An Analysis of the Effects of Brexit on Agriculture in Ireland

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Abstract

This project is intended to explore the possible effects of Brexit on agriculture on the island of Ireland. It examines the economic effects of the cessation of free movement of agricultural goods between Ireland and the UK, including how farmers may be affected if Britain leaves the EU without a trade deal.

Introduction

Brexit

In June 2016, the UK voted to leave the European Union by margin of 3.78%. This sparked a long series of negotiations between the EU and UK. After Theresa May's initial deal was rejected numerous times by MPs, Boris Johnston became Prime Minister and negotiated a new withdrawal agreement with the EU. This contained a new Northern Ireland Protocol which aims to keep Northern Ireland aligned to the EU single market, while remaining part of the customs territory of the UK.[1] [2] Johnston's agreement will involve a customs border in the Irish sea, rather than on the island of Ireland.

After the UK leaves the EU on 31st January 2020, trade deal negotiations will begin. If there is no agreement by 31st December 2020, the UK will leave the EU without a trade deal.[3]

The successful negotiation of a trade deal will be essential for many sectors and businesses in Ireland, and to avoid an increase in prices for consumers. In 2018, good and services exports from Ireland to the UK were worth £21.6 billion, while imports were worth £35.1 billion.[4] If the UK leaves the EU without a trade deal, trade will take place on World Trade Organization (WTO) terms[5], meaning significant tariffs on many goods and services.

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[1] https://ec.europa.eu/commission/sites/beta-political/files/revised_withdrawal_agreement_including_protocol_on_ireland_and_nothern_ireland.pdf

[2] https://www.theguardian.com/politics/2019/oct/17/how-is-boris-johnson-brexit-deal-different-from-theresa-may

[3] https://www.bbc.co.uk/news/uk-politics-46393399

[4] https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8173

[5] https://www.bbc.co.uk/news/uk-45112872

Agriculture

The agri-food sector accounted for 8.6% of employment in Ireland in 2016, a total of 173,400 jobs. In Northern Ireland the figure is 40,000 jobs (4.6%). A significant portion of the Brexit discussion has centred around agriculture and the free movement of agri-goods. A January 2018 report by the Irish Government noted that the Irish agri-food sector is particularly exposed to the negative effects of Brexit, given its strong ties to the UK market.[6]

Without a strong idea of the consequences Brexit may have on their livelihoods, many farmers are in the dark as to the steps to take regarding Brexit. If agri-trade with the UK, one of Ireland's main trading partners, is restricted, many jobs in the agricultural sector in Ireland, north and south, could be lost. It is also plausible that the uncertainty around Brexit is already causing a lack of investment in the agri-food sector and potentially stalling growth.

[6] https://www.agriculture.gov.ie/media/migration/publications/2018/BrexitFactsheetJan2018290118.pdf

Free Trade

Free trade is a trade policy that does not restrict imports or exports. Free trade policies promote unregulated access to markets and market information and an absence of policies that may cause distortion in trade, such as subsidies, taxes and regulations which give some firms an advantage over others.

The Corn Laws (1815-1846)

The Corn Laws were trade restrictions enforced by the UK in the first half of the nineteenth century. A protectionist policy, the corn laws kept food prices artificially high and benefitted powerful land owners.

Urban industrialists along with the Anti-Corn Law League advocated the abolition of the laws, which they feared would lead to demand for higher wages. The repeal of the Corn Laws was significant in that it marked a move away from protectionism and towards free trade policies. It is generally accepted today that the reduction of trade barriers has a positive effect on economic growth.

Figure 1 shows the effects of tariffs on consumer and producer surplus. When tariffs are imposed, the price increases from P_{world} to P_{tariff}. The quantity of imports decreases from Q_{C1} to Q_{C2} and the domestic producer's share increases from Q_{S1} to Q_{S2}. Overall, the producer surplus increases and the consumer surplus decreases, creating societal loss as a result of the tariff.

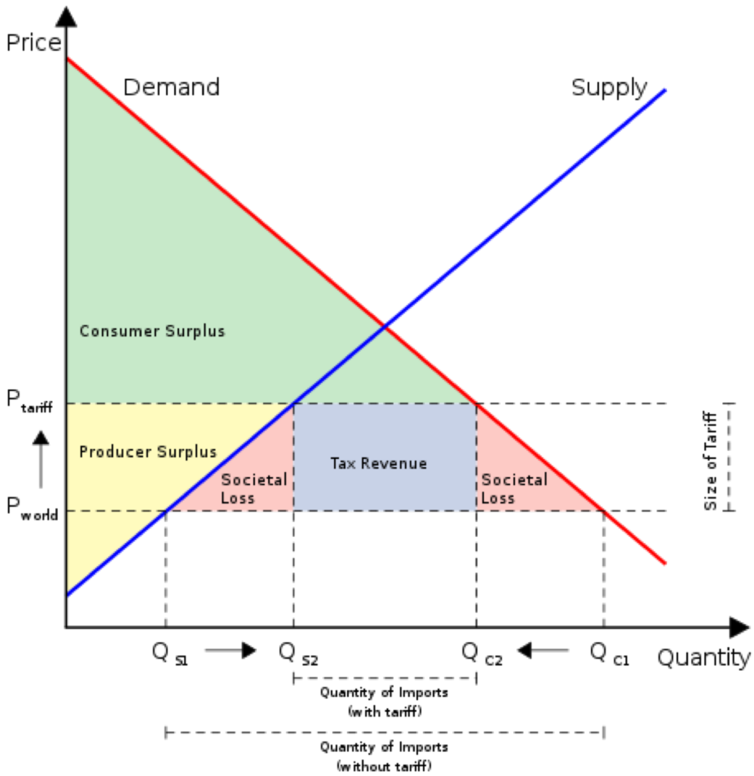

Figure 1: The effect of tariffs on consumer surplus

Comparative Advantage

Comparative Advantage refers to the ability of an economy to produce goods and services at a lower opportunity cost than that of trade partners. The theory of comparative advantage is grounded in the idea that everyone can mutually benefit from openness to trade and cooperation. International trade finds its foundation in these principles. The theory was developed by the classical economist David Ricardo (1772-1823), who demonstrated that by participation in the free market, two countries can increase their consumption by each specialising in the production of the good for which it has a comparative advantage.

By combining the law of supply and demand with the theory of comparative advantage, we can begin to see how free trade can benefit the economy. By reducing tariffs and restrictions, a country regains some of the opportunity cost of producing goods which can be imported at a lower cost, leading to lower prices for consumers. Specialisation in the production of the good for which the country has a comparative advantage can then take place.

Viewing these two economic principles against the context of the Corn Laws in the nineteenth century, one can also begin to speculate about the effects of Brexit on trade between the UK and its partners, namely agricultural trade. Is Brexit going to drag Britain back to the protectionism of the 1800's?

The European Single Market

The European Single Market was established in 1993 with the objectives of facilitating the freedom of movement of goods, services and labour within the EU, thereby allowing for more specialisation, larger economies of scale and improved efficiency as well as quality.

As a member of the single market, 46.45% of UK exports currently go to the EU (figure 2)[7]. The UK also imports goods worth 353 billion USD from the EU every year, making the UK the second largest EU export destination. We can draw from these figures the conclusion that the UK is a key member of the

Table 3: Main export destinations of EU27 and UK, total trade

EXPORTER: EU27			EXPORTER: UK		
IMPORTER	VALUE (USD mn)	% TOT EXPORTS	IMPORTER	VALUE (USD mn)	% TOT EXPORTS
EU27	2,789,746	54.49	**EU27**	**214,076**	**46.45**
UK	**353,170**	**6.9**	USA	52,038	11.29
USA	341,399	6.67	Switzerland	25,353	5.5
China	184,246	3.6	China	24,551	5.33
Switzerland	145,317	2.84	Un. Arab Emirates	12,066	2.62
Russia	116,929	2.28	Hong Kong	10,009	2.17
Turkey	86,429	1.69	Canada	7,805	1.69
Japan	67,452	1.32	Saudi Arabia	7,062	1.53
Rep. of Korea	53,041	1.04	Rep. of Korea	6,923	1.5
Norway	52,045	1.02	Japan	6,588	1.43

Figure 2: UK trade with the EU

[7] https://www.europarl.europa.eu/RegData/etudes/STUD/2017/602008/IPOL_STU(2017)602008_EN.pdf

EU single market and any cessation of current free trade flows between the UK and EU would be detrimental to the economies of both parties.

Brexit

The UK's withdrawal from the single market as a result of Brexit poses a number of challenges. The successful negotiation of a trade deal is essential to avoid tariffs and other restrictions being placed on goods, especially agri-food products.

As of 2016, exports of agri-food products from Ireland to Great Britain totalled €4.14 billion[8]. Imports from Great Britain were worth €3.2 billion. With the impending creation of a customs border in the Irish sea, Irish agri-food products entering Britain could be hit with significant tariffs, especially if the UK cannot negotiate a trade deal by 31st December 2020. In this no-deal scenario, imports of British agricultural produce into Ireland would also face high tariffs, increasing prices for consumers.

Regarding the prospect of a no-deal Brexit, the UK government published a paper in October 2019, stating that tariffs and quotas would be placed on "beef, lamb, poultry and some dairy"[9]. The government confirmed however, that tariffs would not apply to goods imported into Northern Ireland from Ireland. As we have seen however, a significant portion of trade takes place between Ireland and Great Britain.

UK tariffs in a 'no deal' scenario

Product	% of EU MFN duty to be applied
Beef	53%
Poultrymeat	60%
Sheepmeat	100%
Pigmeat	13%
Butter	32%
Cheddar-like cheese	13%
Other cheese	0%
Fish/seafood	Protected lines: existing EU MFN rate, all other lines 0%
Milled and semi-milled rice	83%

Figure 3: Tariffs on imports to UK in no-deal, March 2019

Figure 3, above, shows the tariffs the UK will place on goods in a no-deal scenario.[10] The data in the table shows that 100% of EU MFN tariffs would be placed on imports of sheep meat into the UK and, evidently, significant tariffs will also apply to beef, poultry

[8]https://www.agriculture.gov.ie/media/migration/publications/2018/BrexitFactsheetJan2018290118.pdf

[9]https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8518#fullreport

[10]https://iegvu.agribusinessintelligence.informa.com/CO225704/How-will-the-no-deal-import-tariffs-impact-key-UK-agrifood-markets

and butter. The application of tariffs to Irish agri-food products that previously had unfettered access to the UK market could leave a significant gap in the market for Irish farmers.

Dairy

As Ireland's largest exporter of food, the dairy industry is a huge part of agriculture in Ireland. Dairy exports to the UK in 2018 were worth €1.03 billion, a 6% growth on 2017 exports. 25% of all dairy exports go to the UK[11]. The free movement of dairy products across the Irish border is important, due to the significant amount of milk that enters Northern Ireland for processing. If Irish producers were to lose part of the UK market as a result of Brexit, they could face implications such as a collapse in prices due to an excess supply of milk. The UK government have indicated that in a no-deal scenario, tariffs would not apply to milk, but that tariffs would be placed on cheese and butter. Irish exports of these two products total €800 million and €1 billion per year respectively, accounting for almost a half of total dairy exports. The average tariff would be €623/tonnes for butter and €214/tonnes for cheese[12]. With the UK being a huge export destination for Irish dairy, and with a significant portion of exports being cheese and butter, the consequences of tariffs for Irish dairy farmers could be dire.

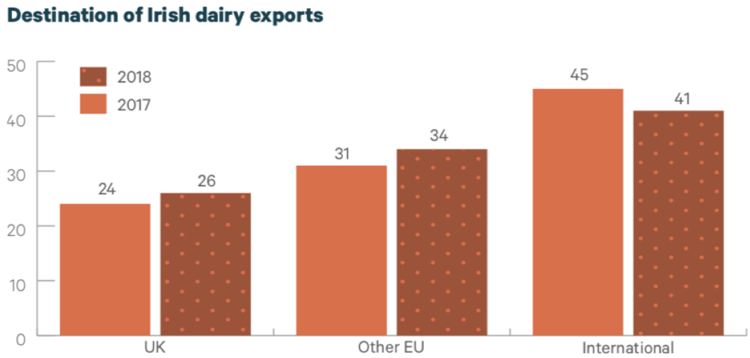

Figure 4: Source- Bord Bia

Beef and Sheepmeat

Beef and sheep farms make up about 70% of farms in Ireland[13] and both of these sectors of farming are hugely reliant on exports, with 90% of beef being exported and 60%

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[11] https://www.bordbia.ie/globalassets/performance--prospects-2018-2019/export-performance-prospects-2018-2019.pdf

[12] https://dairy.ahdb.org.uk/news/news-articles/october-2019/updates-to-no-deal-dairy-tariffs-announced/#.XluLjy2cau6

[13] https://www.irishtimes.com/business/economy/hard-brexit-could-drive-a-third-of-irish-farms-out-of-business-1.4020101

of sheepmeat.[14] [15] A Central Bank report in September 2019 said that tariffs on beef exports to the UK could amount to 50% of the current export price in a no-deal Brexit. The report also warned that a third of Irish farms could go out of business in a no-deal scenario, with the west, midwest and midlands the worst affected due to their reliance on beef farming.[16]

Some of the highest tariffs on agricultural goods will be applicable to sheepmeat if the UK does not secure a trade deal with the EU. A total of 15 tariff lines will be applicable to sheepmeat and lamb, with a trade weighted average of just under 50%[17]. The UK represents 17.5% of the sheepmeat export market for Irish farmers. Sheep farming is one of the least profitable farming sectors, with the average income of Irish sheep farms in 2018 totalling €13,769[18]. The significant tariffs on sheepmeat in the event of a no-deal would almost certainly reduce the size of the export market and possibly put many Irish sheep farmers out of business.

Poultry

In 2019 76% of poultry exports from Ireland went to the UK.[19] Given the announced tariffs in the case of no trade deal, it has been estimated that the average tariff on poultry meat imports to the UK would be 21%[20]. The UK did announce, however, that it would allow some beef and poultry imports tariff free by way of tariff-rate quotas(TRQs). Despite this, the Irish poultry sector is heavily reliant on the UK market and will no doubt take a hit in the case of any sort of tariffs, deal or no-deal.

In 2017, the managing director of Manor Farm suggested that Brexit might benefit Irish poultry producers, as 43% of chicken is imported, much of which comes from the

[14] https://www.globalmeatnews.com/Article/2019/01/15/No-deal-Brexit-to-undermine-Irish-beef-exports

[15] https://www.enterprise-ireland.com/en/Start-a-Business-in-Ireland/Food-Investment-from-Outside-Ireland/Key-Sectors/Meat-and-Livestock/

[16] https://www.irishtimes.com/business/economy/hard-brexit-could-drive-a-third-of-irish-farms-out-of-business-1.4020101

[17] https://www.teagasc.ie/media/website/rural-economy/Kevin-Hanrahan-paper.pdf

[18] https://www.rte.ie/news/connacht/2019/0530/1052631-farm-incomes-teagasc/

[19] https://www.bordbia.ie/globalassets/performance--prospects-2018-2019/export-performance-prospects-2018-2019.pdf

[20] https://www.teagasc.ie/media/website/publications/2019/p38_BrexitArticle_Web.pdf

Netherlands across the UK. Border checks on goods entering the UK will cause delays and make the Irish domestic market more reliant on Irish chicken.[21] It could therefore be the case that Irish poultry will be one of the least affected sectors of Irish agriculture after the UK leaves the EU customs union and single market.

Pigmeat

Ireland consumes over 50% of the pigmeat produced in the country.[19] This makes the pigmeat industry less reliant on exports than other agri-food sectors such as beef and sheepmeat, however the export market is still hugely significant for Irish pork farmers. In 2017 Irish pigmeat exports to the UK were worth €400 million, representing over half of all pigmeat exports from Ireland.

According to the UK government, tariffs on pigmeat imports will only be 13% of the EU MFN rate in the case of a no-deal (see Figure 3). Therefore, tariffs will only equate to around 4-5% of the price of pigmeat imports.[22] Irish pigmeat will clearly not be as heavily affected by tariffs as other sectors, but with 56% of pigmeat exports going to the UK, as well as 99% of live exports,[19] Brexit will still pose a challenge to Irish pig farmers in the near-future.

Agriculture in Northern Ireland

It is believed by many that the agri-food sector in Northern Ireland will not be as greatly affected by Brexit as agriculture in the Republic. As a result of Boris Johnson's deal agreed in October 2019, Northern Ireland will remain part of the UK customs territory post-Brexit, but will continue to follow EU rules on agricultural and manufactured goods.[23] This is intended to prevent a customs border on the island of Ireland. As well as being aligned with the EU customs union, Northern Ireland will also receive the benefits of any trade deal the UK negotiates with a third country.[24] In the event of the UK negotiating a new trade deal with a country outside of the EU, the market for Northern Irish agri-food produce would expand beyond its current size. However, new trade deals

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[21] https://www.farmersjournal.ie/brexit-is-good-news-for-irish-poultry-328890

[22] http://www.npa-uk.org.uk/What_the_Governments_no_deal_tariff_regime_means_for_the_pig_sector.html

[23] https://www.bbc.co.uk/news/uk-northern-ireland-51271807

[24] https://ec.europa.eu/commission/sites/beta-political/files/revised_withdrawal_agreement_including_protocol_on_ireland_and_nothern_ireland.pdf

could also open up the Northern Irish market to cheaper agri-food products from around the world, which would disadvantage NI farmers compared to their counterparts in the ROI.

As of 2018, agri-food exports from Northern Ireland to the Republic totalled €535 million.[25] This cross-border trade is set to continue as Northern Ireland's access to the EU single market will remain uninterrupted post-Brexit.

CAP Payments

One of the disadvantages that NI farmers may face is the cessation of EU Common Agricultural Policy(CAP) farm payments, which will continue for farmers in the Republic. There may be an overhaul of the farm payment system in the UK, with NI Minister of Agriculture Edwin Poots supporting a productivity-based payment scheme, rather than the current area-based one.[26] In 2019 farmers in Northern Ireland received CAP payments worth a total of £281 million.[27] A shift to a productivity-based system of farm payments could therefore significantly affect the 23,000 farm businesses in Northern Ireland that receive EU farm payments. The NI Department of Agriculture, Environment and Rural Affairs says that CAP payments have a "very significant influence on the viability of the [farming] industry" in Northern Ireland.

If the farm payment system were changed to one based on productivity, the natural danger is that this would lead to an increase in the use of intensive farming methods and have a negative impact on small family farms. Intensive livestock farming accounts for 12.8% of the agriculture sector in Northern Ireland.[28] In 2017 agriculture accounted for 27% of carbon emissions in Northern Ireland.[29] As the intensive farming methods are linked to increased carbon emissions, especially intensive livestock farming, an increase in these farming methods could overall increase Northern Ireland's carbon emissions. The current CAP system incorporates rural development objectives, which include promoting

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[25] https://www.agriculture.gov.ie/media/migration/publications/2018/BrexitFactsheetJan2018290118.pdf

[26] https://sluggerotoole.com/2020/01/28/ed-poots-on-his-priorities-in-agriculture-and-environment/

[27] https://www.irishtimes.com/business/agribusiness-and-food/cap-payment-to-north-s-farmers-may-be-last-1.4106097

[28] https://www.daera-ni.gov.uk/sites/default/files/publications/daera/stats-review-2018-final.pdf

[29] https://www.daera-ni.gov.uk/sites/default/files/publications/daera/ghg-inventory-statistical-bulletin-2017.pdf

sustainable management of natural resources, restoring and enhancing ecosystems related to agriculture and forestry and advancing climate action.

Global Goal 13 calls for climate action and for countries to move to low-carbon economies (see Global Goals[30]). An increase in carbon emissions as a result of intensive farming would contribute to climate change and create more barriers to achieving the goals set out in the Paris Agreement.

Notwithstanding the impact intensive farming has on carbon emissions, it causes many other externalities, such as a decrease in biodiversity and deforestation. Ultimately, the costs incurred by these externalities may outweigh the perceived benefit of saving money by changing the current area-based farm payment scheme to one based on productivity. Moreover, the environmental impact of intensive farming creates challenges with regards to Global Goal 15, which aims to protect biodiversity and ecosystems.

The Future of Farming: North vs South

In light of the problems presented here that farmers will face as a result of Brexit, one may happen to conclude that farmers in the Republic will end up better off than farmers in the North. Remaining members of the EU, they will continue to receive CAP payments, and a closer relationship with the other countries in the EU may allow Ireland to negotiate future trade flows in a way that softens the impact of Brexit on Irish farmers. Such an objective might be achieved in asking the EU to absorb some of the agricultural produce that would normally have gone to the GB market.

For Northern farmers, we have seen that it is likely that a replacement of the CAP payment scheme with one that ultimately reduces farm payments would be detrimental to the agricultural sector. With the majority of farmers in the North relying on EU payments for at least 60% of their farm income[31], we could be faced with a dramatic transformation of the rural landscape in the future, possibly including the disappearance of many small family farm businesses.

There also exists a fear that potential trade deals between the UK and the US or Australia would result in an influx of cheaper food, against which Northern farmers

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[30] https://www.un.org/sustainabledevelopment/climate-change/

[31] https://www.irishtimes.com/business/agribusiness-and-food/northern-farmers-ask-johnson-for-300m-to-replace-cap-payments-1.4157937

would not be able to compete. The future of agricultural trade between Northern Ireland and Great Britain is also still in doubt, as many goods could face customs checks and regulations.

Despite the possibility that the EU will mitigate the effects of Brexit on farmers in the Republic by agreeing to buy more of their produce, it is without a doubt that the agriculture sector in Ireland will be significantly affected by the cessation of unfettered access to the GB market.

Global Goal 11 intends to promote sustainable cities and communities. The economic effects of Brexit on the agricultural sector in the North and the South could make it unsustainable for many to live in rural communities, forcing people to move to larger cities and towns. This could have knock-on effects, such as worsening Ireland's current housing crisis.

Conclusion

From the information that we have gathered, it is not unreasonable to conclude that farmers north and south of the border have every right to fear the impact that Brexit will have on their industry. In addition to this, politicians ought to heed the warnings from farming representatives that Brexit will have a devastating effect on many farmers. Without a clear strategy from politicians on how they will negotiate the Brexit trade deal so that it does not adversely affect farmers, farmers remain in the dark regarding the future feasibility of the farming sector in Ireland. It is highly likely that the trade deal reached between the UK and EU will change the farming landscape in Ireland, which could include a radical shift away from sectors that are heavily reliant on the GB market. In the North, it is evident that the future of small family farms is at risk and we could see an increase in large-scale intensive farming.

Notwithstanding the direct impact that Brexit will have on the farming sector, it will also have far-reaching effects on communities. We cannot underestimate the social capital created by the farming industry, especially smallholding, through agricultural cooperatives, community projects and local institutions. The disappearance of farming would mean the disappearance of many of the things that hold small communities together.

The best sort of trade deal that farmers in the Republic can hope for is one that provides the lowest tariffs on agricultural goods. A no-deal would undoubtedly be a disaster for farmers in the South. Farmers in the North must hope that there will be a replacement to the CAP payment system that does not reduce their payments. In addition to this, future trade deals between the UK and third countries may benefit northern farmers and enlarge their market. Until such a thing happens, they will have to wait, and possibly have to bear the effects of a trade barrier in the Irish sea.

At the time of writing this, when trade talks are just set to begin, the EU and UK have 10 months to negotiate a trade deal. In the long term, Brexit may offer some opportunities to farmers in Northern Ireland, but they can still expect to be significantly unsettled by the major transformation of the landscape that Brexit will immediately bring about.