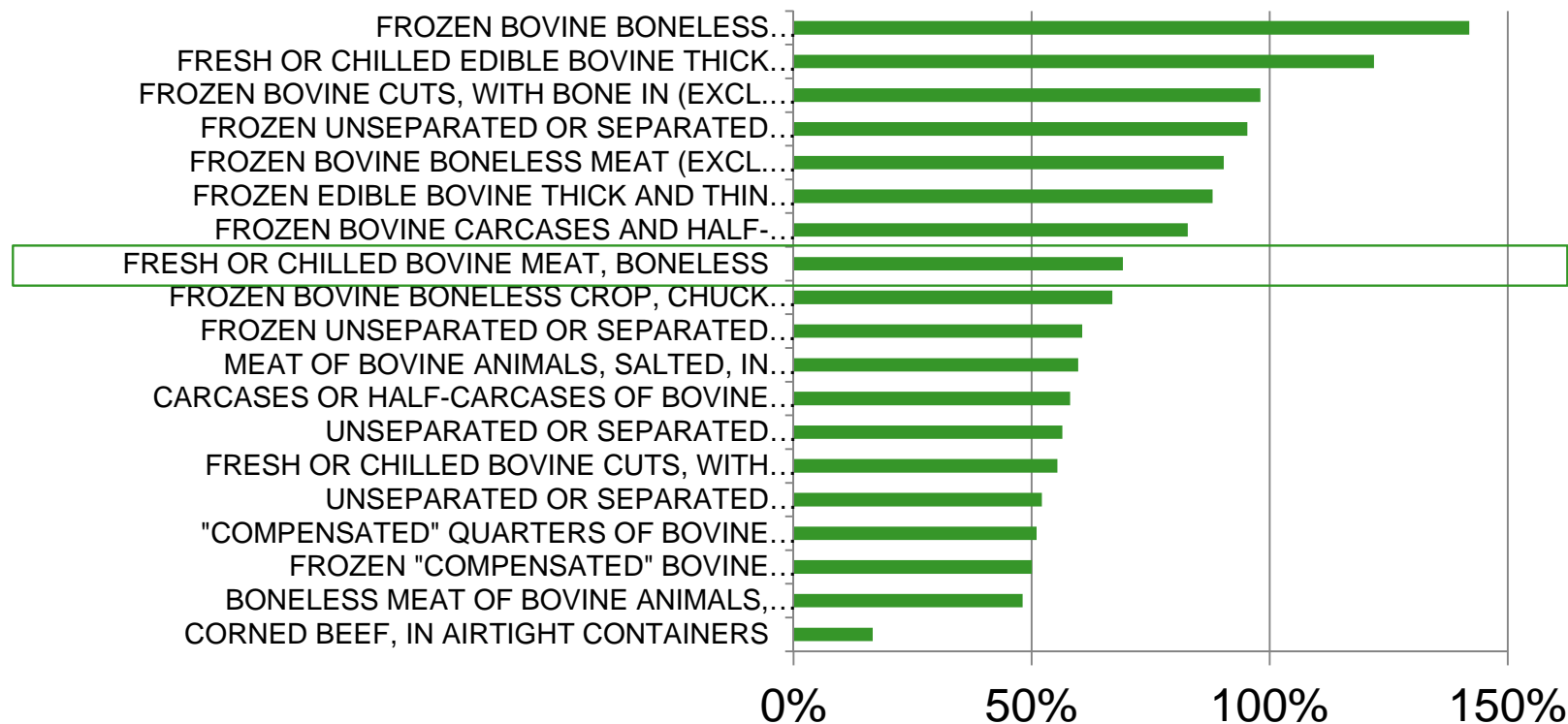
Tariff Example- Fresh Boneless

- 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

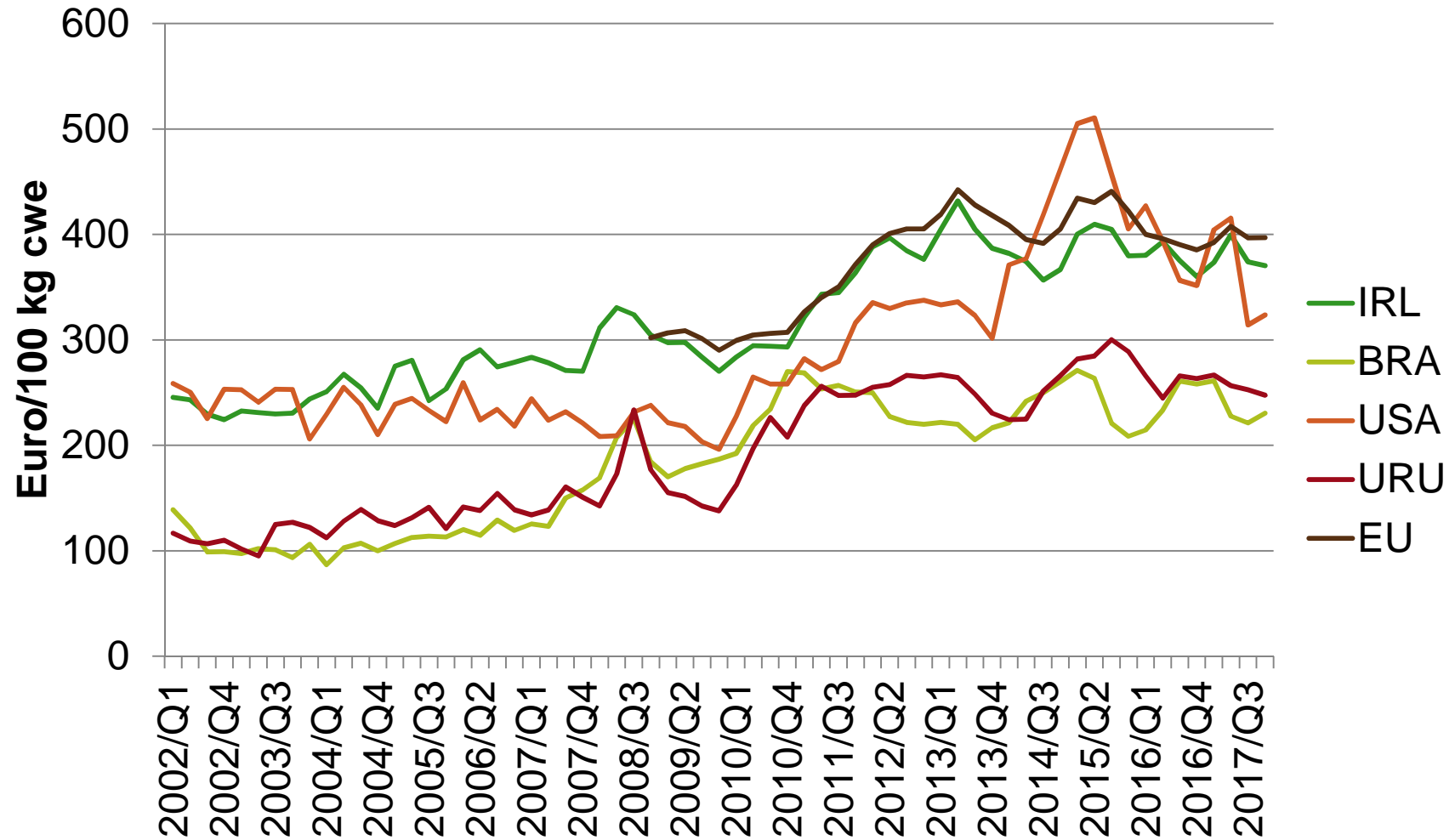
What would the impact of WTO tariffs be on trade with UK?

- 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

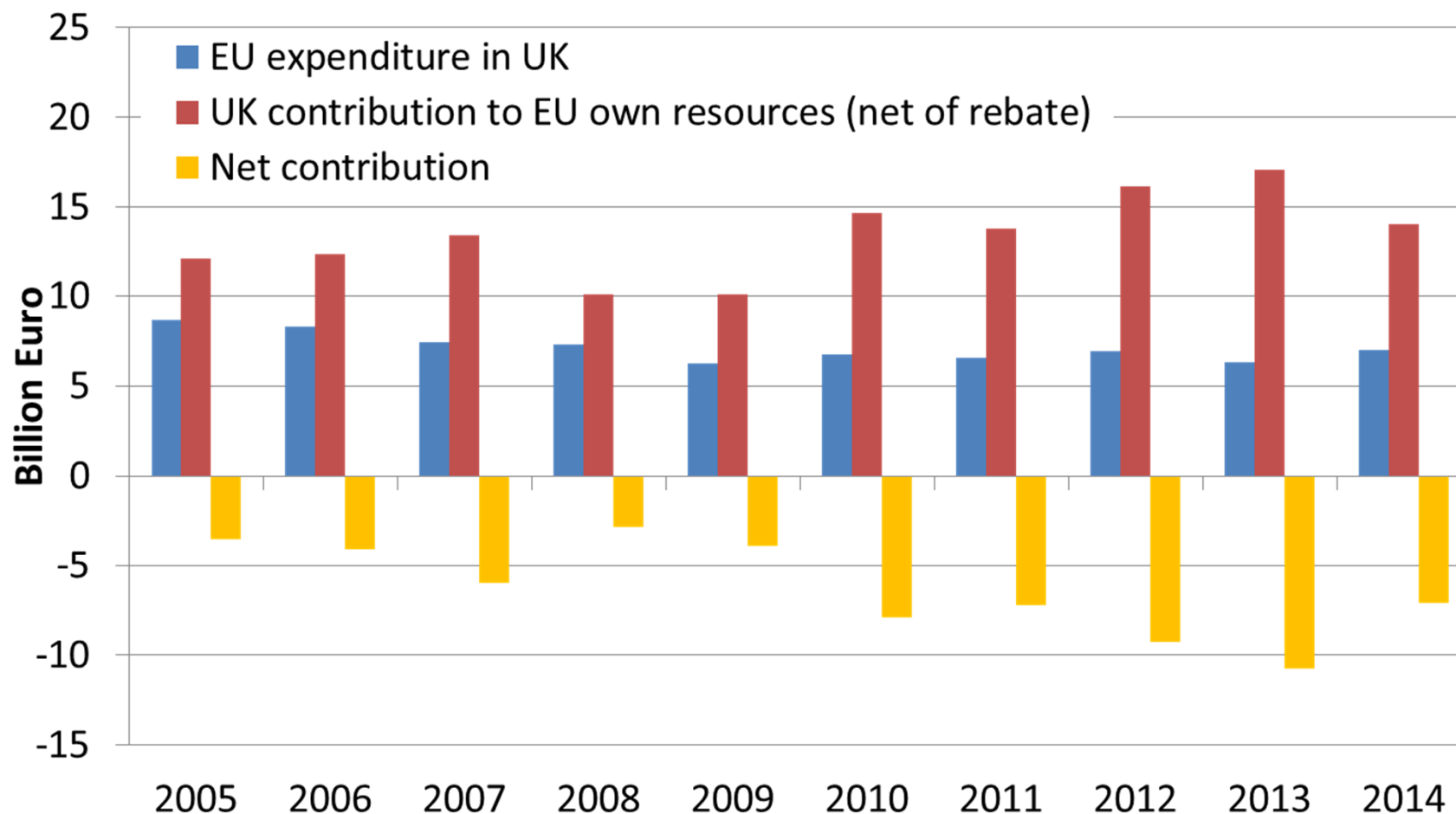
International Cattle (Steer) Prices



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**

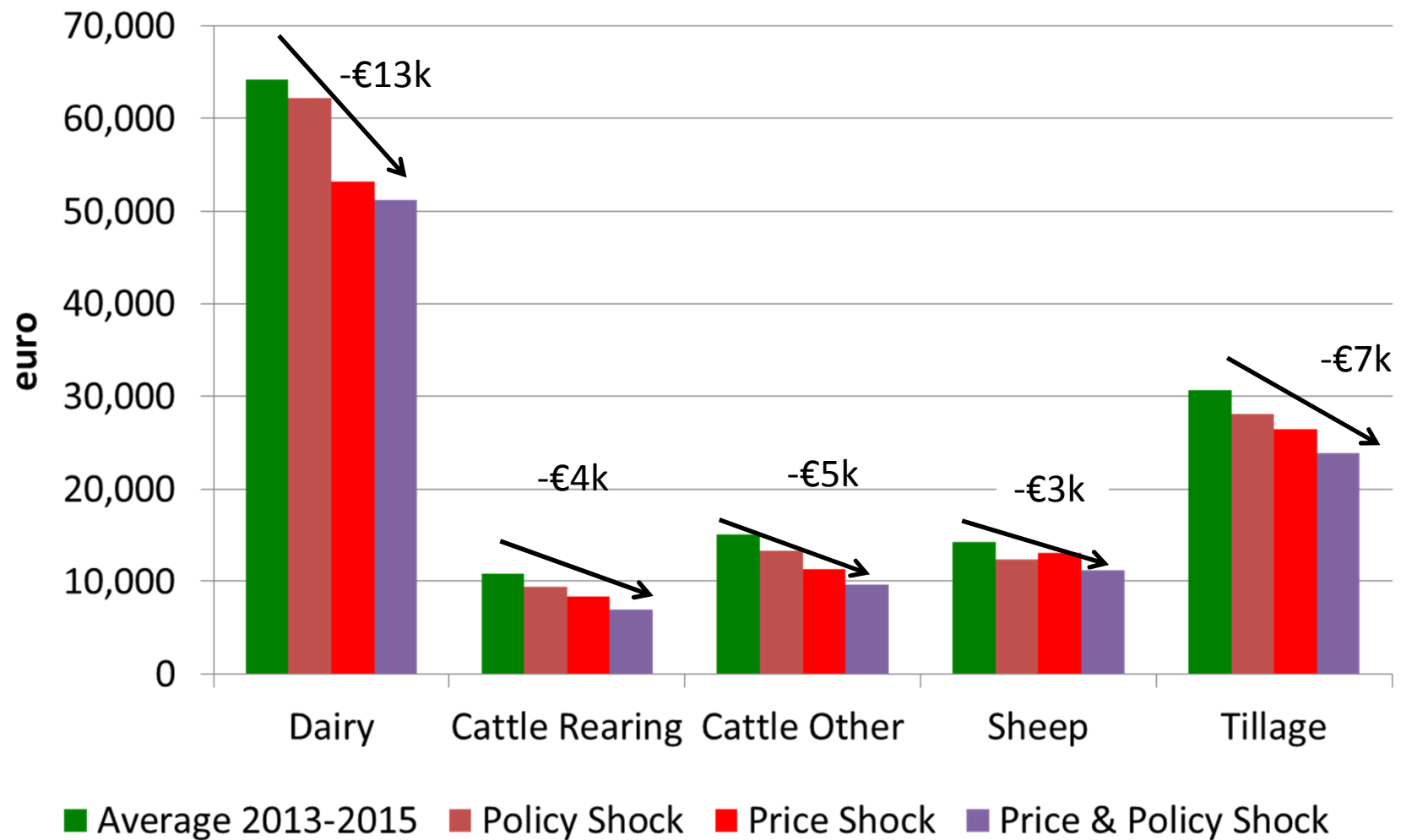
Something about the assumptions we have to make

- 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

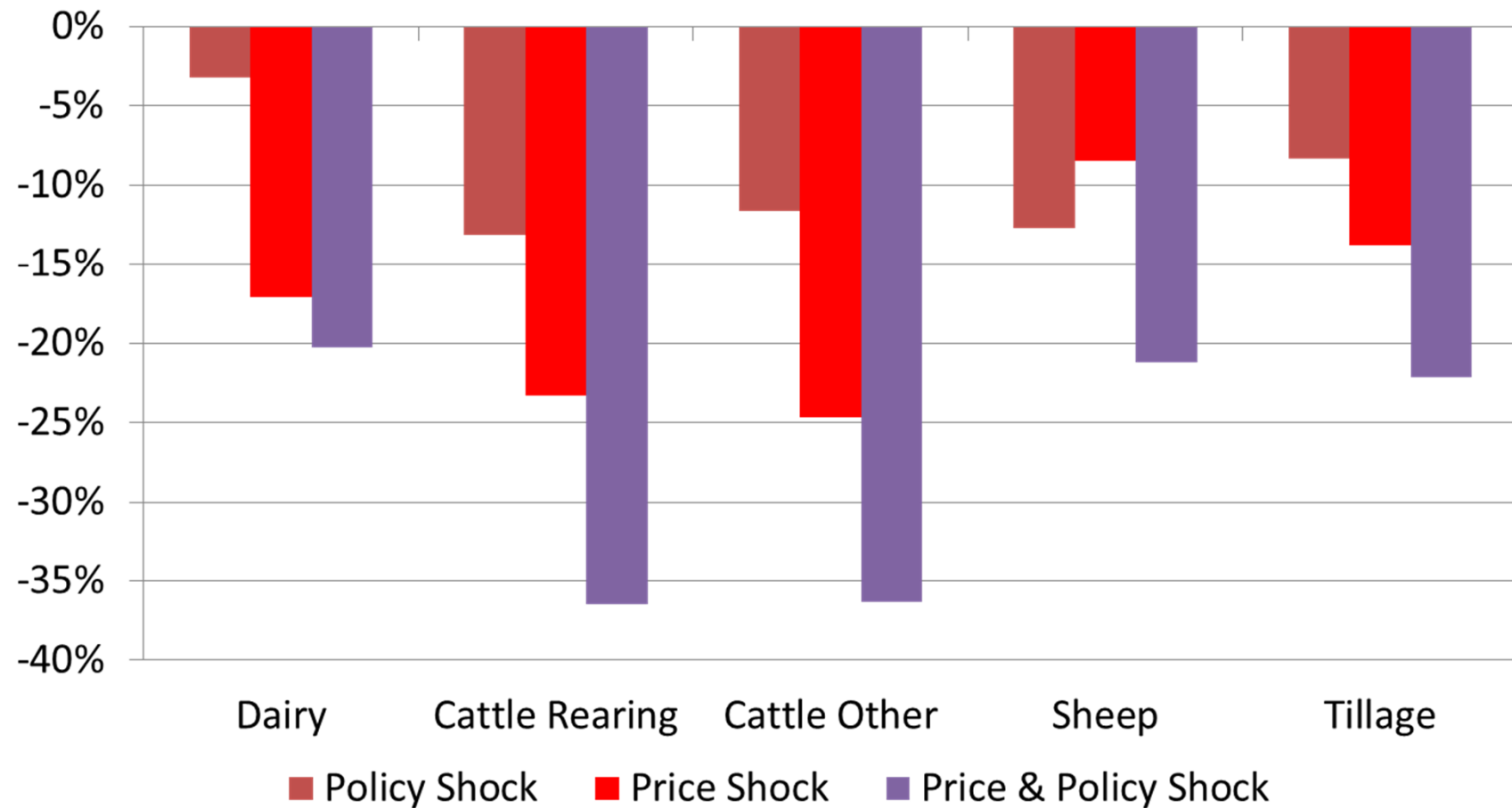
Brexit: Average Irish Beef Farm

- 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