Presentation by IFA President Joe Healy

to Joint Committee on Agriculture, Food and the Marine on

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

Tuesday 13th December 2016

Chairman, Ladies and Gentlemen,

I would like to thank you for the invitation to address you today, and to outline to you the concerns of Irish agriculture, following the UK decision earlier this year to vote to leave the EU.

Irish Farming

2016 was a difficult year for Irish farming, with low product prices across most sectors and bad weather conditions early in the year and for many of our tillage farmers in recent months. In addition, the vote by the UK to leave the EU in June of this year has contributed to greater economic uncertainty, which has impacted on Irish agriculture, and will continue to do so into 2017.

Exports

With 40% of our exports destined for the UK market, it is clear that the Irish farming and agri-food sector is being hugely impacted by the fallout from the UK vote.

Almost €5bn worth of agri-food exports go to the UK that's:

- 50% of our beef,

- 60% of our cheese,
- over €350m worth of pigmeat, and
- about €120m of mushrooms.

This trade is undertaken within the EU Single Market; that is with no tariffs applied, or other regulatory barriers to trade, such as border checks, health certification checks, etc.

Ireland is the only Member State to share a land border with the UK, and we are hugely integrated with the UK in the areas of trade, culture, language and free movement of people.

The UK is a high value markets, sharing similar consumer preferences to Irish consumers, and is generally the first export destination for Irish SMEs. Farmers and processors have developed systems of production and specifications to match market requirements in the UK market. Major work and resources have been employed in terms of standards and Quality Assurance.

Short Term issues

The sudden and sustained weakening of sterling that has occurred as a direct result of the UK vote and subsequent political declarations has had a negative impact on the price returned to producers whose product is being exported to the UK market. This is particularly the case for beef and mushrooms farmers, who were hit with severe price cuts since June this year, which left them in a loss-making situation.

Our Mushroom growers made a presentation to this Committee last September, where they outlined to you the turmoil that their industry has been thrown into, demonstrating that growers are in continuous and unsustainable loss-making territory, resulting from the sudden and significant weakening of sterling.

We recognise that exchange rate volatility cannot be controlled in the short term. As a member of the Single Market, there are significant limits on the direct support that can be given to exporting agricultural businesses without breaching State Aid rules.

In the run-up to Budget 2017, IFA identified practical steps that our Government could take to mitigate some of the worst income effects of the exchange rate uncertainty.

These included:

- Providing increased funding for **farm schemes** in October's budget. These schemes support farm incomes and output, and have a positive knock-on impact in the wider rural economy. Funding for farm schemes increased by over €100m in Budget 2017, with new and increased funding for Sheep, GLAS, TAMS, and Knowledge Transfer.

- Providing direct support to farmers and other SMEs through the **provision of lower cost and more flexible short and long term credit options**.

- The outcome of the IFA pressure throughout 2016 on this issue resulted in the announcement by the Minister for Agriculture of a ground-breaking loan fund, offering credit to farmers at a rate of 2.95%. This will be available across all agriculture sectors from January, and can be used to convert merchant credit into a more sustainable loan structure and to purchase inputs at a competitive cash price.

- IFA also highlighted the need for **additional support to exporters** in the form of increased promotional funding to diversify and grow our exports into the non-UK market. Increased funding in the Budget for Bord Bia in this area is welcome. In addition, the Department of Agriculture's market access unit must be

strengthened, as we need to see new markets, for our processed and live export trade.

For our **beef sector**, over 50% of exports go to the UK market, and so the weakness of sterling does provide a major challenge.

However, IFA is clear, however, that exchange rate volatility is not the only determinant of price returns.

Demand for beef in the UK remains very strong. We are in the high demand Christmas procurement period for the last month or more, trade and market returns have picked up and cattle prices should have risen a lot more. It is clear the lack of competition in the beef sector is a major factor.

At the recent **Beef forum**, IFA made it clear to the Minister and the factories that prices must be restored to viable levels. It is simply not acceptable for processors to return an unviable price to our farmers at this time. Farmers are not and cannot continue to produce beef at a loss. There are more cattle in the pipeline for 2017. We need more market access and we particularly need more live exports to drive competition and add additional market outlets.

IFA has also made it clear that factories must demand higher prices from their British retailer customers to reflect the devaluation and pass these increases directly back to farmers. This is what should happen in a normal functioning market. But as producers, we well know the imbalance of power in the farmer, processor, retail relationship in the food chain and the need for regulation in this area.

Finally, at **EU level**, IFA has looked for **direct support** to be provided to affected producers through **CAP Market Support measures**. The decline of sterling, arising from

the UK vote, is a market disturbance which has occurred swiftly and unexpectedly, and has resulted in significant price falls.

We believe that the EU Commission must look seriously at providing exceptional support for sectors for whom an external political event has had an immediate and negative economic impact. We are again calling on the Government to pursue this at EU level. We are also asking for the support of this Committee on these issues.

LONG TERM ISSUES

Trade relationship

In the longer term, the future trading relationship between the UK and EU is a huge concern for the agri-food sector.

A move by the UK away from the EU Single Market will result in increased trading costs and barriers.

The imposition of barriers to trade, in the form of tariffs, border checks, and additional certification requirements would all add to costs and undermine the competitiveness of our agri-food exports.

The significant cross border trade of agricultural produce for final processing presents a significant challenge, if we are to maintain and grow our high value export markets.

Over **350,000 lambs are imported from Northern Ireland** into the Republic of Ireland annually for further processing, with **half a million pigs from Ireland being processed** in Northern Ireland.

Almost **1bn litres of milk are imported from Northern Ireland annually**, much of which is processed and then exported out of Ireland as a high value product.

Barriers to this trade, whether in the form of tariffs, additional certification or labelling issues, will all add to costs, and may make this continued trade simply uneconomic.

Our concerns in this area are best illustrated by looking at the position for countries that trade with the EU outside of the Single Market?

The average **EU tariff on agricultural products** imported from outside the EU is almost **15%** for WTO countries.

It is much higher for certain agricultural products, up to **30% for dairy products** and **50% for some meat products**, for example.

In other words, if the UK were to leave the EU and no agreement were to be reached through a bilateral trade arrangement, they would face significant tariffs on their food exports to the EU.

And the likely development is that the UK would inherit the EU's tariff commitments, with the result that Irish exports to the UK could face tariffs placed on their products.

This is the reality of the 'hard' Brexit scenario.

A recent **ESRI report** highlighted the devastating impact on EU-UK trade in agri food in this scenario, with trade in dairy products potentially falling by 60% and in some meat products by over 80%.

It simply cannot be overstated, therefore, how important it is for the Irish agri-food sector that as free as possible market access to the UK is maintained, with the minimisation of any barriers to trade. The potential economic damage for the agri-food sector that would arise from a hard Brexit, is too serious to ignore.

Our first position is that the **UK would remain a full member of the EU's Single Market**, including free trade on agricultural products. This is also the position represented by our farming colleagues in the NFU in the UK, with whom we have remained in regular contact since the vote and work closely with in Brussels through COPA.

If this proves unworkable, IFA is clear that the agreement of a **comprehensive Free Trade Agreement between the EU and the UK**, with favourable access for agricultural products and mutual recognition of standards, must be a priority at EU level.

This must include the agreed sharing out of tariff free imports into the EU on agricultural products, many of which, such as New Zealand lamb and butter imports, were brought into the EU by the UK on their accession to EU membership.

Why is a UK-EU Free Trade Agreement important?

If the UK were to pursue a trade agenda which resulted in the unilateral reduction of import tariff barriers for agricultural imports from all exporting countries into the UK, this would be very negative for Irish agriculture. It could result in a very significant reduction in the price of UK food, and consequently, the price that Irish farmers receive.

IFA is clear that, in the negotiations between the EU and the UK, there must be a strong commitment on both sides to achieve a positive trading relationship.

CAP Budget

Another issue I wish to highlight is the concern of Irish farmers of the impact on the EU and CAP budget from the departure of the UK, a net contributor to the EU budget.

In the short term, Ireland's Basic Payment and Rural Development envelopes are fixed up to 2020, through the 2013 CAP regulations and under the terms of the Multiannual Financial Framework (EU Budget). Changes to these would require agreement by the EU Council, Parliament and Commission.

IFA is clear that there must be **no changes to farm payments before the current CAP reform concludes in 2020**, even if this requires additional contributions from the remaining Member States.

A new EU and CAP budget must be negotiated after 2020.

Ireland must be very clear and lead the way about the need for a strong CAP budget. This is critical for farm incomes, farm output and wider economic activity in the rural economy.

As we are all aware, farmers source the majority of their inputs locally. A reduction in spending power for Irish agriculture would have a significant and negative knock on impact on the demand for goods and services in the rural economy.

Analysis undertaken by Teagasc shows the potential farm level impact of Brexit. They have estimated the potential impact on farm income from a 10% drop in CAP payments and a significant liberalisation of the UK market, with large volumes of imports from third countries. The figures are stark. In this scenario, farm incomes would fall in all sectors, with the income drop ranging from 20% on dairy farms to 37% on beef farms.

Another key concern is what will happen with Agricultural Supports for farmers in Northern Ireland and for farms on both sides of the border. They are all part of the CAP right now, but there is no assurance on the level of support that will be provided to these farmers after they exit the UK.

As identified in the National Farmers' Union study in advance of Brexit, a reduction in direct supports for UK farmers will have a negative impact on their income. This is a major concern for these farms, for farm income and viability.

Animal Health

The **shared land border** between Ireland and Northern Ireland presents a unique challenge in relation to maintaining and improving herd health standards.

The risk is that differences in regulations and standards that may emerge could have implications for animal health status in either of the economies, due to the spread of disease across the land border.

Continued cooperation between the Republic of Ireland and Northern Ireland on animal health standards, as currently exists, must be maintained. Coherence in regulations and standards is critical.

IFA will continue to work closely with the UFU and NFU on this and other issues, as part of our long-established relationship – irrespective of the final outcome to the Brexit discussions.

Free Movement

IFA is clear that not only is it very important that free movement of goods and services is retained as far as possible, but also the free movement of people.

People living near the border work on the other side of the border, farm on the other side of the border, have family on both sides of the border. We all have family and friends who live and work in the UK and Northern Ireland. Disruption to this relationship would be a very negative step, economically and socially.

Conclusion

I want to thank you again for the opportunity to highlight for you the key issues concerning Irish farmers in the wake of the UK vote to leave the EU.

This is a very uncertain time for our economies and society.

The number of issues identified in my presentation illustrates the complexity of the current situation for the agri-food sector.

I again want to request the support of this Committee on the proposals we have put forward at national and EU level for farmers and the agri-food sector.

Strong leadership and the ability to compromise will be needed, at both EU and UK level.

The strength of the relationship between Ireland, Northern Ireland and the UK, at government and civil society level must be leveraged to minimise the economic and social disruption in the short term and to achieve the most positive and sustainable outcome to the negotiations. Thank you.

ENDS