Brexit – The challenge for Irish agri-food

In this article, Paul Kelly, Director of Food Drink Ireland, looks at the challenges and risks for the Irish agri-food sector following Brexit and how we can mitigate these risks.

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Introduction

The UK vote to leave the EU is the largest and most immediate challenge facing the Irish agri-food sector. The UK is our largest trading partner for food and drink. Irish exports to the UK were €4.5bn (35% of total exports) in 2017 and UK exports to Ireland were £3.4bn in 2016. The export exposure of the main sectors was as follows:

- 51% of beef exports
- 56% of pigmeat exports
- 79% of poultry exports
- 24% of all dairy exports (but 50% of cheese exports)
- 62% of prepared consumer foods exports
- 26% of beverage exports

Whilst the outcome of exit negotiations between the EU and UK will potentially have a huge impact on our trading relationship with the UK, the sector already faces one major challenge – a large and rapid weakening of sterling over the last 18/24 months. The current change in currency value is structural not cyclical and there have also been many fundamental changes to the economic and business environment domestically and in the UK, which make this very different to previous sterling weaknesses. These include:

- Limited capacity for Irish exporters to drive further efficiencies in their businesses.
- Impact on supply chain policies of UK retailers and food services sector on food and drink companies.
- Market renationalisation – domestic sourcing policies growing across Europe.
- Much more competitive retail food sector in the UK – hard discounters have doubled market share to over 10%.
- Complication of operations and administration for all island food and drink businesses.

A structural shift in exchange rate relationship, combined with Brexit related trade risks means that UK buyers are planning significant supply chain restructuring - the real threat is a loss of confidence in Ireland as a competitive supply base resulting in loss of markets and exports.

There are two areas in particular where Irish companies are at a significant competitive disadvantage to their UK counterparts – labour costs and capital costs. Past research has shown these are also the major costs items for manufacturing business. As a result, Ireland already has significant cost disadvantages from both an Opex and Capex point of view for food and drink companies when compared with the UK.

The market impact will be felt not just in the potential for reduced exports to the UK, but it will cause damage domestically where imports (and cross border trading) will displace indigenous products and in other export markets where UK food exports are competing with Irish exports - continental European and international markets.

The exit negotiations between the EU and the UK will also have major implications for our trading relationship with the UK. The main objective must be to maintain full unfettered access to the UK market. In addition, UK access to the EU single market is much preferable to UK bi-lateral agreements with third countries. The retention of free access to, and maintenance of, the value of the UK market, is of critical importance. In practical terms, the reasons why are clear:

- Food and drink products will face the threat of customs AND regulatory checks at borders.
- Copenhagen Economics has estimated a 14% increase in trade costs in a Free Trade Agreement scenario due to customs impact and regulatory divergence. The European meat association, UECBV, have estimated the combined cost of veterinary checks / port clearance for exporters to the EU from third countries at over €625 per meat consignment.
- 850,000 trucks travel by ferry between Ireland and Britain (45% are perishable food and drink).
- Most of Ireland's €4.1 billion food and drink exports to EU-26 use the UK land-bridge. In the case of Irish meat exports, the figure is 90%. For fresh food and drink produce, the shortest crossing is business critical. Ireland to Calais by land-bridge is a journey time of 10.5 hours. Ireland to Cherbourg by sea is a journey time of 20 hours.

However, given the UK's stated determination to leave the Single Market and Customs Union, this will require a comprehensive Free Trade Agreement (FTA) between the EU and UK, avoiding tariffs, TRQs and regulatory divergence. Key issues for the future trading relationship are:

- Avoidance of 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

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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.
- Common legal recognition and technical application in both Ireland and Northern Ireland of the three All-island Spirits Geographic Indications for Irish whiskey, Irish Cream and Poitin.
- 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 UK should also remain part of the European Common Transit System to ensure smooth transit of goods to, from and through the UK - to prevent border delays by suspending the payment of import duties and other charges (e.g. VAT) until the vehicle arrives at the final office of destination in the EU (or UK) in return for a guarantee.

In the short term however, the Government's objective must be to put in place mitigating measures to help companies manage their businesses through the on-going uncertainty caused by the currency shift and the exit negotiations. The focus must be on maintaining markets in the UK, developing other markets as well as ensuring that in the domestic market, companies remain competitive against imports and the threat of cross-border shopping.

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 is to mitigate these risks. It is imperative 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 the provision of 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.