BIRTWISTLES

Market Report

MARCH 2019

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Brexit Update

This month will no doubt be one of the most unpredictable and testing times in terms of where we all will be after 29th March. This will be unchartered territory for all involved in the Industry with no clear indications on tariffs for importing goods from the EU. Bbelow is the latest update from the government outlining the purpose, before and after March 29 th and the implications on both outcomes.

Purpose

Delivering the deal negotiated with the EU remains the government's top priority. This has not changed.

The purpose of this notice is to inform businesses and other interested parties about the government's plans to ensure continuity for the UK's existing trade agreements with partners outside the EU if we do not reach agreement with the EU on the terms of our withdrawal prior to 29 March 2019.

While the UK government is confident that it will agree a deal and a time-limited implementation period, as a responsible government it will continue to prepare for all scenarios, including the outcome that the UK leaves the EU on 29 March 2019 without a deal.

This is contingency planning for a scenario that the UK government does not expect to happen, but people should be reassured that the government is taking a responsible approach.

Before 29 March 2019

In 2017, ONS data showed that trade with third countries with EU free trade agreements accounted for around 12% of the UK's total trade. Businesses in the UK, EU and partner countries are eligible for a range of preferential market access opportunities under the terms of these free trade agreements. These can include, but are not limited to:

•preferential duties for goods. This includes reductions in import tariff rates across a wide range of products, quotas for reduced or nil rates of payable duties, and quotas for more relaxed rules of origin requirements.

•enhanced market access for service providers.

•access to public procurement opportunities across a range of sectors.

•improved protections for intellectual property.

For continuity and stability for businesses, consumers and investors, we are committed to ensuring these benefits are maintained, providing a smooth transition as we leave the EU.

We are currently working with partner countries to prepare for a range of possible scenarios to maintain existing trading relationships.

After March 2019 if there's no-deal

During any implementation period, arrangements would be put in place with partner countries so that the UK is treated as an EU member state for the purposes of international agreements, including trade agreements.

In the event of a 'no deal', there will be no implementation period. In this scenario, the government will seek to bring into force bilateral UK-third country agreements from exit day, or as soon as possible thereafter.

These new agreements will replicate existing EU agreements and the same preferential effects with third countries as far as possible, whilst making the technical changes needed to ensure the agreements operate in a bilateral context. Ministers and officials are engaging regularly with partner countries to complete this work. When we reach final agreements with partner countries will depend on our ongoing discussions with them.

Should arrangements to maintain particular preferences in a no deal scenario not be in place on exit day, trade would then take place on a 'Most-Favored Nation' (MFN) basis, which is sometimes referred to as 'World Trade Organization (WTO) Terms', until such a new arrangement has been implemented. Under WTO rules, the principle of MFN treatment means that the same rate of duty, on the same good, must be charged to all WTO members equally. This principle is subject to certain exceptions, including if a free trade agreement is in place. For services, the MFN principle means WTO members are required to grant treatment no less favorable to services and service suppliers of any other WTO member, than that which they grant to like suppliers from any other country.

In leaving the EU, the UK is regularizing the terms of our WTO membership because our commitments are currently contained within the EU schedules. We are working closely with WTO members to ensure a simple, fair, and transparent transition in establishing the UK's independent WTO schedules, in a manner that minimises disruption to our trading relationships.

The UK is already a full member of the WTO, and negotiations are ongoing for us to become independent members of the WTO Agreement on Government Procurement, on the basis of its current commitments as a member of the EU. Separate to seeking continuity for existing free trade agreements, powers in the Taxation (Cross-border Trade) Act 2018 enable the UK to put in place a UK unilateral trade preference scheme for developing countries as the UK leaves the EU. In the first instance, it is intended that this will provide the same level of access as provided by the current EU trade preference scheme. This will maintain tariff free access for Least Developed Countries and continue to offer generous tariff reductions to around 25 other developing countries.

Implications

In the event of a 'no deal', EU trade agreements will cease to apply to the UK when we leave the EU.

Our intention is that the effects of new bilateral agreements will be identical to, or substantially the same as, the EU agreements they replace. However, users of current EU free trade agreements should be aware that, in contrast to the current situation and during any Implementation Period, there may be practical changes to how they make use of preferences under these new agreements. For example, UK and EU content will be considered distinct, and each new agreement will individually specify what origin designations may be used to qualify for preferences. We will aim to limit these changes as far as possible, but the final form of new agreements and any resulting changes will depend on ongoing discussions with our trading partners. The Trade Bill contains a reporting requirement stating that the government will publish a report before these new free trade agreements are ratified on any significant changes to the new trade-related provisions.

Where arrangements to maintain particular preferences in a no-deal scenario are not in place by exit day, trade would take place on WTO terms. Under such terms, traders would pay the applied MFN tariff. This is the tariff applied equally to all countries in the absence of preferential arrangements. In the event of no-deal, the government will determine and publish a new UK MFN tariff schedule before we leave the EU.

We will like all others in the industry need to act on and implement any changes immediately that will have a direct effect on our procurement, supply and any other arears where business could be effected.

Prices will be effected in this case and we will need to act swiftly to limit the impact on our business and pass these on where necessary.

Market Report

MARCH 2019

Beef Overview

UK beef imports drop in December

UK fresh/frozen beef imports were down in December, by 17% compared to a year earlier to 20,300 tonnes. Increased imports for much of the year have been driven by frozen boneless cuts. Imports of frozen boneless cuts have been easing since October, with cold storage reportedly becoming full in the UK, which is likely having an impact on the import trade. Declines in shipments have come from Ireland (-2,800 tonnes) and the Netherlands (-300 tonnes) along with a number of other smaller suppliers.

Overall however, beef imports in 2018 are up on 2017 levels and totalled 284,000 tonnes, an increase of 3% year-on-year. Increases in shipments from Ireland, Italy and Brazil have been slightly offset by a decrease in shipments from the Netherlands, Poland & Germany. Poland in particular has recorded a decline in shipments when at the start of the year it was expected imports from Poland may increase. Strong demand from Turkey has shifted the attention of Polish exporters recently, who face tough competition in the UK from Irish and Dutch exporters. The value of imports in 2018 was up 6% to total £1.1 billion.

UK fresh/frozen beef exports in December were down by around 2% to total 9,000 tonnes. Despite shipments to Ireland increasing slightly, a reduction in deliveries to the Netherlands (-5%) and Hong Kong (-34%) lead to an overall decline. **Ireland remains the main destination for UK beef, totaling 3,200 tonnes in December which again will put pressure on prices for home sourced beef.**

NI beef herd continues to fall

This news coupled with the ongoing current no scenario with a no deal Brexit will undoubtedly put pressure on prices for Irish (UK) Beef with shortages becoming a reality.

As of December 2018, there was a total of 1.58 million cattle in Northern Ireland, according to the latest Northern Ireland Agricultural Survey by DAERA. This is a 3% decline compared to the previous year. The number of dairy cattle has declined marginally since 2015, while the number of animals reared for beef has fallen by more, 5% on the year.

The latest results also indicate some shifts in terms of the make-up of the herd. The number of cattle aged over 2 years continued to expand, while there were fewer cattle aged by 1 to 2 years declined by 2% on the year.

The overall number of cattle aged between 6 months to 1 year declined by 5% while cattle under 6 months declined by 4%, and will have implications for beef production next year.

Market Report

MARCH 2019

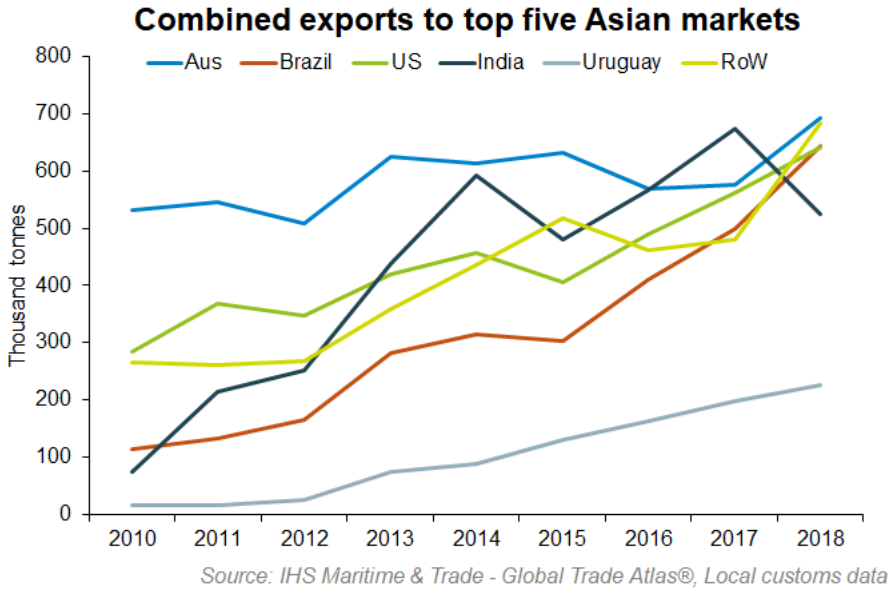
Global beef price update

Asian beef demand strong in 2018

Beef demand throughout Asia continued to grow in the second half of 2018 after a strong start to the year. The top five importers of beef *(China, Vietnam, Japan, and Hong Kong & South Korea)* remained unchanged in 2018. With the exception of Vietnam, all have increased shipments in 2018 in the year to November. Most significantly, Chinese imports of fresh/frozen beef were up by 50% during the period, totaling just over 1 million tonnes, according to Chinese

Import data. Australia, the US and a number of South American countries have been capitalising on the growth in these large markets, with all substantially increasing shipments to the region. This greater competition in the area has pushed
Out some of the smaller exporters, especially EU countries (Ireland, Netherlands and UK) where the export price has perhaps not been as competitive.

In the 11 months to November, beef imports were up around 24% , based on exporting countries' data. India still provides most of the beef to the region, in the form of buffalo meat. Behind India, Australia is the next largest exporter to the region, with exports to the region up 4%. Indonesia is also a fairly large market for beef within Asia, importing around 160,000 tonnes of fresh/frozen beef annually, up 38% year-on-year.



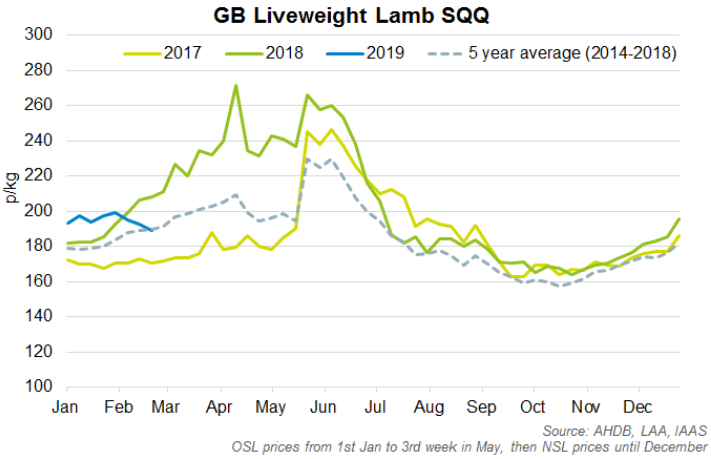
Market Report

MARCH 2019

Lamb Overview

Liveweight lamb prices pick up

The upward trend in Lamb continues through February with slaughterings almost 16 % below compared to 2018. Price starting to gain momentum at this time last year as cold weather started to set in. However, the price is now much in line with the 5 year average for the time of year.



Despite a weekly rise, throughputs continue to be lower year on year, however there are still a number of heavy lambs coming through which will affect the finished quality and eating quality. Only 62% of Old Seasons lambs were within the SQQ this week. Auction market throughputs for the week totalled 106,000 head.

Contrastingly, during the week ending 23 February the GB deadweight price fell over 4p on the week to average 419.7p/kg. This has resulted in the current price slipping below the 5 year average, by 8.2p.

Over finished lambs maybe be affecting the deadweight price and quality. A recent spell of good weather, and a relatively kind winter on the whole, will likely have boosted lamb growth rates, catching up from growth lost over the summer. A lack of natural food (grass) from farmlands may also mean more concentrate than usual is being fed, possibly affecting normal finishing regimes and contributing to higher prices.

Imported Lamb

Higher global prices and weaker sterling continue to drive trends in sheep meat trade

UK imports of sheep meat increased by 1% year-on-year in December, bucking the trend of the rest of 2018. The UK imported 6,800 tonnes. During the whole of 2018, UK imports decreased almost 4% year-on-year. This makes 2018 the lowest year on record for imports keeping UK Lamb prices high.

Imports from New Zealand increased 10% year-on-year during December. Imports from Australia also recorded a rise, 24% . Although a much smaller supplier, imports from Ireland decreased by around a third. In part this is a reflection of lower Irish production, according to production data. Ireland has increasingly been looking to diversify the destination of its exports, potentially in-case of a 'no-deal' Brexit.

The rise in shipments from Australia could also potentially be a reflection of on-going Brexit un-certainty. The EU-Australia sheep meat quota of 19,186 tonnes, which is typically filled in any annual year, is going to being spilt 80%/20% with the larger share assigned to the UK. However, in recent years, a reference period of 2013-2016 was used for splitting EU quotas, Australia sent a larger proportion of shipments to the EU-28 into the EU excluding UK, according to data from the Australian Bureau of Statistics. Therefore, exporters in Australia could have been using the last few months of 2018 to increase relations with UK importers again which could see more imported lamb from Australia becoming available.

France remained the largest destination for UK sheep meat during December, taking 3,800 tonnes.

Pork Overview

UK Pig Meat Market Update

GB pig prices continued on a downward track in the run up to Christmas. Prices have continued to fall in subsequent weeks, as is normal in the early part of the year, and by week ended 19 January, the Average Pig Price stood at 143.64p/kg. This is around 3p below the pre-Christmas level and over 7p less than the same week last year.

The gap between the APP and the Standard Pig Price widened again in December, as the latter fell more significantly by almost 2p, to average 141.91p/kg. The difference of 4.57p/kg was the largest since July 2014, suggesting that prices for premium pigs have held up more than average in recent weeks. Industry reports also suggest that demand for the “RSPCA assured” pigs was strong in the run up to Christmas, contrasting with weak demand for standard pigs subjected to greater competition from imports. By the week ended 26 January, the SPP had fallen to 138.71p/kg and the year-on-year drop was around 8p.

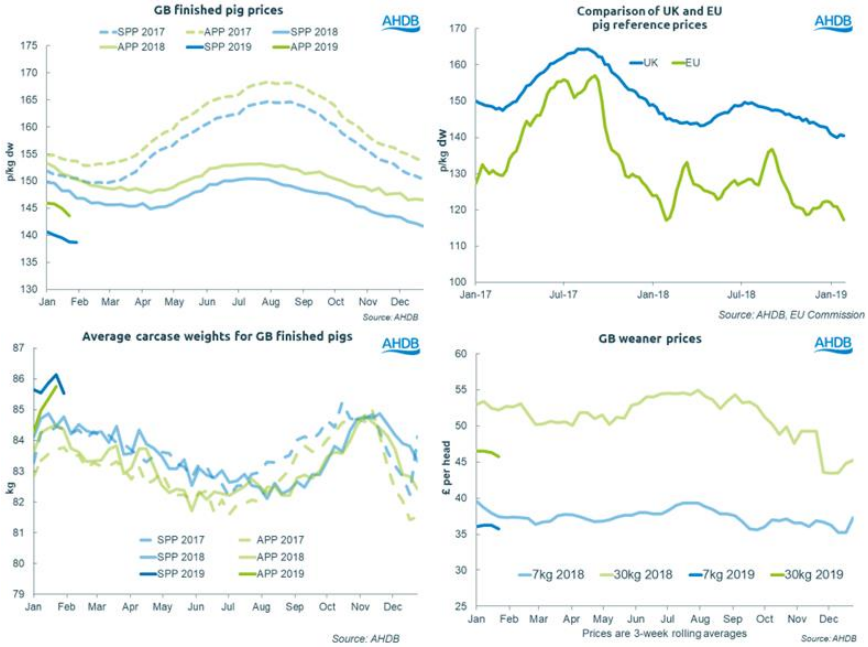
Pork remains a very good alternative to more expensive beef and lamb cuts with demand from chefs and pub groups for loin steaks and roasting joints on carvery’s becoming a better option than Lamb increasing on a monthly basis.

Having been higher throughout December, carcase weights started 2019 at record levels. This has compounded the increased slaughtering levels, contributing to the higher supplies and lover prices.

The average SPP weight of 84.01kg in December was around half a kilo lower than November, as a backlog of rolled pigs cleared. However, it was well up on the 82.65kg recorded in December 2017, perhaps reflecting fewer pigs pulled forward this year.

Market Report

MARCH 2019



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The GB weaner market has shown some volatility in recent weeks. During December and early January, 30kg prices have varied between £44 and £48/head, but overall the market seems to be following a general downward trend. December's average price of £45.31/head was £1.75 lower than November's. Prices remain over £7 lower than a year ago as concerns over feed costs limit demand from finishers. Reflecting this, prices for 7kg weaners have also trended down, with the average in December £1.50 lower than the previous month at £35.33/head.

EU PRICES

Tighter supplies ahead may be a reality due to a decline in breeding herds as Chinese import demand may start to pick up.

EU pig prices were flat from the start of November to the end of 2018. The EU average reference price averaged €135.65/100kg in December, almost exactly the same as in the previous month. The average price ended the year at around €135.47/100kg, over €16 lower than the peak in early September and €4 down on the end of 2017. The price has resumed a slight downward trend in January.

Market Report

MARCH 2019

Poultry overview

British poultry meat farmers and producers are calling on the Government to take action to prevent the UK from leaving the EU with no-deal.

This will no doubt be the protein most under pressure in terms of price and availability.

In the event of a no-deal Brexit, there will be increases in the costs of production which would be reflected in the price of fresh UK chicken. We estimate in the worst case no-deal scenario, the price of breast meat could rise by 25%.

This is making the switch to EU alternatives a viable option if the supply chain is not effected due to a no deal Brexit.

Industry News

The British Meat Processors Association (BMPA) have reported that despite Brexit still being 31 days away, the axe has already fallen for some British meat exporters.

BMPA say the problem is threefold and affects the whole food supply chain

1. Delays in announcing what tariff rates will apply in the event of a no-deal Brexit mean that shipments to overseas markets that set off tariff-free will arrive at their destination after 29th March and be subject to an, as yet, undetermined tariff. Those overseas customers have no way of knowing how much extra they will be required to pay.

2. The insurers that cover these consignments and facilitate the movement of goods between countries are refusing to indemnify against losses related to a no-deal Brexit.

3. There is also confusion about which health mark should be used. The health mark is the stamp that indicates which plant meat has been processed at, and is a key factor in ensuring traceability and provenance. So far, no decision has been made by Government over what this mark should be. Also, no formal acceptance of our change of status as we cease to be an EU member state has been received from our major export markets. This means that there is a real danger that any product that gets shipped bearing the wrong mark will be turned away at its destination.

BMPA point out that during this month, UK meat processors will be faced with the conundrum that they will be buying animals to process without any understanding of what the market may look like post 29th March. And, say BMPA, it won't be a simple matter of selling more product into the UK market because most of the £1 billion worth of meat exported is made up of cuts that are popular overseas but not here in Britain.