NORTHERN IRELAND FOOD & DRINK

BREXIT:

CHALLENGES & OPPORTUNITIES FOR NORTHERN IRELAND FOOD & DRINK

November 2016

Survey Produced & Interpreted in Association with Deloitte.

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CHAIRMAN'S FOREWORD

On 23 June 2016 the UK voted to leave Europe and more recently our Prime Minister announced that notification of withdrawal under the Treaty of Lisbon, Article 50 will be given by the end of March 2017. The UK government is preparing the plans necessary to enable us to leave the European Union and on this basis we must now focus our efforts on making Brexit a success, for Agri-food generally and in particular for Agri-food in Northern Ireland.

At NIFDA, we have sought the views of our membership by survey and through a series of meetings, to better understand first-hand the challenges businesses face and the key priorities that need to be addressed through both negotiation and policy development.

Set out in this report are our survey findings along with high level responses and recommendations to the issues raised. Much of what we have to say will closely align with Agri-food in GB, with the additional complication of a land border and a greater exposure to European and international trade for our indigenous businesses.

Our members operate as efficiently as possible typically producing a 2.94% profit.

As food tariffs range from 7 to 65% they are either difficult or impossible to accommodate.

(DAERA: net profit as a percentage of sales 2013).

Both the challenges and opportunities are extensive. They need to be resolved in a way that allows us to tap into the potential for success that exists. Successful resolution is not exclusively dependent upon the outcome of trade negotiations with Europe, but also on how we reposition our industry to service the food market both in the UK and globally. We see a way forward, but to achieve an outcome over the medium term that works for the consumer and our industry requires the right combination of the following:

- policies on global and European trade deals,
- how government intends to deliver social policy to the rural economy,
- The level and terms on which market access is given to third countries wishing to supply into the UK.

NIFDA now wishes to engage with stakeholders on how we can best work together to shape the future of our industry. We look forward to ongoing engagement during the process of Brexit as we evaluate developments in both negotiation and policy formation.

We are grateful for the support and assistance of Deloitte in carrying out the survey and identifying the key issues arising.

Declan Billington

Declan Billington
NIFDA Chairman

EXECUTIVE SUMMARY

With the decision to leave Europe, we are presented with an opportunity to fundamentally rethink agricultural and rural policy. To develop an optimised industry model that displaces imports, increases exports and provides greater value for money in delivering rural social, environmental and food objectives, whilst also delivering better value to the consumer.

The following priorities for the Executive and the UK Government have emerged through our engagement with our membership and these are discussed in more detail in the body of this report.

1. A formalised engagement with NIFDA so that:

- The views of the industry are appropriately represented;
- There is a full understanding of the complex interconnectivity of the Agri-Food Industry on the island of Ireland; and
- Account is taken of the intertwined relationship between servicing the UK's domestic market and the need for export markets to take surplus cuts of meat arising from the balance of the carcass.

2. A commercially workable comprehensive trade agreement with Europe that:

- Secures a tariff free trade deal with the EU or if not possible, strike tariffs at a level that allows industry in the UK to efficiently expand and displace EU imports;
- Maintains existing tariffs for third country imports in order to ensure the current cost of policy included in the production costs of the UK agri-food businesses is also attached to third country imports;
- Allows existing arrangements with other export markets subject to EU trade agreements to continue; and
- Allows time for the industry to adjust, through phasing of the new trading regime

And in any eventuality, secures the free movement of goods across the island of Ireland.

3. A workable labour policy:

- Such that the future status of NI resident and employed non-UK Nationals will be assured at the earliest possible date;
- Which enables continued access to a foreign labour pool;
- That provides increased support to help industry engage more with the local labour market; and
- Maintains the Common Travel Area between the UK and Ireland to ensure efficient movement of employees.

4. Export assistance to the same level as our Competitors through:

- Establishment of an adequately resourced Food Export Marketing Body for Northern Ireland to maintain and further exploit existing export markets and to develop new markets;
- Government to provide a framework of support to develop industry capabilities to replace imports and develop complementary export markets; and
- Sufficient resources and devolution of the power locally to enable agreement of equivalent standards in order to access our priority export markets.

5. Support the family farm base that drives the rural economy of the UK:

- Rural support – improve the support for productive outcomes on farms using a balanced portfolio of policies delivering efficient output, environmental sustainability and rural society support; and
- Recognising the pace of change: given the life cycle of livestock, agri-food will need interim support for 10 years to manage transition period following major change.

6. Continue building our reputation for operating to the highest standards:

- Continue the application of the high EU standards in animal health, food safety, quality and traceability on imported food and maintain equivalence of standards with international markets.

AGRI-FOOD IN THE EU

For the Agri-Food industry within Europe, the EU has sought to combine food production with a range of other policies, such as delivering a high standard of food safety, the need to underpin the economic viability of rural economies, protection of the environment and animal welfare.

Europe has sought to do this through creation of the Common Market within Europe, sheltering behind substantial tariff walls and thus capable of bearing the costs of these policies without fear of being undermined by low cost production systems from other countries. This has resulted in the Common Agricultural Policy (CAP).

Many other countries in the world have adopted similar policies, recognising that the opportunity cost arising from allowing lower cost imports to significantly damage the local Agri-food industry will carry a much higher cost to Government in the long run, in having to deal with the fall out in the rural economy as a result.

OUR INDUSTRY IN NORTHERN IRELAND

Post Brexit, £1.3bn or 28% of our sales will be subject to trade agreements that have yet to be agreed.

Trade

In 2014, total sales from the NI Food & Drinks Processing Sector amounted to £4,543m.

With sales of £1.15bn, (25% of total NI sales) the EU is the largest export market for NI; £700m of this relates to trade with Ireland. Clearly the EU and Ireland in particular are important markets for Agri-Food in Northern Ireland and post Brexit, £1.3bn or 28% of our sales will be subject to trade agreements that have yet to be agreed.

Conversely the UK as a whole is a net importer of food and therefore does not suffer the same exposure to the international markets as Northern Ireland.

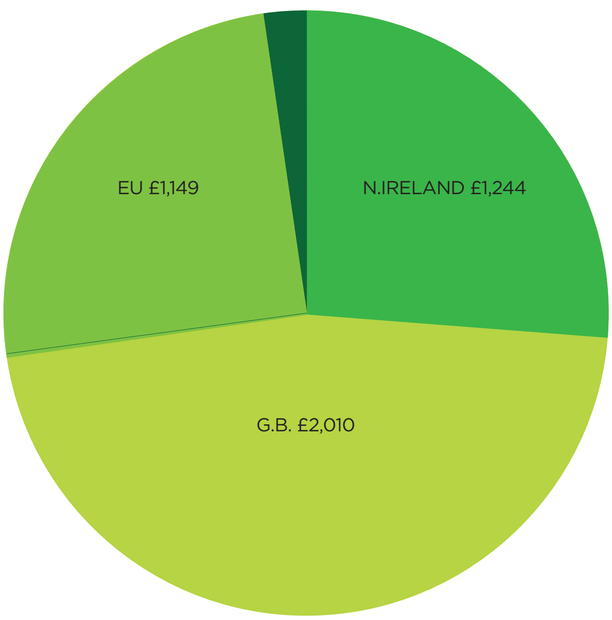
Employment, Agri-food Sector in Northern Ireland

- **19,000 Direct employees**
- **£478m Direct wage bill**
- **30,000 Farmers, partners**
- **43,000 Indirect and induced jobs**

(Source DAERA & NIFDA 2010 Report)

The above statistics, however, only tell part of the story of industry's importance to the Northern Ireland Economy. There are 3 main additional factors that make Agri-food different from other industry sectors:-

NI Food and Drink Processing Sales 2014 by destination £m



Source DAERA

It should be noted that DAERA statistics includes only those businesses involved in processing activities that change the nature of raw materials for human consumption. The statistics therefore exclude Farm inputs, which forms part of our Agri-food industry and which are included in our survey results and in UK statistics.

1. **Its importance to the rural community:**

   A vibrant Agri-Food industry is needed to maintain the social and economic fabric of our rural community, being the economic driver behind every town and village in rural Northern Ireland.

2. **Its supply chain role:**

   A NIFDA commissioned Report in 2010 estimated that in 2010 there were 19,000 employees in the Agri-Food Industry, with a further 30,000 employees in primary production, and a further 43,000 indirect and induced jobs in transport, packaging and engineering linked to the Agri-Food sector. The 2010 Report concluded that the combined employment impact of the Agri-Food industry was some 92,000 jobs.

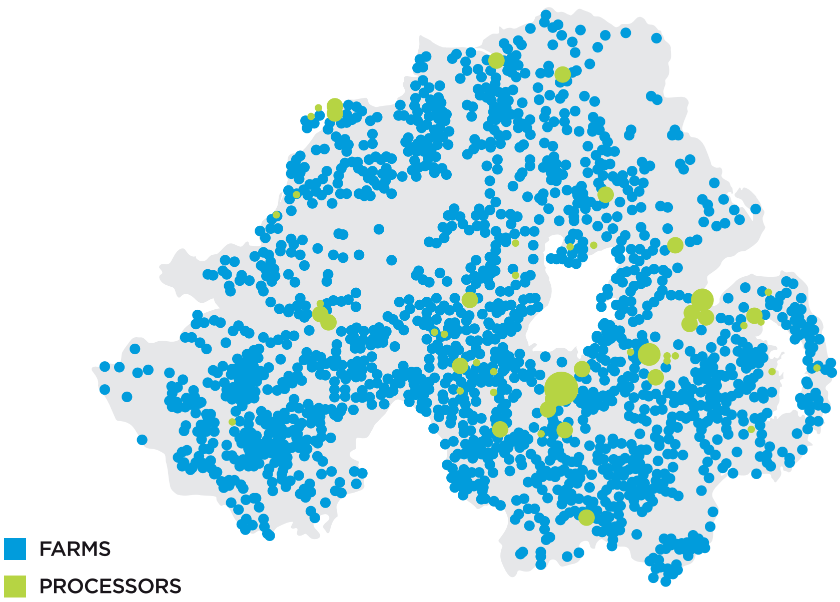
   The evidence of the intervening years shows further employment growth and therefore it is reasonable to conclude that the Agri-Food industry is of unique economic importance in Northern Ireland.

3. **Its dependence on CAP:**

   Current EU spending plans for Northern Ireland are estimated to be €3.5bn[2] for the period 2014-2020, off which €2.3bn is attributable to direct payments to farmers with another €228m attributable to Rural Development.

   These are significant sums. However with NI supplying over £2bn into the GB food market annually, it can argued that CAP payments to NI also indirectly benefit the GB consumer, in terms of lower food prices as a consequence. Total Income from Farming (TIFF) in NI was estimated at £183m in 2015 and £312m in 2014. The Single Farm Payment was estimated at £236m and £246m in 2015 and 2014 respectively, and illustrates the dependence of the sector on that support (2015 – 129%, 2014 – 79% of NI Farm Incomes)[3].

Concentrations of Agri-food sustainable jobs



[2] Source – European Commission in the UK

[3] Source DARD Statistics on NI Agricultural Incomes.

SURVEY CONTEXT

Our survey covered 84% of the Industry by Turnover
And the surveyed businesses (excluding animal feeds on a like for like basis with DAERA statistics) represented:

Estimated annual turnover	Employee Numbers
£3.8bn	**13,000 Northern Ireland based Employees**

The survey results discussed in the following section also include those respondents involved in the Animal Feed sector.

Our survey covered 39 respondents from the following subsectors:

Animal By-Products	Bakeries
Animal Feed	Beef & Sheep meat
Drinks	Eggs
Fruit & Vegetables	Milk & Milk Products
Pig Meat	Poultry Meat

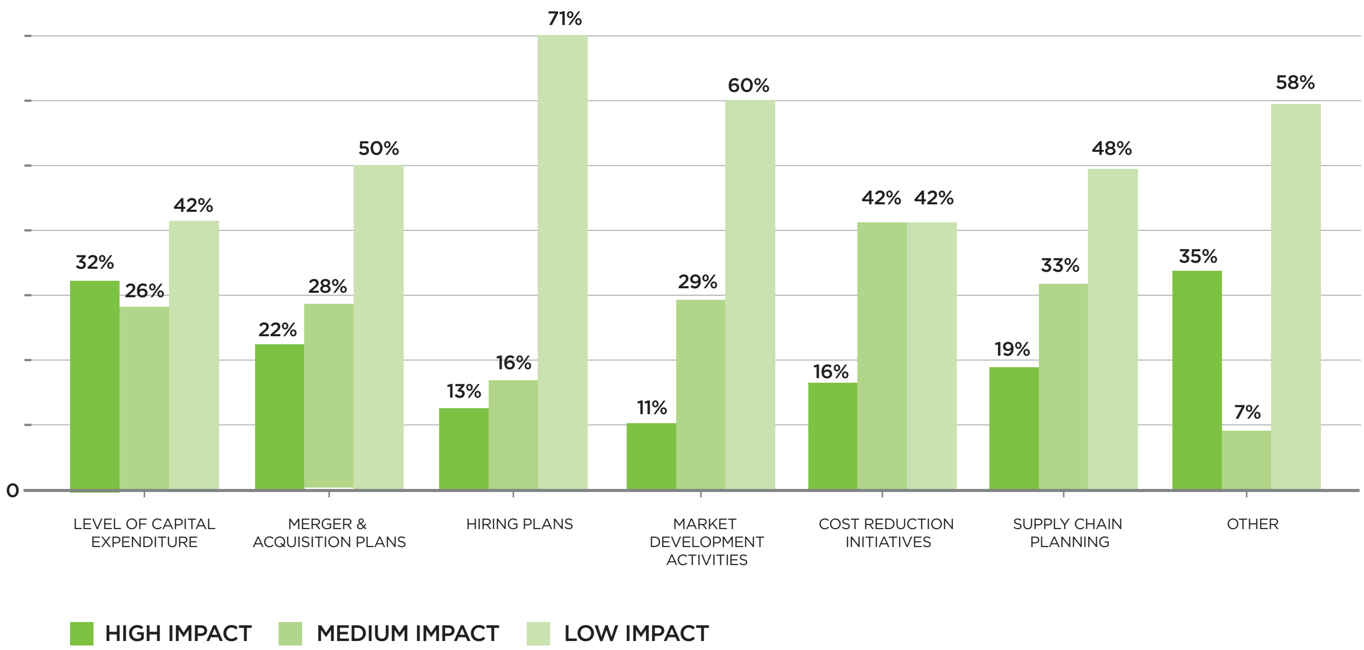
SURVEY HIGHLIGHTS AND ISSUES FOR CONSIDERATION

Short Term impact
The most significant immediate impact has come from the weakening of sterling with 79% of respondents saying that this has had a strong impact on their business. The effect has been both positive and negative with exporters reporting an increase in sales and importers reporting an increase in costs (and struggling to get cost recovery from the supermarkets).

Boards are reassessing their plans in light of the uncertainty.

58% of respondents are reconsidering their capital expenditure plans and 29% are reconsidering their recruitment plans. Concerns were also expressed about Northern Ireland's ability to participate in Collaborative R&D within Europe as the Universities and Research institutes have noted the withdrawal in engagement in the Pan European research programs funded under Horizon 2020.

Impact of referendum result on decision making



Tariffs

We have set out in the table below the EU's Most Favoured Nation Tariffs under WTO rules (the default position without a deal and therefore the starting point in trade negotiations) for a small number of common Agri-Food products

EU

Bovine Carcasses	12.8% of price plus €1.77 per kg
Butter	€1.90–€2.31 per kg
Cheese	€1.85–€2.21 per kg
Pig	€0.53 per kg
Fresh chicken	€0.26–€0.32 per kg
Bread (loaf)	€0.15 per loaf

67% of respondents were "very concerned" at the potential impact of tariffs on their import costs while 64% were "very concerned" at the impact on their exports.

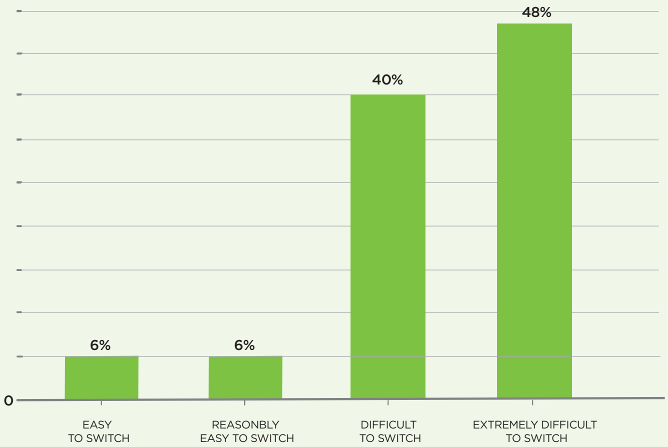
The above tariffs (converted at €1/£0.88) were applied to recent UK wholesale prices (source AHDB & DEFRA) to illustrate the potential impact on prices for goods imported to/exported from Northern Ireland to/from the EU in the absence of a Trade Agreement. The results are shown in the table below.

EU most favoured Nation Tariffs:

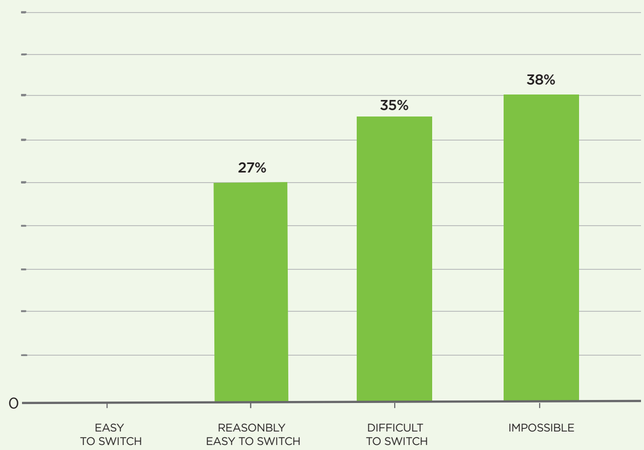
	UK Wholesale Price £/kg	WTO MFN Tariff £	Price Inc. Tariff £	Potential Price Increase %
Beef carcass	3.58	2.02	5.60	56%
Butter	3.55	1.67	5.22	47%
Cheese	2.80	1.63	4.43	58%
Pig carcass	1.38	0.47	1.85	34%
Chicken	1.50	0.23	1.73	15%

In mitigation of tariffs, respondents were asked about switching suppliers and markets:

In the event of significant customs duties being placed on your exports to the EU, rate your overall ability to find alternative markets.



In the event of significant customs duties being placed on inputs you correctly source from the EU, rate your overall ability to switch your existing requirements to UK based suppliers.



Those who answered "difficult" to both these questions were in a range of subsectors including Animal Feed, Beef, Dairy, Fruit & Vegetables, Bakery and Drinks, and tended to be the larger businesses.

NIFDA RECOMMENDATIONS RE CAPACITY

The UK government should seek to continue to trade in the single market for Agri-food products. Should trade barriers arise, Government should support:

- The rapid expansion of NI facilities to support increased processing in NI of existing livestock and dairy produce, for the UK and international markets.
- Further expansion of both production and processing capacities of the industry to reduce dependence on EU imports.

EXPORTS

The default position, until new agreements are obtained will be WTO rules, whereby the WTO tariffs for those countries automatically attach to products we ship to them, more often than not, excluding us from those markets for agricultural products.

Exports

There are currently 53 trade agreements between Europe and third countries, with further trade agreements in negotiation. Respondents expressed concern that once we exit the EU we may no longer be able to access these trade agreements. The default position, until new agreements are obtained will be WTO rules, whereby the WTO tariffs for those countries automatically attach to products we ship to them, more often than not, excluding us from those markets for agricultural products. This is particularly critical to Milk powder plants in Northern Ireland whose primary business is to export into these markets.

Technical barriers

In addition to tariff barriers, Technical barriers can also arise where 2 markets have adopted differing technical regulations and equivalence of standards need to be agreed. Respondents noted that technical barriers were currently preventing exports to countries where the UK (through the EU) already has a trade agreement. Upon exiting Europe, there is concern from respondents that new technical barriers could arise with Europe.

Northern Ireland has a number of successful non EU export businesses in the Dairy and Meat sectors. Respondents believe the potential already exists to deliver significantly more export opportunities today if the issues with technical equivalence approvals could be resolved.

Carcass imbalance

Respondents noted that a key challenge to the Meat industry is that whilst the whole animal is purchased, only parts of the animal are sold. The industry needs to sell all the parts of all of the animals processed, to make the profit calculation work. The domestic consumer, however, is selective and they prefer, for chicken, the breast meat to leg meat; bacon and ham in pork; and steaks in beef. The domestic industry can't meet all the demand for the better cuts because they have few alternative markets for the balance of the cuts, and so domestic demand is met through domestic supply and imports. The ideal answer is for domestic industry to export the remainder of the animal to countries around the world with different food preferences to the UK.

The industry term for this is carcass imbalance, and this can offer both an opportunity and a threat to the industry. This demand and supply imbalance is currently being met through imports and this presents an opportunity to our industry. If production is expanded to meet this imported imbalance, exports to international markets (assuming technical equivalence is agreed) can be increased as our industry seeks to balance the carcass. Equally, there is the threat that loss of our existing international markets for surplus cuts will mean we are less able to support the UK market place. Both the domestic and international markets are greatly intertwined in any growth plan on that basis and respondents noted the importance of maintaining existing market access and building upon it.

A similar issue is also pertinent for the dairy industry where whey (produced as a by-product from the production of cheese) presents an opportunity to develop new markets and increase the profitability of the NI dairy industry.

Quality product

Respondents were confident in the quality of the industry products – naturally produced, safe and with high animal welfare standards - which lends itself to selling into the niche, high value markets of the rising middle classes in developing countries, concerned about animal welfare and food adulteration (be it through use of artificial growth promotors, or fraud).

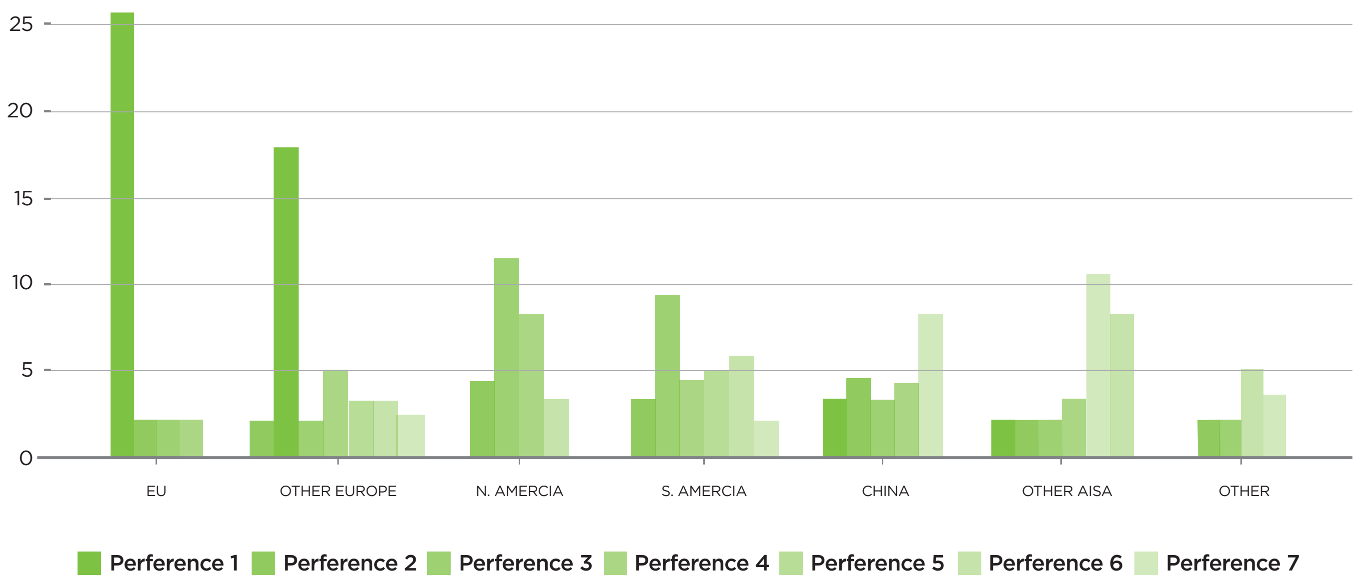
Keen freight transport costs to countries we have significant trading deficits with, (Asia in particular) as a result of ships otherwise returning empty, also help drive our competitive position in some markets.

Combining the "value" proposition of our products along with competitive pricing (arising from maximising carcass values in local and international markets) and, for some regions (Asia), keen freight costs plus a weak sterling creates a significant window of opportunity to export, if we can negotiate our way through the tariffs and ensure technical equivalence.

Priority markets

The table below summarises our respondents' views on where our export focus should be. Unsurprisingly Europe was ranked number one. Only 5 companies did not put EU as their number one choice, but those 5 accounted for £1.3bn of turnover and 48% of employees in our survey, with their focus being on markets further afield, such as China.

Report Market Preference



NIFDA RECOMMENDATIONS RE EXPORTS

- Secure a free trade deal with the EU
- In the absence of a free trade deal, the UK Government should seek a transition plan with Europe for disengagement and phasing of introduction of tariffs in order to avoid short term shocks to the production and processing bases
- The existing 53 EU trade agreements should be replicated for the UK. In the longer term the UK can then re-engage with these trading partners and build and refine upon what already exists
- A larger export industry could develop on the back of displacing food imports. As the UK would consume only parts of animals reared to feed the balance of demand, a ready and expanding supply of food material, appealing to other nations around the world, would be available for export
- The Agri-Food Strategy Board's proposal for an adequately resourced Food Marketing Board to develop existing and new markets should be acted on immediately
- Northern Ireland should have the power to access suitably qualified resources locally to agree the technical equivalence with a trading partner
- Continuation of application of high EU standards in animal health, food safety, quality and traceability for exports, essential to maintain equivalence standards

IMPORTS

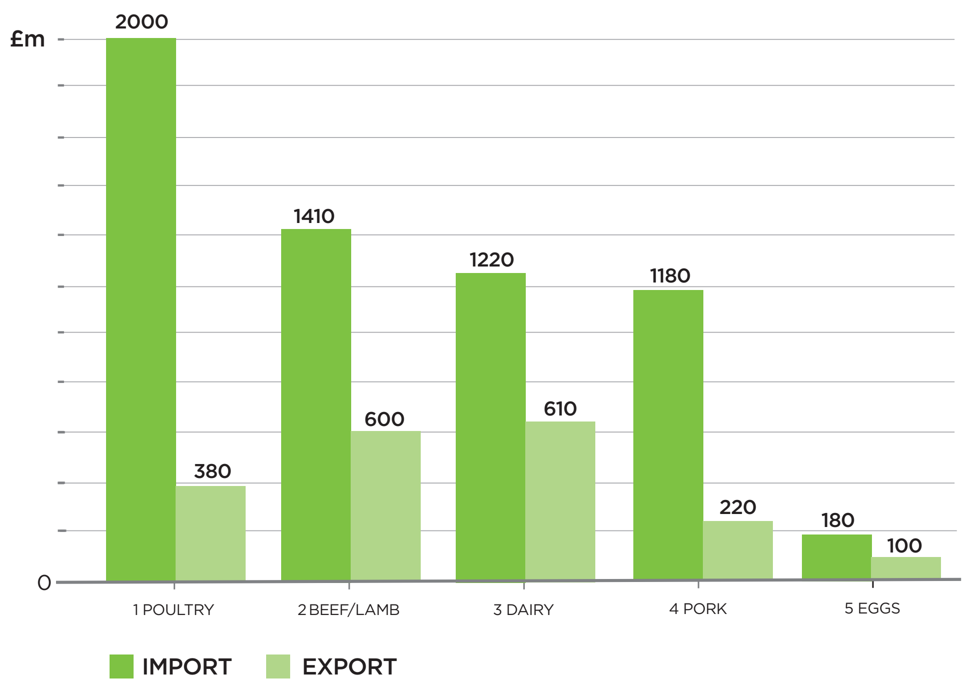
Import substitution
Looking more closely at the commodities which Northern Ireland has a significant interest in, the chart below shows significant UK trade imbalances across various Agri-food sectors (with Europe accounting for £4bn annual deficit in these sectors). The analysis shows the opportunities that exists to displace imports.

Input costs
One concern of the industry is the potential impact of tariffs on agricultural input costs (feed materials and fertilizer).

NI is a significant importer of animal feed raw materials (circa 90%) and is therefore sensitive to any changes in tariff structures. Moving outside of the common tariff structure of Europe (with €95/t on wheat and, for maize, a tariff rate currently triggered at €154/t) will provide opportunities at times to source supplies at a lower cost from around the world, improving our industry's competitiveness.

Fertilizer inputs, which are important to maximise grassland productivity in Northern Ireland, are currently subject to 6.5% tariffs with free access from the North African nations (the Maghreb region). Special provisions are in place to avoid dumping from Russia. The UK should seek to keep the existing tariff free supplies from North Africa. Over the longer term however there may be opportunities to transition to non-European supplies at lower cost through unwinding of tariffs as part of a wider trade deal with countries outside the EU.

UK trade imbalance by commodity



Source Defra.

The domestic industry would be competing as much on the relative costs of policy as on production costs with many new entrants supplying from a production system with much lower policy costs.

New entrants

A further concern for the industry is that tariff free access to the UK food market may be offered up as part of a trade deal, to countries whose production systems operate under very different social and environmental policy frameworks (resulting in more competitive costs). Such countries may include for example Brazil, Australia and New Zealand.

As outlined earlier, the EU production system has evolved within a protective tariff wall, delivering safe, high quality food along with increased environmental and social protection. If the domestic industry is to continue to deliver high quality safe food along with social, environmental and animal welfare policies, respondents noted the need to ensure that the same standards are also operated in the country of origin of our imports as those in the UK. The involvement of the Food Standards Agency at every stage of the local supply chain in the UK, policing some of the highest standards in food safety anywhere in the world is often taken for granted. However as the recent horse meat scandal showed, allowing imports to undermine consumer confidence damages the whole supply chain.

Respondents also noted the desire of the UK government to continue to ensure the current high standards of food production and animal welfare whilst continuing to deliver on environmental and social policy (including living wage) results in adding policy costs to production costs.

The absence of such policy costs for new entrant countries would mean the domestic industry would be competing as much on the relative costs of policy as on production costs with many new entrants supplying from a production system with much lower policy costs.

NIFDA RECOMMENDATIONS RE IMPORTS

- Secure a free trade deal with the EU.
- In the absence of a free trade deal, the UK Government should seek a transition plan with Europe for disengagement and phasing of introduction of tariffs in order to avoid short term shocks to the production and processing bases.
- Continue to apply high EU standards in animal health, food safety, quality and traceability on imported food to ensure competition with new entrants is on a level playing field.
- The existing trade with Europe should be examined to determine the major opportunities that exist for import substitution and what support mechanisms are needed to accelerate the restructuring necessary to achieve this.
- Existing third country tariff levels and new EU tariffs should be designed, in early years to assist an industry in transition. In later years, through negotiated trade deals, these should be lowered, (but with provisions to manage potentially damaging currency movements) to a point that creates a level playing field by attaching costs to imports equivalent to those costs of policy borne locally by Agri-food.

LABOUR

Analysis of full-time Northern Ireland based employees of respondents:

UK Nationals 50%

EU Nationals 48%

Other Nationalities 2%

Labour

The 2011 Census for Northern Ireland indicates 54,000 non UK and Non Irish passports were held in Northern Ireland. With a population of 1.9m people this represents around just 3% of the population.

If full employment were to be defined as the state where virtually all who are willing and able to work are employed, then having exhausted the recruitment market locally and seeing rapid turnover of local people as they climb the employment ladder, the industry experience in Northern Ireland has been verging towards full employment for Northern Ireland nationals.

As a result, the labour market has evolved to fill the void through supply of non UK labour, and Agri-food in Northern Ireland (both in farming and at processor level) is now heavily dependent on a non-UK workforce.

And the anecdotal evidence is that much of the EU labour is not migrant labour, but rather EU nationals who have established roots and started families here.

Work in parts of the industry is seasonal and so the industry relies heavily on contract labour to meet short term seasonal requirements. Respondents have indicated that 91% of this contract labour demand, at peak times, is fulfilled by EU Nationals.

If respondents had to replace EU Nationals with local employees:

- 55% of respondents thought this would be reasonably easy: and
- 45% of respondents thought this would be difficult

While 45% of respondents thought replacement would be difficult, this 45% represents companies which employ over 95% of the EU nationals in Northern Ireland included in the survey results, and applying these numbers to the total workforce in processing would equate to 11,500 staff.

The recent uncertainty facing this workforce, following the referendum outcome, combined with a declining Sterling/ Euro exchange rate (affecting the value of transfers home), is already making Northern Ireland a less attractive location to work in.

Should future policy restrict access to this non UK labour pool, then the Agri-food industry will face a significant challenge. Industry would become less competitive and could decline as a result, or in the case of Northern Ireland, the more labour intensive value added processing elements may end up relocating to Ireland, where there would still be access to a suitable EU labour pool.

Northern Ireland is the only region in the UK where this could happen, given the nature of the all island economy and all island businesses operating here.

NIFDA RECOMMENDATIONS RE LABOUR

- **Future status of NI resident and employed EU workers must be assured at the earliest possible date.**
- **Continuing access to a foreign labour pool should be a priority and the criteria for entry plus the number allowed should be determined at a regional level by the Executive to meet Northern Ireland needs.**

LAND BORDER WITH IRELAND

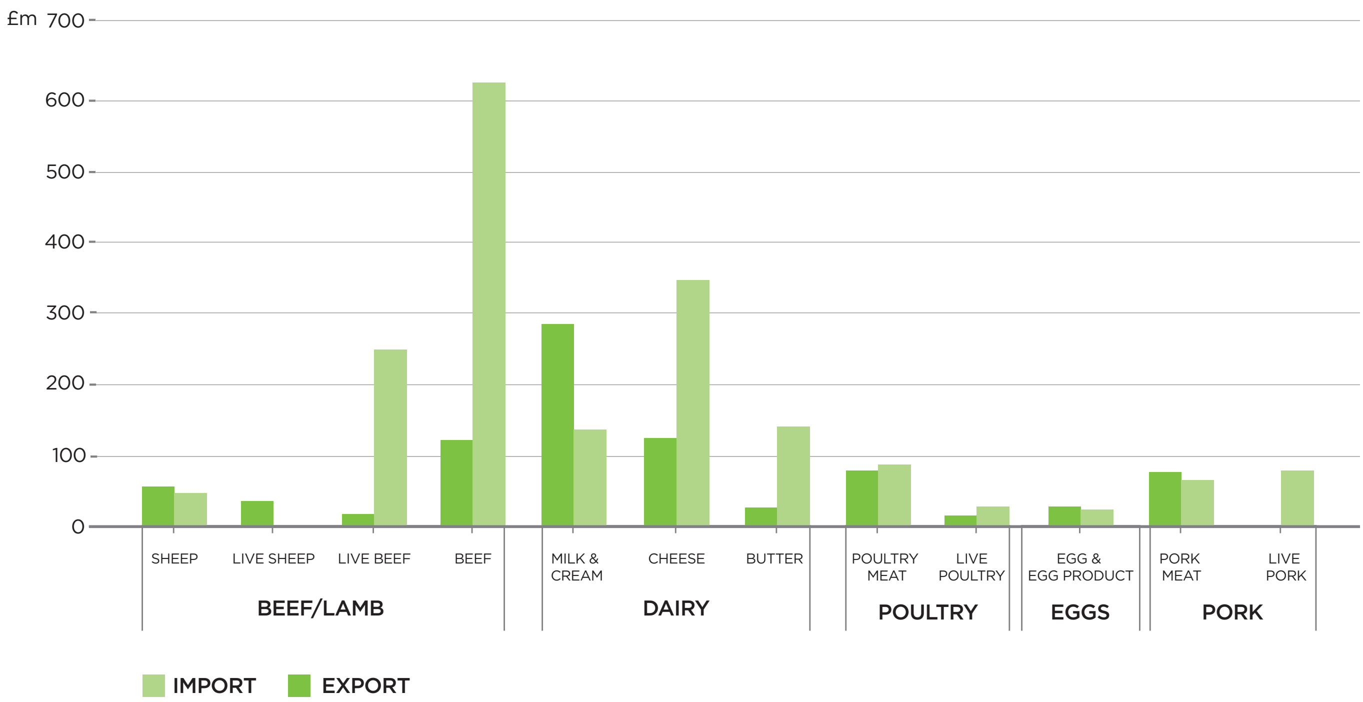
Post exit, Northern Ireland will be the only part of the UK with a land border with the EU. Over the last two decades the need to be competitive has driven economies of scale resulting in a move to an all island economy. In many areas near the border where closer business relationships have been forged so too the border areas have prospered economically.

Many commentators have noted the legacy of the Troubles and the role the border played in sustaining civil strife. There needs to be recognition by both Europe and the UK Government that the border between Ireland and Northern Ireland (like Brexit generally), is a unique issue, requiring a unique solution.

It is also worth noting that Ireland is the only trading partner with the UK where there is a consistent overall balance of trade surplus in favour of the UK. In terms of Agri-food. Ireland is also the largest market for Northern Ireland Agri-Food exports at around £700m and similarly, the UK is the largest market for Irish Agri-Food exports, accounting for some €4bn.

Looking more closely at the split in UK Ireland trade for Agri-food products:

Trade flows between UK and Ireland



Source HMRC.

Minimising border disruption with Ireland was a key priority for our respondents and their major concerns on a "hard border".

Key features of existing trade flows between Northern Ireland and Ireland identified in the survey and representing a significant proportion of the movements in the above chart were:

- There is significant volume of live imports of pigs and cattle from Ireland which is necessary to help Northern Irish processors achieve scale efficiency in their plants (with pig in particular).
- 25% of the Northern Ireland milk pool goes to Ireland for processing.
- 36% of Northern Irish lamb is processed in Ireland.

In addition to the above, 50% of Northern Ireland milled flour goes to Ireland and at a UK level, 181,000 tonnes of flour (83% of UK exports to the EU) and 122,000 tonnes of bakery products (41% of UK exports to the EU) are also destined for Ireland, creating a very significant exposure to the Irish market for the flour and bakery sectors of the UK as a whole

Minimising border disruption with Ireland was a key priority for our respondents and their major concerns on a "hard border" included:

- Tariffs that make cross border trade impossible.
- Regulations that make it difficult for the free movement of labour - many businesses have operations in Northern Ireland and Ireland and therefore have employees who cross the border on a daily basis.
- Regulations that add time and cost to the movement of goods both to mainland Europe and to the UK.

Northern Ireland businesses already face significant challenges accessing markets in the South of England with product required to have the same number of days' shelf life as their mainland competitors when delivered. Future servicing of the UK supermarkets in the South of England through Irish ports may:

  - Face additional paperwork costs, and waiting time at the port,
  - Risk delays that may miss access to depot delivery windows in the mainland, resulting in missed sales/ fines.

- Trade distortions and cross border smuggling that may arise from tariffs. Already today there are significant sums of duty avoided on fuel, alcohol and tobacco, often by organised criminal gangs (that, according to a 2010 Northern Ireland Affairs Committee report were formerly paramilitary groups).

On a more positive note, a number of respondents noted that the Island industry, with assets North and South, could in the medium term, benefit from being able to service trade deals either side of the border depending on which jurisdiction had the best export trade deal.

Noting that under WTO rules, the UK could not selectively enter into trade deals by Tariff code, but must seek a comprehensive trade deal across substantially all goods and services. This means, a trade deal becomes an "all" or "nothing" deal. However the resolution to the border is likely to be much easier if there is a trade deal as it can provide the framework within which the options of customs union or quotas can operate. The absence of a trade deal would rule out such options.

NIFDA RECOMMENDATIONS RE NORTHERN IRELAND/ IRELAND LAND BORDER

A trade deal with Europe will be required in order to provide the overarching structure within which the border issue can be addressed. Within the trade deal the following need to be reflected:

- Recognition of the unique status of the land border in underpinning stability in an EU border region.
- Maintaining the Free Travel Area between the UK and Ireland.
- Maintaining free movement of goods across the island without customs barriers or burdensome bureaucracy that will interfere with transport efficiencies.
- Tariff free trade - perhaps through the use of Quota - if the UK and Europe were unable to agree tariff free access for Agri-food into Europe.
- Supporting reinvestment and repositioning of the Northern Ireland production and processing facilities for trading into GB and international markets in the event trade barriers arise with Ireland and the EU.

COUNTRY OF ORIGIN

NI milk and lamb are processed in Ireland and may well be incorporated into Irish products for onward export outside the EU, accessing preferential tariff rates. Following the UK's exit from the EU, it may no longer be possible to label such products as being European and thus they would no longer access lower tariff rates.

County of Origin

Product from outside the EU cannot be labelled as European if it has only been minimally processed in Europe. Therefore such a product cannot gain preferential tariff access to third countries operating trade agreements with Europe.

As noted above, significant quantities of NI milk and lamb are processed in Ireland and may well be incorporated into Irish products for onward export outside the EU, accessing preferential tariff rates.

Following the UK's exit from the EU, it may no longer be possible to label such products as being European and thus they would no longer access lower tariff rates. The concern of respondents is that such a scenario could lead to a loss of demand for that NI product.

Conversely, origin rules may enable Northern Ireland product processed in Ireland to be sold into GB but still treated as produced in the UK for the purposes of avoiding tariffs should they exist.

NIFDA RECOMMENDATIONS RE COUNTRY OF ORIGIN

- UK Government should ensure trade deals reflect the ability to differentiate regions in the event of a disease or contaminant event in order that unaffected regional trade can continue.
- UK Government should ensure the current EU practice of banning produce from an area effected by disease or contaminant, and not the country, will remain effective upon exiting Europe

TRADE WITH THE EU

Trade with the EU

It is noted in previous sections that a significant number of respondents are concerned about the imposition of tariffs on trade with the EU. We wish to see continuing tariff free trade with the EU. However we have identified a number of issues arising in respect of Agri-Food, in achieving this goal. It is important that such issues are recognised and considered in advance of any negotiations.

• CAP

Agriculture and rural support payments take up approximately 40% of the EU budget and on this basis, the UK's contribution to CAP is about £5bn. Given the loss of such a contribution to the EU, securing tariff free trade in this sector will be extremely challenging.

• Relative Scale

The UK is a net importer of food and Europe is a very important supplier:

UK Trade Deficit with the World, Agri-food:

	Total £bn	Europe £bn	ROW £bn
Exports	18bn	10bn	8bn
Imports	39bn[5]	26bn	13bn
Deficit	**21bn**	**16bn**	**5bn**

Source: foodpocketbook 2015 Defra/HMRC)

[5] *of which £8bn represents fruit and veg*

The UK imports around £26bn from Europe. However, at a European level the Agri-food Industry has a turnover of around £340 bn [6] and so the exports to the UK at around £26bn represent just 6% of EU market. It is questionable as to whether this will be seen as significant enough from an EU perspective to bring the focus required to secure an optimal deal. (Although we note it will be significant at an individual country level, for example Ireland (which exports around €4bn to the UK).

[6] *Source – Agriculture In The Eu – Statistical*

• Mutual Dependency within a Sector

Agri-Food is an industry where each country's supply chain for meat, dairy, bakery and many staple vegetable products is predominantly local. At the other end of the range of interdependencies is the automotive industry. In the UK, 60% of components for UK cars are sourced from outside the UK, (mainly Europe) and there is significant bi lateral trade (cars made in the UK for Europe, and German manufactured cars destined for the UK).

Where there is significant bilateral trade better agreements in respect of such sectors may well be concluded at much lower or even zero tariff rates, than in the likes of the Agri-food sector.

NIFDA RECOMMENDATIONS RE TRADE WITH THE EU

The Executive and UK Government should ensure Agri-Food industry is prioritised in trade deals recognising the low margin nature of the industry and its inability to compete through Tariff walls.

- In the event of an unsatisfactory outcome to EU negotiations:
  - Agri-Food has the ability to substitute imports - redirecting export capacities currently focused on Europe back into the UK and expanding them to meet UK demand; and
  - Remaining food imports (wines, fruits etc.) can be offered to potential trading partners in return for access to their meat and dairy products markets.

RURAL ECONOMY

Rural Economy
In determining the optimal combination of policy interventions that replace the European interventions, Government must first decide what principles it wishes to support. Safe, high quality healthy food, environmental sustainability, the living wage, all are policy objectives of value but come at a cost to the supply chain, as does market volatility.

Environmental improvements often go hand in hand with driving resource productivity (reducing waste that impacts the environment). Policy to date however has been about regulation, rather than aligning with industry on those practices that are good for the environment and for farming. Policy going forward should therefore be more holistic:

- Driving resource efficiency, through encouraging best available practice;
- Addressing the barriers to optimising land use and productivity arising from the taxation system in respect of inheritance tax and single farm payment; and
- Reverting back to the founding principles of environmental regulations. IPPC for example (Integrated Pollution Prevention and Control regulations) originally operated on the principle that improvements should be made by reference to the value they deliver and not, as is currently the case, for the sake of improving alone.

NIFDA RECOMMENDATIONS RE RURAL ECONOMY

In replacing the various existing European policy instruments currently used the following suggestions are set out for consideration:

Under EU	Post Brexit
High Import Tariffs on meat, dairy	Initially high, reduced over time in trade negotiations to a liveable rate set to cover the "cost of policy" such that a level playing field with imports exists that allows indigenous efficient businesses to thrive and expand, and be protected from strategic market "dumping" or marginal pricing by third country competitors trading into the UK.
Intervention (sets a price floor)	Margin protection program 1. Used in US and Canada therefore no WTO issues 2. Guarantees a margin, rather than a price, thus less costly 3. Base level State supported, farmers can buy top ups to manage own risk appetite
Rural Development Fund	An equivalent will be required but perhaps more focused on meeting UK rather than pan European policy outcomes. Rural society will always need more support due to make up of rural population and dispersion.

EU FUNDING

Withdrawal of funding at the current level in agriculture would see the collapse of the industry.

EU Funding

The Chancellor has promised that farmer payments will continue until 2020 and has underwritten commitments signed up to the point of Brexit, provided those commitments were good value for money and "in line with domestic strategic priorities".

Previously respondents noted that the continuing uncertainty over the balance of what will and will not be underwritten by the Chancellor should we exit between now and 2020 (which currently seems most likely), may result in a reduced level of commitment and spend on EU supported projects. This will perversely result in less value being delivered to the rural community and a smaller draw down of funds from Europe, increasing the UK's net contribution as a result. It is unclear whether the uncertainty regarding EU supported spend has been effectively addressed by the Chancellor's announcement.

Withdrawal of funding at the current level in agriculture would see the collapse of the industry. However, it is also recognised that the current area based payments approach is not targeting resources where they are needed most - on helping active businesses meet the various environmental and regulatory investment challenges they face as they seek to grow their businesses.

NIFDA RECOMMENDATIONS RE EU FUNDING

- The UK should continue to stand over spending plans as agreed with the EU for the period 2014-2020 and use the time up until exit or 2020 to develop well thought through and well targeted holistic replacement policies and support mechanisms, designed to better deliver on the priorities of sustaining the rural economy, animal welfare, safe high quality food and delivering an efficient and competitive industry.
- Any ongoing support for farming should be focused on supporting the active farmer in overcoming growth and environmental challenges.
- Consideration to be given to transitional arrangements including any restructuring assistance for processors and producers supporting an industry in transition, for a minimum of 10 years. The market will need time to adjust following which businesses will need a window of time to make the necessary investments in the knowledge that a substantial proportion of that investment can be recovered within this time window, de-risking the investment.

R&D

R&D

One of the immediate casualties of the vote to leave has been the impact on Universities' and Research Institutes' collaborations with other European Research centres. Uncertainty over how a member of a collaboration leaving the EU will affect funding of the collaboration, or even the assessment of the submission, has

assessment of the submission, has adversely affected engagement and participation in collaborative applications.

Having the ability to continue to collaborate on Research and Development projects as part of a European consortium is essential if we wish to remain at the forefront of scientific development.

NIFDA RECOMMENDATIONS RE R&D

- The UK government should ensure during exit negotiations a mechanism exists to maintain the UK's ability to engage in European consortium lead R&D projects and in other cross border R&D schemes.
- The Executive and the UK government should review the existing range of R&D support mechanisms and ensure, as a minimum, that they remain in place and are adequately funded post Brexit

Other issues

- Production and design of new packaging
- IT system enhancements
- Transport and logistics

The two common themes on these issues were cost (which will have to be absorbed) and more importantly, time – having the lead time to put the required changes in place with minimal business disruption. IT systems were mentioned as a significant risk for SMEs in terms of the congested demand on suppliers that might arise once the terms of exit are known.

NIFDA RECOMMENDATIONS

10 year transition period must be allowed for businesses to manage the technical and, for farming, inventory impact on transition.

BREXIT:
CHALLENGES &
OPPORTUNITIES FOR
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