

Brexit – Situation Update and Key Challenges

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Overview

1. Where are we now with the Brexit process?
 - Is it all over or just beginning ?
2. Brexit: How it has and will continue to affect Irish agriculture
3. Review of Teagasc economic analysis of Brexit
4. Final thoughts



Where are we now with the Brexit process?

At the beginning or at the end ?

- Withdrawal Agreement between UK and EU
- Withdrawal Agreement Bill (WAB) made it through two readings in UK Parliament
- UK General Election December 12th
 - What happens next depends on election outcome
- Balance of probabilities point to WAB being passed by new UK Parliament and UK leaving EU by Jan 31st 2020
 - Alternative outcomes involve request for an extension of UK membership in order to
 - Hold another GE
 - Hold another Referendum on UK EU membership



Brexit and the Short Run Teagasc Outlook

- UK exit EU with No Withdrawal Deal in 2020 ?
 - low to zero probability
- UK assumed to remain in Single Market for 2020
- But what does that mean?
 - A resolution to the Brexit uncertainty has merely been kicked down the road



The Beginning of the End, or, the End of the Beginning ?

- Assuming Withdrawal Agreement passes ...
- Saturday morning, February the 1st 2020
 - Brexit will have legally happened
- The EU-UK will be in the Transition Period
 - As set out in the Withdrawal Agreement
- During transition period the status quo ante prevails
 - Scheduled to end Dec 31st 2020
 -Unless UK seeks an extension for 1 or 2 years



Future Relationship Negotiations: Likely to get complicated very quickly

- Can a Preferential Trade Agreement (PTA) be agreed ?
- EU and UK start from complete legal alignment
 - with zero tariff and non-tariff barriers to trade
- Likely UK negotiating mandate when talks begin
 - Seek future divergence
 - Since that “freedom” was the whole point of Brexit?
- Likely EU negotiating mandate when talks begin
 - Require UK to maintain high degree of dynamic alignment with EU
 - In exchange for a UK/EU PTA deal with zero tariffs or quotas
 - So called Level Playing Field (LPF)

Future Relationship Negotiations: Likely to get complicated very quickly

- Trade implication of UK alignment with EU
 - Facilitates trade between UK and EU
 - Curtails UK freedom to agree close PTA with non-EU countries
- Similarly, any other UK PTA make deep EU/UK PTA less likely
 - e.g. a PTA between UK and US
- Can EU and UK resolve all of the detail before end of 2020
 - Highly unlikely
- Promises, Promises, Promises
 - UK will not ask for an extension to Transition period beyond 2020
- That's the stated position of
 - Outgoing UK government prior to election campaign
 - Conservative Manifesto



EU-UK trade relationship could still in medium terms be on third country basis

- Expert views on EU-UK future relationship
 - expect negotiations will take > 2 years
- Possibility
 - UK leaving the EU with a Withdrawal Deal
 - But without agreeing terms of future UK/EU relationship
- If this happens then
 - End outcome with be like a No Deal Brexit
 - In terms of how it affects EU-UK trade



Brexit and Agriculture

- Way that Brexit affects agriculture
 1. Immediate impact via exchange rate
 2. Tariff & non-tariff barriers to trade
 3. Impact of Brexit on EU budget & CAP payments



What does/might Brexit mean for Ag ?

- If an EU-UK PTA is not agreed following Brexit
 - We still know EU trade policy that will apply
- EU then considers UK as a third country
 - EU MFN tariff schedule applies
 - Full customs checks apply on goods entering EU from UK
- We think we know the UK trade policy
 - The UK Government's announced “no deal” trade policy
 - The UK “temporary” No Deal tariff schedule
- We don't know the future UK agricultural policy

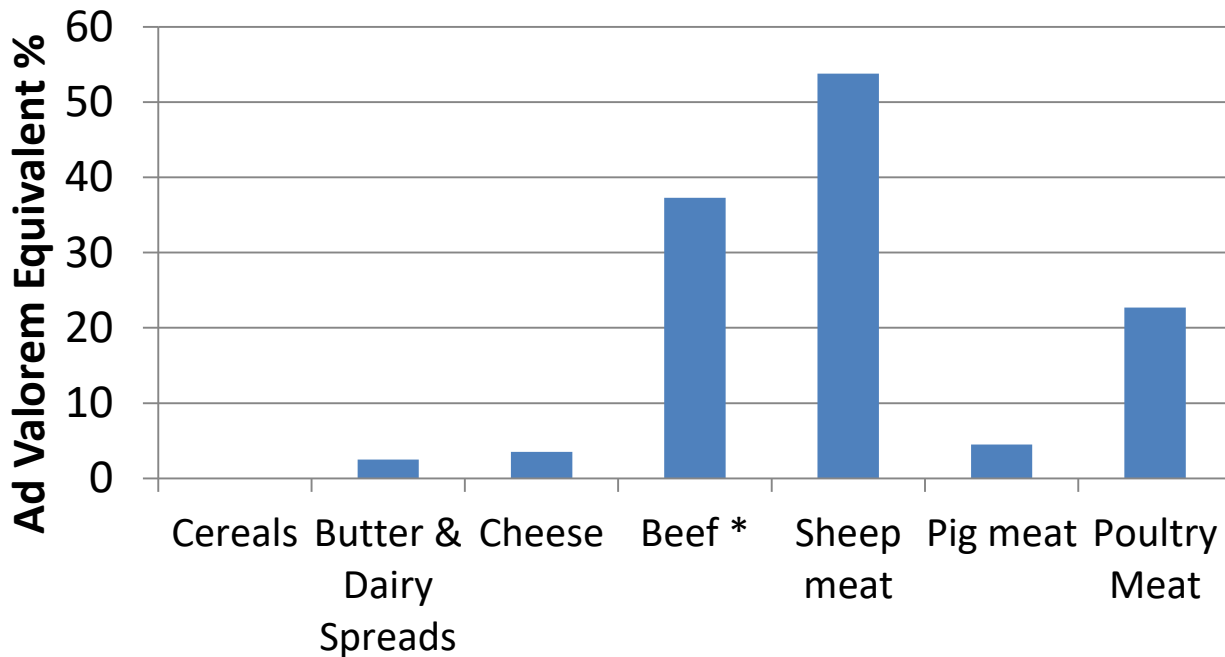
No Deal “temporary tariff schedule”

UK Applied Import Tariffs for Agri-food

- **No tariffs** (e.g. Cereals)
 - where UK is competitive at world prices
- **Relatively low tariffs** (e.g. Dairy, Pigmeat)
 - Where UK is a **producer**
 - close to being **competitive** on world market
- **Significant tariffs and also TRQ** (e.g. Beef, Poultry)
 - Where UK is a **producer** and **large net importer**
 - but **not competitive** at world prices applies
- **Max (EU level) tariffs** (e.g. Lamb)
 - Where UK is a **producer** and an **exporter**
 - but **not competitive** at world prices



Trade Weighted Average UK MFN Tariffs (No Deal Temporary tariff schedule)



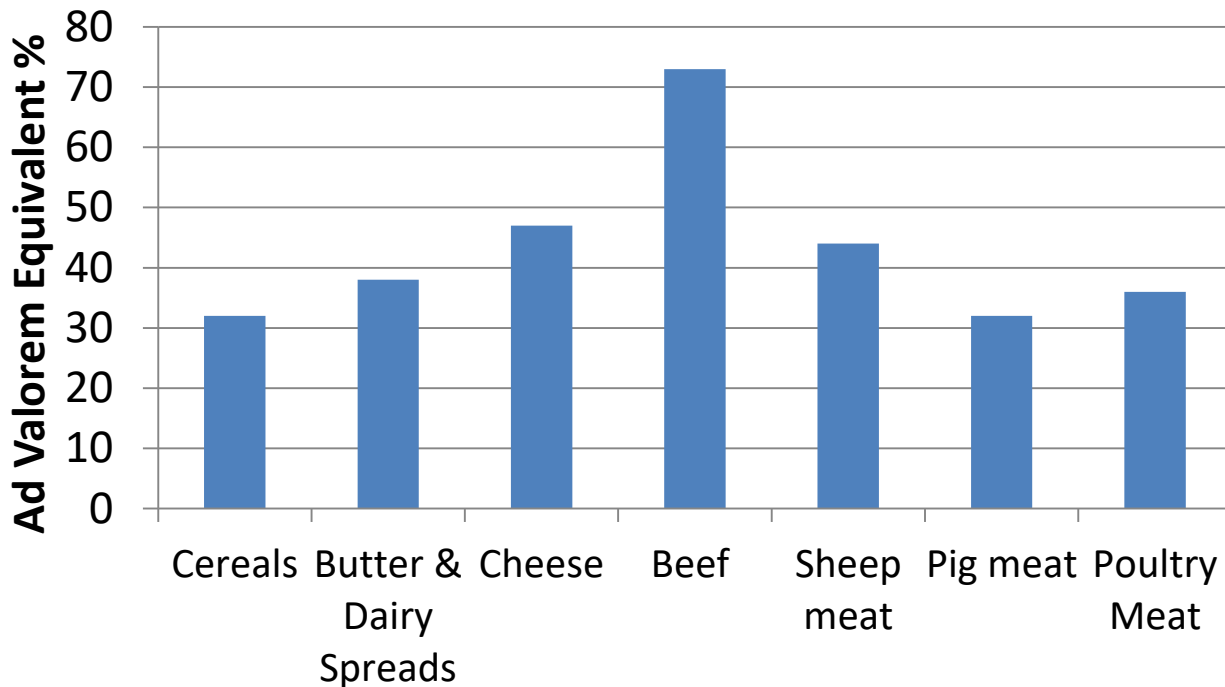
* Beef AVE tariff relates to the over-quota tariff.
The in quota tariff is set at zero.

EU No Deal Trade Policy

- MFN tariffs as per EU schedule at WTO
 - These tariffs are very high
- Regulatory barriers and customs procedures
 - Required to protect SM integrity
 - Will also represent an important non-tariff barrier
 - Entry of animal and food products via BIP
 - Requirements for physical inspections on entry to EU
 - Licensing/inspection of export premises in the UK
 - Rules governing what is an “EU” product



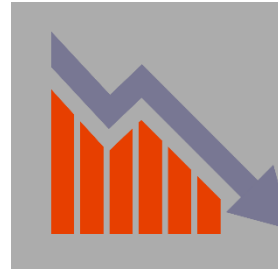
Trade Weighted Average EU MFN Tariffs (Under No Deal)



Note: Calculated using 2018 EU28 imports from UK

Irish Agriculture and Brexit

- Negative economic impact where
 - Large share of output is exported to the UK
 - Where there are high levels of tariff protection currently (preferential market access)
 - Where exports not internationally competitive
 - Where farm incomes highly dependent on direct payments
 - Where existing margins from production are small



Ireland: Beef



- Most exposed Irish ag sector is beef
 - Continued high dependence on exports to UK
 - Loss of preferential market access with No Deal
 - Lack of competitiveness at world market prices
 - High dependence of farm incomes on CAP direct income support payments
 - Chronic low levels of profitability => little or no ability to absorb lower margins at either farm or processing stage

Ireland: Dairy



- Less exposed to UK market than beef
 - Some segments have higher exposure (cheddar)
- UK No Deal tariffs on dairy are relatively low
- Irish dairy exports competitive at world prices
 - Loss of preferential market access \neq loss of UK market
- Low dependence on CAP support payments
- Profitable business at farm and processor levels
- Even with Brexit Irish milk production continues to grow

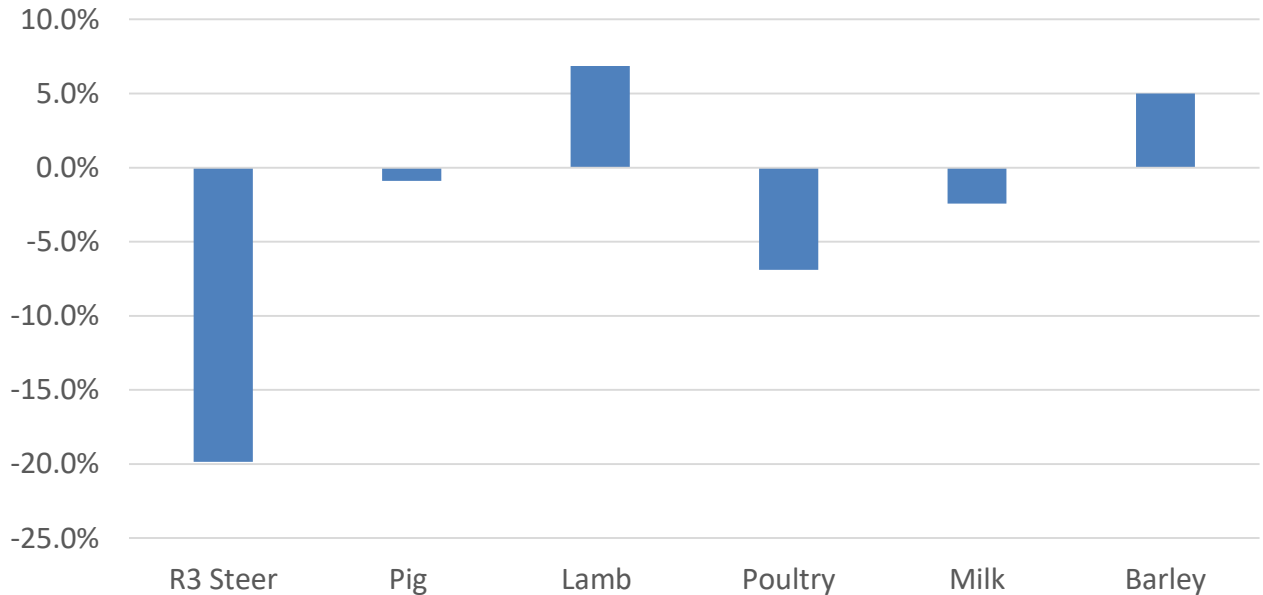
FAPRI-Ireland Simulations



- Baseline
 - UK stays in Single Market over period to 2030
- Scenario
 - No Deal (MFN) relationship between EU/UK
 - UK using its announced “temporary” tariff schedule for period to 2030
 - Assumption that Ireland doesn’t retain UK beef TRQ
- Simulating impact on
 - market prices, output and sector income

Impact of Brexit No Deal

Irish Agricultural Prices 2030 No Deal vs. Baseline



Impact of No Deal Brexit

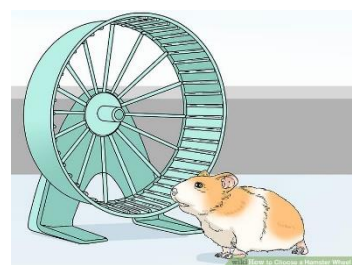
- Agricultural Goods Output declines by €630m
 - Biggest impact is on beef sector (down €500m)
 - Lower levels of output for most other sectors
 - Combination of lower prices and lower volume
- But lower spending on inputs also
 - e.g. feed, fertiliser
 - Lower input volume due to lower output volume
- Agricultural Sector Income (Operating Surplus)
 - declines by €330m (-10%) compared to Baseline



Impact of Brexit

- Under this No Deal simulation we assume
 1. UK “temporary” policy remains fixed until 2030
 2. No EU-UK PTA reached over period to 2030
 3. No policy response from EU or Ireland
- Point No 3 is important
 - As a No Deal outcome would almost certainly bring forward **a policy response**
 - both in short and medium term

Conclusion



- Near the end of the beginning
- UK election uncertainty
 - means we still don't know when Brexit will happen
- UK Brexit without Withdrawal Deal with EU?
 - Seems very unlikely
- Shape of EU-UK future trade relationship?
 - Unclear
- Could face No Deal outcome
 - by end of next year or at some point in the next 2/3 years
- Is No Deal a big deal for Irish agriculture?
 - Very large negative impact on Irish agriculture
 - With beef the most vulnerable element of farming