



# **BIRTWISTLES**

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*Market Report*

**BREXIT UPDATE**  
October 2019

# Market Report

## BREXIT UPDATE



### Brexit Update

#### Uncertainty, delays and confusion reign.

The existing state of the UK's Brexit plans are driving huge concerns across the meat industry both in the UK and in the 27 EU Member States with the spectre of a no-deal exit still a possibility.

Uncertainty surrounding Brexit and its effect on the trading relationship between the UK and EU continues unresolved. Although, recent trade agreements between the EU and Japan, and more recently between the EU and Mercosur, demonstrate progress for the EU in widening tariff reduction.

The European Union and South American bloc Mercosur\* have struck a trade deal after two decades of negotiations. The EU is already the largest trade and investment partner for the grouping of Argentina, Brazil, Paraguay and Uruguay. This partnership is likely to grow further as tariff reduction is implemented.

*\*= a trading block composed of Argentina, Brazil, Paraguay, Uruguay, and Venezuela, with associate members Bolivia, Chile, Colombia, Ecuador and Peru*

This may create new opportunities, as well as challenges, for the food sector as countries like Brazil become an increasing new source for food ingredients such as Brazilian beef.

The beef sector is one of the most contentious areas of debate surrounding the EU-Mercosur FTA. Several farming groups and EU agricultural representatives have voiced opposition to the deal, saying the surge of South American beef exports to Europe threatens the livelihoods of EU farmers.

EU farmers have raised concerns that EU beef will not be able to compete with South American beef, taking sales away from EU farmers. At the same time, they have also signalled that South American beef imports can fail to meet EU standards on traceability, food safety, animal health, environmental and labour law. The cheaper methods used to produce South American beef means that it is likely to undercut beef prices produced in the EU.

The EU-Mercosur deal allows for 99,000 tonnes of South American beef to have free access to the EU market, which is down from the 300,000 tonnes that EU officials claim South American countries initially sought after in early negotiations. EU sanitary and phytosanitary standards will also not be relaxed and remain non-negotiable in the agreement. This means that no hormone beef or genetically modified organisms (GMOs) will be accepted.

Regardless of the conditions of the deal, EU farmers already compete with South American beef within their import quotas. The influx of more beef will prove a challenge to EU beef sales. Furthermore, with the imminent Brexit deal which is set to limit the UK as an export market for EU beef producers, especially in Ireland, many are concerned about the future of their beef exports.

Given this the Agriculture and Horticulture Development Board (AHDB) and International Meat Trades Association (IMTA) published some guidance – the highlights are covered below.

The key points for **beef and lamb**:

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- The EU's role as a consumer of UK sheep meat means the sheep sector is most vulnerable to a no deal Brexit. These exports will now face tariffs and, although some imports will also be subject to equal measures, it's expected the UK will be oversupplied with lamb for some time. The beef sector is perhaps at less risk and no huge changes are expected overnight. However, markets will eventually be more open to global competition.
- Import tariffs are proposed for sheep meat imports at the same level imposed by the EU and so it's expected that trade will be affected. However, tariff free access to the UK for New Zealand and Australia will remain.
- It's expected that the UK will be oversupplied with sheep meat in the short term and the market will have to adjust.
- Import tariffs are proposed on beef at a rate lower than the EU's existing external tariffs. A tariff free quota has also been proposed.
- This means that beef trade is unlikely to change dramatically in the first few months after Brexit. However, the new tariff rate quotas are available to all countries with a licence to export to the UK, not just EU member states.
- It's expected that the market will adjust over time, perhaps to accommodate more competitively priced beef from outside the EU.
- In the shorter term there is likely to be difficulty for those exporting cow beef for further processing in the EU and this may influence the UK price.

### Key points for **pork**:

- The UK is a net importer of pig meat products, particularly processed pork. However, considerable volumes of pig meat products are both imported from and exported to the EU. Under a no deal situation, proposed UK tariffs mean there will be significant differences in the tariffs for imports to the UK, and for exports into the EU. These differences will bring several challenges for the industry.
- Import tariffs are proposed on most pig meat products, at a rate lower than the EU's existing external tariffs.
- Although pig meat imports are unlikely to change dramatically in the first few months after Brexit, it is expected that the market will adjust over time, perhaps to accommodate more competitively priced pork from outside the EU.

### Key points for **poultry**:

- The UK is a net importer of poultry meat products, particularly breast meat. Under a no deal situation, proposed UK tariffs mean there will be significant differences in the tariffs for imports to the UK, and for exports into the EU.
- Import tariffs are proposed on most poultry meat products, at a rate lower than the EU's existing external tariffs.
- Like pork, poultry meat imports are unlikely to change dramatically in the first few months after Brexit, it is expected that the market will adjust over time.

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## IMTA Tariff Rate Quota Summary – In event of a no deal Brexit

### Beef

Currently the UK imports annually 270,000 metric tonnes (MT) of beef on a mix of free trade agreements (EU) and TRQ basis. Should there be a no deal Brexit there will be change to how quotas are managed. This will see autonomous quotas for beef on a quarterly apportionment and a 1<sup>st</sup> come, 1<sup>st</sup> served basis. Of the 270k MT 124,401.5 MT will be duty free – split as below

Any remaining beef would be subject to a reduced tariff and levy as detailed below of 6.8% and £1.455\*. This is a reduction from the current status of a 12.8% tariff and £2.75 ppkg levy.

\*Note: *The conversions based on £ v EURO rate of 1.10*

The consequence of this would see a potential reduction in beef price – particularly for Brazilian based on the removal of the current Hilton quota system\* rate of 20%. Due to the small Hilton quota, 3k MT for Brazilian imports they've generally been costed rather on the Hilton 20% on full a tariff & levy basis– *cost price + 12.8% tariff + £2.71 ppkg levy*. However, for the Argentinian (28k MT) and Uruguayan (11k MT) producers this would mean be significantly different based on their volumes. The costing even based on the reduced UK TRQ they'd be £500 per metric tonne below the prices they current enjoy under the Hilton quota system for traders to maintain current sales price. This not something the market expects them to do. Under this system 1000's of tonnes of beef are shipped in to the EU via Holland and then transported around Europe on a Free Trade basis to other EU Member States. Under a no deal Brexit this would exclude the UK. As the quote is based historical volume performance and that such a vast amount comes via Holland the UK share of this quota is a very small number, 111 tonnes, approximately 11 containers.

### Beef Quotas (in the event of no deal)

Tonnes	Order Number	Qtr 1 (April-June)	Qtr 2 (July-Sept)	Qtr 3 (Oct-Dec)	Qtr 4 (Jan-March)	Total
Chilled Beef	097701	28,964.40	29,690.90	36,146.10	29,600.10	124,401.50
Frozen Beef	097702	13,641.40	14,671.50	15,548.70	12,356.30	56,217.90
Processed beef	097703	12,621.40	13,318.60	13,031.40	11,072.00	50,043.40

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### Example - Beef

	Outside Quota		
	Example	Duty	
		Ad valorem %	Specific euro/100kg
Beef	Chilled boneless	6.80%	160.1
	Frozen boneless	6.8%	160.50
	Corned beef	8.80%	
	Other cooked beef	8.80%	

*\*Note: The current "Hilton" quota for consists of 58,100 tonnes of high-quality fresh, chilled and frozen beef. The suppliers are Argentina, Brazil, Uruguay, Paraguay, USA, Canada, Australia and New Zealand. The Hilton Quota beef enjoys a duty preference vis-à-vis the European Union Most Favoured Nation import regime. Currently at 20%.*

The quota system is expected to be managed in a similar manner to the current grain fed process with traders able to log on and see what quota has been used and what remains available for use. It is understood that quotas will be applied at the point of arrival at port. The key point to note is that these volumes are open to everyone, retailers, foodservice, manufacturing etc. hence it has the potential to become a race to secure as much duty-free beef as possible. This situation is far from ideal from a pricing perspective and means prices would need to be based on full, albeit reduced tariff and levy basis as guaranteeing securing duty-free volume would be high risk for any business.

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### Lamb

Imported lamb is likely to be the worst hit should there be a no deal Brexit (the Free Trade arrangements with Australia and New Zealand that the UK currently enjoys is a part of an EU agreement and unless a new is reached autonomously their lamb would be subject to the tariff and levy rates below.

Sheepmeat

- No autonomous quotas
- No duty reduction
- Full duties set out below

Sheepmeat			
	Chilled legs	12.80%	222.7
	Frozen legs	12.80%	167.5

To put this in context it means the price for lamb leg being north of £8.70 ppkg. This is based on the current leg price of £5.95 ppkg + £0.76 ppkg tariff (12.8%) + £2.02 ppkg levy. This is not something the market could sustain for imported which would mean the UK would be solely reliant on home produced lamb.

### Pork

In the current climate the proposed full tariff on pork of a flat £0.104 ppkg isn't necessarily going to make a massive impact but will need to be recovered.

Example – Pork

	Outside Quota		Duty	
		Example	Ad valorem %	Specific euro/100kg
Pork		Chilled boneless		11.4
		Frozen boneless		11.4

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### Poultry

Similarly, to beef the proposed full tariff rates are reduced versus current rate 1.024EUR p/kg and there is a duty-free volume – as detailed below. The reduced TRQ's would apply quarterly to any goods imported outside of the poultry quota volumes. If we can secure duty free quota prices wouldn't change. However, like beef this is open to everyone and will be issued on a 1<sup>st</sup> come, 1<sup>st</sup> served basis. Again, we would need to be pricing our products based on the TRQ's as guaranteeing securing duty-free volume would be high risk for any business.

### Poultry Quotas (in the event of no deal)

Tonnes	Order Number	Qtr 1 (April-June)	Qtr 2 (July-Sept)	Qtr 3 (Oct-Dec)	Qtr 4 (Jan-March)	Total
Chilled chicken	097704	39,307.40	42,682.70	42,966.40	41,240.30	166,196.80
Frozen chicken	097705	19,086.90	19,806.70	21,090.10	19,526.60	79,510.30
Chilled turkey	097709	2,650.40	2,500.60	3,800.10	2,057.80	16,008.90
Frozen turkey	097710	945.50	664.50	1,805.50	782.70	4,198.20
Chilled/froz whole duck and frozen cuts	097708	1,529.40	1,164.70	1,822.70	1,635.20	6,152.00
Chilled duck cuts	097707	420.90	425.10	572.90	469.50	1,888.40
Processed poultry and salted	097706	36,946.30	37,890.10	36,580.60	30,565.50	141,982.50

### Example – Poultry

	Outside Quota Example	Duty	
		Ad valorem %	Specific euro/100kg
Poultry	Chilled boneless		61.8
	Frozen boneless		61.8
	Salted poultrymeat		78.4
	Cooked > 57%		61.79
	Cooked > 25% < 57%		166.85
	Cooked Duck > 57%		166.85

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