Irish Cooperative Organisation Society

7th of December 2020

ICOS Submission to the Oireachtas Committee on Agriculture on the Impact of Brexit on Irish Agriculture

The Irish Co-operative Organisation Society (ICOS) is the co-operative umbrella organisation that serves and promotes commercial co-operative businesses and enterprises, across multiple sections of the Irish economy.

We represent 130 co-operatives, which include multipurpose Dairy Co-ops, Livestock sector Co-ops as well as food, fishing and beverage Co-ops. Collectively, they have over 150,000 individual members, employ over 12,000 people in Ireland (a further 24,000 abroad) and have a combined turnover of approximately €14 billion.

We are grateful for the opportunity to address the Joint Committee on Agriculture & the Marine at this time of great importance and uncertainty.

The ICOS delegation is represented today by:

- John O'Gorman, ICOS Dairy Committee Chairman & Chairman of Dairygold Co-operative Society Ltd
- Alison Graham, ICOS EU Affairs Executive, joining us from the ICOS Brussels office located in the heart of the EU quarter.
- Eamonn Farrell, ICOS Agri-Food Policy Executive.

As key forces within the Irish agri-food industry, Brexit poses a huge number of challenges for co-operatives, due to our strong trade links with the UK and business structures which span North and South of the border.

ICOS wishes to ensure that these deep trading ties and the integrated All-Island agricultural economy are facilitated within our future relationship with the UK and the rest of the world.

Impact on Trade with the UK:

The value we can extract from the UK market for our exports will decrease. This will have an impact on the price returned to Co-ops and ultimately the primary producer.

ICOS Ltd, rue de Treves 61, 1040 Brussels, Belgium
Tel: 0032 22310685 *Fax:* 0032 22310698 *Email:* alison.graham@icos.ie *Website:* www.icos.ie
Dublin *Tel:* + 353 1 676 4783 Limerick *Tel:* + 353 61 503066

Vat No. IE0656713A Reg. Office: 84 Merrion Square, Dublin 2. No. 88R

Tariffs will be applied on imports and exports to and from the UK in the event of No Deal, reducing the added value of our exports and increasing the cost of imports. ICOS estimates that the tariff bill for Irish cheese and butter alone will be in the region of €300 million a year. The total cost facing the Irish agri-food sector is €1.5 billion. **This is an appalling vista**.

Costly non-tariff barriers/ SPS measures and controls will apply: Even if a trade deal is agreed, without specific terms providing for automatic recognition of standards, exports to the UK will be subject to new safety and security controls and documentation checks. There is a significant cost involved and time needed to fulfil these new administration requirements. Specifically, the current process to obtain an Export Health Certificate for exporting products of animal origin is particularly costly and onerous for businesses and takes up to 10 days to complete before export is possible. On top of this, it is estimated that it will now take up to 32 hours door-to-door to export to the UK, due to document checks (+3 hours) and physical checks (+5 hours).

Erosion of UK Consumer Spending Power: UK consumers will likely have a lower spending power, as a result of the economic consequences of Brexit. UK GDP already shrunk by 11% in 2020. This may result in a switch from premium products to cheaper alternatives. Irish butter and beef in particular occupy a premium space in the UK market and will be put further out of the reach of consumers.

Competition with third countries will increase: The UK market is already highly competitive, however it stands to become even more so with the UK expected to open its market to third countries through the negotiation of Free Trade Agreements. In particular the UK is seeking to reach a Free Trade Agreement with a number of dairy and beef exporting countries, over the coming months, including New Zealand, Australia and USA. Therefore, Irish products will be competing against more and possibly cheaper competitors.

Currency volatility: Currency volatility and the depreciation of sterling has been the most immediate challenge Brexit has posed for Irish food businesses. This issue is likely to remain and deepen with the UK outside of the EU.

Irish agriculture therefore must continue to diversify its exports away from the UK and therefore also diversify its products to tailor to new market opportunities.

Actions Undertaken by Irish Co-operatives

Market Diversification: Irish agricultural co-operatives, particularly in the dairy sector have been in the process of diversifying their export markets for many years. This process has been accelerated as a result of the UK's decision to leave the EU.

However, it takes a considerable amount of time for businesses to access new markets and for brands to establish themselves and generate a return. A significant amount of financing and work must be undertaken to understand consumer trends, import regulatory systems and internal legislation, as well as to establish new distribution channels and business relationships. The work undertaken by Bord Bia in this regard has been fundamental to enable the industry to diversify to new markets and will continue to be of vital importance in the coming years as the impact of the UK departure from the EU becomes clearer.

Product Diversification: A lot of investment is being made by co-ops in new facilities to enable them to diversify their product portfolios. In particular, dairy processors have taken steps to move away from cheddar cheese, which is highly exposed to Brexit due to the large volumes exported to the UK and the poor opportunities for this cheese type in other international markets.

These processors aim to move part of their milk pool from cheddar production to the production of international cheese types, including, for example, Norwegian Jarlsberg and Mozzarella. These will be largely destined for the North American and EU markets. Also notable is the significant recent investment made by the sector in expanding dairy nutritional powder facilities, in preparation for the growth in Irish milk production following the abolishment of quotas in 2015. These powders are also already largely destined for international markets.

These investments will provide Dairy Co-ops with greater flexibility in their processing abilities no matter the outcome of the Brexit negotiations, so that they can better target their production to products with the greatest market returns and to export markets which are most accessible.

Strengthening Foothold in UK: Although, as described above Irish co-operatives have been diversifying away from the UK market, they are by no means abandoning it. The UK will remain a key market for Irish agri-food products, despite potential future trade difficulties and higher costs.

Due to its close proximity to us, our historical trading ties and already established distribution channels and brand positions, it is important that the Irish agri-food sector maintains its strong presence in this high value market, which will be difficult, if not impossible, to replicate elsewhere.

Therefore, since 2016, many cooperatives businesses have made moves to increase their foothold in the UK, in order to strengthen their position in the market and secure it post-Brexit. This has in particular included investment in expanding storage and distribution facilities in Great Britain. This investment has additionally enabled us to increase our capacity to store products, in particular cheddar cheese, in the UK ahead of the January 1st change in trading terms and therefore reduces our immediate exposure to the trading difficulties, in the very short term.

Impact on the All-Ireland Dairy Economy

A number of Irish dairy cooperatives currently operate on an All-Ireland basis, with members and processing facilities on both sides of the Irish border. As a result, raw milk and milk products cross the border at multiple stages of processing, packaging and on route to export markets. While the Irish Protocols contained within the Withdrawal Agreement will allow for this trade and movement to continue, the products which are produced on an all-Ireland basis will face new barriers in future. This has the potential to undermine the rationalisation which has occurred in the sector over the last 20 years.

<u>EU Free Trade Agreements with Third Countries:</u> Products containing so called “Mixed Milk” will in many instances no longer be able to be exported under preference to countries with which the EU has a free trade agreement, including for example Canada, Japan, Singapore, Vietnam and South Korea.

These markets are particularly important for Irish cheese exports, and maintaining access to these markets is essential for our strategy of market diversification. Products containing Skimmed Milk Powder (SMP), including infant milk formula and fat filled powders, destined largely for China and West Africa respectively, could also be highly impacted depending on trade developments with these countries in the future.

EU Market Supports: Products of mixed milk origin will no longer have access to EU market supports, including Private Storage Aid and Public Intervention, which are reserved for products wholly of EU origin. These supports are very important price stabilisers in times of market difficulties. Due to the new barriers to trade discussed above, these products would already be particularly vulnerable and therefore very exposed in the market without such supports.

Impact on Irish Exports to the EU

Due to the anticipated delays at UK border control posts and well as a lack of clarity on the process for the transit of goods through the UK, there is a high degree of concern on the use of the landbridge, to access the continental EU market, in future. Transport routes are therefore expected to change, with a switch to direct ferry routes to France, Netherlands and Belgium.

This will have consequences for:

Multiple load consignments: which will no longer in large part be possible and therefore the costs of transport will go up for these businesses who will need to undertake two separate trips, to the UK and the EU, rather than one.

Just in Time logistics: Avoiding this route and choosing to move goods around the UK via ferry instead would roughly double journey times and would still result in the end of the just-in-time logistical operations that are currently in place. These are essential for the delivery of fresh products. This may result in loss of contracts in the EU market for those businesses.

Transport of live animals: With increased demand for ferry capacity on direct routes to the continent, it may have implications for the transport of live animal in 2021.

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What Actions and Supports are Needed

EU Brexit Adjustment Fund: To aid product and market diversification to further reduce the exposure of the Irish agri-food sector to the UK market, financial support is necessary from the EU Brexit adjustment fund and beyond.

This aid should be administered in the form of schemes to provide necessary support, such as:

- Export trade financing and export credit guarantees. Expanding to new markets can put a strain on cashflow, due to upfront logistical, marketing and regulatory costs. Government backed export finance, in the form of loans, guarantees and insurance policies would ensure businesses have affordable and secure finance to manage cashflow and reduce risks
- Production and logistical capital investment support.
- Support for investment in sustainable agriculture.
- Market research and promotion supports, via Bord Bia.
- Training and upskilling within businesses.

Support for Market Diversification: EU trade policy must prioritise achieving new market access to key emerging markets, specifically in Asia and the Middle East. Currently there are many barriers which prevent trade from expanding in these counties (include tariffs and non-tariff barriers, such as long customs delays and certification issues). These must be addressed at an EU level, through a targeted trade policy, and on a national level, through further development of market research and promotional campaigns.

Support for Product Diversification: It is necessary for the Government and state agencies to support from a policy perspective infrastructure development to allow for product diversification.

Inclusion of NI material and products within EU FTAs: EU trade policy must prioritise the inclusion of products produced on an all-Ireland basis in future FTA negotiations. This can be achieved through the EU seeking to allow "extended cumulation" with Northern Ireland supply chains and products, within the negotiated rules of origin.

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We also must seek for the EU to engage with the countries it has existing free trade agreements with and ask them to continue to allow these products to access the benefits of existing trade agreements. This is not about negotiating new flexibilities or new access and therefore would not necessarily require a reopening of the agreement. It is simply about asking for a political decision to allow the maintenance of existing trade.

<u>Reduce the Cost of Trading with the UK:</u> The conclusion of an FTA in the next few days, is **absolutely critical**. Even a bare bones trade deal will remove the possibility of tariffs or quota restrictions.

As a next step we will potentially need to seek a supplementary agreement with the UK specifically addressing the non-tariff barriers and process of controls on agri-food trade. We need to find ways to simplify and speed up these processes- for example with regard to Export Health Certificates moving to electronic documentation, enabling sign off of Export Health Certificates by non-veterinary officials (due to the expected demand for veterinary sign off on consignments, the potential delay could be much longer than the 10 days, it is currently) or moving to the certification of businesses for a certain length of time (e.g. 6 months/1 year) rather than individual consignments.

<u>Clarification on rules for transit through the UK is needed and development of a Green Lane System:</u> A system of designated routes for designated goods should be implemented, which would allow goods in transit to bypass queues at border control posts, on the basis of pre-clearance and online documentation.

To conclude, ICOS is deeply concerned by the ongoing uncertainty around the terms of our future trade relationship with the UK and the significant impact on the agri-food sector should an agreement not be reached. A No Deal Brexit will result in costly tariffs and quantitative restrictions, in addition to non-tariff barriers, including costly and burdensome safety and security controls.

Furthermore, it is vitally important that EU policy as a whole reflects the positioning of Northern Ireland within the EU Single market for agri-food products that does not disadvantage cross-border supply chains or products produced on an All-Ireland basis.

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