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Teagasc Submission to the Joint Committee on Agriculture, Food and the Marine on the Impact of Brexit on Agriculture, Food and Fisheries.

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In this submission Teagasc directly addresses the six issues identified in the invitation for submissions given the possibility that the United Kingdom (UK) will leave the European Union (EU) without concluding a Withdrawal Agreement with the EU.

Teagasc has previously made submissions to the Committee in relation to the potential impact of Brexit on the Irish agriculture and food industries published research on the potential; impact of Brexit on Irish agriculture (see for example Donnellan and Hanrahan, 2016). That analysis and related presentations made to the Seanad Special Select Committee on the Withdrawal of the UK from the EU continues to be relevant.

Teagasc continues to undertake economic analysis of the potential impact of Brexit on the Irish agri-food sector and through its wider research, knowledge transfer and education programmes is supporting the Irish agri-food sector in maintaining and improving its competitiveness.

Teagasc has made, with Government support, a series of important Brexit-readiness investments. These investments include the €10m investment in Moorepark Technology Ltd and the recent €10m investment by the Government in a National Prepared Consumer Food (PCF) Centre at Teagasc Ashtown. Investment of €9m on the construction of a Food Innovation Hub at Teagasc Moorepark is also planned. These commitments by Teagasc, with Government support, will underpin Teagasc's support for the Irish agri-food industry as it faces the competitiveness challenges posed by Brexit.

The maintenance and improvement of the competitiveness of the Irish agri-food sector will be a critical determinant of the resilience of the industry in the face of what Teagasc Director Gerry Boyle has previously described as the largest competitiveness shock the Irish agri-food industry has ever faced (Oireachtas 2017b).

1) The Committee's 2017 Brexit Report and Recommendations

The Committee had a total of 27 recommendations. There were 4 recommendations (No. 12-15) focused explicitly on the Agri-Food Sector, while other recommendations related indirectly to the agri-food sector and policy aimed at development of the sector (e.g. recommendation No. 21).

Many of the agri-food related recommendations refer to the need to diversify the export markets of the Irish agri-food industry, notwithstanding the need for actions that maintain in so far as practicable, the valuable markets in Great Britain (GB) that the Irish food industry has developed. The Committee's 2017 report also recommended that consideration be given to how concessions from EU partners with regard to State Aid rules could be sought to allow assistance to Irish industries that are particularly negatively affected by Brexit.

The recommendation that the Irish agri-food sector diversify its markets has been reflected in a reduction in the share of Irish agri-food export value that is accounted for by the UK in 2017 relative to 2016 (See Figure 1 below). However this development is likely to have been driven at least in part by very strong dairy commodity prices in 2017 that increased the value of exports to EU markets other than the UK (EU27_2019) and World markets. Success in developing new markets and sustainably increasing market share in existing markets is a medium to long term process and will involve agri-food firms from Ireland, with the support of Government and State Agencies, investing in product development and marketing efforts targeted at new and existing markets.

The Committee's February 2017 report used the then most recent data on the structures of Irish agriculture and the economic performance of that sector. With the passage of time, more recent data on both structures of Irish agriculture and the economic performance of the sector have since become available. These newer data sources include the 2016 CSO Farm Structures Survey (CSO, 2018a), the 2017 Teagasc National Farm Survey (Dillon et al. 2018) and the 2017 CSO Input, Output and Income release (CSO, 2018b). The availability of these datasets means that the portrait of the Irish agricultural sector within the Committee's 2017 report can be updated. There are also newer data on the export performance of the Irish agri-food industry available from the trade statistics databases maintained by Eurostat and the CSO. These trade data (see updated trade figures presented below) show the rate of progress in diversifying Irish agri-food export markets and highlight the remaining challenges faced and the continued dependence of Irish agri-food and consumer food imports on UK suppliers.

The available data on trade flows illustrate starkly the continuing dependence on the UK as a source of agri-food imports and the continuing large share of Irish agri-food exports that are destined for the UK market. This trade dependence is entirely understandable, and prior to the possibility of Brexit it was highly desirable, given that the UK was and currently is a relatively high priced market in close proximity to Ireland.

2) The Recommendations of other Parliamentary Reports on Agriculture, Food and the Marine, including the Report of the Seanad Special Select Committee.

The recommendations of the Seanad Special Select Committee (2017) with respect to agricultural and agri-food issues and concerns largely echo those of the Joint Oireachtas Committee's 2017 report.

Mitigating the negative impact of Brexit on the agri-food sector will be much easier if

i) a withdrawal agreement (and associated transition period) is reached and implemented by March 29th 2019 and if
ii) at the end of the transition period (currently envisaged in December 2020) the future economic relationship between the UK and the EU largely replicates the current Single Market and Custom Union (CU) basis of the EU trade relationship with the UK.

If, however, the UK exits the EU without a withdrawal agreement on March 29th 2019, or if at the end of the withdrawal agreement, the future economic relationship between the EU and the UK diverges significantly from its current CU and Single Market basis, then the costs to the Irish economic and the agri-food component of that economy in particular will be very significant.

3) **Preparations and Preparedness for Brexit and the current status of negotiations, including any agreement on the Future EU-UK Relationship;**

The two year period since the triggering of Article 50 by the UK Government, as set out under Article 50 of the TFEU, has almost elapsed. The draft withdrawal Agreement is not yet agreed between the negotiating parties (UK Government and the European Commission Task Force 50). Political agreement between the negotiating parties on a withdrawal agreement cannot be assured and there remains a non-negligible risk of a No Deal Brexit – which by operation of World Trade Organisation (WTO) rules would become a Hard Brexit.

Under a No Deal scenario there would be no transition period within which to reach agreement on the nature of the future relationship between the EU and the UK and from March 30 2019 the trade relationships between Ireland (and other EU member states) and the UK would no longer take place within a Single Market context. The EU (and Ireland as an EU member) would be required to immediately treat the UK as a Third Country and, in conformity with WTO rules, all customs and regulatory checks applied to EU trade with non-EU countries would have to apply to EU trade with the UK.

The impact of a No Deal Brexit on the Irish agri-food sector, and the Irish economy more generally, would be immediate and very severe. The EU tariffs currently applied to non-preferential imports of agri-food products from third countries would have to be applied to imports from the UK. Therefore Irish exports to the UK would likely face tariffs and regulatory checks on entry to the UK.

The customs and regulatory checks on exports from the UK to continental European markets would also impose logistical costs on the vast majority of Irish agri-food exports to continental EU and other non-EU markets that currently are routed through the Great Britain "landbridge".

Depending on the nature of the regulatory and customs barriers that would develop on the Island of Ireland under a No Deal Scenario, the imposition of customs and regulatory barriers, perhaps for a short period, might be limited to East-West trade flows between Ireland and Great Britain. However, given the predominance of these East-West flows in Irish-UK trade (and in particular Ireland-UK agri-food trade), the economic impact of a No Deal Brexit would be primarily driven by the impact of barriers to East-West trade between Ireland and Britain and between Ireland and continental Europe, given the importance of the Great Britain *landbridge* in Ireland routes to market.

The nature of any barriers (tariff and non-tariff) to trade on the island of Ireland in the event of a No Deal Brexit remains at that heart of the ongoing negotiations between the EU and the UK. The December 2017 Joint Report and the commitment by both parties to the negotiations to a Northern Ireland backstop (Article 49) remains the key outstanding item in the Withdrawal Agreement negotiations. In the event that no agreement can be found, there remains uncertainty as to how Ireland's obligations as an EU member and its requirement to protect the integrity of the EU single market will be reconciled with the desire to avoid any impediment to trade or other cross-border activities on the Island of Ireland post-Brexit, see Keohane (2018) for a discussion of the possible options facing Ireland under a No Deal Brexit.

The magnitude of the tariffs that would be imposed on imports from the UK in the event of a No Deal Brexit is those as set out in the EU WTO tariff schedule (EC, 2017). The tariffs that would be imposed on EU27 (including Irish) exports to the UK in the event of a No Deal Brexit are a matter for the UK Government, since as a WTO member in its own right it could determine its own tariff schedule. On exiting the EU the UK will inherit the EU bound tariff schedule as its tariff bindings. The level of the tariffs the UK chooses to apply in the event of a No Deal Brexit are at this point unknown. However, as a WTO member, the UK will be obliged to apply the *Most Favoured Nation* (MFN) principle, this means the non-preferential or MFN tariffs faced by Irish and other EU members must be the same as those applied and non-EU countries (e.g. Brazil, New Zealand) exporting to the UK .

On the assumption that the UK in a No Deal scenario chooses to apply UK tariffs at the same level as the current EU tariff bindings it inherits on departure from the EU, the ad valorem equivalent of these bound tariff rates would be sufficient to render most Irish agri-food exports uncompetitive. This means that they would be too expensive relative to locally produced UK products, or products imported from low cost producers countries outside the EU. The imposition of these tariffs would then have a dramatic impact on the value of Irish exports to the UK. Given the present dependence of the Irish agri-food industry on the UK market, the inevitable decline in trade to the UK would have significant negative impacts on Irish farm gate prices.

If the UK chooses instead to unilaterally liberalise its tariffs, (i.e. reduce or even eliminate tariffs applied to imports from any country of origin) the value of the UK market to Irish exporters will also decline as compared to the current situation. Irish agri-food exports would in this scenario compete at world price levels on UK markets. For some elements of the Irish agri-food industry, namely those that are currently competitive on world markets (e.g. dairy), this would be preferable to the situation where the UK adopts and applies the EU bound tariff schedule as its own. For those parts (the majority) of the Irish agri-food industry (including beef) that are not competitive at current world price levels, the loss of preferential market access to the UK would be similar to that experienced if the UK applied the EU MFN tariff schedule..

4) The Future Direction of the European Union on Agriculture, Food and Fisheries

The periodic process of reforming the EU Common Agricultural Policy (CAP) and agreeing the budgetary framework (the EU Multiannual Financial Framework or MFF) within which the CAP and other Common EU policies will operate between 2021 and 2027 is currently on-going. The European Commission published proposals on CAP reform in June 2018 (European Commission, 2018a). The reform of the CAP and an agreement on a new EU budget (MFF) are to be concluded in 2019. The nature of the actual CAP reform to be agreed is at this point unknown. However, we can make an informed assessment based on:

i) the nature of the Commission's proposals,
ii) the experience of the 2013 CAP Reform (when for the first time both the EU Council and Parliament had to agree on the reform via the so-called trilateral process) and
iii) the implementation of the 2013 CAP reform in Ireland,

Therefore, in our assessment the 2019 CAP reform is unlikely to radically change in terms of the nature its impact on Irish agriculture.

The future implementation of the CAP in Ireland following the current round of CAP reform, may offer an opportunity for Ireland to use CAP funding to address the particular challenges faced by Irish agriculture . Under the so-called *national delivery mechanism* of the CAP, as proposed by the EC in June 2018, Member States will, through their National Strategic Plans, enjoy the freedom to frame the implementation of the CAP to their individual circumstances and priorities. This freedom will, however, be within a *common* policy setting that would still retain large parts of the instruments of the current CAP. These instruments include continued direct income support measures for farmers based in part on possession or control of eligible agricultural area. EU agri-food markets would also continue to enjoy the protection afforded by the current EU tariff schedule.

The total budgetary resources allocated to Pillars I and II of the CAP are likely to be reduced due to Brexit and the demands for limited EU budgetary resources from other emerging EU policy areas. The UK is a net contributor to the current EU budget and the loss of this contribution is reflected in the circa 5% reduction of spending on the CAP as outlined in the Commission's June 2018 proposals. The Agriculture Commissioner has however repeatedly stressed the freedom that MS have to supplement EU budgetary allocations (particularly those under Pillar II) from the national exchequer, so as to mitigate the impact at the Member States level of reduced EU funded CAP expenditures.

The Commission proposals largely maintain the model of decoupled direct income support of the current CAP Pillar I payments – though Member States may choose to allocate CAP resources differently across different mandatory or voluntary schemes that operate under the CAP. The Commissions impact Assessments (EC, 2018b) of the CAP proposals set out some of the possible CAP implementation options that would be possible within the context of their June 2018 proposals. Matthews (2018) provides a good summary of the Commission's analysis of the economic impact of these different implementation choices.

The CAP reform process, including Council and European Parliamentary agreement, is not scheduled until spring 2019 at the earliest, with Member States expected to have developed and submitted National Strategic Plans by 2020. If the planned timetable is followed the reformed CAP would come into effect in 2021. It has been acknowledged by Irish Government officials that the timelines for agreeing the CAP reform are ambitious (Joint Committee on Agriculture, Food and the Marine, June 2016 (Oireachtas, 2018). However, even if there is a delay in agreeing and implementing reform, the new CAP would come into effect in the early 2020s and coincide with the impact of Brexit on the Irish agri-food sector.

The Member State implementation of the CAP, under the New Delivery Mechanism, as noted earlier is designed to take account of the peculiarities and particular circumstance of Member States. The Irish National Strategic Plan for the implementation of the CAP in Ireland would be required to set out the peculiarities of Irish agriculture and the challenges and opportunities faced. Brexit, together with the other challenges facing Irish agriculture, particularly the challenge of environmental sustainability, will likely be central elements of the national priorities when framing Ireland’s CAP Strategic National Plan.

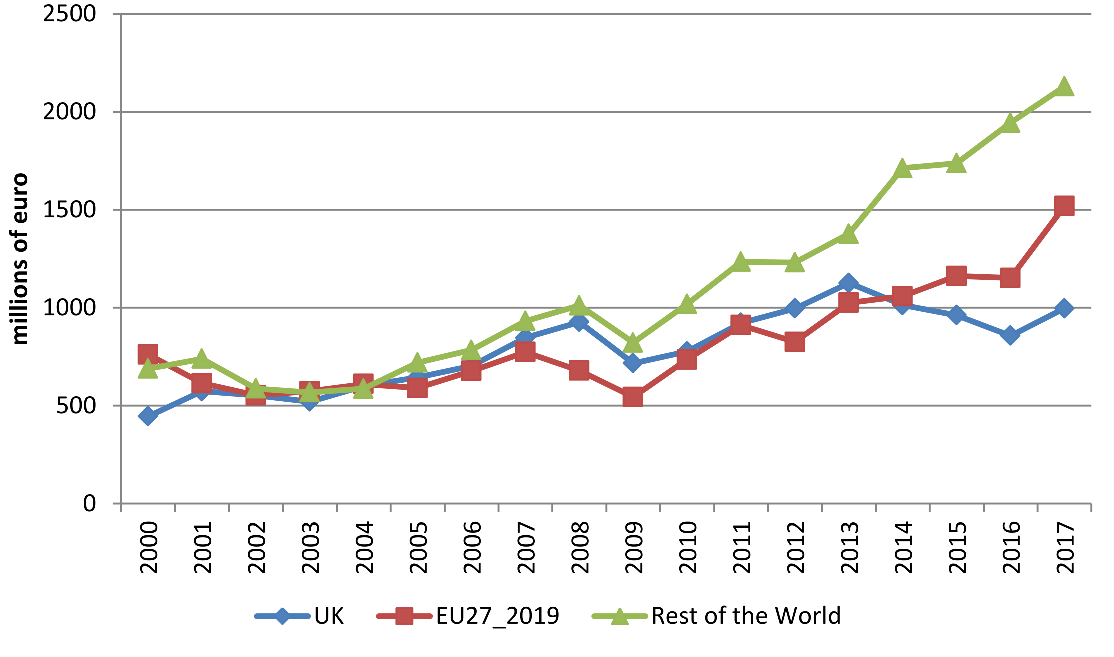
5) The Impact of Post-Brexit Trade Policy

While the Brexit process and the process of agreeing the next round of CAP reform proceed, the EU also has an ambitious programme of ongoing bilateral trade reform negotiations with countries around the world.

The set of countries with which the EU is currently negotiating or seeking to negotiate Free Trade Agreements (FTA), includes amongst others Australia, New Zealand and the Mercosur countries - Argentina, Brazil, Paraguay and Uruguay (European Commission – DG Trade, 2018). The EU is also in the process of implementing the recent trade agreements with Canada (CETA), Japan and Mexico.

In so far as existing trade agreements and future trade agreements grant increased access to EU agricultural and food markets to third counties, such agreements will affect the market environment within which the Irish agri-food sector operates. Some third country trade agreements may offer advantages to the globally competitive elements of the Irish agri-food sector, but it is likely that others would pose competitiveness challenges for those parts of the Irish agri-food sector that are not globally competitive.

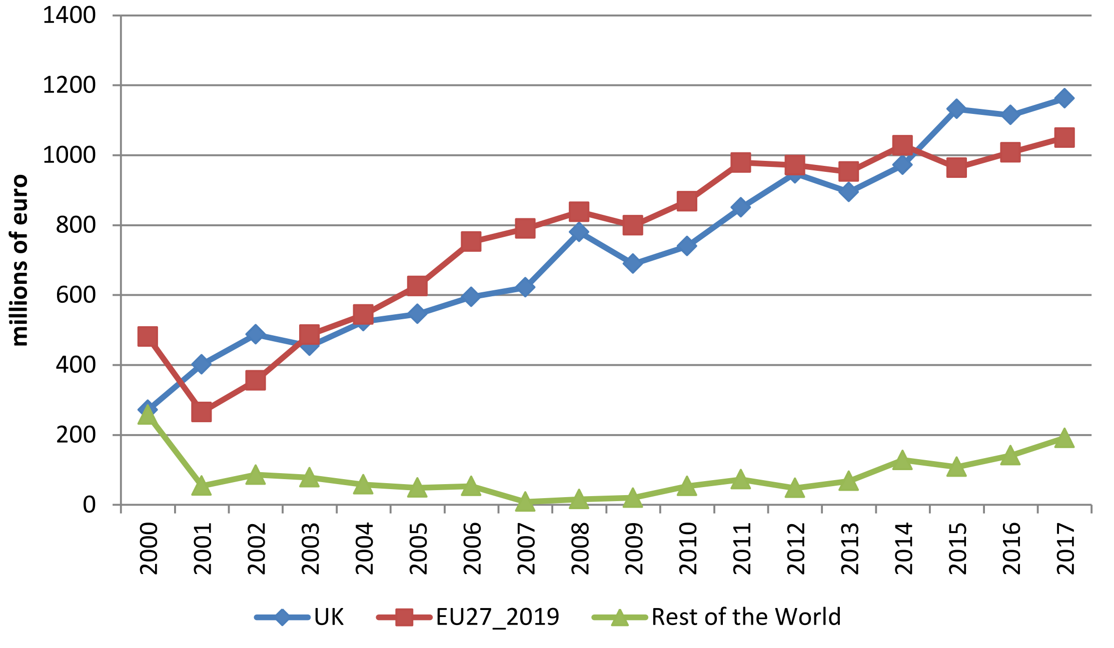
Figure 1: Irish Dairy Produce Exports by Destination 2000-2017



Source: Eurostat Comext. Note: Dairy is defined to include caseinates, infant food preparations & other foods with a high dairy fat and/or protein content.

Research by Boulanger et al. (2016) looked at the cumulative impact on agriculture of trade agreements under negotiation by the EU. This research found that the impact of both "conservative" and "ambitious" trade liberalisation scenarios were different across the sectors of most importance to Irish agriculture (dairy and beef). EU dairy commodity prices in general were higher under the trade reform scenarios analysed as compared to the Baseline, while EU beef prices were lower than under the Baseline. The cumulative impact of Brexit and ongoing and possible future FTAs under negotiations would most likely be negative for Irish (and EU) beef prices. Trade liberalising FTAs offer the prospect of partially mitigating the impact of Brexit on Irish dairy commodity and farm gate milk prices by reducing tariff and non-tariff barriers to Irish dairy exports to non-EU markets.

Figure 2: Irish Beef Exports 2000-2017



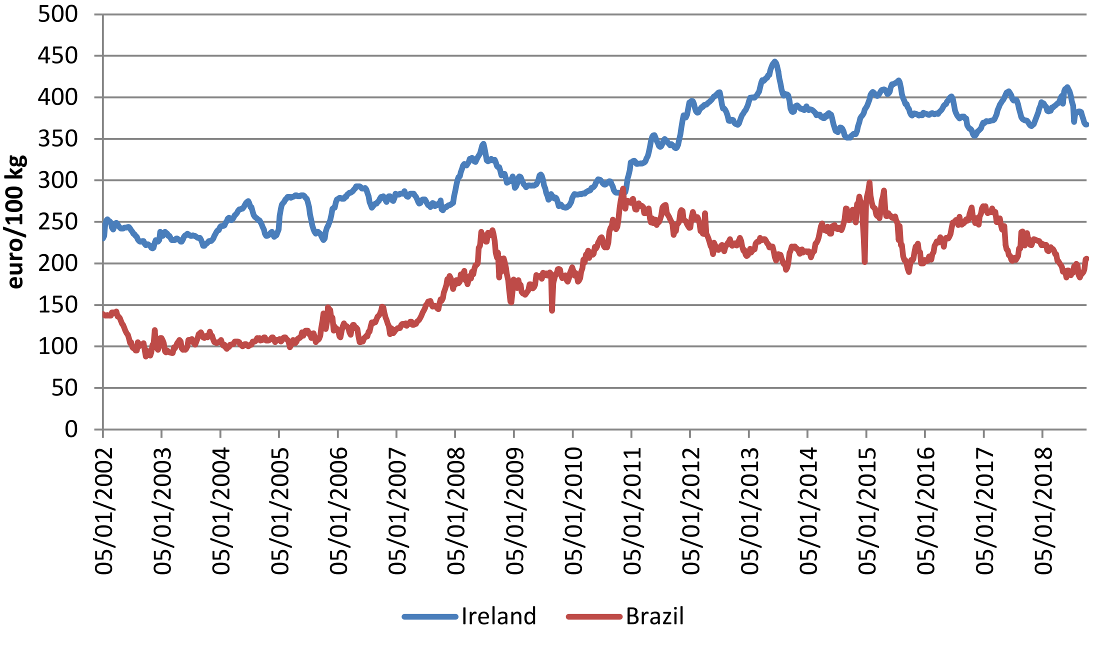
Source: Eurostat Comext. Note: Beef includes beef offals and prepared and preserved beef products

In so far as recently agreed or ongoing FTA create additional market access opportunities for Irish agri-food exports on third country markets, such agreements and associated market access commitments may encourage the further diversification of Irish agri-food exports and thereby mitigate the negative impact of Brexit on the Irish agri-food industry. However, such FTA may also pose competitiveness threats for some parts of the agri-food sector and these elements of the Irish agri-food sector are often those most exposed to the negative impacts of Brexit.

The international competitiveness of Irish milk production is confirmed by the most recent IFCN reports (IFCN Dairy, 2018). The current competitiveness of Irish dairy production is evidenced by the growing value and share of non-EU markets in Irish dairy exports. In 2017 exports to non-EU markets accounted for almost 50% of Irish dairy exports. Since 2010 the average annual rate of growth in Irish dairy exports value has been in excess of 11% (See Figure 1).

Irish beef production is not internationally competitive (Agri Benchmark 2018) and trade agreements between the EU and other agricultural commodity exporters are unlikely to offer significant new export opportunities for Irish beef exporters. Irish beef exports remain overwhelmingly dependent on EU27 and UK markets (see Figure 4). In 2017 exports to the EU27 and UK markets accounted for over 92% of the value of Irish beef exports. Brexit and future EU trade agreements that grant additional access to EU beef markets will likely lead to lower beef prices in Ireland and the EU. The trade agreements currently under negotiation by the EU are unlikely to lead to significant additional exports of Irish beef to world markets. Continuing work by the Irish Government in support of market access for Irish beef will present opportunities to grow exports to non-EU markets, but given the price of cattle in Ireland and the price of equivalent cattle in other major exporting countries (see Figure 3) these exports are unlikely to significantly mitigate the impact of Brexit on Irish cattle prices.

Figure 3: Weekly Irish and International (Brazil) Cattle Prices

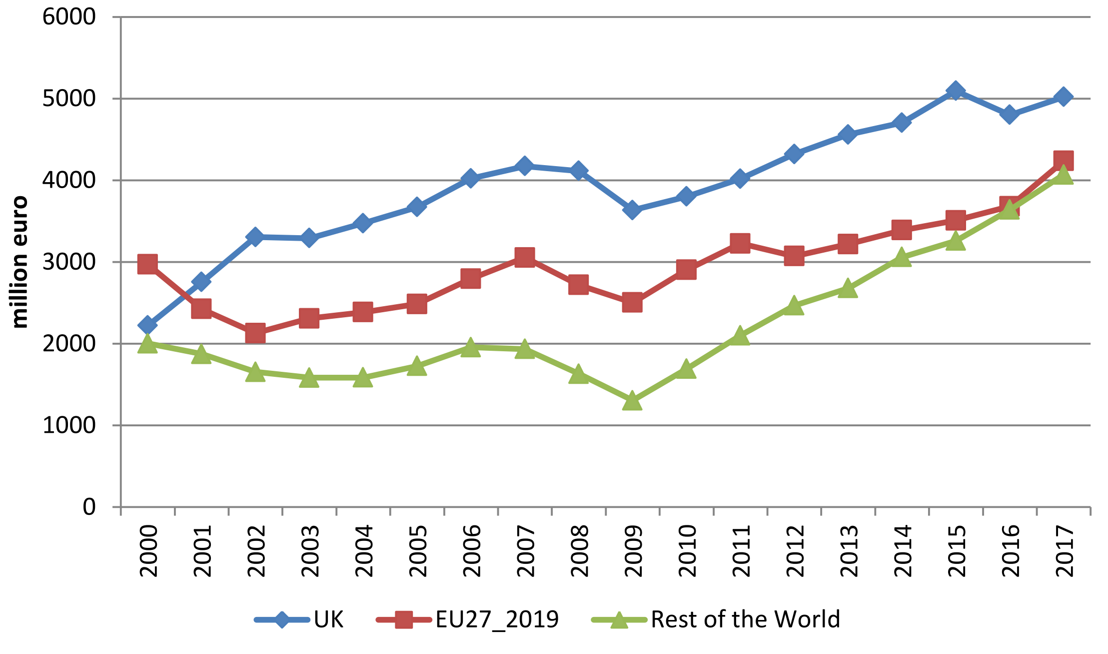


Source: Bord Bia

6) The Impact of Market Diversification inside and outside the European Union

The process of diversifying the range of export markets for Irish agri-food products is ongoing. Figures 4 and 5 illustrate how the importance of exports to UK, EU27 and non-EU markets differs across two of the pillars of the Irish agri-food sector (beef and dairy). Figure 4 shows the evolution in the value of Irish agri-food exports. Irish agri-food exports have grown every year since 2009, with an average annual growth rate of 7.6% between 2009 and 2017. The rate of growth in the value of exports to non-EU markets has been fastest at over 15% per annum; the rate of growth in the value of exports to the UK has been slowest at just over 4% per annum. The result of these developments is that the UK share of Irish agri-food exports (by value) has declined from 49% in 2009 to 38% in 2017, while the share of agri-food exports to non-EU markets have grown from just under 18% in 2009 to almost 31% in 2017.

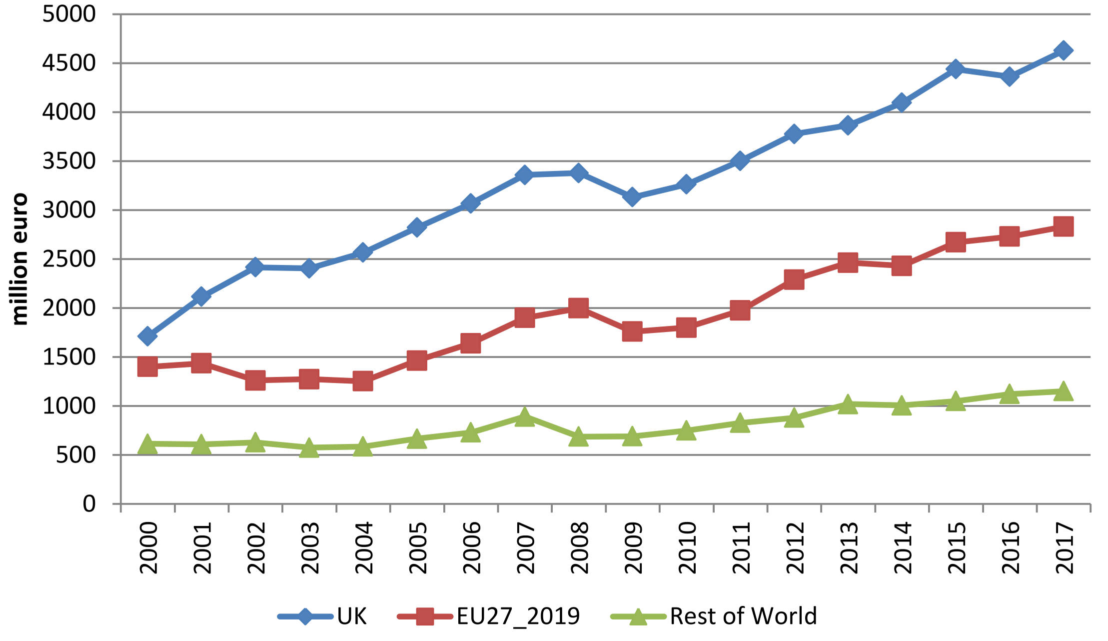
Figure 4 Irish agri-food exports



Source: Eurostat Comext

Irish agri-food imports in aggregate, however, remain very dependent on the UK (see Figure 5). In 2017 almost 54% of Irish agri-food imports were from the UK. This UK share of Ireland's agri-food imports has declined over time, with the UK share contracting by 0.6% per annum between 2010 and 2017. The agri-food aggregate used is that developed by the Department Agriculture, Food and the Marine and includes consumer facing food products, as well as agricultural commodities and intermediate goods such as animal feed products and raw milk.

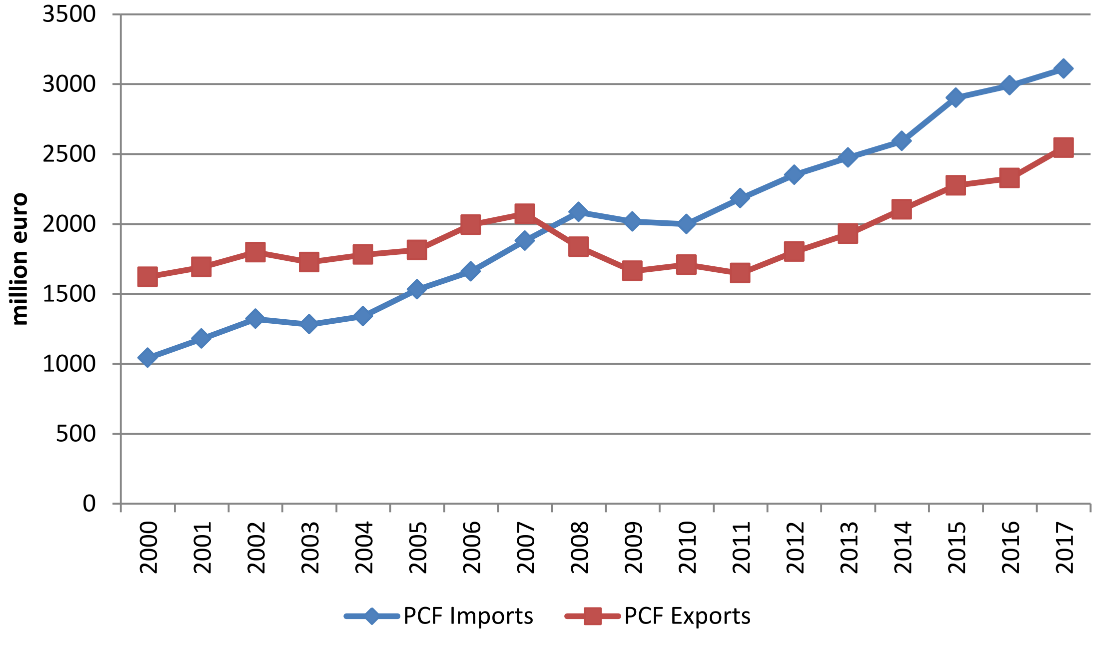
Figure 5 Irish Agri-food Imports



Source: Eurostat Comext

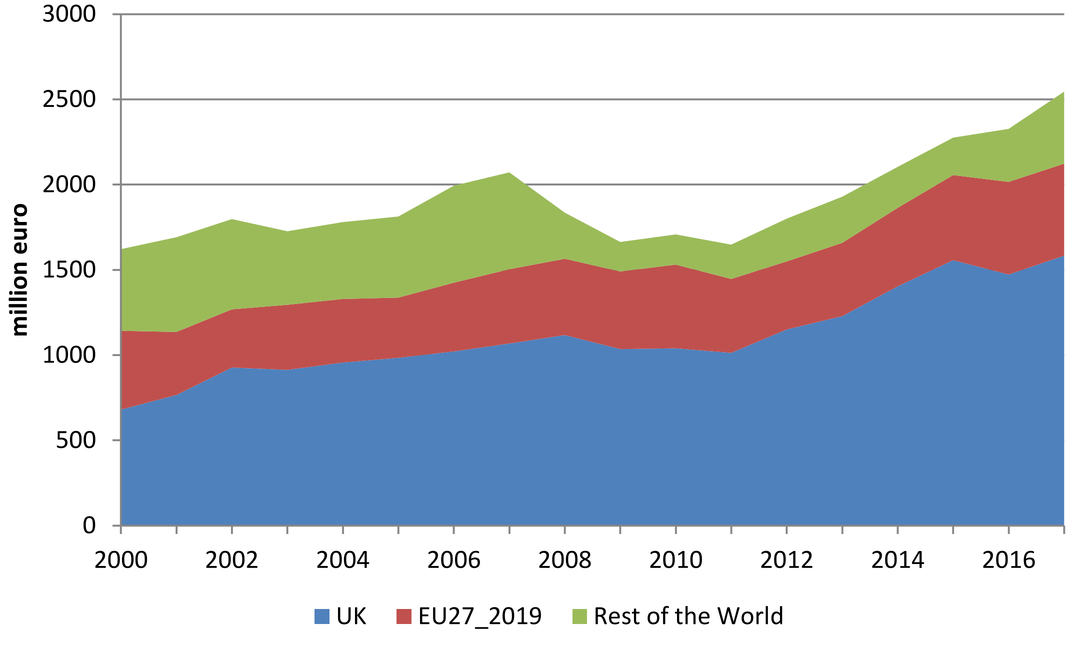
Moving from Agri-food in general to the specific category of *prepared consumer foods* or PFC (as defined by the Department of Agriculture, Food and the Marine) the dependence on UK markets (both for imports and exports) is even higher. The data presented in Figure 6 illustrates that Ireland runs a trade deficit in PCF. Irish exports are very dependent on the UK markets which in 2017 accounted for over 62% of PCF export value. The dependence on the UK as a supplier of PCF imports and destination for PCF exports is also very high. Over 60% of Irish PCF imports originate in the UK and over 60% of Irish PCF exports are destined for UK customers.

Figure 6 Total Imports and Exports of Prepared Consumer Foods



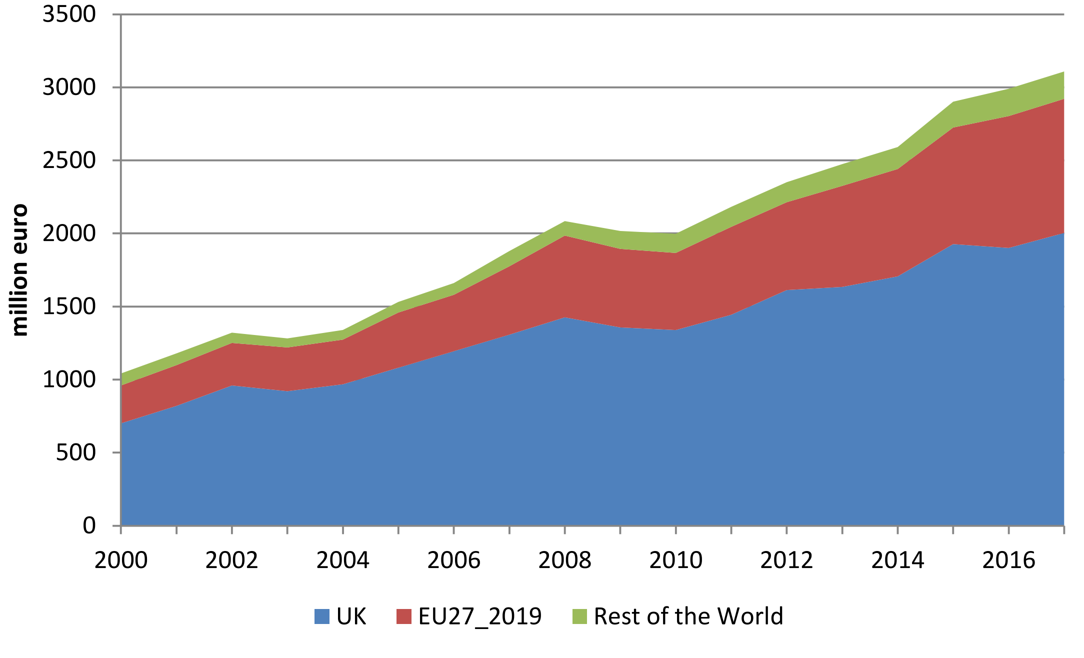
Source: Eurostat Comext

Figure 7 Exports of PCF



Source: Eurostat Comext

Figure 8 Imports of PCF



Source: Eurostat Comext

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