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The impact of BREXIT on the British pork sector

by Bruce Ross – June 6, 2017

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Bruce Ross – some background

- Ex-NFU (London & Brussels)
- Independent EU analyst & consultant, specialised in agri-food, based in Brussels
- Author of reports
- Worked for Commission (Agri & others) & EP
- Journalist (Internet, magazines etc)
- Lecturer (LSE & others)
- Oxford Farming Conference Director 2007-9

What I'll present

- Sorry but I'll have to oversimplify
- Not covering general process/timetable
- Discuss main issues and scenarios, and what they might mean in practice
- Concentrate on trade impacts not BAP
- Links to agricultural markets and policy
- Challenges the UK faces in seeking "a bolder embrace of free trade with the wider world" (PM May) and a close relationship with the EU

The basic data

UECBV data	Market size ('000t)			UK imports ('000t)	Self sufficiency	
	UK	EU	UK as % of EU		UK	EU
Beef	1,160	8,086	14%	429	76%	102%
Lamb	297	943	31%	101	101%	88%
Pigmeat	**1,626**	**20,703**	**8%**	**992**	**55%**	**112%**

Behind the figures

- UK is a key part of the EU pigmeat market
- Trade is critical to the UK market balance (all UK pigmeat imports come from the EU)
- And crucial to overall EU market balance
- Behind this lies the carcase balance
- UK is a major market for middles, If EU-27 loses this middles market it affects total pig carcase values across the EU. EU would be even more over-supplied than now
- 70% of UK pork exports are to EU-27!

And so to BREXIT - BEWARE!

- UK media often paint superficial, misleading & even dishonest picture
- Many politicos play same game
- Suggest you check everything you hear - including from me - with several other reputable sources
- Rely on industry bodies rather than media or politicians
- Try to find UK and non-UK sources

BREXIT point of departure

- PM has ruled out Single Market and Customs Union membership at present
- UK remains a full EU member until it leaves
- Important to understand that UK becomes a 3rd country from March 30, 2019
- This means it will have to comply with all EU tariffs, non-tariff barriers (NTBs), customs and other rules ….. from Day 1!
- ….. unless it negotiates otherwise
- If exit talks fail the UK does not have a special status on leaving the EU

But what destination?

- Only two clear options for trade
  - WTO trading terms scenario
  - An EU-UK Free Trade Agreement (FTA)
- Question marks over timing, including starting dates, speed of agreeing FTA and possible transition
- What pig industry does UK want?
- Does it fit with PM’s “bolder embrace of free trade with the wider world”?

Bureaucratic work to do anyhow

- UK will need new Customs Code
- UK must detach itself from EU in the WTO
- UK must submit WTO commitments e.g. tariff schedules, domestic support details
- And EU must adjust all WTO agreements
- This includes dividing up current TRQs (3rd countries will want compensation for any loss of access - in pigmeat?)
- TRQ division important for EU & UK as both want FTAs - often with same people

No FTA – the WTO option

- Arises if UK walks away from table ….
- …. or if UK decides that, post-BREXIT, it prefers WTO trade terms to an EU FTA
- Either way the UK wants FTAs with other global players
- But the UK says it wants to be one of the "champions of free trade"
- Not mutually exclusive but don't sit easily together – require decisions about agri-food supply, domestic industry & consumer expectations

WTO only – what it means

- UK will lose benefits of existing EU FTAs with 3rd countries
- Can they be replaced by UK FTAs with others, and quickly?
- UK will impose and face tariffs
- And NTBs, **I emphasise NTBs**
- Customs formalities
- For pigmeat, veterinary procedures

Tariffs for pigmeat

- With no FTA, UK would pay common external tariff to export to EU
- Almost all pigmeat imports into the EU, except offal, are subject to import tariffs
- They range from €172/tonne to €1,494/tonne, depending on the cut
- If tariff on sows to Germany then market could be lost. Market for sows in UK?
- UK can use tariffs too, but does it want to?

To put it more simply … (AHDB data)

EU import tariff rates for selected pig meat products

The table below covers a selection of the main pig meat products either imported or exported by the UK.

Code	Product	Tariff rate	Effective ad valorem rate (2015 prices)
0103	**Live pigs**		
01031000	Pure-bred breeding pigs	Free	
01039110	Other pigs, weighing <50kg	€41.2/100kg	10%
01039219	Other pigs, weighing >50kg (excluding sows)	€41.2/100kg	28%
0203	**Fresh/frozen pork**		
02031110	Fresh/chilled carcases and half-carcases	€53.6/100kg	50%
02031211	Fresh/chilled bone-in hams and cuts	€77.8/100kg	37%
02031219	Fresh/chilled bone-in shoulders and cuts	€60.1/100kg	43%
02031911	Fresh/chilled bone-in fore-ends and cuts	€60.1/100kg	45%
02031913	Fresh/chilled bone-in loins and cuts	€86.9/100kg	24%
02031915	Fresh/chilled bone-in bellies and cuts	€46.7/100kg	19%
02031955	Fresh/chilled boneless pork	€86.9/100kg	43%
02031959	Other fresh/chilled bone-in pork cuts	€86.9/100kg	132%
02032110	Frozen carcases and half-carcases	€53.6/100kg	12%
02032211	Frozen bone-in hams and cuts	€77.8/100kg	56%
02032219	Frozen bone-in shoulders and cuts	€60.1/100kg	28%
02032911	Frozen bone-in fore-ends and cuts	€60.1/100kg	35%
02032913	Frozen bone-in loins and cuts	€86.9/100kg	34%
02032915	Frozen bone-in bellies and cuts	€46.7/100kg	33%
02032955	Frozen boneless pork	€86.9/100kg	65%
02032959	Other frozen bone-in pork cuts	€86.9/100kg	92%
0206	**Edible offal**		
02063000	Fresh/chilled edible offal of swine	Free	
02064900	Frozen offal of swine (excluding livers)	Free	
0210	**Salted, dried or smoked meat**		
02101111	Salted hams and cuts	€77.8/100kg	21%
02101119	Salted shoulders and cuts	€60.1/100kg	12%
02101131	Dried/smoked hams and cuts	€151.2/100kg	35%
02101211	Salted bellies and cuts	€46.7/100kg	5%
02101219	Dried/smoked bellies and cuts	€77.8/100kg	6%
02101910	Salted bacon sides or spencers	€68.7/100kg	15%
02101920	Salted three-quarter sides or middles	€75.1/100kg	27%
02101940	Salted loins and cuts	€86.9/100kg	26%
02101950	Other salted pork cuts	€86.9/100kg	36%
02101960	Dried/smoked fore-ends and cuts	€119.0/100kg	31%
02101970	Dried/smoked loins and cuts	€149.6/100kg	45%
02101981	Dried/smoked boneless pork cuts	€151.2/100kg	66%
1601	**Sausages and similar products**		
16010010	Liver sausages	15.4%	
16010091	Uncooked sausages, dry or for spreading	€149.4/100kg	80%
16010099	Other sausages	€100.5/100kg	35%
1602	**Prepared or preserved meat**		
16024110	Prepared or preserved hams and cuts	€156.8/100kg	27%
16024210	Prepared or preserved shoulders and cuts	€129.3/100kg	40%
16024911	Prepared or preserved loins and mixed loins/hams	€156.8/100kg	27%
16024915	Other prepared or preserved mixtures of pork cuts	€129.3/100kg	25%
16024919	Other prepared or preserved pork cuts	€85.7/100kg	32%
16024930	Prepared or preserved products, 40%-80% meat content	€75.0/100kg	15%
16024950	Prepared or preserved products, <40% meat content	€54.3/100kg	27%
16029010	Blood sausages and similar products	16.6%	
16029051	Other preparations containing pig meat	€85.7/100kg	28%

Border formalities UK faces

- Non-EU imports must enter via BIPs/BCPs
- All face compulsory document checks
- Rules of Origin requirements
- 20% of red meat consignments are physically checked (50% of poultrymeat)
- Goods must receive customs clearance (currently neither customs clearance nor veterinary checks normally required)
- Delays generally costly (lost profit, lost business); in pigmeat could be ruinous

Formalities – further info

- UK exporters of products of animal origin to EU would in future need to:
  - Register with the EU as a 3rd country company authorised to export to the EU
  - Apply for relevant import/export licences, along with documentary proof of product's country of origin
  - Apply and pay for health certificates
  - Notify BCPs in advance of a shipment
  - Submit products for veterinary inspection
  - After payment for any checks, an import certificate can be issued
- Need to avoid checks per shipment
- Contingency plans in case of delays - new infrastructure needed (bigger BIPs, lorry parks, storage….)?

Some frightening points

- Warning – I haven't verified all these points
- Currently 4.5 million customs-free goods journeys per year between UK and EU-27
- 12,000 lorry movements/day
- RHA says most go via Dover or Chunnel
- HMRC already updating its software to cope with predicted traffic - now has to go further
- Meanwhile EU has changed its customs systems
- UK has c.5,000 customs staff (France 16,500)
- 30% of UK's food is imported

8km queue at Kapitan Andreevo Turkey-Bulgaria border point – 13/03

Deep and special partnership between the UK and the EU

- No such thing as a typical EU FTA
- UK wants specific/special EU-UK FTA
- EU does too, up to a point
- FTAs take a long time to negotiate
- Even if UK and EU know each other, which should shorten that time
- Provided they don't antagonise each other

What might an FTA involve?

- FTAs not really ‘free’ trade agreements
- Involve removing, sometimes just reducing, duties/tariffs
- ‘Sensitive’ sectors often exempted ….
- …. or tariffs are reduced only within a fixed import quota (a TRQ); TRQs often have extra demands
- Some agri-food products almost always considered sensitive (dairy, meats, sugar)

Is this ideal or are there pitfalls?

- <u>Don't get so caught up in tariffs that NTBs are ignored, Many believe NTBs are bigger barriers than tariffs</u>
- <u>In an FTA UK would have to meet EU rules/standards, which are dynamic – UK would have to follow EU updates, but couldn't alter them</u>
- Canada has no exemptions from EU standards in meat, pet food or live animal sectors, even after CETA, despite EU & Canada veterinary agreement since 1998
- "All imports from Canada have to meet EU rules and regulations. For example, only hormone-free meat will ever be imported into the EU" (COM CETA website)
- Under CETA Canada has 80,000t/year TRQ for pigmeat but will any actually reach the EU?

Some good news

- EU-27 (businesses) also want workable FTA
- The meat trade in particular wants the freest trade possible, early negotiation of an FTA and a transition period to it
- UK pigmeat plays balancing role in EU market s, which EU-27 doesn't want to lose
- UK starts from an EU-conformist position
- So UK can argue for border procedures to be made less onerous (as much as poss.)
- But beware of trying to undercut EU food safety standards

Transition

- Essential to avoid cliff edge/hard BREXIT
- Highly unlikely there's enough time to move from current trade arrangements, unless BREXIT date is pushed out from March 2019
- So phasing-in/interim/transition needed
- UK needs smooth agri-food trade, esp. in pigmeat sector, in both directions
- UK must keep (& get recognition for using) EU rules and procedures
- Agri-food sector very vulnerable to sudden changes, due to integrated cross-border supply chains & perishability of products

Trade is a two-way street

- So far we've looked at UK exports
- But what about UK imports?
- UK government & industry must decide what sort of pigmeat sector
- A specialist producer of breeding stock, high quality meats ….
- … or a competitive producer of many types of pigmeat for many markets

The meaning for British pork

- All UK pork imports are from EU (80% fresh)
- UK imports lots of bacon, ham, sausages, and other processed pigmeat products
- If access to Single Market goes then trade flows change
- Carcase balance could change
- EU-UK FTA could limit this but will UK want high tariffs (EU levels?) and TRQs?
- Will UK take pork from Brazil, Canada, US?
- Would UK impose NTBs e.g. re welfare?

UK quality & welfare standards

- UK has high quality & welfare standards
- Can it leverage these in trade?
- In the short-term not in WTO – no rules
- Perhaps in FTAs ...
- By linking access to meeting standards
- Need legal advice on compatibility with PPM, national treatment and MFN rules
- EU has mainly 'soft law' for welfare in FTAs
- Clear labelling might be a better way
- Remember – lower UK standards could close off EU markets

What can we conclude?

- I conclude that in agri-food & pigmeat the WTO trade scenario is bad news
- An EU-UK FTA would be better than the WTO scenario but significantly worse than the status-quo
- The timetable is too tight for a working FTA by April 2019. UK needs a transition deal ……… and some relaxation of normal 3rd country arrangements
- All this must fit with suitable BAP. BREXIT is an opportunity not just a threat.

So what should we do?

- Push UK government hard for a transition arrangement
- Give the government specific goals for acceptable border arrangements
- Get EU partners (suppliers or customers) to ask for similar things
- Use positive but realistic messaging, for pigmeat stakeholders but also others
- Don’t poke the EU with a stick

What I haven't mentioned

- Many different BREXIT negotiations
- ECJ ruling on EU-Singapore FTA
- The particular case of Ireland
- Labour concerns across whole food chain
- Costs of additional staff everywhere (farm policy admin, trade negotiators, border and customs officers, inspectors …….)
- Whether UK has one or many farm policies
- The various election manifestos
- …. and many more issues

To follow anything up .....

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