Presentation to ECON Commission of European Committee of the Regions

Brussels, 14th February 2019

Madame chairperson, honourable members, Profession Dehousse, it is a great pleasure for me to be invited to participate in this afternoon's debate on Brexit. I am very conscious that today's debate comes just about six weeks before the UK is due to leave the EU and I know that this is an issue in which the CoR and this commission in particular has invested a lot of time and effort.

Of course, you are far from being alone in your concerns about the impact that Brexit will have on the EU27. I would suggest that nowhere is that concern felt more deeply than in the 'country I know best'.

Despite the fact that it is only 43 days until the UK leaves, we still don't know the circumstances under which the UK will depart and, in particular, whether they will do so on the basis of a negotiated and ratified Withdrawal Agreement or whether they will do so in a no-deal scenario.

Despite last November's Withdrawal Agreement, we are now in a situation where the one thing we doshare is an ambition to avoid a no-deal scenario.

However, for that ambition to be achieved, we need urgently for the UK Government to clarify its intentions as to its next steps.

The European Commission has been working for some time now on preparations for all outcomes, including a no-deal scenario.

At the time that the UK leaves the Union, all Union primary and secondary law will cease to apply to the United Kingdom and the UK will then become a third country.

The Commission has published in excess of 80 Brexit preparedness notices, which aim at preparing citizens and stakeholders for the withdrawal of the United Kingdom, set out the consequences in a wide range of policy areas.

In addition, a number of EU decentralised agencies have published information in relation to the UK's withdrawal from the EU, for example the Community Plant Variety Office, the European Chemicals Agency, the European Medicines Agency and the European Union Intellectual Property Office.

Furthermore, the three European Supervisory Authorities (the European Banking Authority, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority) and the Single Supervisory Mechanism have issued opinions and guidance.

Reflecting the increased risk that the UK may leave without a deal, the Commission has adopted a series of legislative measures and proposals, which are temporary in nature, limited in scope and will be adopted unilaterally by the EU. These include contingency proposals for EU fisheries as well as in the area of the Erasmus+ programme, social security coordination and the EU budget.

With specific reference to Ireland, the European Commission's Communication of 13 November acknowledges that *"the withdrawal of the United Kingdom from the EU will impact all Member States to varying degrees, but none more so than Ireland."*

It goes on to confirm that *"the Commission will support Ireland in finding solutions addressing the specific challenges of Irish businesses."*

Referring directly to my Commissioner's area of responsibility, the Communication notes that *"for agriculture, EU law provides a variety of instruments to cope with the most immediate effects of the withdrawal of the United Kingdom, in particular in a no-deal scenario."*

Of course, the Commission has also committed itself *"to ensuring the continuation of the current PEACE and INTERREG programmes between the border counties of Ireland and Northern Ireland, to which the United Kingdom is a partner."*

In the course of this presentation, I want to look at the possible impact on Ireland and, in particular, on the Irish agri-food sector. I will also give you a picture of the possible impact on the wider EU agri-food sector.

The sector is Ireland's largest indigenous industry. As well as contributing significantly to the national economy, it acts also as a primary driver of the regional economy. The sector accounts for about 8 per cent of total employment, with primary production accounting for 5 per cent of total employment nationally.

Moreover, the industry is heavily export-focused, exporting almost 90 per cent of what it produces.

In terms of the dependence of the Irish agri-food sector on the UK market, the following statistics from 2017 speak for themselves

- 48 per cent of beef exports (€1.163 billion)
- 56 per cent of pigmeat exports (€445 million)
- 50 per cent of cheese exports (€410 million)

- 25 per cent of butter exports (€236 million)
- 80 per cent of poultry exports (€220 million).

In 2017, Irish exports of agricultural products accounted for 11.1 per cent of total merchandising exports. The UK is Ireland's largest trading partner with nearly 40 per cent of agri-food sector goods and 62 per cent of Prepared Consumer Food products destined for UK markets. Having said that, there has been some diversification away from the UK market over the past decade.

While no other MS has such an exposure, it is worth noting that there are a number of other MS still with a significant exposure to the UK market. These include Cyprus (around 25 per cent of export value) and the Netherlands, France, Spain, Poland, Denmark, Italy and Belgium, all of which have an 8 or 9 per cent share of their exports going to the UK.

The Irish Minister for Agriculture, Food and the Marine recently estimated that, if the UK imposes the EU's current external tariff regime under WTO on Irish agri-food exports, the additional cost of those tariffs could be in the region of €1.7 billion.

Because of their exposure to the UK market and the potentially high tariff levels, the beef, dairy, pigmeat and fruit and vegetable sectors will be most affected across the EU. It is estimated that the average tariff rate on beef would be in the region of 58 per cent, 41 per cent for poultry meat, 48 per cent for cheese and 22 per cent for pigmeat.

However, what is less appreciated is that Ireland is also the UK's largest agri-food destination and its 5th largest export destination worldwide. In fact, the UK exports more to Ireland than it does to China, Switzerland, Italy, Belgium or Spain.

It is also worthwhile reflecting on the trading interdependence between Ireland and Northern Ireland.

In 2016, of the total value of Northern Ireland's exports of goods and services (outside the rest of the UK), 34 per cent were to Ireland, making Ireland Northern Ireland's largest export market. However, according to the Irish Central Statistics Office, only 1.4 per cent of Irish goods were exported to Northern Ireland in 2016, while just 1.5 per cent of Ireland's goods imports came from Northern Ireland.

Food and live animals made up 41 per cent of all Northern Ireland's goods imports from Ireland, while 28 per cent of Northern Ireland's total goods imports were from Ireland. Food and live animals account for 33 per cent of all Northern Ireland's good exports to Ireland (double that of any other sector), while 32 per cent of Northern Ireland's good exports were to Ireland.

I hope that these figures will illustrate the importance of Ireland as a market for the economy of Northern Ireland and the potential consequences for that economy of a no-deal/hard Brexit.

In terms of the impact of a hard Brexit on farm incomes, the Irish Agriculture and Food Development Authority, Teagasc, have done some useful work on the basis of what they describe as a policy shock and a price shock. According to their analysis, family farm incomes in the dairy, sheep and tillage sectors could fall by around 20 per cent and in the cattle-rearing sector by up to 40 per cent.

To put this is some perspective, the average beef farm income in Ireland is €15 000, so a loss of 40 per cent reduces that to just €9 000 per farm per annum. There are approx. 75 000 such farms, so the potential aggregate loss of income in the Irish beef sector is in the region of €450 million

In a recent speech to the Irish Farmers' Association, the Irish Taoiseach confirmed that, in the event of a no-deal Brexit, the Irish government will seek emergency aid from the European Union, the purpose of which would be to help cope with the impact on Irish trade, particularly for the beef, dairy and fishing sectors.

He noted that the Common Market Organisation, an essential element of the Common Agricultural Policy, *"provides for exceptional mechanisms to be introduced in order to manage serious market disturbances."*

Mr Varadkar described Brexit as *"the greatest challenge of our time"* and, quoting the poet Maya Angelou, said that *"while hoping for the best, we must be prepared for the worst, and unsurprised by anything in between."*

Because of the volume and type of agri-food products traded with the UK, the impact of a no-deal Brexit will not be evenly spread. Instead, it will be concentrated on farmers in certain sectors in those MS with significant trade with the UK.

Given the high degree of integration of EU markets, the impact can, however, be expected to spread to other sectors.

To give you some idea of the volume of trade that we are talking about, the EU currently exports €41 billion to the UK and imports only €16 billion, providing a trade surplus of €25 billion in favour of the EU27. The EU's trade exports to the UK are more than those to the US, China, Russia and Japan combined.

On average, 73 per cent of the UK's agri-food imports come from the EU27 – of which 14 per cent comes from the Netherlands, 11 per cent from Denmark and 10 per cent each from France and Ireland. In terms of particular products, almost 100 per cent of the UK's dairy product imports come from the EU27, while the figure for prepared consumer foods is almost 90 per cent.

In 2017, meat and meat preparations were the second largest import category of UK imports from Ireland, accounting for €1.6 billion or over 10 per cent of all goods imported from Ireland.

In terms of what the EU could do in the event of severe market disturbance, there are market measures available, as I mentioned earlier, under the CMO, which have been used in the past, notably in response to the Russian ban and the subsequent crises in the dairy and pigmeat sectors. These measures are there to provide a 'safety net' for farmers in the event of serious market disturbance and include such measures as public intervention and aid to private storage.

In the case of the former, the EU enters the market as a trader and buys product off the market before selling it back to the market when conditions allow. Just last month, the European Commission effectively sold the last of the 380 000 tonnes of skimmed milk powder which it bought between 2016 and 2018. The purchase of this product stabilised the market at a time when prices were falling and the Commission then sold it back to the market in a prudential way that ensured that it did not have a negative impact on the price and therefore on farmers' incomes.

The full consequences of Brexit are as yet something of an unknown quantity and there are any number of scenarios that one could consider and, depending on which, the consequences could differ quite significantly.

What one can say with certainty is that there is little or no good news associated with Brexit and certainly not for the agri-food sector in Europe and particularly for Ireland.

My presentation was designed to give you a flavour of the potential impact on the agri-food sector and, in particular, on the Irish agri-food sector. I’m sure that you will have questions and observations arising from our presentations and I look forward to engaging with you.

Thank you.