Deal or no deal?

What would a no deal Brexit mean for UK import tariffs, and what would be the impact on Irish agriculture?

In April of 2019, the EU granted the UK a membership extension to October 31, 2019, to allow the UK parliament further time to approve the withdrawal agreement (WA) negotiated between the UK Government and the EU. The WA is an essential step towards a smooth Brexit. Among other things, the WA makes provision for a transition period where, on leaving the EU, the UK's current trading relations with the EU would not change. The transition period would provide more time to negotiate the future trading relationship between the UK and EU, while also allowing trade between the UK and EU to continue unimpeded by tariffs or other non-tariff barriers.

Should the UK fail to ratify the WA in the coming months, one of many possible outcomes is a no-deal Brexit. In a no-deal Brexit, there would be no transition period. From a trade perspective this would mean that overnight the UK and EU would be required to treat each other as Most Favoured Nations (MFN) under the rules of the World Trade Organisation (WTO). The UK and EU would be required to levy tariffs on one another's imports. The tariffs the EU would levy are already in application with existing third countries. In contrast, the UK's no-deal MFN tariff schedule on imports from third countries has only recently become clear following an announcement by the UK Government in March 2019.

Given the value of Ireland's exports to the UK, the nature of the UK's MFN tariffs in the event of a no-deal Brexit is very important.

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The UK is a major net food importer, meaning that it does not produce enough food to feed its own population. The UK has substantial imports of, among other things, beef, pig meat, poultry meat, dairy products, fruit and vegetables. Much of the UK imports of these agri-food goods come from EU member states. A key difficulty for the UK of adopting the EU WTO MFN schedule as the model for its tariff schedule is that this would raise the tariff-paid import price of a range of agri-food commodities, and this in turn would result in higher consumer prices for food in the UK.

As a contrast, the UK could choose to set all of its WTO MFN tariffs to zero, but this would open UK farmers to competition from low-cost agri-food exporters around the world. This could prove quite damaging to profitability and production in the UK farm sector, likely increasing the UK's dependence on imports still further. In calibrating its newly independent trade policy position, the UK Government has been explicit that it is seeking to "… minimise costs to business and consumers, while protecting vulnerable industries".

UK WTO MFN tariff schedule

In setting its WTO MFN tariffs for agri-food commodities, the strategy adopted by the UK Government was pragmatic, striking a balance between protecting the incomes of UK farmers and limiting the impact of a no-deal Brexit on UK food price inflation.

For sectors where the UK is not internationally competitive, but where it has a significant export capacity (e.g., sheep meat) the UK selected the highest tariffs (equal to existing EU MFN tariff levels). For sectors where the UK is less internationally competitive, but where it does not have a significant export capacity (beef and poultry), the UK chose moderate tariffs with some access to the UK market at zero tariffs offered by way of tariff-rate quotas (TRQs). Finally, for sectors where the UK is either more internationally competitive, or not a significant producer and/or exporter, tariffs were set at either relatively low (dairy, pig meat) or zero levels (cereals).

The *ad valorem* equivalents of the announced UK WTO MFN tariff schedule in the event of a no-deal Brexit, calculated using data at the tariff line level on UK imports in 2018, are shown in **Figure 1**.

Implications for Irish trade with the UK

From an Irish perspective, the UK's no-deal tariff schedule, while inferior to a comprehensive free trade agreement between the EU and UK (or no Brexit at all), is still preferable to an outcome where the UK adopts a schedule of tariffs equivalent to the EU's WTO MFN tariff schedule. However, the proposed UK no-deal tariff schedule would still impede Irish exports to the UK.

The no-deal UK tariff schedule is comparatively benign for dairy products, but remains prohibitively high for lamb. For beef, the over-quota tariffs are high enough to make full tariff-paid exports of beef from Ireland unattractive in price terms on the UK market. While the UK schedule includes a system of TRQs at zero tariff, these TRQs are smaller than existing volumes of beef imports into the UK. In addition, these TRQs would be available on a first come, first served, basis to a range of exporters globally. While Irish beef dominates current UK beef imports, Australia, Brazil, Canada, the US and Argentina could profitably export beef to the UK at lower prices than would be feasible for Irish exporters. Overall, the no-deal UK tariff schedule would have the largest implications for the Irish beef sector, which would lose its preferential (high price) access to the UK beef market. The UK currently accounts for over half of all Irish beef exports. Therefore, the negative consequences for the Irish beef sector would be considerable. A substantial reduction in the farm gate price of Irish beef would be inevitable, until such time that alternative markets could be secured offering prices close to those previously available from exports to the UK.

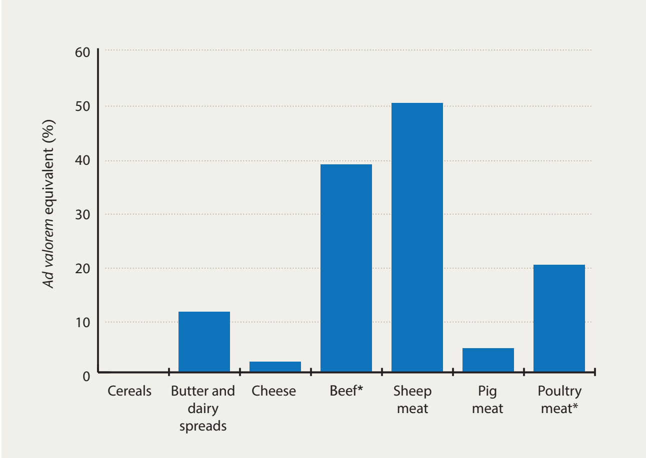

FIGURE 1: UK tariff schedule expressed in ad valorem *equivalent. (Source: authors' estimates based on announced temporary UK no-deal tariff schedule.)*

** Beef and poultry tariffs are those due on imports outside of the announced UK* erga omnes *TRQ.*

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