Implications of British exit from the EU for the Irish agri-food sector

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Abstract

Whether the UK should hold a referendum on continued membership of the European Union (EU) is one of the issues in its general election to be held in May 2015. A possible British withdrawal, or Brexit, would have profound implications for Ireland and particularly for its agri-food sector, given the extensive trade links between the two economies and the role played by the EU's Common Agricultural Policy. This paper examines the consequences of a possible Brexit for the Irish agri-food sector. Much would depend on the nature of the trade arrangements that would be put in place between the UK and the EU following Brexit, and the paper contains an extensive discussion of the various options. The paper concludes that Brexit would be unambiguously negative from the perspective of both Irish producers and consumers, and recommends various ways in which the inevitable disruption might be minimised.

JEL codes: F15, Q17

Keywords: Brexit, Ireland, UK withdrawal, agri-food sector, EU single market

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[1] This paper is an extended version of a submission presented to the Joint Oireachtas Committee on European Union Affairs investigation of the consequences for Ireland of a British withdrawal from the EU on 17 February 2015.

1. Background to the issue

Next month, on 7 May, the British general election takes place. The outcome of this election will influence the likelihood of Brexit, namely, British withdrawal from the EU. David Cameron, the UK Prime Minister, has promised to hold a referendum on UK membership of the EU in 2017 if the Conservatives are returned to power. The Labour and Liberal Democratic parties would hold a referendum only if a further transfer of sovereignty from the UK to the EU is proposed as a result of major treaty change, as already provided for in the UK European Union Act 2011.

If re-elected, Cameron wants to try to renegotiate some of the terms of the UK's EU membership. His preferred outcome is to secure a sufficiently satisfactory outcome, a 'new settlement', which may or may not include treaty changes, which would allow him to recommend that the UK stays in the EU. Cameron's much-delayed Europe speech on 23 January 2013 made a powerful case for staying in Europe, if the UK's terms could be met.[2] However, it is not clear that the other EU members are in the mood to concede to Cameron's demands.[3] Furthermore, even if Cameron did recommend staying in following agreement on a substantial package of reforms with other EU leaders, there is no guarantee that the British public would support him. Opinion poll evidence suggests that British public opinion is evenly divided on whether to leave or stay in, although much would depend on the terms of a renegotiated deal, if any.

Even if the decision to leave the EU were taken in a referendum before the end of 2017, there would be a further period during which the UK and the EU would try to formalise their new relationships. The procedures for leaving the EU were first set out in the Treaty on European Union, whose Article 50 provides, inter alia:

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[2] The full text of Cameron's speech is available at this link: http://www.theguardian.com/politics/2013/jan/23/david-cameron-eu-speech-referendum.

[3] In January 2015 Commission President Juncker apparently gave the clearest hint yet that he would be prepared to see the UK leave the EU, comparing the UK's 42-year membership of the bloc to a romance gone wrong, See "EU and UK caught in bad romance, Juncker warns", EUObserver, 19 January 2015, https://euobserver.com/news/127253, accessed 3 February 2015.

> The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.

So the UK first has to notify the EU of its intention to withdraw and it then has two years in which to negotiate a withdrawal agreement, although this period could be extended by the unanimous agreement of the European Council. Because the withdrawal agreement would cover areas that are both exclusive EU and mixed EU and member state competence, the agreement would then have to be ratified by the national parliaments of all other 27 member states. Even if neither the UK nor the EU will want to prolong the period of uncertainty, an optimistic scenario would be that a UK withdrawal, in the event of a UK referendum outcome in favour, could take place not before 2020. As there would be advantages in synchronising the timing with the end of the EU's budget year, this points to a withdrawal date of 31 December 2020. However, there is no precedent for such a negotiation on a member state leaving, so how easy it will be to reach an agreement within this time period remains to be seen.

Thus, there remains a lot of uncertainty over whether a referendum will be held, the UK membership terms on offer in that referendum, whether a referendum would be approved or not, and how long it might take before an exit took effect if a referendum on withdrawal were passed.

Despite significant re-orientation of Irish external trade in recent decades, trade with the UK remains important. In 2013, 16% of Irish exports were destined for the UK and 32% of Irish imports were sourced from the UK (CSO Statbank). However, the importance of the UK as a trading partner for the Irish agri-food sector is much greater. In 2013, Irish agri-food exports (excluding fish) to the UK amounted to €3.2 billion (out of total merchandise exports to the UK valued at €13.7 billion) and accounted for 51% of its total agri-food exports. Similarly, Irish imports of food and agricultural produce from the UK amounted to €2.6 billion (out of total UK merchandise imports of €16.2 billion), or 51% of total agri-food imports. Thus, the

Irish agri-food sector is much more dependent on the UK as a trading partner than is Irish industry in general.

Indeed, the Irish agri-food sector is much more linked to the UK than is the case for the rest of the EU. For the UK, the EU accounts for 62% of UK exports and 70% of UK imports of agri-food products (Eurostat 2013 figures). However, the UK takes just 8% of the agri-food exports of other EU member states while it supplies just over 3% of their imports, which are much smaller figures than those for Ireland. On these figures alone, the Irish agri-food sector stands to be affected much more than the agri-food sectors of other member states if Brexit were to become a reality. Further complications could arise if border controls again become necessary on trade with the UK given the nature of the land border between Northern Ireland and the Republic. Given the very close links between the Irish agri-food sector and the UK, both as an export market and as a source of supply, developing an understanding of the likely implications that a British exit (Brexit) from the EU might have for Irish farmers, the food sector and for EU agricultural policy is clearly valuable.

Trade flows are not the only area affected by a potential Brexit. The UK also plays an important role in EU agricultural decision-making. It contributes 12% of the EU's budget; more significantly, it is a major net contributor to the budget. In 2013, its contribution to the EU's own resources was €17.1 billion while EU expenditure in the UK amounted to just €6.3 billion, leaving a net contribution of €10.8 billion.[4] Filling this gap in the EU budget would require either expenditure reductions or larger contributions by the remaining member states following Brexit. In the Council of Ministers, under the double majority qualified voting system in place since November 2014, it has 12.3% of the votes based on population, so a Brexit would imply different voting majorities in the Agricultural and Fisheries Council.
The consequences of Brexit for Irish farmers and the food sector will very much depend on the policies that the UK might pursue after Brexit, particularly in the areas of trade, agriculture and regulation. The unknowns about what trade, agricultural and regulatory policies the UK might pursue outside the EU make it hard to draw definitive conclusions

[4] Figures derived from http://ec.europa.eu/budget/figures/interactive/index_en.cfm.

about the likely effects for Irish farmers and the food sector, but it is possible to speculate on the basis of specific hypotheses about what these policies might be.

2. Possible UK trade policy with the EU after Brexit

There are various trade relationships that the UK could try to negotiate with the EU as part of its withdrawal, depending on the level of integration it wanted with the EU Single Market (House of Commons Library, 2013).[5] Ordered by the degree of integration, the options are:

(a) European Economic Area (EEA) agreement with the EU (as for European Free Trade Area (EFTA) members Norway, Iceland and Lichtenstein)
(b) EFTA membership with EU free trade agreement plus bilateral treaties on individual Single Market issues as with Switzerland
(c) Customs union with the EU as with Turkey
(d) Free trade agreement as with Canada or under negotiation with the US
(e) No free trade agreement, WTO MFN tariffs apply to exports from both partners

All of these options, except the last one, would imply the continuation of free trade between the UK and EU countries. However, agricultural trade is, in principle, excluded from the first three of these possible trade arrangements although covered by separate bilateral agreements which grant limited preferential access to both sides. The other important difference between the options concerns the extent to which the UK would participate in, and benefit from, the EU's single market. The main options available are briefly described.

2.1 EEA option (e.g. Norway)

The EEA option would provide the least disruption to trade flows. This is because the EEA extends the single market legislation to EEA countries. This means that EEA countries are legally bound to implement into their national law EU directives and regulations governing

[5] House of Commons Research Library, *Leaving the EU* RP13/42, London, http://www.parliament.uk/briefing-papers/RP13-42/leaving-the-eu.

the free movement of goods, persons, services and capital. The EEA EFTA states do not have any formal access to the decision-making process on single market legislation and do not sit on or vote in the institutions which decide this legislation, although they have some consultation rights. EEA countries are members of EFTA so, while each member keeps its own external tariffs, there is free trade for industrial products and services between EEA countries and the EU.

With the exception of veterinary and phytosanitary measures, however, agricultural trade and policy is not a part of the EEA Agreement. Only the non-agricultural component of custom duties for processed agricultural products are eliminated, although bilateral agreements provide for some liberalisation of trade in basic agricultural commodities, usually limited by tariff rate quotas. The EEA countries contribute to the EU budget both by paying a share of the costs of the operational programmes in which they participate (e.g. research, student exchanges) as well as a contribution to the Financial Mechanism designed to reduce economic and social disparities within the EEA area.

2.2 EFTA option (e.g. Switzerland)

Switzerland is a member of EFTA and took part in negotiating the EEA agreement with the EU. Although it signed the EAA agreement in 1992, this was rejected by Swiss voters in a referendum in December 1992. Subsequently, in 1994, Switzerland and the EU started negotiations about a special relationship outside the EEA. Switzerland wanted to safeguard the economic integration with the EU that the EEA treaty would have permitted, while removing the points of contention that had led to the rejection of the referendum. These negotiations resulted in a total of ten treaties, negotiated in two phases, the sum of which makes a large share of EU law applicable to Switzerland. One of the treaties deals with agriculture which is part of seven agreements making up the Bilateral I group. The Bilateral I agreements are agreed to be mutually dependent, meaning that if any one of them is denounced or not renewed, they all cease to apply. In February 2014, Swiss voters narrowly backed imposing quotas on EU migrants, jeopardising the other EU-Swiss agreements which have given Switzerland favourable access to EU markets since 1999. Effectively, the treaties largely contain the same content as the EEA treaties, making Switzerland a virtual member of the EEA.

2.3 Customs Union option (e.g. Turkey)

A third option for the UK would be to create a Customs Union with the EU along the lines of Turkey. The customs union was foreseen as part of the EU-Turkey Association Agreement signed in 1963 which anticipated the accession of Turkey to the EU at a later date. The customs union covers all industrial products as well as the industrial component of processed agricultural goods, TRIPS, and competition policy, but does not extend to agricultural commodities, services, or government procurement. Limited preferences are exchanged on agricultural products.

The customs union does not give Turkey access to the single market, but it foresees that Turkey will align its trade-related legislation with the EU *acquis* in several areas essential for market access, e.g. with respect to product standards including food and plant and animal health standards. This means that Turkey incorporates into its internal legal order the Union instruments relating to the removal of technical barriers to trade. The relevant Union instruments when the customs union was established were listed in a 1997 Decision of the Association Council. As the EU acquis evolves, the Union instruments relating to the removal of technical barriers to trade that Turkey needs to incorporate into its internal legal order are systematically updated.

2.4 Deep and Comprehensive FTA option (e.g. Canada)

In 2006, recognising that multilateral trade liberalisation under the auspices of the WTO Doha Round was not yielding results, the EU announced it would aggressively pursue deep and ambitious free trade agreements with its more important trading partners. In contrast to earlier, shallow FTAs, these new agreements would aim for the highest possible degree of trade liberalisation including far-reaching liberalisation of services and investment. An important goal of these new-generation FTAs would be to tackle non-tariff barriers through regulatory convergence, as well as including stronger provisions for intellectual property rights protection, competition and government procurement. The recently-signed (but not yet ratified) Comprehensive Economic and Trade Agreement (CETA) with Canada and the ongoing Transatlantic Trade and Investment Partnership (TTIP) negotiations with the US are examples of these new-generation FTAs.

These new-generation FTAs do cover agricultural trade liberalisation (for example, under CETA, the EU agrees to eliminate 93.6% of its agricultural tariff lines while Canada agrees to eliminate 92.0% of tariff lines when the agreement enters into force, with provision for additional tariff rate quota access for sensitive products). However, provisions on eliminating technical barriers to trade are rather rudimentary. CETA, for example, creates a formal mechanism of regulatory cooperation which will facilitate joint initiatives by Canadian and EU regulatory authorities as well as procedures through which both Canada and the EU can request that each other's technical regulations can be considered as equivalent. However, there is no provision for the automatic adoption by the other party of EU regulations and standards as for the trade arrangement options considered previously.

2.5 No FTA option

Under the no-FTA option, trade between the EU and the UK would be governed by WTO rules as both parties would remain WTO members. Tariffs would apply to agri-food trade between the UK and EU member states. UK exporters would face the EU's Common External Tariff, while EU exporters would face whatever tariffs the UK might choose to apply. For agri-food products, these might be lower than current EU tariffs but in all likelihood would be higher than zero. In the absence of an FTA covering essentially all trade, the WTO's non-discrimination rules would apply, meaning that it would not be possible to have specific bilateral agreements between the EU and the UK opening preferential access for particular agricultural products. Trade agreements between the UK and Ireland similar to those prior to EU membership in 1973 providing for special access for Irish exports of beef, dairy products and other agricultural goods to the UK market would no longer be legal following the entry into force of the WTO Agreement on Agriculture in 1994 which outlaws discriminatory treatment of this kind, not only between EU countries but also between the UK's EU and non-EU trading partners. Some creative legal minds might try to argue that the duty-free access which existed in 1994 as a result of UK membership of the EU could be transformed into current access TRQs, but this seems a far-fetched possibility.

Apart from tariffs, exporters in both partners would find themselves in the position of, say, US exporters today in facing non-tariff barriers of various kinds in attempting to export to the other because compliance with prevailing regulations in either partner would no longer be automatically assured. While the UK might be willing to unilaterally recognise EU exporters as meeting its standards, this would not be possible for the EU in the absence of formal agreements. While at the start of the separation UK and EU standards would be, for obvious reasons, exactly the same, as time goes by we would expect regulations particularly addressing new products and new technologies to increasingly diverge, creating additional challenges for food producers seeking to be certified as permitted to sell in both jurisdictions.

2.6 Evaluation of the UK's trade options with the EU after Brexit

The ranking of options shows that for the UK there is a trade-off between the level of access to the Single Market (i.e. freedom from tariff and non-tariff barriers to trade), and freedom from EU product regulations, social and employment legislation, and budgetary contributions. Some of these options are clearly more likely than others, either because of resistance on the UK or the EU side.

For example, the UK House of Commons Foreign Affairs Committee in its report on *The Future of the European Union: UK Government Policy* in 2013 concluded[6]:

> We agree with the Government that the current arrangements for relations with the EU which are maintained by Norway, as a member of the European Economic Area, or Switzerland, would not be appropriate for the UK if it were to leave the EU. In

[6] http://www.parliament.uk/business/committees/committees-a-z/commons-select/foreign-affairs-committee/inquiries1/parliament-2010/future-of-european-union-uk-government-policy/.

> both cases, the non-EU country is obliged to adopt some or all of the body of EU Single Market law with no effective power to shape it. If it is in the UK's interest to remain in the Single Market, the UK should either remain in the EU, or launch an effort for radical institutional change in Europe to give decision-making rights in the Single Market to all its participating states.

The Swiss option might look marginally more attractive to the UK because it might seem to give greater flexibility with regard to those areas of the Single Market it wanted to adopt. However, from the EU's perspective, the bilateral agreements are much less satisfactory. EU law is constantly evolving through amendment and case-law and EEA rules provide that these changes are automatically adopted by the EFTA signatories. However, the Swiss bilateral agreements are comparatively static and new protocols must be negotiated from time to time to amend them. There is also no enforcement mechanism under the bilateral agreements. This led the European Council in adopting conclusions on relations with EFTA countries in 2012 to declare:[7]

> Recalling its conclusions of 2010, the Council reaffirms that the approach taken by Switzerland to participate in EU policies and programmes through sectoral agreements in more and more areas in the absence of any horizontal institutional framework, has reached its limits and needs to be reconsidered. Any further development of the complex system of agreements would put at stake the homogeneity of the Internal Market and increase legal insecurity as well as make it more difficult to manage such an extensive and heterogeneous system of agreements. In the light of the high level of integration of Switzerland with the EU, any further extension of this system would in addition bear the risk of undermining the EU's relations with the EEA EFTA partners.
>
> ….In particular, the Council deems it necessary to establish a suitable framework applicable to all existing and future agreements. This framework should, inter alia,

[7] The European Council conclusions in full can be found at http://www.parlament.gv.at/PAKT/EU/XXIV/EU/10/30/EU_103044/imfname_10389263.pdf.

> provide for a legally binding mechanism as regards the adaptation of the agreements to the evolving EU acquis. Furthermore, it should include international mechanisms for surveillance and judicial control. In this context, the Council notes that by participating in parts of the EU internal market and policies, Switzerland is not only engaging in a bilateral relation but becomes a participant in a multilateral project. All in all, this institutional framework should present a level of legal certainty and independence equivalent to the mechanisms created under the EEA Agreement.

One would assume that this would also be the starting position of the EU in post-Brexit negotiations with the UK, thus effectively ruling out a 'Swiss option' in practice. Preferences of the EU and of EFTA members also need to be taken into consideration. It is not a foregone conclusion that existing EFTA members would welcome the return of the UK to that free trade club.

As both parties will want some formal trade relationship after Brexit, this points to an FTA along Canadian or US lines as the most likely alternative. Assuming that such an FTA can be successfully concluded during the two years scheduled for the withdrawal negotiations, it might be possible to ensure full tariff liberalisation in the agricultural sector (given that the UK is such a minor exporter to the EU, the latter has no real defensive interests at stake and also the UK is unlikely to want to maintain high tariffs on EU imports). Given that the balance of Ireland's agri-food trade with the UK is strongly positive, retaining tariff-free trade with the UK is very much in our interest. In that scenario the main disruption to existing UK-Irish agri-food trade would come from the re-introduction of customs procedures, changes in UK trade policy with third countries, and any issues arising from the prospect of increasing regulatory divergence over time.

3. Possible UK trade policy with non-EU countries after Brexit

Access conditions to the UK market for Irish exporters will also be influenced by UK trade policy towards non-EU countries (as it is relative conditions which determine the value of trade agreements). So an important consideration in post-Brexit trade policy will be the applied MFN tariff the UK adopts for imports from non-EU countries. Also relevant will be the status of the EU FTAs and PTAs which currently give many third countries preferential access to the EU (and UK) markets, and the UK's desire to add to this list.

It is likely that the UK post-Brexit would not want to raise applied tariffs on trade, and is more likely to lower them on agri-food imports. Lower UK agri-food tariffs would increase competition on the UK market for current Irish suppliers. Also important would be the role played by UK FTAs other than with the EU. There is debate over whether the UK could simply inherit the existing EU FTA agreements or whether it would have to re-negotiate these agreements with the third countries.[8] As the UK has signed and ratified all agreements as a member state in addition to the EU, one view is that these agreements would continue even if the UK were no longer a member of the EU. Also, it would not be in the interests of third countries to see tariffs re-imposed or raised on their exports to the UK even for a temporary period. So it is most likely that existing third country access to the UK market would continue as before.

However, in the case of agricultural trade concessions, these often take the form of tariff rate quotas. It seems most likely that these would remain with the EU even where exports under these quotas are mainly sold in the UK. Examples would be New Zealand's butter quota and sugar imports from African countries. The UK would not be able simply to re-open these quotas as this would be discriminatory and not allowed under WTO rules.[9] If the UK wished to continue to import from these countries at zero or low tariffs, its only options would be to either reduce the relevant MFN tariffs (which would benefit all exporters), or to open a new tariff rate quota as part of an FTA with those countries.

The UK may find it easier to conclude new or more extended FTAs with some partners. For example, building on pre-existing historical links, one could envisage early agreements with New Zealand and Australia which could include comprehensive concessions on agri-food trade. The UK might also find it easier to sign an FTA with Mercosur, which could allow, for

[8] http://www.parliament.uk/briefing-papers/RP13-42/leaving-the-eu.
[9] Note that the same WTO rules would prevent the UK making particular exceptions for UK-Ireland trade even if this were not prohibited under EU Treaties which make external trade the exclusive competence of the Union.

example, much easier access of Brazilian beef to the UK market than is currently the case, or with the US which would allow easier access for US beef and poultry than the EU is willing to allow in the TTIP negotiations. There is thus a high probability that the trade policy the UK would pursue with non-EU countries would lead to greater competition on the UK market for Irish exporters of beef, dairy and other products.

4. Possible UK agricultural policy after Brexit

The UK has always been a strong critic of the Common Agricultural Policy (CAP). Based on historical experience, the UK is likely to provide less direct support for its farmers than in the current EU, and is more likely to switch expenditure to agri-environment schemes and promotion of public goods.[10] Future UK agricultural policy will also be constrained by its WTO commitments. One assumes, in the process of unravelling the UK's links with the EU following Brexit, that the UK would inherit the EU's current bound MFN tariff schedule and that the EU's ceilings for trade-distorting domestic support and export subsidies would be partitioned according to the contribution that the UK made to the EU's base schedules in 1994. If so, these WTO ceilings are highly unlikely to act as a constraint on the sort of agricultural policy the UK is most likely to want to pursue.

The UK Treasury is unlikely to cut all spending in terms of direct payments, if only because these are hugely important to farmers in Northern Ireland, Scotland and Wales, but a lower level can be expected. The UK might also cut its applied tariffs on agri-food imports, as noted above. Lower support for UK farming might be assumed to lead to lower UK production, and thus to a larger market for non-EU suppliers *ceteris paribus*. However, the long-term relationship between farm support and output is not clear. Lower support also encourages structural change and productivity improvement which would help to maintain output, as was the case in New Zealand. Overall, I would not expect Brexit to result in much change in UK self-sufficiency in the short-to medium-term.

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[10] See discussion on p. 8 of the UK Cabinet Office's Balance of competences report on agriculture, https://www.gov.uk/government/consultations/agriculture-report-review-of-the-balance-of-competences.

5. Possible UK regulatory policies after Brexit

The main driving force behind a British exit from the EU is the argument that the EU is over-reaching its regulatory competences, making too many regulations and setting too many standards which should remain the prerogative of national parliaments. Given this motivation, one might expect that, after Brexit, the UK would make use of its new-found regulatory freedom to repeal many measures that have irked supporters of a British withdrawal from the EU. At the same time, consumer, environmental and public health organisations have significant influence in the UK and one might expect stronger regulations in some areas than has been possible in the EU. Thus, over time, one would project increased regulatory divergence between the two jurisdictions.

However, there will be a number of countervailing forces. One is that the EU will remain an important trading partner for the UK; the latter might well find it in its self-interest to align its regulations and standards closely to those in force in the EU. Also, in many areas including food and agricultural policy, EU standards are based on wider global standards (e.g. Codex Alimentarius) and we would not expect independently-formulated UK standards to be that different. Nonetheless, there are a number of areas where the UK has been a vocal critic of EU regulations and where changes would be expected. Examples would include the regulation of plant pesticide products, genetically-modified crops and animals, and food labelling.

6. Impact of Brexit for the Irish agri-food sector

On the basis of the previous analysis, the most likely outcome post-Brexit would be free trade in agricultural and food products but the UK would no longer have access to the single market. Essentially, traders would find themselves back in the pre-1992 situation before the single market was created. In that period, as clearly documented in the well-known Cecchini Report on *The Costs of Non-Europe*, many non-tariff barriers, stemming from food safety, plant health, and veterinary regulations for example, impeded the free flow of products between member states. Thus, trading costs between the Ireland and the UK would increase following Brexit. In Ireland, where a high proportion of supermarket groceries is sourced from the UK, consumer food prices could be expected to rise.

Most costs will be associated with the re-introduction of customs controls (rules of origin checks, import licence requirements, documentation, physical border checks) as well as the additional costs of complying with two different regulatory regimes where regulatory divergence occurs. Rules of origin checks are necessary in a free trade agreement without a common external tariff; they currently apply, for example, to goods exported from Norway to the EU within the EEA. Import licences are currently required under CAP regulations to import certain agricultural products originating outside the EU, including beef and veal; cereals; ethyl alcohol of agricultural origin; flax, hemp and hempseeds; garlic and preserved mushrooms; milk and milk products; olive oil and table olives; pig meat; poultry; rice; seeds; and sugar.[11] One assumes these rules would apply to the UK following Brexit.

Key to the single market is the principle of mutual recognition, that is, a member state must allow a product to be marketed if it has been lawfully marketed in another EU or EEA state and cannot, except in clearly defined circumstances, require compliance with their own technical standards. The principle applies exclusively to products or features of products that are not subject to harmonisation measures at the EU level. If the UK withdraws from the EU and the single market, this principle would no longer apply to Irish exports to the UK or UK exports to Ireland, necessitating additional compliance and certification costs.

For example, animal slaughtering facilities that wish to export to the UK would have to be certified by both the UK authorities as well as the Irish authorities in the absence of a separate mutual recognition agreement. The UK might negotiate continued participation in the EU plant passport scheme which allows the free movement of plants and plant products between EU member states as part of its withdrawal FTA but in that case would be bound to follow EU legislation in this area. If this did not happen, the previous system of phytosanitary certificates verifying freedom from pests and diseases would need to be reintroduced for UK-Ireland trade. If the UK were to develop different food labelling

[11] See http://www.agriculture.gov.ie/agri-foodindustry/tradeimportsexports/importexportlicensing/.

regulations in future (e.g. the nutrition traffic light system), this would require different packaging by Irish food firms wishing to sell on the UK market.

If tariffs were re-introduced in the agri-food sector, this is more likely to happen for primary agricultural products and the primary element in processed foods. This would add further to the costs of trading those agricultural commodities for which tariffs were re-introduced and could potentially be prohibitive. Current EU tariff rates are shown in Table 1 (note that because around half of all agricultural tariffs are non-ad valorem, the exact ad valorem equivalent can vary from year to year depending on the level of import prices). As one example, the tariff on importing milk is €17.90 or €18.80/100kg (depending on packaging units) which if applied on imports of milk from Northern Ireland to the Republic's milk processors or supermarkets would probably lead to the cessation of this trade. While the likely level of UK tariffs on Irish dairy exports cannot be known, there would be a high risk of serious disruption to Irish exports if tariffs were re-introduced.

Table 1. EU agricultural tariffs (in ad valorem equivalents), 2013

Commodity group	Number of lines	Simple average (%)	Tariff range (%)	Share duty-lines (%)
Animals and products thereof	351	20.4	0-192.1	15.1
Dairy products	152	31.7	1.5 - 164.8	0.0
Fruit, vegetables, plants	501	13.3	0-197	11.6
Coffee, tea, cocoa and preparations	47	11.6	0 - 18.7	14.9
Cereals and preparations	230	18.1	0 - 94	5.2
Oilseeds, fats, oils and products	174	7.5	0 - 154.1	35.6
Sugars and confectionary	44	25.4	0 - 135.3	0.0
Beverages, spirits, tobacco	303	14.2	0 - 196.3	18.2
Cotton	6	0.0	0.0	100.0
Other agricultural products n.e.s	259	5.6	0 - 83.5	50.6
Total agricultural products	2067	14.8	0-197	18.6

Source: WTO EU Trade Policy Review, 2013, Table 3.3

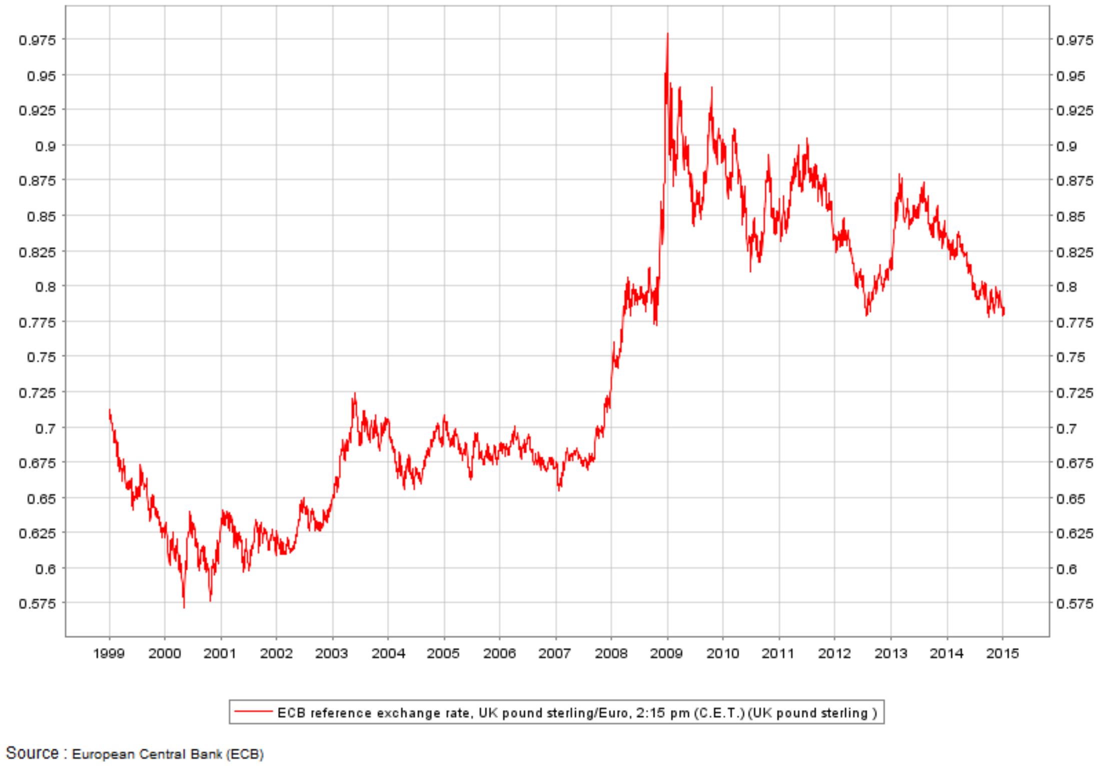
7. Re-introduction of the Northern Ireland land border

Brexit would imply the re-introduction of customs posts on the border between Northern Ireland and the Republic of Ireland which were removed in 1992. There is nothing unusual with land borders in Europe between EU and non-EU countries, and there is no reason why a border in Ireland should create additional difficulties for trade beyond those enumerated in the previous section in the trade context envisaged above of no tariffs on trade between the UK and Ireland.

During the 1980s, when farm prices were largely determined by intervention price levels and monetary compensatory amounts were paid on trade between the two parts of the island of Ireland, there were massive incentives for smuggling activity across the Northern Ireland border. Today, however, when farm supports are mostly linked to land and administered prices play almost no role in setting market prices, the incentive to deflect trade to take advantage of different subsidy regimes on either side of the border would be very limited. There is also much greater emphasis now on animal identification and traceability which would add to the difficulties of undocumented movement.

If the UK were to pursue a more pro-consumer farm policy with lower applied MFN tariffs, this could lead to lower farm and food prices in Northern Ireland than in the Republic. However, the magnitude of such farm policy-induced price differences will be very small compared to the price fluctuations which are currently experienced due to exchange rate volatility between the pound sterling and the euro (see Figure 1). However, if tariffs were re-introduced on UK-Ireland trade for some agricultural or food commodities, a different situation would arise because, just as for cigarettes today, there would be a clear incentive to smuggle goods across the border (most likely, from North to South given the high level of some EU tariffs on agri-food products). The extent of any potential problem would depend on the products excluded from the free trade agreement and the size of the EU and/or UK tariff on those products.

Figure 1. Exchange rate GBP against the euro



8. Agricultural policy-making in the EU without the UK

Agricultural policy in the EU might be slightly different in future if the UK were to leave compared to what it will be if the UK remains a member, but it would be wrong to over-estimate its impact. The UK has been, together with Sweden, the Netherlands and Denmark, traditionally hostile to a high degree of agricultural market regulation within the CAP. However, with successive reforms of the CAP and the greater flexibilities for member states introduced by the 2013 CAP reform, many of the UK criticisms have been addressed. The UK would also be in favour of reducing the overall share of CAP spending in the EU budget and reducing the amounts spent on direct payments. But the fact that direct payments (the largest single item of CAP expenditure) are fixed in nominal terms means that CAP spending is anyway set to slowly fall in real terms even in the absence of discretionary reductions in the CAP budget.

Furthermore, even if the balance of opinion in the Council of Ministers and European Parliament shifts marginally in favour of stronger CAP protection, the departure of the single largest net budget contributor after Germany will work in the opposite direction. If the remaining member states wish to maintain farm support at currently foreseen levels, then they must be prepared to contribute more to the EU budget to ensure this. In this calculation, some member states that now see themselves as benefiting from high CAP spending could well move to the other side of the ledger. Undoubtedly, the voice of the UK in favour of more open trade would be missed in negotiations on agricultural exceptions and sensitive products in free trade agreements, but the overall impact of a Brexit on the future trajectory of CAP reform may not be that great.

9. Conclusions

It does not make sense to consider the ramifications of a British withdrawal from the EU solely through the lens of agri-food trade and policy. There are much broader and more important issues at stake. It seems hard to believe that the UK would take this step, against the unanimous advice of its friends both inside and outside the EU, but it would be foolhardy not to assess and prepare for its possible consequences.

For the Irish agri-food sector, the possible consequences will depend primarily on the nature of the post-Brexit trade arrangement with the EU. Under the most likely scenario of a free trade agreement which would remove all tariffs but also the UK's access to the single market, trade conditions would revert to what they were in the early 1990s prior to the introduction of the single market. Trade costs will be higher than they are today, which will put downward pressure on producer prices in EU countries exporting to the UK including Ireland and upward pressure on consumer prices in EU countries importing from the UK such as Ireland. If the UK chose to pursue a pro-consumer trade policy with non-EU countries, adopting lower applied MFN tariffs than at present and concluding FTAs with more comprehensive liberalisation of agri-food trade, this would lead to greater competition on the UK market for Irish suppliers. If, following Brexit, some tariffs are re-introduced on agri-food trade, particularly for trade in some primary agricultural products, this could worsen considerably the position of Irish exporters on the UK market, depending on the level of tariffs that the UK might introduce. It would also give an incentive to smuggle goods across the Northern Ireland-Republic land border. To the extent possible, this is an outcome to be avoided in the post-Brexit negotiations on trade arrangements with the UK.

EU agricultural policy could move marginally towards a position of greater protection for EU farmers following Brexit, but the extent of this shift will be diminished by the budgetary consequences of UK withdrawal.

Apart from preventing the re-introduction of tariffs, the adverse effects of higher trade costs could be minimised by encouraging as wide a range of bilateral mutual recognition agreements between the UK and the EU following Brexit as possible. But inevitably the benefits of these agreements will be less complete and less comprehensive than membership of the single market would provide.

The British government is currently discussing with other EU countries the shape of feasible reforms that might satisfy British demands. While other EU leaders have ruled out British à la carte membership of the single market, there is some sympathy with its call for a clearer delineation of EU competences. The Irish Foreign Minister in an important speech in London in November 2014 made clear that Ireland wants the UK to remain "a full, integral member of the Union".[12] He also underlined that other EU member states understand many of Britain's concerns and the need to address them, while rejecting any move to limit inter-EU migration.

As discussed at the outset, there are many uncertainties around Brexit. Brexit would be unambiguously bad from the perspective of both Irish producers and consumers. However, if it were to happen, the Irish agri-food sector should pursue a number of objectives in the subsequent negotiations on the UK-EU trade relationship to minimise the disruption to UK-Irish agri-food trade, particularly to avoid the re-introduction of tariffs and to seek to minimise the impact of regulatory differences through continued UK adhesion to single

[12] Opening remarks by Minister Flanagan at European Council on Foreign Relations, 14 November 2014, https://www.dfa.ie/news-and-media/speeches/speeches-archive/2014/november/ireland-britain-europe-minister-flanagan/.

market rules related to product standards, veterinary and phytosanitary rules or through mutual recognition agreements.