ICSA presentation to the Joint Oireachtas Committee on Agriculture, Food & the Marine

Impact of the UK Referendum on membership of the European Union on the Irish agri-food and fisheries sectors

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Thank you chairman for the invitation to this meeting of the Oireachtas Agriculture Committee. We welcome the opportunity to engage with you on the topic of the implication of Brexit on the agri-food sector.

The Irish food exporting sector is profoundly concerned with the potential impact of Brexit. It's not surprising given that €4.4 billion (41%) of our total food and drink exports worth €10.8 billion in 2015 went to the UK. Meat and livestock exports are a critical component of total food exports, accounting for €3.7 billion in 2015. Of this, beef exports were worth some €2.4 billion of which 52% went to the UK, 46% to other EU markets and 2% went to international (non-EU) markets.

Of course, the process of Brexit has not even commenced yet, but its impact has been very tangible in terms of instability and exchange rate fluctuations. Fear of the unknown is certainly the key driver of exchange rate problems and it may yet be that the outcome is less destabilising than expected. Nonetheless, we have to operate on the basis of hope for the best, plan for the worst.

From an Irish agricultural perspective, Brexit is challenging on several fronts, and we see the key issues as:

- The sterling/ euro exchange rate
- Trade deals and tariffs between the UK and the EU
- Implications for international trade deals and global movement of food exports
- The need to diversify our exports profile and the possible need to pull back from expansion plans
- Consequences for the Common Agricultural Policy
- Consequences for other EU and Government policies which impact agriculture
- Practical problems around the North/ South border

Exchange rate movement

Meat factories reacted by cutting prices paid to farmers in response to the drop in the value of sterling against the euro, and fear of market outlooks has helped keep beef price low in recent weeks even though sterling has rebounded somewhat.

The fluctuation in the exchange rate has certainly caused a lot of uncertainty and it has been volatile. On the other hand, we must guard against hype. Meat factories might like to have farmers nervous but some facts are worth looking at.

For example, last night's closing rate was about £1 sterling to €1.19. It did fall as low as €1.10 in November but the current level is similar to the exchange rate that prevailed in much of 2013. Farmers will recall that beef price for R3 steers averaged €4.40 in June 2013. This is not an argument to say that beef price could be €4.40 now but it does illustrate that other factors such as supply and demand of cattle are perhaps more relevant than the exchange rate. However, when sterling gets really strong against the euro as happened in 2015, beef farmers do not get the full benefit.

Yes we need to reduce over-dependence on the UK market. But let's not fool ourselves that there are silver bullets out there in terms of beef exports. Despite the huge efforts to open up the US, exports so far in 2016 amount to some 2,000 tons which is well below what was anticipated and with US beef price being down 20% compared to this time last year, the opportunity may have been missed.

ICSA supports every effort to open new markets but we are perplexed that there is little appetite to do business with Iran, even though this has been an important outlet in the past and could be important in the future.

Live exports must be prioritised. We need Northern Ireland farmers in our marts but even more important is the need to get live exports to Britain. Currently, this is blocked through the UK supermarkets policy on EU Country of Origin labelling but in a post Brexit world this has to be looked at again.

The Turkish market for weanlings must be capitalised on. Other live export possibilities such as Egypt must be pursued. One slight benefit of Brexit is that the Euro has also weakened against international currencies, albeit marginally, but further instability in the EU/ UK process may lead to further weakness in the euro as well as sterling. We also cannot say for sure how the euro will do in 2017, with market sentiment likely to be volatile due to elections in key EU states and concerns about Italy.

Trade Deals and Brexit talks

It is when negotiations kick off to determine the future relationship between the UK and the EU that the long term outcome for Irish agriculture will emerge. Here, it is all about the trading arrangements.

The conundrum that Britain, arguably unnecessarily, has created for itself is that the war was won on the issue of free movement of people but the peace could be lost on the same issue. Access to the Single Market is critical for British enterprise but are the British willing to concede on free movement of people, given the strong emphasis on immigration during the referendum campaign?

Ireland's problem is that the final trading deal must be negotiated between the UK and the EU. This means that the more the UK insists on its demands on curtailing movement of people, the less likely that we end up with tariff free trade between the EU and the UK. That means tariffs on our exports to the UK.

Tariffs combined with a weaker sterling would be the worst of all worlds. Particularly as the curtailment of trade would potentially further exacerbate sterling drops into the long term as markets saw the UK being more isolationist.

Accordingly, Ireland must ensure that our interests are centre stage in any EU/ UK negotiations. We cannot afford to leave such vital talks to the usual process by which the EU negotiates trade deals where the EU Council gives a mandate for negotiations and then sits back while the EU Commission does the negotiating.

When a deal is hammered out, then member states and EU parliament get a say on a take or leave it basis at which point it is essentially too awkward and politically impossible to roll back the unpalatable.

Irish MEPs will have to work to ensure our interests stay centre stage in the European parliament but in reality the decisive interventions will have to be made at Council level by the Taoiseach and relevant ministers.

Overall, we need to carefully analyse the impact on how we will do business with our British neighbours in the future and to what extent Britain will open up for business with the world at the expense of Ireland and other European countries.

The beef trade, with 90% of our production exported is particularly vulnerable. Over 50% of our beef exports go to the UK and therefore ICSA is extremely anxious that a hard Brexit does not result in tariffs on EU exports to the UK.

While the exchange rate may stabilise, Brexit is even more problematic in terms of international trade deals.

ICSA has been campaigning against EU trade deals which sell out the beef sector. We are especially concerned with Mercosur, TTIP and CETA. All of these negotiations have been done on the basis of an EU 28 where the UK was the member state with the greatest import requirement.

ICSA pressed the EU Agriculture Commissioner for a cumulative assessment of the impact of these trade deals on the beef trade. In other words, what is the potential impact of three different tariff rate quotas for Canada, the USA and South America? As expected, the Commission analysis painted a disastrous picture for Irish beef, with somewhere between 146,000 and 356,000 tons of extra beef coming into Europe.

However, the impact analysis was done without knowing what trade deals a detached UK could do post Brexit with the rest of the world.

A possible scenario is where we have two import deals for beef. This would arise where the EU does its own deals and then the UK agrees to significant imports of beef and lamb from all over the world. This could be very detrimental to the future of the Irish agri sector.

ICSA believes that the EU should park external trade negotiations with the US and South America until the post Brexit arrangements become clear. We also have to carefully look at the New Zealand quota for lamb which we think should be taken out of the EU by the UK post Brexit.

Overall, I would say that Brexit is a huge challenge and we all need to work together to ensure that it is managed in the best interests of agriculture on both our islands. I believe that farmers North and South, in particular, will be hugely affected and this must be kept centre stage in all negotiations.

Future of the CAP and other policies

We are also concerned about the future funding of the CAP given that the UK is a net contributor. Ireland must fight for adequate funding for the CAP post 2020 but we also need to assess what the outcome will be on future CAP design.

While the UK was opposed to the CAP as a matter of philosophy, it tended to be on the same side as Ireland on some of the detail such as decoupling and milk quotas.

ICSA would also suggest that all policy decisions must now look at circling the wagons to protect the interests of EU-27 farmers. We need policies which prioritise the viability of farming in Europe. This means fighting against bad trade deals. It also means fighting to ensure that decisions taken on climate change and renewable energy do not undermine EU farmers. We need to examine where Ireland could go in the post sugar quota era and whether the EU u-turn on biofuels makes any sense to the goal of farm viability across Europe, at a time when tillage farmers are suffering.

Above all, we need to reassess the objectives of Food Wise 2025 which is all about expansion of output especially in dairying but with a knock impact on beef supplies.

Given the risks posed by Brexit and the uncertainty around new markets, it surely is time to look at sustainable downsizing until we see will prices rise to a viable level. For sure, expansion of beef output at this point looks like a crazy policy and I say that in view of the glut of beef already expected in 2017.