



Impact of Brexit

Submission to Joint Committee on Agriculture, Food and the Marine

26th October 2018

Introduction

Food Drink Ireland welcomes the opportunity to make a submission on the impact of Brexit to the Joint Oireachtas Committee on Agriculture, Food and the Marine. This submission should be read in conjunction with the submissions from Alcohol Beverage Federation of Ireland, Dairy Industry Ireland and Meat Industry Ireland. It should also be read in conjunction with our earlier submission (January 2017) to the Committee and our submission to the Seanad Special Select Committee on the Withdrawal of the United Kingdom from the European Union.

A very strong food and drink performance in 2017 saw exports increase by 11% to €12.26bn. Slower import growth pushed the positive trade balance up by €771m to €4.587bn.

Improving our domestic market position and continuing to increase exports, secures existing jobs in the agri-food sector and contributes to future jobs growth. The economic contribution of such growth is greater than any other industrial sector due to its deep linkages to the wider economy, particularly in regional areas.

The longer-term opportunities largely remain for the Irish food and drink sector. However, the immediate response must be to ensure the sector is fit for purpose to meet the substantial challenges ahead. Whilst agri-food is most at risk in the event of hard Brexit there is the ongoing impact from sterling depreciation.

A hugely important measure to mitigate these risks is to implement policies within our power to control our cost base. This must be done whilst helping companies innovate and improve productivity. The primary concerns in this regard are labour costs, poorly designed regulation and rising insurance costs. It is also imperative that measures to improve utility and transport costs are taken to provide a hedge against possible future cost increases because of Brexit. Mitigating Brexit also requires exceptional state aid support for stabilisation, competitiveness and diversification to remedy a serious disturbance in the Irish economy due to the fracture of the single market. This will necessitate a multi-annual funding framework in the region of 5% of the value of current annual indigenous export sales to the UK (€650m over three years).

With one in eight jobs in the economy linked to agri-food, failure to do this will be damaging to the wider economy and not just the food and drink industry.

Trade Flows

The UK is our largest export market. The exposure of the various sectors within agri-food is high and includes¹:

- Beef – 51% of exports
- Dairy – 24% of exports (but half of cheese exports)
- Prepared Consumer Foods – 62% of exports

In addition to absolute exposure, there are several other factors of note:

- Whilst the UK as a percentage of our overall exports has dropped in recent years and now stands at 35%, in value terms it continues to increase and now stands at €4.5bn (a 32% increase since 2010). This demonstrates the importance of maintaining our

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<https://www.bordbia.ie/industry/manufacturers/insight/publications/MarketReviews/Documents/ExportPerformanceProspects2017-2018.pdf>

market position in this high value, high quality market that has a substantial food deficit.

- Irish exposure in value terms is like other large exporters to the UK (France, Belgium, Netherlands, Germany, Italy). However, in percentage terms it is 4 – 5 times higher. Typically, less than 10% of their agri-food exports are to UK. This highlights the unique circumstances faced by Irish agri-food and the need for exceptional mitigation measures.
- Total agri-food trade flows between EU27 and UK are €46bn². Whilst a no deal scenario next March will result in extensive disruption and product displacement, a future trading relationship that contains many non-tariff barriers may also impact negatively on supply chains. Therefore, the objective must be a trading environment that is as frictionless as possible.

29th March 2019

In the event of a no deal scenario, WTO MFN tariffs could increase EU food and drink export prices to the UK significantly³:

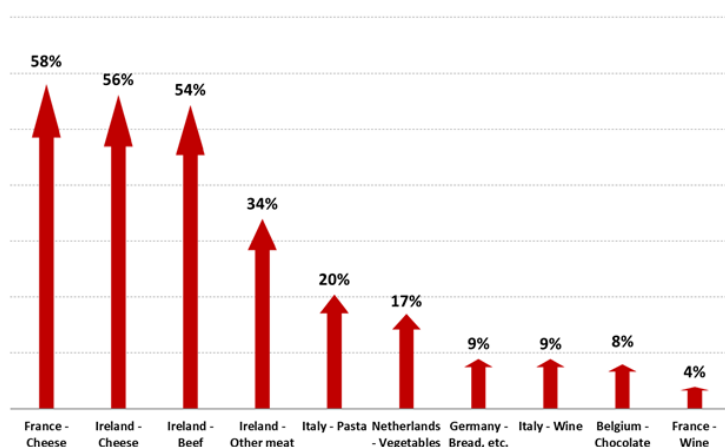


Fig 1

Higher trade prices (Fig 1) will therefore cause export volumes (from the EU to the UK to drop significantly:

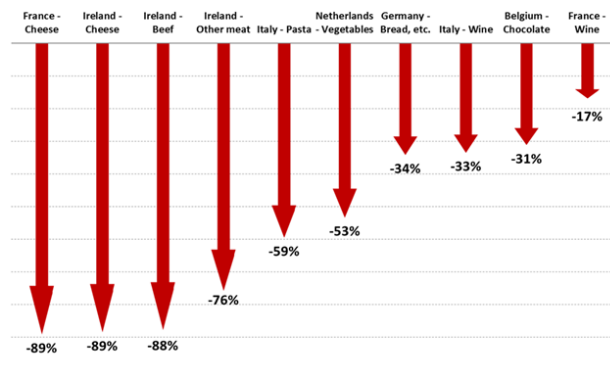


Fig 2

The disruptive impact of this, combined with further currency turbulence and likely gridlock at ports must be avoided for the sake of Irish agri-food.

Future Trading Relationship

The key asks for agri-food are:

A Transition Period of Sufficient Duration:

- It takes time to agree a future trading relationship
- Companies need time to adapt to new arrangements
- Certainty is needed – transition period which maintains as close to status-quo as possible

A Comprehensive and Frictionless Future Trading Relationship

- Keep current arrangements in so far as is possible
- Important considerations: Tariffs, Customs, Veterinary checks

Regulatory Convergence Not Regulatory Divergence

- UK leaving Single Market = potential difference in standards
- Need an equivalence agreement to ensure standards consistent (and avoid veterinary checks)

Additional Support Measures for Agri-food

- Market Access, Investment in port facilities, simplified transit system and approved consignor/ consignee status

Trade and Customs Challenges

Currently the UK:

- is a member of the single market
- is a member of the customs union
- applies the EU common external tariff and trade policy

If any, or all, of these things change there will be an impact on trade and customs. No 3rd country has a customs-free border with the EU. Copenhagen Economics have highlighted the additional trading costs (Fig 3) for Irish exporters under several different scenarios⁴:

Long term: Trade costs increase across all scenarios on Irish goods exports

	No regulatory divergence	Regulatory divergence
EEA	4-5% average	12%
Customs Union	4-5% average	14%
FTA	4-5% average	14%
WTO	7-8% average	32%

Fig 3

We acknowledge the relatively low level of customs checks currently which result from preauthorisation of traders, advance lodgement of declarations and an extensive system of post-clearance checks. However, a key objective in negotiating the future trading relationship with the UK must be to minimise even further the trade cost impact of custom checks by ensuring a customs relationship with as little friction as possible. The alternative is embedding the trade costs highlighted by Copenhagen Economics into the business model of Irish agri-food exporters.

Regulatory Divergence

Food products, particularly those of animal origin face additional veterinary checks, as well as customs controls. There are over 2,000 (EU) laws affecting agri-food including:

EU Law

- Common Agricultural Policy (CAP)
- EU quality certification schemes (PDO, PGI, TSG, organic, etc.)
- General Food Law, incl. secondary legislation
- Official food and feed controls
- RASFF
- EFSA
- Applications (e.g. novel foods, health claims, food improvement agents)
- Consumer information

'Soft' policy (mixed competence)

- Nutrition and public health policy
- Audio-visual Media Services Directive (AVMSD)
- Unfair Commercial Practices (UCP) Directive

'Emerging' EU policy/regulatory fields

⁴ <https://dbe.gov.ie/en/Publications/Publication-files/Ireland-and-the-Impacts-of-Brexit.pdf>

- Sustainability (food waste, packaging, animal welfare)

This body of law is very dynamic. One year after the Brexit referendum, Politico noted:

“More than 700 new EU laws have been introduced into the U.K. since the Brexit referendum, adding to the estimated 19,000 EU regulations, directives and other rules that are already part of U.K. law. If that rate continues, a further 1,260 European laws will have become applicable in the U.K. by the end of March 2019, when the U.K. leaves the EU”

This dynamism is not just related to new legislation but also to reviews and recasts of existing Regulations and Directives e.g. the Renewable Energy Directive (RED II) which can see substantial changes to the law. In addition, in agri-food, food safety incidents such as the recent Fipronil residues in eggs issue⁵ can often result in a policy / regulatory response. Even the Proposal for a Directive on Unfair Trading Practices in the Food Supply Chain⁶ which was scrutinised by the Joint Committee in mid-October has an evaluation provision (Article 11) written in to it.

Finding the right approach to managing future regulatory divergence of food standards between the EU and UK will be essential for maintaining future trade as frictionless as possible. This will require:

- establishing a mechanism that will allow keeping EU and UK food standards under the scope of veterinary legislation as well as under food law in general, as closely aligned as possible.
- a mutually acceptable food inspection system, regarding imports from third countries.
- a continued close relationship between the UK and EFSA is key to continued future alignment of food standards. The objective must be continuing joint risk assessment with a common data base to minimise divergence in standards and avoid trade impediments.
- agreement on common rules on key drinks-related regulations, including continued alignment by the UK with important existing EU regulations governing specific drinks, labelling, bottle sizes and metrology.

Rules of Origin

The imposition of rules of origin on trade between the EU and the UK is often poorly understood as an important factor in managing the impact of a UK exit from the EU. While it is generally expected that the UK and the EU will ultimately trade with each other on a largely or completely tariff-free basis via a preferential trade agreement, accessing the preferential terms of such an agreement will require that exporters in both directions comply with origin rules. These are the detailed local content requirements that goods must meet to benefit from a preferential trading framework. In any future FTA, these rules must

⁵ <https://www.efsa.europa.eu/en/press/news/180503>

⁶ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018PC0173&from=en>

be designed to ensure that sourcing of raw materials and ingredients as well as integrated production between the EU and the UK could continue without major changes.

Inward / Outward Processing Relief

There are certain customs economic supports that can be introduced in Ireland to enable businesses to manage cash flow. For example, the extension of duty benefits to Irish companies importing into Ireland for processing (inward processing) and companies sending products to the UK for processing and subsequent re-import into Ireland (outward processing) by sea, air and land. This would enable companies to temporarily import/export for processing without paying customs duties or charges. At present, there are significant restrictions⁷ on the use of such reliefs in certain industries. A more flexible approach will be necessary after Brexit.

Landbridge

The submission from Meat Industry Ireland will elaborate on the strategic importance of the landbridge as an effective route to market for Irish exporters. Food Drink Ireland would also like to note that the landbridge is also used for imports. Not just finished goods but raw materials and intermediates that are not available in Ireland or Britain. In many instances these are critical parts of the supply and production chain of businesses and their access routes must be maintained. As the carbon dioxide shortage⁸ during the summer demonstrated, food production chains are finely tuned systems but only as good as their weakest link.

A Comprehensive Brexit Response

The necessary measures to respond to Brexit can be summarised under three headings:

1. Maintaining frictionless trade:
 - A transition period of sufficient duration to improve business certainty.

⁷ A restriction is that for a set of 'sensitive products' the company applying for the authorisation must be able to prove one of the following:

- unavailability of the same product, including commercial quality and technical characteristics, at 8-digit CN code level within the EU;
- differences in price between goods produced in the EU and those intended to be imported, where the price of the comparable EU goods would not make the proposed commercial operation economically viable;
- contractual obligations where comparable goods do not conform to the contractual requirements of the third country purchaser of the end product;
- the aggregate value of the goods to be placed under the inward processing procedure per applicant and calendar year for each 8-digit CN code does not exceed €150,000.

Sensitive products include meat, eggs, cereals, rice, sugar, olive oil, milk, wine, ethyl alcohol, unmanufactured tobacco and any fishery products subject to an autonomous quota.

⁸ https://www.fsai.ie/news_centre/food_grade_carbon_dioxide_29062018.html

- An ambitious EU-UK future trade agreement avoiding tariffs, TRQs and regulatory divergence.
- Avoid a hard border with Northern Ireland.
- Minimise customs burdens and regulatory checks (animal products) as part of any future trade agreement (mutual recognition of standards to expedite trade between approved consignors/ consignees, simplified procedures consistent with the Union Customs Code and maximum collaboration on SPS, veterinary and product standards)
- Special arrangements to facilitate transiting goods using the UK land-bridge.
- Whilst the commitments made by the UK Government to introduce a legal framework to protect Geographic Indications (GIs) in the UK post-Brexit including the three Irish cross-border GI's for Irish whiskey, Irish cream and Irish Poitín are welcome, the UK must commit to seek protection for all GIs in new trade agreements it negotiates with third countries.
- Continuation of a seamless system, like the existing EMCS, to manage and record movement of excisable produce in duty suspension between Ireland and UK. The possibility of Northern Ireland remaining in the EU EMCS should also be fully examined.
- The UK should also remain part of the European Common Transit System to ensure smooth transit of goods to, from and through the UK.

2. Supports for industry to adapt to the post Brexit environment

- Exceptional state aid support for stabilisation, competitiveness and diversification to remedy a serious disturbance in the Irish economy due to the fracture of the single market. This will necessitate a multi-annual funding framework in the region of 5% of the value of current annual indigenous export sales to the UK (€650m over three years). The submission from Dairy Industry Ireland will outline a cheese case study.
- Introduce additional direct marketing and innovation supports for companies looking to reformulate, re-package or innovate their product lines for new markets
- Introduce direct supports for companies looking to re-tool and re-invest in plant and machinery to produce product lines for new markets. This should include accelerated capital allowances where appropriate

3. Market Diversification / Market Access

- Support the smooth and effective functioning of the Single Market and oppose market renationalisation measures.
- Introduce trade support measures, including export trade financing and export credit guarantees to support the continued development of international export markets.

- Increase in market and domestic supports for market diversification for Irish companies by increasing funding for relevant state agencies
- EU Trade Agreements to secure additional market access in strategic growth markets, at similar tariff levels to competitors.
- Such trade agreements must reflect the defensive as well as the offensive interests of Irish agri-food, particularly considering Brexit.

