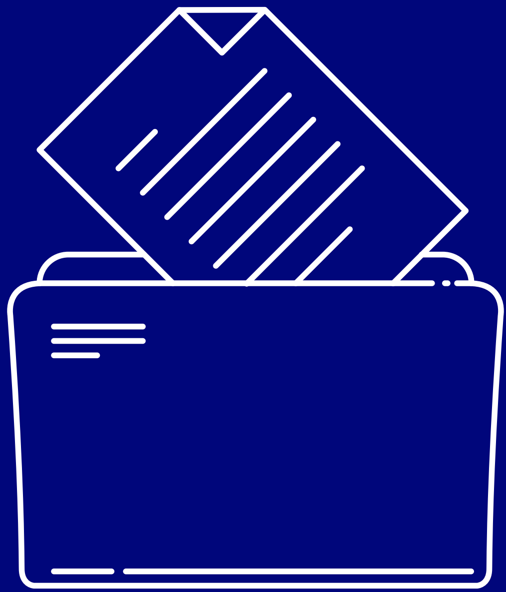


Proposed Tariff Changes by Sector

Agri-Food & Manufacturing

Bank of Ireland

Introduction

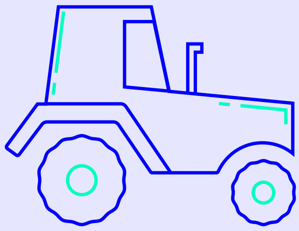
In March 2019, the UK Government published a list of indicative tariffs that would apply to imports in the event of a no deal. The principles behind this initial list were to protect industry in the UK without increasing inflation for consumers in sectors where it was not self-sufficient. At the time, the UK Government outlined that 87% of imports would be tariff free.

On Wednesday 21st May 2020 they published an updated tariff list. This tariff list would apply only in the event of a no deal. It would appear that the position has notably hardened from the earlier proposal. Now, only 60% of goods are tariff free. The burden of this change has fallen particularly on food.

The withdrawal agreement provides for uninterrupted tariff-free trade between both jurisdictions on the island of Ireland. This means, even in the event of no deal, these tariff proposals would have no impact on goods moving from Ireland to Northern Ireland. While there was some additional information provided by the UK Government around customs checks and paperwork between the Island of Ireland and the UK, the proposal still remains unclear given the commitment to avoid checks on movement of goods at the land border in Ireland, and on movement of goods from Northern Ireland to the rest of the UK.

These issues have the potential to have a significant effect on Irish Industry; however this note only deals with the proposed tariff changes as they relate to Agri-Food and Manufacturing exports.

Agri-Food Sectors



Sector analysis

The total value of Agri-Food exports last year (including forestry/animal foodstuffs) was €14.4bn, of which 32% (€4.6bn) went to Britain. The new UK proposal would see 83% of this value attracting tariffs. We look at the key sectors below:

Beef

- ✓ The proposals would add a weight based tariff cost of £2.53/kg (€2.83/kg) plus a further 12% of the product value on entry to Britain from Ireland. For context, current farm gate beef prices are in the range of €3.55/kg-€3.70/kg. These tariffs would double the cost of beef exported from Ireland to Britain making it uncompetitive to lower cost producers in South America.
- ✓ Given that the UK is only 65% self-sufficient in beef, and that Ireland supplies almost 70% of UK beef imports, any reduction in access would have a very negative impact on the Irish beef sector. The UK accounts for 50% of Irish beef exports and if these exports are displaced they would have a destabilizing effect on the overall EU market which is mature.

Dairy

- ✓ ICOS, who represent 130 Irish co-ops, has estimated the cost of UK tariffs on the 138,000t of cheese and 42,000t of butter exported to the UK in 2019 at €287m – the equivalent of 3c/l on every litre of the country's 8bn litre milk pool.
- ✓ Around a third of Ireland's dairy exports go to the UK. Cheddar cheese is the most impacted with approx. 50% of all cheese exports going to the UK. Ireland is the only significant exporter of cheddar to the UK market and the UK market is the only market of significance for Irish cheddar. Ireland accounts for some 82% of all cheddar imported by the UK. Therefore the loss of or restricted access to the UK market could have a destabilizing impact on the overall value of the Irish dairy sector.

Other meat sectors

- ✓ While almost 50% of Irish pork is consumed on the island, over 25% is destined for the UK. Most of this will be the subject of tariffs, in the event of no deal. Tariffs are up to a value of £131 per kg. Like pork, the majority of our chicken is consumed on the island; however the UK represents 58% of our total exports of poultry.
- ✓ Some tariffs in this sector are particularly punitive, up to £2313 per kg. These high tariffs apply to approximately 30% of our poultry exports – in particular prepared meats.

Fruit and vegetables

- ✓ Exports to the UK in this sector are primarily focused on mushrooms. The UK is proposing a 12% tariff. This is a departure from the previous proposal when the tariff proposed was zero.
- ✓ The UK needs to import over 70% of its mushrooms so this proposal will inevitably lead to consumer inflation, although retailers may attempt to push back the price increase to the growers. The industry is in a relatively good shape due to consolidation in the sector and improvements in productivity. Due to labour issues and difficulties around sourcing compost it is unlikely that UK producers could displace Irish growers significantly.

Prepared food including confectionery, biscuits and bakery, pizza, juices, jams

- ✓ These sectors would have a significant focus on the domestic market and as such in the event of a no deal, could replace UK imports that would be subject to tariffs. However, they account for 22% of our total exports to Britain. Britain traditionally offered an easier export market due to the closeness of our taste profiles.
- ✓ Almost 61% of these sectors total export value is to Britain. Bakery and Confectionery products would attract an 8% tariff in the event of no deal. Juice tariffs are 18% for apple and 12% for orange.

Beverages including alcohol and soft drinks

- ✓ This sector is not particularly exposed to the UK with only 13% of exports going there. Almost half of the value here would be tariff free – whiskey, liqueurs, beer and most spirits all escaping proposed tariffs. Soft Drinks will attract a tariff of 8% and cider will attract a volume based tariff.

Manufacturing Sector

Non-food and drink

Over 65% of Ireland's goods exports to the UK in 2019 were non-food, drink and live animal related products and they constitute 9,000 individual product codes of which 4,885 (54%) will incur a tariff under the new UK proposal. Some sub- sectors would be affected to a larger extent than others and some SME's will be indirectly affected as suppliers to the large exporters to the UK. We look at the key sectors below:

Chemicals and mineral products

- ✓ Of the 1,818 products in this category 74% of them would incur a tariff. The majority of chemicals, powdered and liquid, would attract a levy in the region of 4% to 6% with the highest tariff of 8% applied to propane.
- ✓ Ceramics and ceramic products would range in tariffs between 0% and 2%. Of our 2019 exports to the UK, chemicals contributed 27% which would leave this sector very exposed however it is dominated by very large multinational companies here and SME's are less exposed.

Pharmaceuticals, oils, fertilisers and plastics

- ✓ Of the 1,305 products in this category 74% of them would incur a tariff. The majority of plastic products would attract a levy of 6% with the highest tariff of 8% applied to glues and dyes while lubricants would attract a tariff of 4%.
- ✓ Large Pharma and medical companies account for 10% of our UK exports in 2019 and our SME's would be indirectly affected as suppliers to these large companies.

Leather goods, wooden products, paper, pulp and printed materials

- ✓ Of the 172 products in this category 25% of them would incur a tariff. The majority of leather products would attract a levy of 8% with the highest tariff of 10% applied to laminated woods while rubber based products would attract a tariff of 6%. This is a sub-sector that is highly dependent on the UK.

Textile products, silk, wool, rope, carpets and textile floor coverings

- ✓ Of the 722 products in this category 67% of them would incur a tariff. The majority of woven fabrics would attract a levy of 8% with the highest tariff of 10% applied to twine and ropes while carpets and floor coverings would also attract a tariff of 8%. This small industry would be in a precarious situation as they are highly dependent on UK market.

Clothes, footwear and headgear

- ✓ While crocheted products would attract no tariff under the proposals all other clothing, footwear and headgear manufacturers would be paying tariffs into the UK from 2% up to 16%. Footwear would incur the highest tariff of 16% while adult and children's clothing would attract a 12% tariff and babywear at 10%.
- ✓ Ireland has reduced its' output of clothing and fabrics over the past thirty years however for the remaining businesses in this low margins industry the impact would be high.

Glassware, glass, aluminium, ceramics and plaster products

- ✓ Overall 20% of products in this category would incur tariffs with some individual products impacted to a large extent. Ceramics and ceramic products would range in tariffs between 0% and 2% however glassware would incur a tariff of 10% with glass materials and aluminium products at 6%.

Vehicles, mechanical equipment, mechanical parts, electrical and electronic devices

- ✓ This is a very broad category consisting of 2,219 items of which 40% would incur a tariff ranging from 0% to 18% and this sector contributed 14% of our total UK exports in 2019.
- ✓ While completed vehicular products is a small industry here the few companies involved would be severely affected with tariff of 16% applied to completed buses and 10% on completed cars with combustion engines incurring a sizeable tariff of 18%.
- ✓ The large sub-sector of electrical and mechanical equipment and component manufacturers would see tariffs ranging from 2% to 8% levied on their exports to the UK and this would hit the low value component manufacturers hardest. Our Airspace supply chain here is likely to see no change with tariffs remaining at 0%.

Medical, surgical, optical and musical instruments

- ✓ Our growing Medtech sector and the precision engineering companies serving these markets will be happy to see that tariffs are unlikely to be introduced for their products under the new proposal.

Miscellaneous manufactured articles

- ✓ A varied range of products in this category, with a total of 564 items, with 42% of the total levied with tariffs up to 6%. Watches and clocks would incur tariffs ranging from 4% to 6% while furniture and lighting products could incur a tariff of 4%.
- ✓ Optical components are likely to attract a tariff of 2% and given the high value of these products it may not cause an issue for most companies.

Sources:

Proposed UK Tariffs from the UK Government Website: check-future-uk-trade-tariffs.service.gov.uk/tariff
Export Statistics: CSO Ireland

Bank of Ireland is not responsible for the information on third party websites.

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