

What might Brexit
mean for UK trade
in pork products?





Pork

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In this report, we examine trade flows between the UK, the EU and its other major global trading partners for pig meat products and how relationships might change after the UK leaves the EU. We also examine the major global trade flows, to identify areas of potential UK export growth and areas that may be vulnerable to increased competition post-Brexit.

The UK has not yet defined the post-Brexit trade relationship it intends to seek with the EU or with the rest of the world. If the UK were to negotiate free access to the Single Market, little would change in terms of the UK's trade in pig meat products. However, other possible scenarios may have a significant impact on trade flows between the UK and both the EU and non-EU countries.

One option is that the UK may seek a Free Trade Agreement (FTA) with the EU but the complex negotiations involved mean it is possible, perhaps even likely, a deal may not have been reached by the time it leaves. If this happens, there may be an interim deal allowing free trade to continue while a permanent agreement is negotiated. If this is not possible, the UK would revert to trading with the EU on the same basis as other WTO members, with UK exports subject to EU import tariffs.

If it is outside the Single Market, the UK would need to decide whether to impose import tariffs of its own, including on imports from the EU. However, this could lead to higher consumer prices, which may be politically unacceptable. Therefore, the UK may prefer to allow wider access to the UK market, at least for some products, by reducing or removing tariffs or by using tariff rate quotas.

The most common type of import tariff is 'ad valorem', where a percentage of the price is paid. Tariffs can also be a fixed amount in monetary terms or a mix of the two. Examples of EU tariffs for pig meat products can be found at the back of this report.

Tariff rate quotas (TRQs) allow a specified quantity to enter the market at a reduced (or zero) tariff. Once the limit has been reached, the tariff reverts to the standard rate. Quotas can be specific to one exporting country, a group of specified countries or can be open to all suppliers.

If the UK is outside the EU Customs Union, it would be free to negotiate FTAs with trading partners of its choosing. The position of agricultural goods in these negotiations is likely to be complex. In many trade agreements, tariffs remain in place on 'sensitive products', including agricultural goods. In addition, non-tariff barriers are often used to limit trade in agricultural products.

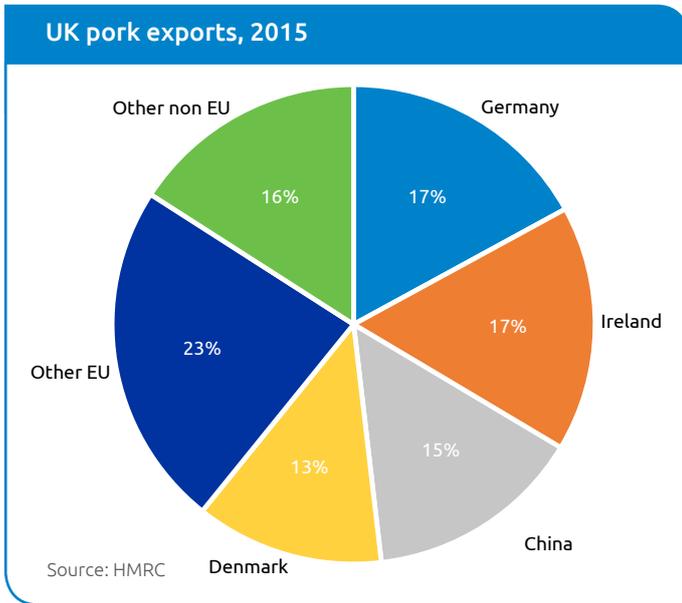
Both the EU and the UK also have many bilateral agreements covering technical aspects of trade. Some UK agreements rely on the fact that they are subject to EU rules and regulations. Many of these bilateral agreements will require renegotiation to reflect the new situation, and failure to do so could close off trade with the countries involved.

Non-tariff barriers include sanitary and phytosanitary (SPS) measures and technical barriers to trade. SPS measures are used to protect human, animal or plant life or health. Technical barriers are often deemed necessary for environmental protection, safety, national security or consumer information. In practice, these measures are often the hardest to agree in trade negotiations.

Trans-shipment, the unloading of goods from one ship and loading into another to complete a journey, is significant for many UK exports. The most important port involved is Rotterdam in the Netherlands. This gives rise to the so-called 'Rotterdam effect' – the theory that recorded trade with the Netherlands is artificially inflated by goods routed through Rotterdam. This can distort views of the UK's trade relationship with EU and non-EU countries, by increasing reported trade with the EU and reducing it with non-EU countries.



Current situation – exports



Pork exports have been steadily increasing over recent years. Domestic demand is strong for loin and leg cuts, in particular, so exports mainly aim to find better markets for other products, which have a higher value overseas than in the UK. These markets also help to reduce the volume of waste, by taking products for which there is little or no value in the UK, such as offal.

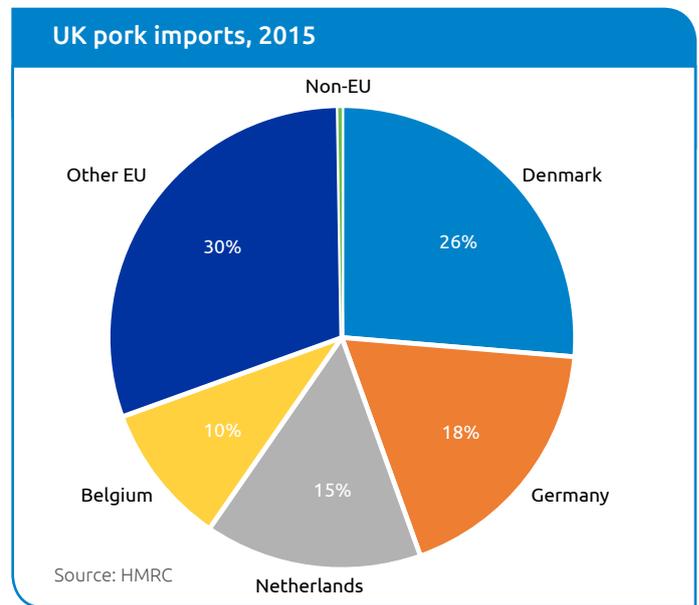
Pork exports have grown by over 50,000 tonnes since 2010, and have increased from 21 per cent to 26 per cent of production, with a further rise expected this year. Offal exports have more than doubled over the same time period, assisted by improved market access outside the EU. Offal exports were almost 59,000 tonnes in 2015 versus 28,000 tonnes in 2010, with 2013 the only year showing a fall in export volumes over the past six years.

The value of UK fresh and frozen pork exports in 2015 was £197 million. This was a decline on the previous two years, which highlighted the global pressure on pig prices since late 2014. Much of this pressure was caused by global over-supply, with the Russian import ban exacerbating this. In contrast, the value of offal exports was more than double 2010 values, at over £38 million in 2015.

In 2015, 70 per cent of UK pork exports went to fellow EU Member States. Germany and Ireland were the main destinations for UK pork. Denmark and the Netherlands were also major recipients but much of this pork is thought to be for re-export to third countries, partly reflecting the EU ownership of some UK processors. Shipments to Germany are predominantly of sow

meat; the vast majority of UK sow meat is exported, as there is little domestic demand for products containing it. Exports to China accounted for 15 per cent of all pork shipments in 2015, and have grown significantly throughout 2016. Shipments to the United States grew sharply through 2015 and 2016 and the expansion of this market creates more value, due to the higher-value cuts involved.

Current situation – imports



The UK is a net importer of pig meat, currently importing around 60 per cent of all the pork it consumes. The volume of these imports stood at 968,000 tonnes in 2015. Import levels have fluctuated slightly over recent years – since falling back in 2012, they have been increasing steadily year on year. Denmark is the dominant supplier, accounting for over a quarter of all UK pork imports. Together with Germany and the Netherlands, they account for 60 per cent of imports. The EU supplies virtually all the pork imported into the UK, due to the high import tariffs on pork from elsewhere.

Fresh and frozen pork makes a little over 40 per cent of all pig meat imports (the remainder being processed products). Almost 80 per cent of this is fresh/chilled, the majority being boneless cuts, which will achieve higher prices, as little or no further processing is required and transport costs are lower. The remaining 20 per cent is frozen product, predominantly made up of boneless cuts.

On top of this, the UK imports substantial quantities of bacon, gammon, ham, sausages and other processed pig meat products. These are mostly derived from cuts for which domestic demand exceeds supply.

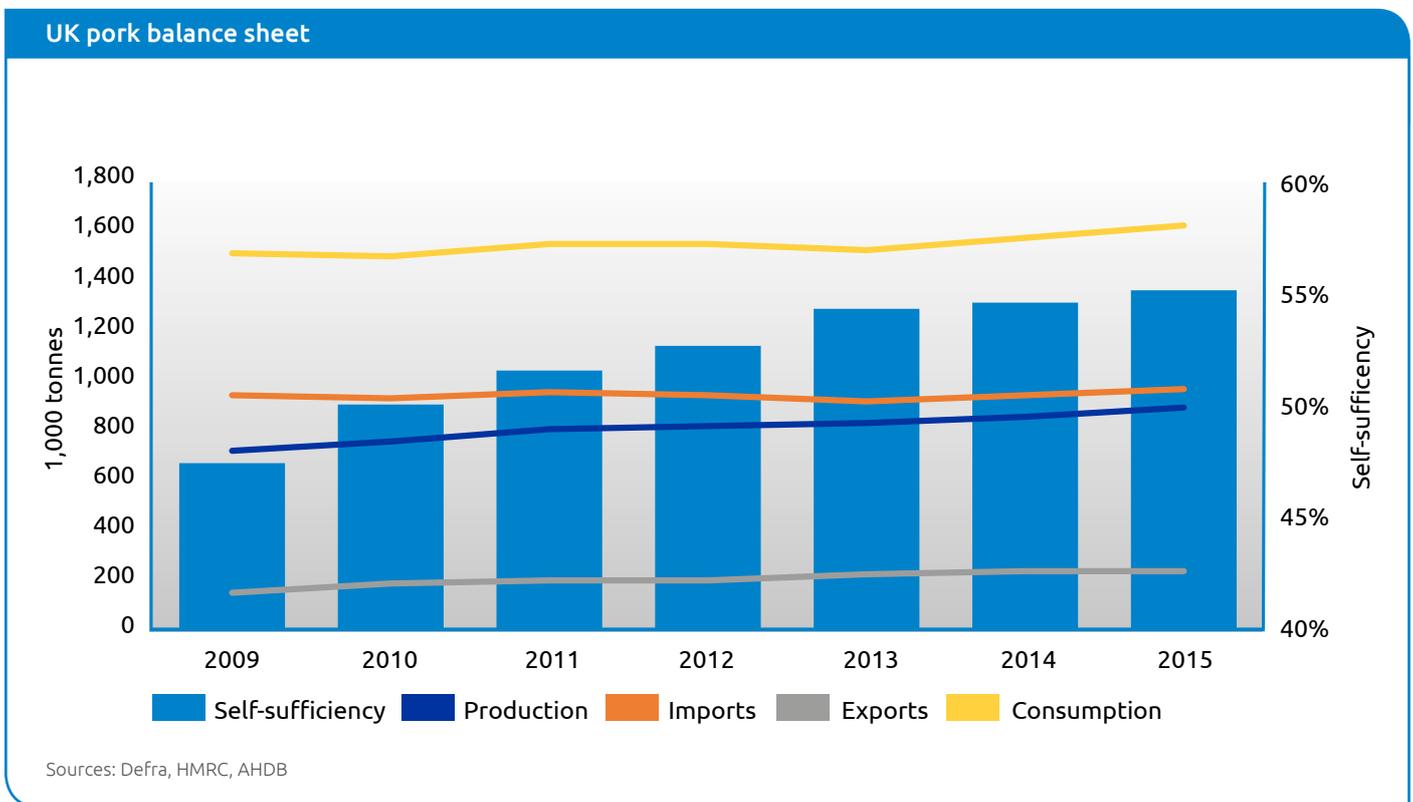
Current situation – tariffs and trade barriers

Almost all pig meat imports into the EU, with the exception of offal, are subject to sizeable import tariffs. They range from €172 to €1,494 per tonne, depending on the cut. The high level of tariffs effectively mean that most non-EU pork is uncompetitive on the EU market, even though production costs and wholesale prices are lower in other exporting countries such as the United States, Canada and Brazil.

None of the existing EU FTAs is significant for UK pork exports, though both South Korea and Vietnam are potential future markets. However, negotiations have been completed or are underway with all the major pork exporters, Canada, the US and Brazil (part of the Mercosur trade bloc). These may result in these countries gaining increased access to the EU market once agreements have been ratified.

The main non-tariff barriers limiting access to the EU market are sanitary and phytosanitary (SPS) measures. There is a range of such requirements but perhaps the most significant is the widespread use of the EU-banned growth hormone Ractopamine, especially among producers from the United States. This would probably limit imports to a large extent, even if tariffs were removed, although the level of hormone-free production is rising.

Russia was one of the largest importers of EU pork prior to it banning all EU pig meat in 2014 on the grounds of concerns over African Swine Fever (ASF). However, the World Trade Organisation (WTO) has now ruled this ban unlawful, although it remains to be seen how Russia will respond to the ruling.



Opportunities

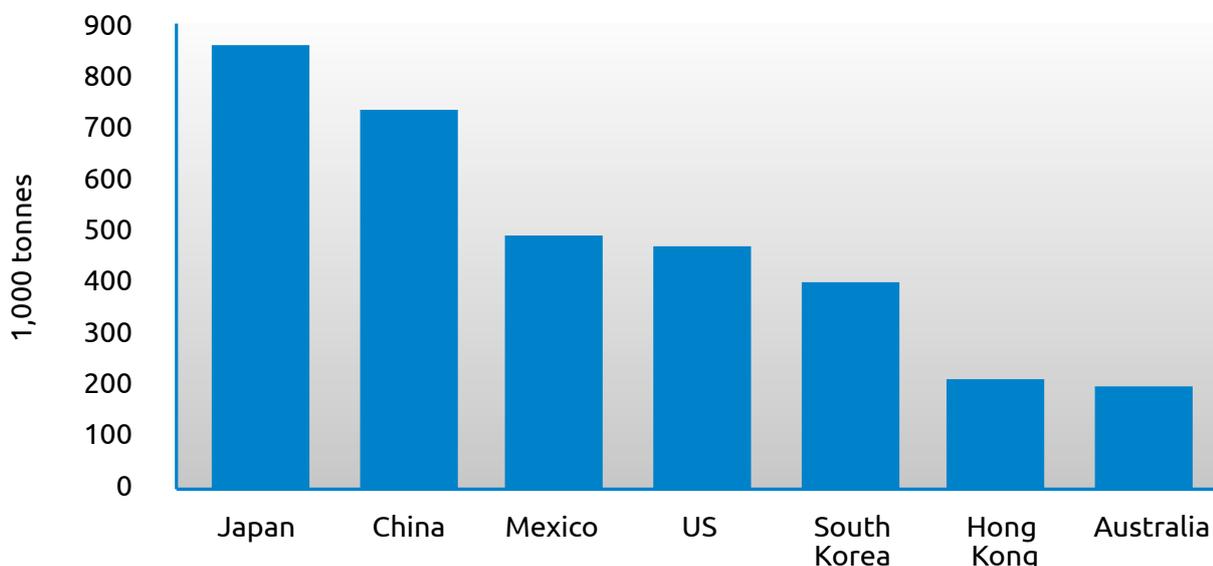
The UK may decide to keep import tariffs on pork at current EU levels and apply these to EU imports, unless a trade deal is struck. It could also decide to apply quotas to allow some imports. These actions could significantly limit the volume of EU pork entering the UK market. In the shorter term, this action would significantly tighten supplies on the domestic market, while domestic production responded to the change in trade flow. With the tightening of supplies, it would be expected that pig price could rise sharply.

However, it is hard to predict how this action would affect the UK market in the longer term. Due to the issue of carcass balance, there would be a large excess of the less popular cuts required if domestic production were to satiate the demand for the more popular parts. This excess product would need to find a market – either at home or abroad. Consumer demand for pig meat could also be affected if customers did not respond favourably to price rises. Depending on the extent of similar issues for other meats, demand may be difficult to stimulate if, and when, supply levels recovered.

Carcass balance, as well as overall demand, may be addressed by increasing trade with non-EU countries, such as China. This may depend on updating existing bilateral trade agreements to reflect the UK's departure from the EU. The UK will be able to prioritise negotiation of FTAs which could benefit pork exporters and might be able to react quicker to any changes in policy or demand set by importing countries.

The benefits would arise particularly from delivering better values for exports of lower-value cuts and offal. This could improve returns to the UK industry, as these products have little or no value on the domestic market. As well as China, there may be opportunities in emerging markets elsewhere in Asia and Africa, if the right trade deals can be negotiated. Complex FTA-type deals may not be required, if regulatory and trading arrangements can be agreed.

Leading global pork importers, 2015



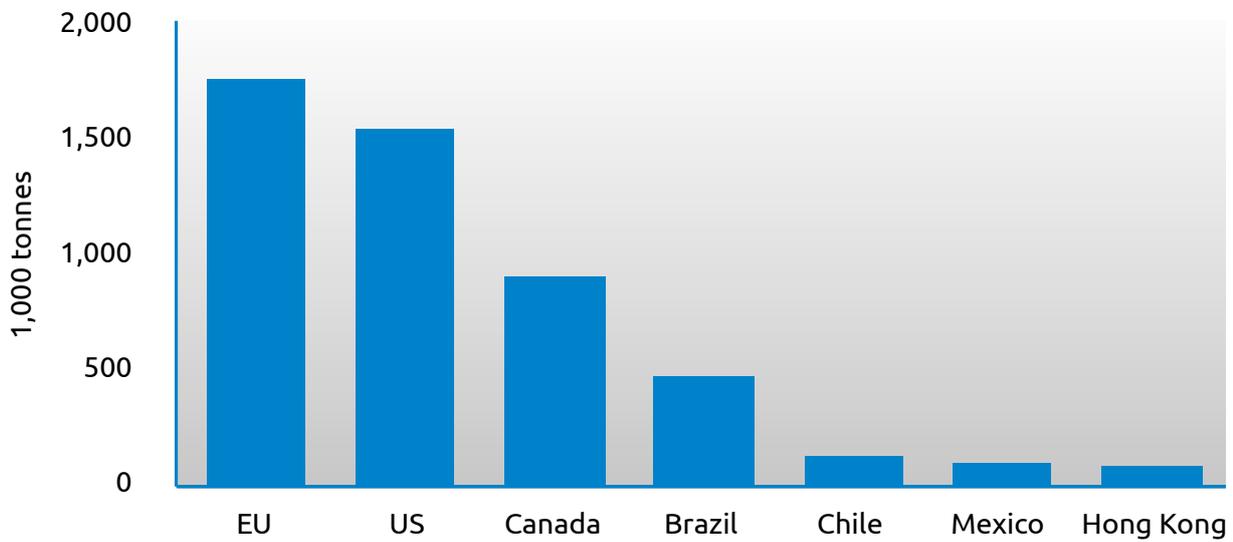
Source: GTIS

Threats

If the UK were to leave the EU before a trade deal was agreed, this would leave it vulnerable to tariffs being applied on its exported pig meat to other EU countries. Given that the EU accounts for 70 per cent of all pork exports, this could have a sizeable impact on the UK's export market, with a knock-on effect on prices.

One particular issue could be exports of sow meat. Germany is the main destination for cull sows, which have little value on the domestic market. Therefore, if these exports were subject to tariffs, it could have significant implications for this market, with sows potentially having little or no value. While this forms only a relatively small part of producers' incomes, it would certainly have an effect on profitability.

Leading global pork exporters, 2015



Source: GTIS

Pork sector at a glance

The EU currently supplies around 60 per cent of domestic pork demand

Exports are important to add value to cuts unpopular with UK consumers

Tariff or quota limits on the volume of pork traded between EU and UK could mean sharp price movements, affecting demand

EU import tariffs could curb sow meat exports to the UK's main customer, Germany, seriously reducing the value of UK sows

Regulatory and trading agreements with individual countries on certain products may bypass need for complex FTA negotiations

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 carcasses and half-carcasses | €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 carcasses and half-carcasses | €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% |

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