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The impact of Brexit on the Irish agrifood sector

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For many Irish farmers, 29 March 2019 is marked with a red circle: that's the agreed date of Brexit, when the UK will officially be a former EU member. In March 2018, the UK and the EU agreed on a final timeline: negotiations will end by 31 October 2018; respective parliaments will then have five months to vote on the agreement terms. On 29 March 2019 a transition period will begin, ending on 31 December 2020.

It's a slow pace - which is suited to complex divorces like this - but it's moving forward nonetheless. And although no one knows yet what type of trade agreement will come out of

A worrisome picture

In fact, it's an easy prediction to make. The consequences of post-Brexit protectionism on single EU members will depend on their trade volume with the UK. Not all sectors will be affected equally, though. When free trade is lifted, food tends to be the most protected, especially processed food, meat and dairy.

Ireland and its agri-food sector tick all the boxes, like in a vicious circle of nested dolls: it has a high trade volume with the UK, especially in food, particularly in meat and dairy.

According to a report (page 12) commissioned by the Irish government to Copenhagen Economics, Ireland exports 14% of goods and 17% of services to the UK, ranking second in the EU after Cyprus. For larger economies like Germany and France, that percentage is about 8-9%.

If we focus on the agri-food sector, values get higher: on average 41% of Irish exported food goes to the UK. That's the average of different market segments. For some of them, values skyrocket: 90% of exported fruits and vegetables, 52% of meat and 30% of dairy end up in the UK, according to Bord Bia (page 2).

The predictions

Exactly how bad will Brexit be for Ireland and its agribusiness? This will mostly depend on the outcome of these last five months of negotiations.

The report by Copenhagen Economics did a simulation with four possible scenarios. In the most favourable one, trade between the EU and the UK will be in line with the European Economic Area, a free trade zone between the EU and the European Free Trade Association (EFTA) including Iceland, Liechtenstein, Norway and Switzerland. In the worst possible scenario (in case the EU and the UK won't reach any agreement), WTO rules will apply, with Most Favoured Nation (MFN) Tariffs.

For Ireland, the same study estimates 20,000 job losses across the board in the WTO scenario, 12,400 of them from the agri-food sector. That number is reduced by 50% in an EEA scenario.

Tariffs, however, are not the only issue. Other factors contribute to this worrisome picture.

Difference in regulations. This is the single most important factor. Once it's out of EU's legislative framework, the UK will be free to change laws on food labelling, food safety and inspections. Lack of uniformity will be an added cost for foreign companies.

UK Landbridge. For Irish exporters, the UK is not only a market, but also the most important terrestrial link with the rest of Europe. Today, an estimated 53% of Irish goods transit through the UK to have access to other countries. A less free circulation may pose restrictions to that.

Exchange rate. The effects (page 17) of Brexit on the €/£ exchange rate can already be felt now. The British Pound has increased its value by 10% since the June 2016 referendum. For Irish exporters, that means earning 9-10% less, even before any tariff is in place.

Imports. Although there's a lot of talk (page 16) about the impact of Brexit on Irish exports, the country is even more dependent on the UK for imports. On average, 52% of Irish imported food comes from the UK. Beef and dairy account for 73% and 61% respectively. Again, future regulatory difference will be an important factor in determining the impact.

Ireland and the UK always had very tight commercial relationships. In fact, it couldn't have been any different. They have too many things in common: language, tastes, climate, and a border. Although commercial exchanges won't stop with Brexit, that comfortable closeness may turn into a trap for Ireland's smaller economy.

In the months to come, there are a few things governments and the industry can do to help Irish agri-food business survive and thrive in the post-Brexit era.

The role of EU and Irish governments is to negotiate the best possible deal. An important part of it, will be to solve the issue of the Northern Irish border, avoiding social instability.

The industry in the meantime, will have to start looking somewhere else, exploring new markets, products, tastes, languages, and get used to covering longer distances. There are other non-EU markets – much bigger than the UK - that could turn into a greater opportunity for Ireland: Australia, New Zealand, North America and Mercosur.

The goal here is two-fold: to take advantage of the market space freed up by UK products, and to pursue new opportunities more decisively.

Something is already moving in that direction. Tine, the largest dairy producer in Norway, formed a partnership with Irish dairy cooperative Dairygold. The purpose is to build a new plant near Cork to produce Jarslberg (a popular Norwegian cheese) for other markets.

It's a strategy that makes a lot of sense, although experts warn against excessive optimism. The global market is not a zero-sum game: Ireland will start exporting more food to other countries, but that won't necessarily compensate completely for the losses in the UK market.

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