

IGFA Briefing for the Joint Committee on Agriculture and the Marine

The impact of Brexit on the agri-food sector

Introduction

IGFA is the united voice of the compound feed manufacturers, feed material importers, grain intake and premix companies in Ireland. Collectively our members produce approximately 5.1 million tonnes of animal feed, provide employment for thousands of people throughout the country and are an essential partner in the Irish rural economy. IGFA's mission is to support our members by creating a political and economic environment that enables them to produce safe and nutritious feed profitably and sustainably.

IGFA welcomes this opportunity to discuss Brexit and its impact on the Agri-Food Industry with the Joint Committee on Agriculture and the Marine. The IGFA position on Brexit has been consistent since 2016. Our members believe that frictionless trade with the UK is absolutely vital for the Irish Feed Industry. We therefore need a trade agreement between the EU and UK that is free of tariffs, quotas and any other measures that will disrupt or add costs to feed supply chains.

Brexit and the Irish Feed Industry – Key Challenges

- The importance of imports for the feed industry

Ireland has a higher reliance on imported feed ingredients than other countries in the EU. We need to import over 50% of our feed material and additive requirements, compared to less than 30% for France and Germany and less than 40% for the UK. Countries such as France are less vulnerable to disruptions in trade due to large surpluses of home-produced grain (14m tonnes/annum) and easier access to supplies from around Europe. Ireland on the other hand will always need to import and our deficiency extends to both high- and low-grade proteins and cereals.

It is a concern that there are still some unanswered questions on how the tariff rate quotas (TRQs) and tariffs will work under the Northern Ireland Protocol. It is vital that, if these measures are introduced for imports, the system must be transparent and fair. They must also be implemented in a way that ensures Irish competitiveness is not compromised in relation to other markets.

Any increase in the cost of imports will add to the financial pressure on our businesses and our farming customers. Crucially, these extra costs for Irish beef and dairy farmers could come at a time when they are already facing a cash flow crisis due to Brexit impacts on their markets.

- Feed Supply Chain

The Irish and UK feed supply chains are completely interdependent and characterised by the constant movement of feed products between the two countries. Our industry is hugely reliant on access to the UK market for both animal feed imports and exports and the seamless movement of those products is critical for our sector. Disruption to those supply chains will have serious knock-on impacts for our customers and must be avoided at all costs.

The Irish feed industry is heavily reliant on the sustainability and quality of domestic cereal supplies. However, even if current tillage area is maintained, the industry is still only 37% self-sufficient in feed materials (raw materials), with the greatest challenge being high-protein supplement supplies. The interdependence of the

Irish and UK feed import and export supply chains will represent a significant challenge to accessing alternative sources or routes to supply. Currently some of the Irish border feed mills are highly dependent (80%) on feed material imports through ports in Northern Ireland. While we understand the Northern Ireland Protocol will cover goods, it is still not clear how logistics and transport will be impacted between these Northern Irish ports and the mills based in the Republic. Given the fact that port efficiency will be impacted both North and South, the feed industry would welcome funding for greater deep sea port access in Ireland and increased storage facilities at port and feed mills to deal with supply chain shocks.

- Increased controls

It is clear that whatever the outcome of the discussions on the future EU/UK trade agreement, from 1 January businesses will have to adapt to a new trading relationship with the UK and in particular Great Britain. The additional costs of increased controls, not to mention the costs associated with reduced efficiency, will impact the competitiveness of Irish products entering the UK market. The extent of the preparation that is necessary in all sectors is substantial and it is clear that many Irish businesses are struggling to be organised and equipped to deal with increased controls. This is a major concern and is likely to create huge disruption at ports. Significantly, it also means that those that have invested substantial time, energy and resources into Brexit preparation may also see the movement of their products hindered and delayed.

- Possible divergence in standards

There is a risk that the UK might diverge over time from the high product safety and authenticity standards enforced through EU law. Any reduction in the standards of production could lead to lower costs and increased competitiveness for UK producers. The UK may also adopt a new approach to approval and use of GMOs, new breeding techniques or pesticide authorisations which could also impact competitiveness. Since 2003 IGFA has been involved in the development of harmonised standards for feed safety across the EU. Under official controls member states are obliged take these standards into account. We would welcome a comprehensive discussion at technical and policy level on how these initiatives can be leveraged to help maintain standards and equivalence.

- Tariffs

Any impact of Tariffs on the food trade (meat, milk, eggs etc) with GB will have consequential knock-on effects on the feed industry. Of the 5.1 million tonnes produced in 2019, 3.1 million tonnes (60%) were destined for the ruminant sector and 25% destined for the intensive pig and poultry sector. A hard Brexit will see highest tariffs fall in beef, dairy and poultry sectors. It is evident that the feed businesses producing predominately ruminant feed will be immediately impacted. If a hard Brexit happens in January and this coincides with our main housing and calving periods, the cash flow crunch for beef farmers and dairy farmers as they watch their markets disappear will be serious. Access to emergency funding for farmers needs to be prioritised now for that period.

Furthermore, it is still unclear to the feed industry how EU TRQ products will be actually handled at the ports and in the situation where we unload at two ports, one in Ireland and the other in Northern Ireland. It is our understanding that these issues may be resolved in the Joint Committee, however we have no information on how our concerns will be addressed within this forum. To date DAFM has provided no clarification on their engagement within these discussions. This is a major concern for our industry.

- Prolonged uncertainty

Under normal circumstances Brexit would be a significant challenge for feed and food supply chains. However, as a result of the Covid19 pandemic, businesses, logistics and supply chains are already stretched and will need help to withstand extra pressure. These systems have weathered the strain of recent months but operating in a pandemic environment means it takes longer to react and adjust our business systems, particularly to a shock as big as Brexit. Obviously our members have been preparing for Brexit, but it is impossible to have the time, expertise and resources to prepare for every potential Brexit outcome. The ability to prepare for the Brexit 'unknowns' has been massively hindered by last minute political negotiations and a lack of clarification on the details related to trade.

It is clear also that prolonged uncertainty has put increased financial pressure on feed businesses at a time when feed companies are entering the peak feeding period. The need to prepare and contingency plan for the start of 2021 has required significant resources. For example, the industry has ‘front loaded’ deliveries over the next few months. This is specifically in order to stockpile ahead of 1 January 2021 and to protect upstream and downstream customers.

- Currency

It should be remembered that although it is inevitable that currencies fluctuate, small changes in exchange rates can have large effects when it comes to calculating floating tariffs and prices. In an industry that works on very tight margins, these fluctuations can have a severely amplified impact.

Immediate Action Needed

With just a few weeks left before 1 January 2021, all our resources and efforts should remain focused on achieving a trade agreement between the EU and UK that is free of tariffs, quotas and any other measures that will disrupt or add costs to feed supply chains.

- Business support

Given the extent of the trade in Agri food issues between Ireland and the UK there are inevitably going to be occasions when the systems break down. It is imperative that companies have a national emergency contact to guide them in the event of disruption or crisis. This contact point should be supported by Revenue, DAFM and others so that problems are resolved in a coordinated way.

The prolonged uncertainty, lack of clarity and complexity of adjusting to a new trading environment will impact on all trading stakeholders. This must be understood by those enforcing the new trading measures required by Brexit and they must be empowered to act in a rational and pragmatic way that allows adequate enforcement but manages risk and limits disruption and congestion.

Despite the fact that many feed businesses have employed new staff or redirected staff onto Brexit issues, explored new supply chains, made changes to their supply routes and updated computer systems, there is limited confidence that the transition to a new trading relationship with the UK will be a smooth one. It is clear that even if there is a trade deal, costs for feed businesses will increase. If there is no trade deal however, costs will spiral. The €5 billion Brexit Adjustment fund, agreed under the EU budget for countries and sectors worst-hit by Brexit, must therefore be available to Irish food and feed businesses and activated swiftly to avoid significant and lasting market disruption.

- Stakeholder engagement

As already highlighted, we would welcome access to the deliberations of the Joint Committee and specialist committees and would welcome the opportunity to provide expert evidence either through the Commission or through the Irish authorities. The DAFM Ministerial and technical bilateral and trilateral (UK/NI/IE) meetings, should have publicly available agendas and minutes in the future. This will be essential so that all stakeholders in the chain remain updated and informed.

The Irish feed and food industry face many challenges over the coming years on trade, sustainability and ensuring profitability along the chain. Given the inevitable complexity that will surround our future trading relationship with the UK, we need to ensure that government is working hand in hand with industry. It is also equally important that the various government departments are in constant consultation with one another. This is vital to address problems and challenges in a coordinated way and ensure the competitiveness, efficiency and resilience of our valued feed and food businesses.

- Training and information

Over the past few months there have been various webinars and training sessions to help prepare businesses for Brexit. Many of our members have found these useful and informative. We recognise the difficulties associated with preparing for Brexit, the uncertainty that the politics has created and the intense resource that is needed. However, sector specific briefings/workshops where concerns and issues can be raised directly with

relevant DAFM staff are a necessity to ensure feed businesses have the confidence and knowledge to make adequate preparations for a changing trade environment.

There is no doubt that training will need to continue throughout 2021. Many in our sector will still be working under the difficult conditions created by Covid19 and will need ongoing guidance to help overcome the obstacles created by Brexit. Accessible, succinct and sector friendly training and information must be made available highlighting lessons learned in the first few months of Brexit and including support and instruction on how to handle the trading challenges that arise.

IGFA Member View

Connolly's RED MILLS

Connolly's Red Mills is a family business based in County Kilkenny. It has been a leading name in animal feed and nutrition for over 100 years and serves national and international markets with exports to over 70 countries. The company, creating employment for 370 people, produces feed and supplements for horses, pets, farm animals and people with a focus on maintaining and enhancing health, well-being and performance.

- Farming customers

We are concerned that tariffs on beef products going into the UK will make Irish beef production unviable and drive many producers out of business. This shock will be immediate and dramatic and will have knock on effects on a multitude of sectors in rural Ireland including ourselves. As a significant supplier of animal feeds and farm inputs to Irish farmers, we anticipate massive cash flow issues if cattle can't be slaughtered and farmers can't pay their bills. A similar effect will impact dairy producers owing to the importance of the UK as an export destination for Irish dairy products.

- Maintaining viable businesses

We have built up a significant business in the UK in premium racehorse feeds, pet foods and supplements employing 17 people there and a similar number in Ireland supporting this business. Further third-party jobs exist in warehousing and transport. This business will become unviable in a no-deal scenario with WTO tariffs.

- Increased costs and administration

We make 6,500 deliveries per year in the UK and Brexit will bring added costs in the form of increased administration including customs documentation. 2 extra people will need to be employed to comply with the enhanced requirements. These costs will not be recoverable.

- Preparation

We believe that the Irish Government should prepare for the impact of Brexit by having accessible funding available immediately to both farmers and Agri businesses to get them through the financial storm that will arrive in January.

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