



What might
Brexit mean
for UK trade
in Cereal and
Oilseed products?

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In this report, we examine trade flows between the UK, the EU and its other major global trading partners for cereals and oilseeds 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 cereals and oilseeds. 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 cereals and oilseeds and derived 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.

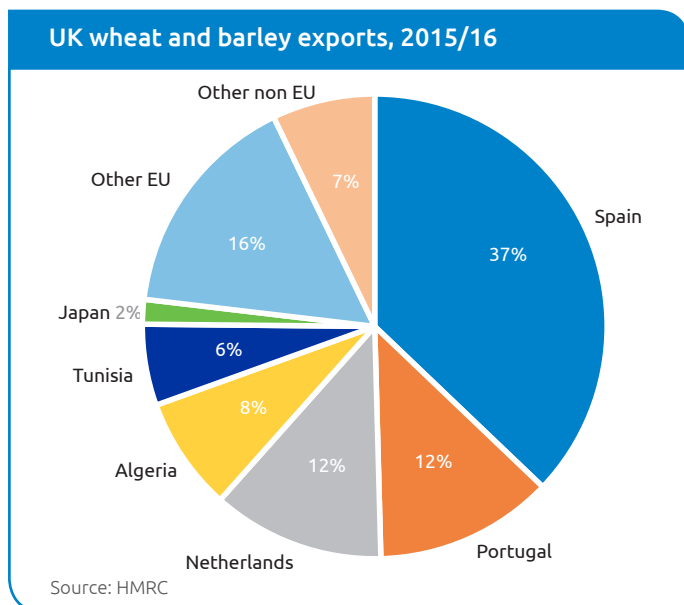
Both the EU and the UK also have many bilateral agreements covering technical aspects of trade. Some UK agreements rely on the fact that they are subject to EU rules and regulations. Many of these bilateral agreements will require renegotiation to reflect the new situation, and failure to do so could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



UK cereal exports fluctuate from season to season, due mainly to availability, price competitiveness and quality. Full season UK wheat exports for 2015/16 reached 2.8m tonnes, the highest since 2008/09. Total UK barley exports came to 1.99m tonnes, the highest since 1996/97. This strong export campaign was helped by the weakening of sterling, which made UK grains more competitive internationally.

Around 80 per cent of wheat exported in 2015/16 went to the EU, mainly to the Netherlands, Portugal and Spain. The latter has long been a key destination for UK wheat – Spain imports around 5m tonnes of wheat per year, of various grades.

With a rise in animal production in Asia, there has been an increase in demand for feed grains, including wheat. Global freight rates are currently low, which has helped the UK to compete for demand against countries closer to Asia. Exporting grain to Asia requires huge vessels and the UK has port capability, particularly in the South, to load such ships.

In the feed grain market, wheat has to compete with maize. In contrast to the UK, where wheat is the predominant feed grain, maize dominates at the global level. In 2015/16, maize accounted for 69 per cent of global animal feed demand of the four major grains (wheat, barley, maize, sorghum), according to the US Department of Agriculture (USDA).

To secure a slice of the growing global feed demand, feed wheat has to be price competitive against maize – a crop that, due to its biology, can very efficiently convert

sunlight into stored energy. Advances in GM are likely to further drive the efficiency of maize as a source of energy. UK feed wheat has been sold to Asia in recent history but only during relatively narrow periods of price competitiveness.

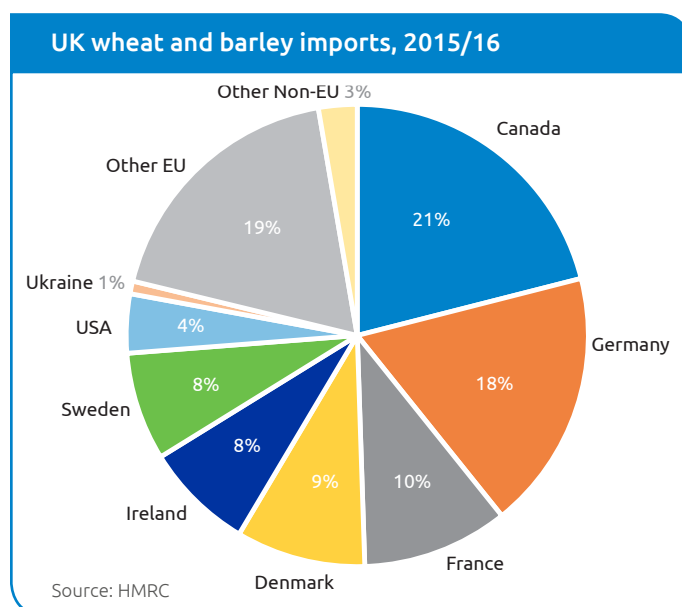
Two-thirds of barley exports in 2015/16 went to the EU, with the main destinations the same as for wheat. The UK exports both feed and malting barley, with a greater share of barley exports heading to non-EU destinations than wheat.

Algeria, in particular, has been a growing market, driven by increased feed demand and drought impacts on the local crop. Saudi Arabia has also remained a key destination for UK barley exports.

UK unroasted malt exports in 2015/16 reached 179,000 tonnes, the highest since 2012/13. The majority goes to Japan which, on average, has accounted for around 45 per cent of malt exports in the last ten years.

For oilseeds, the UK is part of the wider European rapeseed market, with the UK's two oilseed crushers also operating plants across mainland Europe. In 2015/16, exports of rapeseed were almost entirely to EU countries, accounting for 94 per cent of the 443,000 tonnes exported. Germany was the main destination within the EU, mainly for use in biofuels.

Current situation – imports



Grain imports into the UK are dominated by wheat and maize. On average over the past ten seasons, imports accounted for 11 per cent of domestic wheat demand, though this varied between seven and 20 per cent, influenced by UK crop size and quality. The main origins



Cereals & Oilseeds

for wheat imports are Germany, Canada and France, typically supplying around two-thirds of UK imports, primarily of milling grades. In particular, high protein wheat is often sourced from Germany and Canada.

Of UK maize imports, around two-thirds were imported from the EU in 2015/16. Ten years ago, maize imports came almost exclusively from France. Increasing volumes are being imported from Ukraine and Eastern EU countries, such as Romania. Depreciating local currencies, as well as increased production of maize in the Black Sea region are factors behind the switch. As well as competing with feed wheat in the export market, it is evident that imported maize is also competing for demand in the UK marketplace.

In terms of oilseeds and their products, the UK mainly imports soyameal, with 2015/16 levels at 2.26m tonnes, the highest volume ever. The majority was from non-EU countries, in particular Argentina, as a critical raw material in the production of animal feed.

Current situation – tariffs and trade barriers

For oilseeds and protein crops, there are duties on EU imports of some vegetable oils (at rates up to 12.8 per cent), broad beans and sweet lupins. Imports of the raw oilseeds themselves and oilseed meals are duty free.

For cereal imports into the EU, tariffs depend on the commodity, grade and origin. Generally, the EU and UK are net exporters, which requires much of the market to operate at global price levels. However, for certain grades of commodity, in certain regions, at certain times there is a need to import. This is when import tariffs come into play.

For medium/low quality wheat, a duty of €12 per tonne is payable up to a maximum volume – the Tariff Rate Quota (TRQ) – with different volumes available for different origins. Ukraine is an exception, with duty free imports up to a maximum of 950,000 tonnes per year. Once the quota limit is reached, additional imports are subject to a tariff of €95 per tonne. For imports of high-quality wheat, the import duty is derived by a calculation based on the global market price and the specification, which currently means imports are duty free. This type of import goes through a rigorous inspection process, with vessels met and sampled on arrival by customs officials.

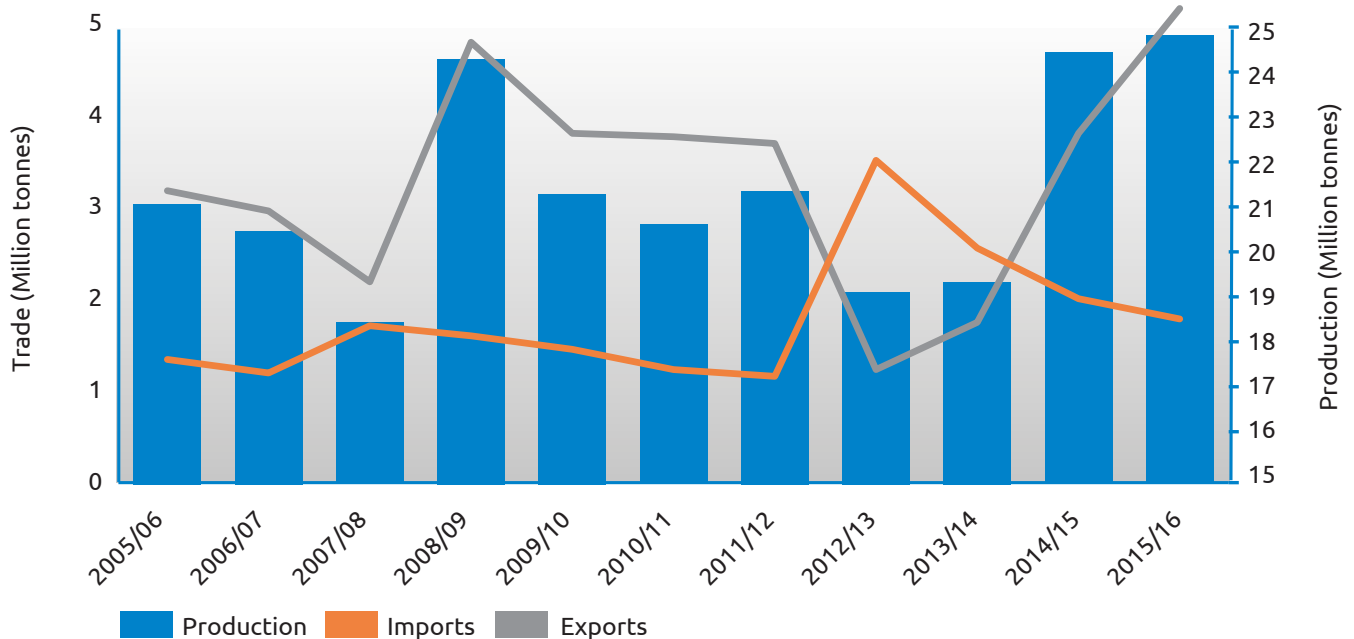
The structure for EU barley import tariffs is similar to wheat. Just over 307,000 tonnes can be imported from any country each year at a tariff of €16 per tonne. An additional 250,000 tonnes can be imported duty-free from Ukraine. A separate TRQ for malting barley, enables 51,000 tonnes to be imported at a duty of €8 per tonne.

All imports of oats into the EU are subject to a duty of €89 per tonne, which is all but prohibitive.

For maize, a total of nearly 280,000 tonnes can be imported into the EU each year duty-free from any non-EU origin. Imported maize must meet the EU criteria relating to GM crops. Once the quota is reached, a variable formula duty is applied. This is currently at zero but has come close to being reintroduced. Again, Ukraine has a separate TRQ and can import up to 400,000 tonnes of maize into the EU duty free each year. Over the coming years, Ukraine's TRQ into the EU will be subject to annual increases for all grains.



Wheat and barley UK production, exports and imports



Sources: Defra, HMRC

Opportunities

At this time, with little detail of the relationship the UK will have with the EU market place, it is challenging to be specific on the opportunities that Brexit presents.

Compared to other agricultural goods, grains and oilseeds are relatively free-trading commodities globally. Accessing a market is more about price competitiveness, being able to supply the required specification and the ability to meet technical requirements (eg phytosanitary measures).

The scenario where the UK maintains its own import tariffs would, in theory, allow it to flex them in response to the specific needs of the UK market and to protect the standards and traceability that domestic production represents. Whether this is indeed practical or politically acceptable is currently unclear.

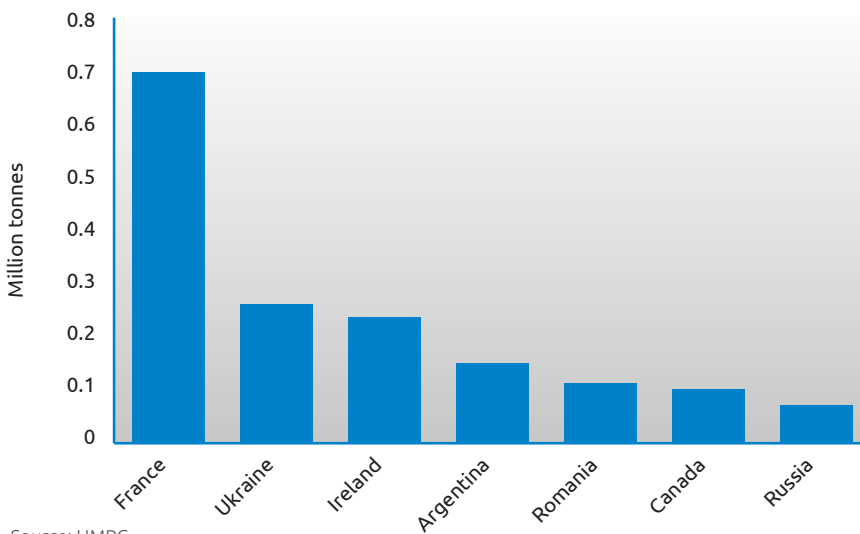
Threats

Given the high level of integration the UK grain and oilseed markets have with the EU, it is currently more straightforward to identify the threats. Reduced access to the single market is one of the biggest risks facing the UK arable industry, especially if tariffs apply to UK exports to the EU. This would expose the UK industry more directly to raw global market forces.

Imposition of tariffs could have a particular impact on businesses processing cereals and oilseeds for export to the EU. For example, there are risks around exports of flour to Ireland, given tariffs are higher on flour than on wheat.

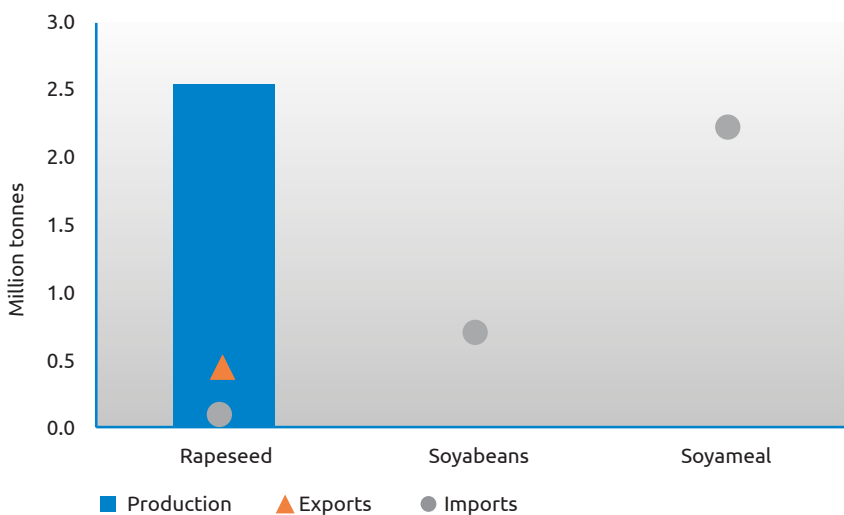
The same is true if tariffs on imports into the UK are removed. The proximity of the UK to increasingly dominant producers and the low cost of moving grain around the world could quickly expose the UK to global production gluts, undermining domestic production and, in turn, exposing supply chains to periods of global shortage.

UK's top suppliers of maize 2015/16



Source: HMRC

UK production, exports and imports of rapeseed, soyabeans and soyameal 2015/16



Sources: Defra, HMRC

Other questions include:

- What will the UK approach to imports of genetically modified (GM) grains and oilseeds be?
- How will UK trade in agricultural commodities be monitored to ensure timely and robust information to the market as well as ensuring imports meet appropriate standards?
- How will global/EU companies with an interest in the UK grain sector, of which there are many, respond? There is a risk that there is a de-prioritisation of the role of UK product/capacity in favour of other commercial interests elsewhere.

Cereals and oilseeds sector at a glance

Oilseeds and grains operate in a comparatively free-trading global complex

Exposure to global markets will increase if exports to the EU are subject to tariffs and/or non-EU imports into the UK are tariff-free

Market access relies on price competitiveness, specification and SPS measures

The UK's approach to GM, particularly imports, is a key factor

A proliferation of global companies within the UK industry means investment may suffer if other countries are more commercially attractive

EU import tariff rates for selected cereals and oilseeds and derived products

Within a report of this kind, it is impractical to list tariff rates for all products. The table below, therefore, covers a selection of the main products either imported or exported by the UK.

| Code | Product | Tariff rate | Effective ad valorem rate (2015 prices) |
|-----------|--|--------------------|---|
| 10 | Cereals | | |
| 10011900 | Durum wheat (excluding seed for sowing) | €148/tonne | 63% |
| 10019120 | Seed of wheat | €95/tonne | 50% |
| 10019900 | Wheat and meslin (excluding seed for sowing) | €95/tonne | 53% |
| 10031000 | Seed of barley | €93/tonne | 44% |
| 10039000 | Barley (excluding seed for sowing) | €93/tonne | 53% |
| 10041000 | Seed of oats | €89/tonne | 49% |
| 10049000 | Oats (excluding seed for sowing) | €89/tonne | 30% |
| 10059000 | Maize (excluding seed for sowing) | €94/tonne | 49% |
| 10063067 | Milled long grain rice (parboiled) | €175/tonne | 23% |
| 10063098 | Milled long grain rice (not barboiled) | €175/tonne | 12% |
| 11 | Products of the Milling Industry | | |
| 11010015 | Flour of common wheat and spelt | €172/tonne | 36% |
| 11041290 | Flaked oat grains | €182/tonne | 18% |
| 11071099 | Malt (excluding roasted, wheat and flour) | €131/tonne | 24% |
| 11081200 | Maize starch | €166/tonne | 10% |
| 11090000 | Wheat gluten | €512/tonne | 36% |
| 12 | Oilseeds | | |
| 12019000 | Soya beans (excluding seed for sowing) | Free | |
| 12051090 | Rape or colza seeds, low erucic acid (excluding seed for sowing) | Free | |
| 12059000 | Rape or colza seeds, high erucic acid | Free | |
| 15 | Fats and oils | | |
| 15079090 | Soya bean oil (excluding crude or for technical/industrial uses) | 9.6% | |
| 15111090 | Crude palm oil (excluding for technical/industrial uses) | 3.8% | |
| 15121191 | Crude sunflower-seed oil (excluding for technical/industrial uses) | 6.4% | |
| 15121990 | Sunflower-seed or saffseed oil (excluding crude or for technical/industrial uses) | 9.6% | |
| 15141990 | Low Erucic Acid rape or colza oil (excluding crude or for technical/industrial uses) | 9.6% | |
| 19 | Preparations of cereals, flour, starch or milk; pastrycooks' products | | |
| 19011000 | Food preparations of infant use | 7.6% + * | Varies |
| 19012000 | Mixes and doughs for preparation of bakers' wares | 7.6% + * | Varies |
| 19021910 | Uncooked pasta, not stuffed, containing no wheat flour or meal | 7.7% + €24.6/100kg | 22% |
| 19022099 | Stuffed pasta, uncooked, containing <20% meat or fish | 8.3% + €17.1/100kg | 13% |
| 19023010 | Dried pasta | 6.4% + €24.6/100kg | 16% |
| 19041010 | Prepared foods obtained by the swelling or roasting of maize | 3.8% + €20/100kg | 10% |
| 19041030 | Prepared foods obtained by the swelling or roasting of rice | 5.1% + €46/100kg | 18% |
| 19041090 | Prepared foods obtained by the swelling or roasting of other cereals | 5.1% + €33.6/100kg | 16% |
| 19051000 | Crispbread | 5.8% + €13/100kg | 10% |
| 190531 | Sweet biscuits | 9% + * | Varies |
| 190532 | Waffles and wafers | 9% + * | Varies |
| 19059030 | Bread, not containing added honey, eggs, cheese or fruit | 9.7% + * | Varies |
| 19059045 | Biscuits (excluding sweet biscuits) | 9% + * | Varies |
| 19059055 | Extruded or expanded products, savoury or salted | 9% + * | Varies |
| 19059060 | Other baked goods with added sweetening matter | 9% + * | Varies |
| 19059090 | Other unsweetened baked goods | 9% + * | Varies |

* The additional tariff on these products varies depending on the mix of ingredients, with separate rates for the quantity of flour, dairy products, eggs, etc. The range is from zero to €276 per 100kg.

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