



Briefing Document June 2016

Bord Bia
Irish Food Board

Brexit Briefing Document

The EU referendum in the UK

The EU is the UK's largest trading partner accounting for 62% of UK food and drink exports and 70% of UK imports. Therefore it's not surprising that the exit vote has led to significant market volatility and uncertainty.

Following the 'leave' result, there is now likely to be a two-year negotiation period regarding Britain's trading relationship with the EU. It is unknown when Article 50 will be triggered which will officially begin the process of Britain's exit from the EU.

A British Agricultural Policy (BAP) will need to be considered by the UK Government. The UK agriculture industry currently relies heavily on EU subsidies with a study by Defra showing that more than 30% of British farms would be in negative income without CAP. There may also be the possibility of a reduced CAP overall without the contribution from the British which will have an impact on Irish and EU farms.

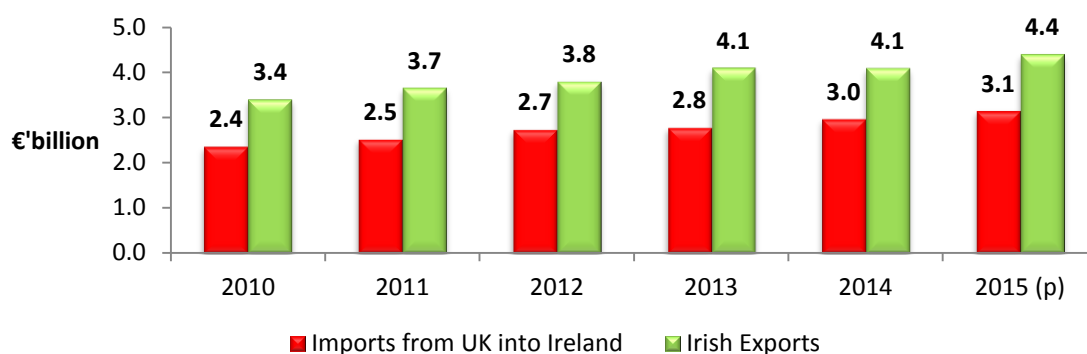
The prevailing immediate response to the leave result by the British food customers is very much a 'business as usual' stance in the short term until the political landscape settles down, Article 50 is invoked (or not!) and official negotiations begin between the UK and the EU. The most immediate concern is currency volatility. Sterling hit a 31 year low against the dollar and continues to trade roughly 10% down vs the Euro, compared with levels last Thursday before the UK polls closed.

Food and drink trade flows between Ireland and the UK

The UK is Ireland's largest market for food and drink, accounting for 41% of Irish food and drink exports, valued at €4.4bn in 2015.

Strong growth in exports to non EU markets has been evident over recent years. However, the UK remains the core market for Irish food and drink exports. Between 2010 and 2015 Irish exports to the UK increased by €1 billion largely driven by increased meat exports.

Food and Drink Trade between ROI and UK

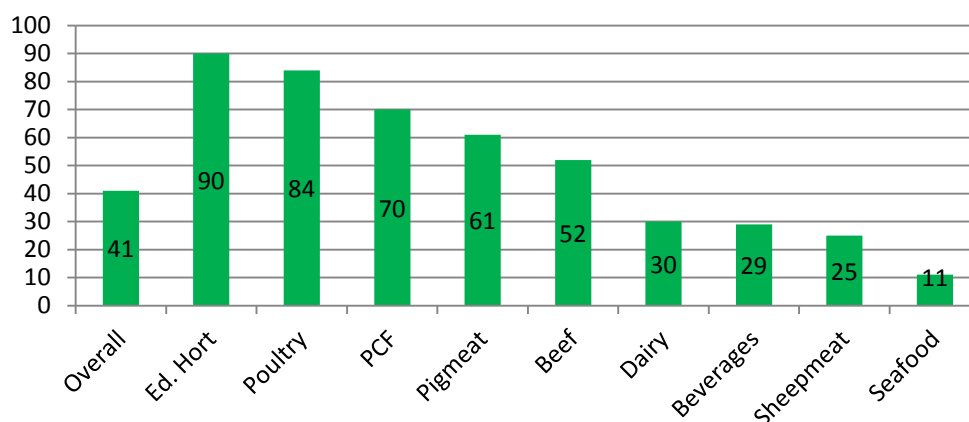


Source: Bord Bia based on CSO

Meat exports make up the highest proportion of Irish food and drink exports to the UK followed by prepared consumer foods and dairy.

The UK accounts for around 54% of total Irish meat and livestock exports, reflecting the fact that it is the highest priced beef market in the world. Exports to the UK represent 30% of dairy, 70% of prepared consumer foods and 30% of beverage exports. In terms of edible horticulture and cereals the UK accounts for over 90% of Irish exports.

Proportion of Irish food and drink exports by category destined for the UK, 2015 (%)



Source: Bord Bia based on CSO

Within categories, beef exports dominate meat exports, accounting for more than half of all meat exports to the UK.

Looking at dairy exports, up to 65% of Ireland's cheddar cheese exports go to the UK while large shipments of butter and infant formula are also exported to the market. Beverage exports are underpinned by beer and non-alcoholic beverage exports while confectionery and bakery dominate exports of prepared foods. Within prepared consumer foods (PCF), most categories are highly dependent on the UK. A Brexit would negatively affect the

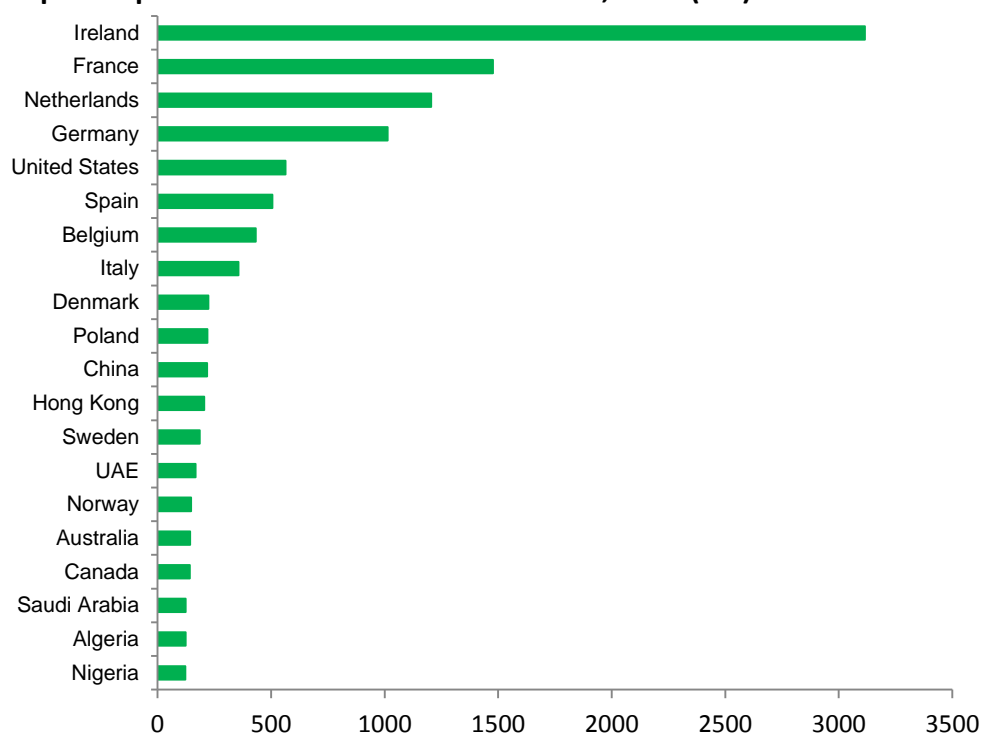
market environment for exporters in this category, particularly small and medium sized enterprises given the already very competitive nature of this sector.

In terms of edible horticulture, mushroom exports account for the vast majority of exports in this category and is therefore almost totally dependent on the UK market.

While not directly comparable due to the varying product mixes across markets, the export value for Irish pigmeat to the UK was almost 50% higher per tonne than the average in 2015 while fresh poultry was 20% higher. Other categories such as edible horticulture, beef carcase cuts, butter and whey also command higher values per tonne in the UK relative to the average.

Ireland remains the main export market for UK food and drink products, accounting for almost one fifth of trade at €3.1 billion in 2015. The importance of Ireland to UK exporters is demonstrated by the fact that trade was worth more than the cumulative exports to the next two largest markets, France and the Netherlands. Since 2010, UK exports to Ireland have grown by €700 million. These exports are likely to increase as sterling depreciates in the short term but in the longer term it is dependent on trade barriers or tariffs that might be imposed between the UK and Ireland/EU.

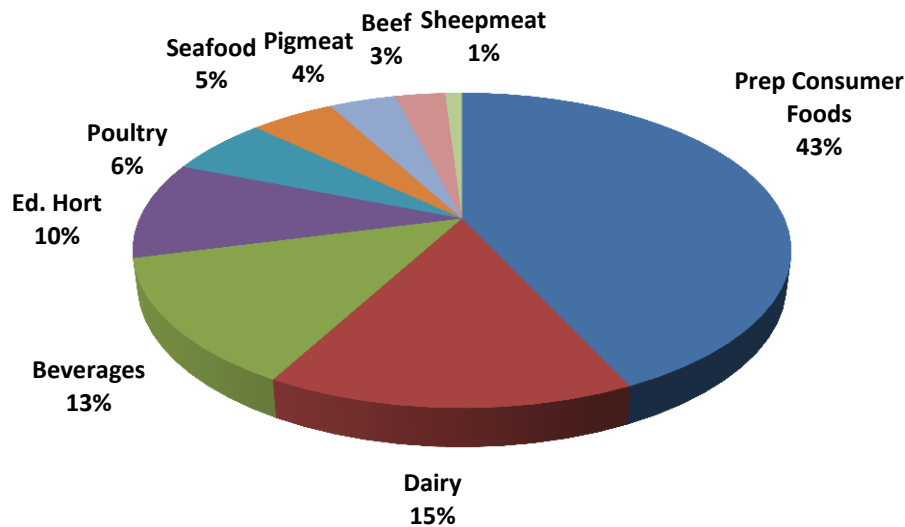
Top 20 export markets for UK food and drink, 2014 (£m)



Source: UK Food and Drink Federation

Imports from the UK are driven by PCF, which accounted for more than 40% of the total. This included sauces, fruit and veg while cereal imports are also significant.

Breakdown of UK food and drink exports to Ireland, 2015 (%)



Source: UK Food and Drink Federation

The UK has increased its investments in the Irish market in recent years while Irish companies have invested heavily in the UK. Brexit could reduce the potential for further investment or change the dynamics for the industry as companies could seek to reorganise their processing facilities toward their destination markets.

A high proportion of imported ingredients for the PCF sector tend to come from the UK. Brexit may have a significant impact on this trade.

Potential implications of Brexit

The UK population is set to rise to over 80 million which will lead to an increasing demand for food. Any barriers to this market will have a negative impact on the food and drink trade.

The leave vote has led to much uncertainty in the industry. Recent presentations from policy and trade experts and industry commentators have identified a number of key uncertainties which could take some time to resolve. These are largely focused on trade and regulatory policy, the UK macroeconomic performance after Brexit and UK agricultural policy.

- **Increased trade costs**

Industry experts have forecast a rise in costs in the event of a Brexit. A rise in regulatory and administrative costs due to the UK becoming a 'non-EU' country, increased complexity of trading and restrictions in transit through the UK would all add to the cost of doing business.

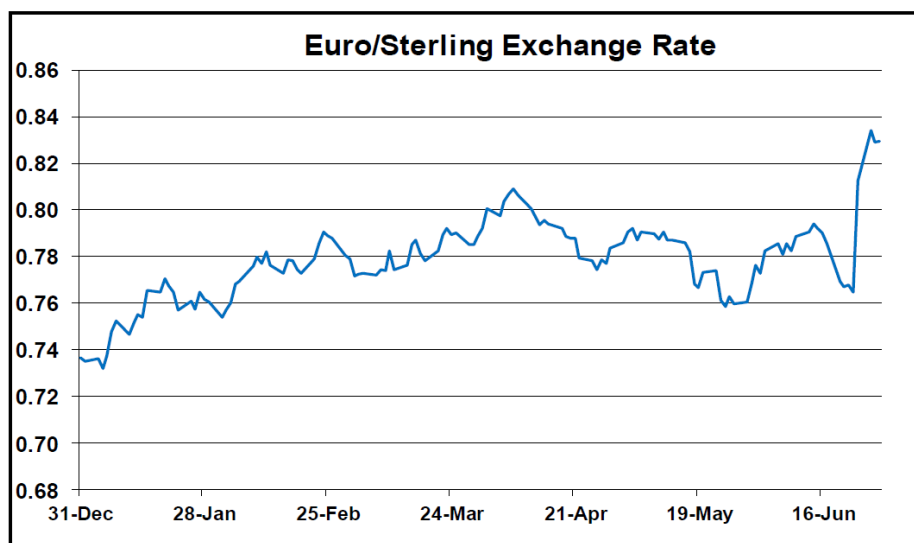
Some experts have informally estimated a 5% rise in trade costs between the UK and its trading partners.

Costs would increase not only for businesses but for consumers while pressure would be put on producer prices. Undertaking a most favoured nation (MFN) approach post Brexit would lead to increased costs of food due to higher tariffs. At present the EU applies a tariff of around 13% on agricultural products from MFN.

- **Exchange rate volatility**

The leave result has led to significant uncertainty and a dramatic overnight weakening in sterling. Since the Brexit referendum outcome Sterling has depreciated approximately 10% versus the pound. The Euro reached its highest level since April 2014, at 83.8p on Monday the 27th of June and hit a 31 year low against the dollar, trading to a low of \$1.312 at one point. It is expected that exchange rates will remain particularly volatile as political and economic uncertainties continue for the foreseeable future. AIB have forecast that Euro/GBP could reach 84-86p in the coming months.

Monthly exchange rates Euro v Sterling



Source: AIB

- **Cost of doing business from increased labour costs**

According to Investec, Britain's food, drink and agriculture (FDA) industry relies heavily on EU migrant labour. The influx of foreign workers has enabled the UK's labour force to grow by 0.5% per annum, without real wages rising with it. In the short term it is argued that Brexit would actually benefit FDA companies. Britain have a 2 year window to negotiate its exit – a window the Investec report predicts would mean even more migrants trying to get into the country before it's too late. Those workers already in the UK will be less inclined to leave. However in the longer term the lack of lower cost labour would result in rising wages which would impact on the competitiveness of UK companies.

- **Trade Deals**

Brexit could also lead to trade deals with more international partners such as Australia, New Zealand, North America and Mercosour which would greatly increase the level of competition for Irish food and drink, particularly for meat and dairy products. A host of potential trade agreement models have also been highlighted post Brexit including:

1. **European Free Trade Agreement (EFTA)** – this would follow the model used by European Economic Area (EEA) countries Norway, Iceland and Lichtenstein
2. **EU free Trade agreement (EUFTA)** plus bilateral treaties on individual single market issues similar to Switzerland
3. **Customs union with the EU**
4. **International Free Trade Agreements** – TTIP with the US and CETA with Canada.
5. **World Trade Organisation (WTO) Option – no Free Trade Agreement** – WTO most favoured nations (MFN) tariffs apply to exports from both partners

A trade deal has to be agreed between the EU and the UK. The terms of such a deal could have a major impact on the potential for Irish and other EU exports to the market.

A trade deal with Mercosour would lead to pressure on our meat exports to the UK due to plentiful supplies of Brazilian beef at cheaper prices. Currently the weakening of the Brazilian real is driving the competitiveness of Brazilian beef. This has the potential to lead to a significant pressure on Irish beef exports. At present Irish beef accounts for over 60% of imports into the UK compared to just over 50% ten years ago prior to restrictions being placed on South American beef. In 2006, over 100,000 tonnes of beef imports into the UK came from South America. The equivalent figure in 2015 was just 30,000 tonnes. Brazilian beef made up 9% of UK imports in 2015, compared to a high of 20% in 2005. Similarly imports from Argentina and Uruguay have declined substantially over the period. Any deal with Mercosur countries would lead to a significant rise in supplies and ultimately impact negatively on UK cattle prices.

A trade deal across Commonwealth countries could also be undertaken leading to beef imports from Canada and more lamb imports from New Zealand, for example. Similarly in terms of dairy, Brexit could lead to more dairy trade with large Commonwealth dairy export nations such as Australia and New Zealand. For example, dairy imports, predominantly cheese from New Zealand, have almost halved over the last 10 years and as the UK is Ireland's largest export market for cheese any trade deal would negatively affect the Irish dairy industry.

Overall, any such trade agreements would lead to substantial competitive pressure for exporters such as Ireland and other EU countries.

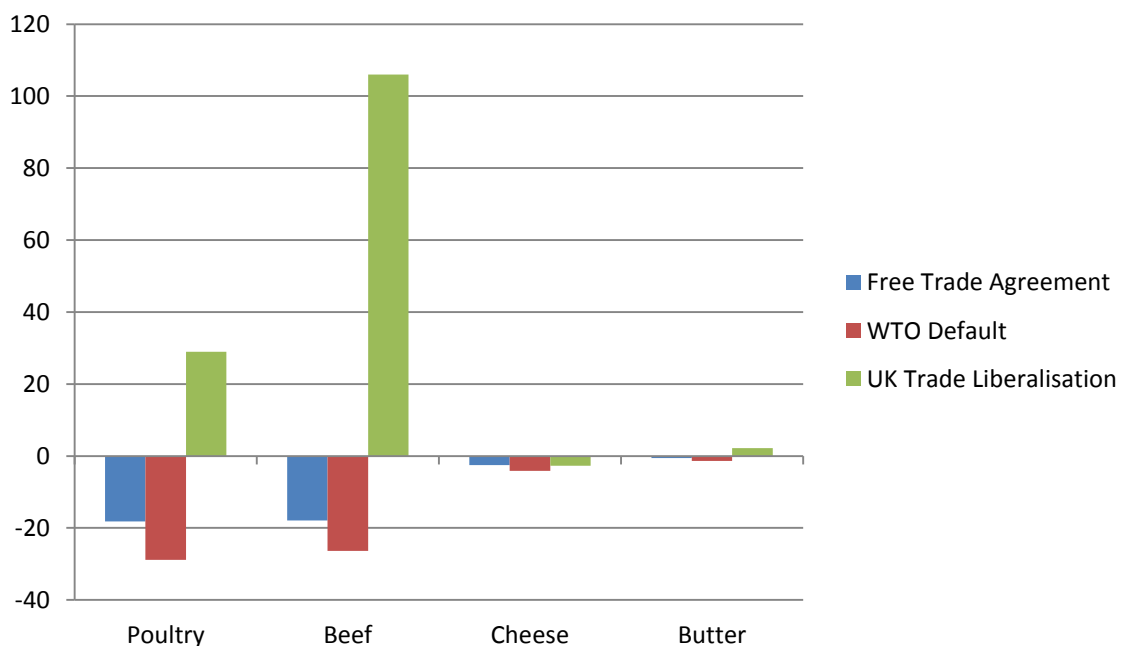
A recent report commissioned by the National Farmers Union (NFU) and undertaken by the Dutch Agricultural Research Institute, LEI Wageningen, developed three potential trade scenarios for the UK post Brexit. The scenarios are as follows:

- **Free Trade Agreement** between the UK and the EU. This would see zero tariffs between the UK and EU on all products with the exception of sheepmeat and similar tariffs to the EU in relation to non-EU country trade.
- **WTO default position.** This would see the European Union apply the current non-EU tariff rates to imports from the UK. In return the UK would apply similar tariffs to EU and non-EU imports.
- **UK trade liberalisation.** Under this scenario the European Union would apply the current non-EU tariff rates to imports from the UK. In return the UK would apply 50% of these tariff rates to EU and non-EU imports.

The report suggests that under the first two scenarios UK farmgate prices would increase due to a reduction in imports while the trade liberalisation scenario would see significant pressure placed on UK livestock prices in particular due to a significant increase in import levels.

The impact on UK imports relative to projected levels for 2025 under a 'business as usual' approach for each scenario is highlighted below.

Potential change in UK imports under various trade scenarios by 2025



Source: LEI Wageningen/National Farmers Union

- **Border controls**

The withdrawal of the UK from the EU would effectively mean that the Republic of Ireland's border with Northern Ireland is by definition an external EU border which would lead to increased regulatory requirements and costs as well as a physical border between both parts of the island. This would also lead to a rise in travel costs between the UK and Ireland and therefore increase the transport costs of goods and services between the two markets.

In terms of food and drink trade over €525 million worth of Irish food and drink was exported to Northern Ireland last year with imports to the Republic of Ireland reaching €428 million. In terms of live animals over 1,000 bovines and 10,000 pigs are exported live to Northern Ireland each week with around 5,000 lambs per week imported into the Republic of Ireland each week.

- **Exit within the UK?**

The referendum result showed a stark divide between regions in the UK with Wales and England voting leave and Scotland and Northern Ireland voting in. Scotland and Northern Ireland have been very vocal about their discontent at being removed from the EU against their will. Following the leave result Nicola Sturgeon, Scotland's First Minister announced that a second referendum on Scottish independence was 'highly likely'. This would lead to further significant uncertainties – economically, politically, for international influence, and of course for specific sectors like agriculture.

- **Processing locations**

A number of Irish food and drink companies have processing facilities in Northern Ireland and parts of Britain. Particularly in relation to Northern Ireland there tends to be close synergies between operations in ROI on a day to day basis in terms of further processing, final packaging etc. Any restrictions on access or new border controls could significantly impact on the potential for such synergies to remain in place.

- **Food Security and sustainability issues**

The issue of food security and sustainability has also been raised in a recent briefing paper by Professor Tim Lang and Dr. Victoria Schoen for the Food Research Collaboration. The paper highlights the fact that the EU's role in environmental policy has been quite positive and Brexit could create gaps in environmental policy and lead to a prolonged period of uncertainty with environmental consequences.