



What might
Brexit mean
for UK trade
in horticultural
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In this report, we examine trade flows between the UK, the EU and its other major global trading partners for horticultural 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 horticultural 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 horticultural 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.

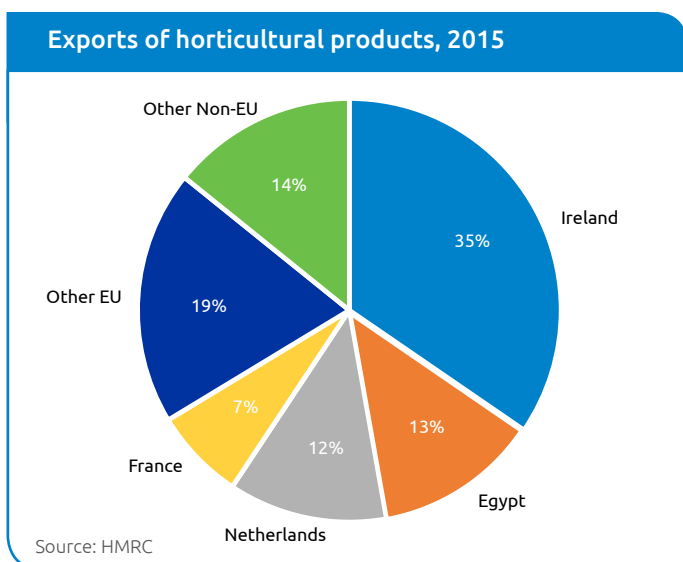
If the UK is outside the EU Customs Union, it would be free to negotiate FTAs with trading partners of its choosing. The position of horticultural goods in these negotiations is likely to be complex. In many trade agreements, tariffs remain in place on 'sensitive products', including horticultural goods.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

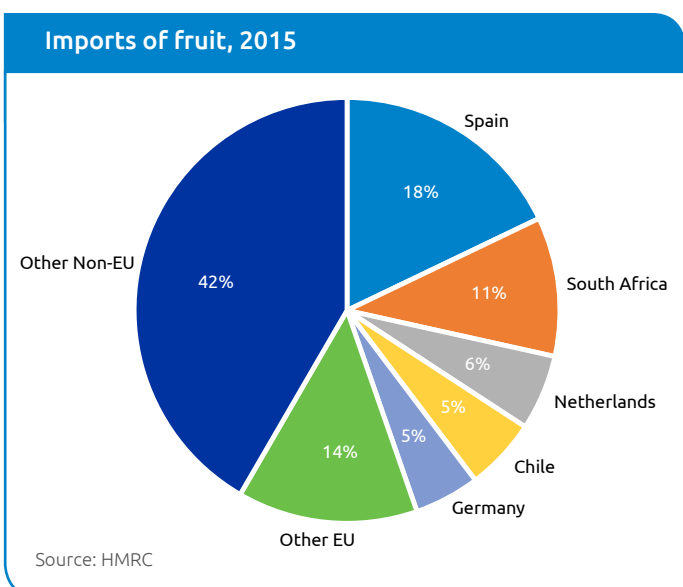


Most of the UK horticulture sector is focused on the domestic market, so its exports are minimal. Total UK exports of fruit and vegetables were valued at just £199 million in 2015, less than four per cent of the value of imports. This figure includes re-exports, so the importance of exports to the UK sector will be lower still. Exports of ornamentals totalled £56 million, also a fraction of the value of imports.

The figures above exclude dried vegetables – exports of dried legumes (mainly to Egypt) and other vegetables add a further £77 million. The UK also exports processed products, such as fruit juices, jams and pickles, although these are not necessarily derived from domestic produce.

The only other horticultural crop for which exports form a significant proportion of production are Narcissus bulbs. Exports of these are worth £3–5 million annually and the major market is the US.

Current situation – imports



Imports of fruits to the UK in 2015 were valued at £3.1 billion. The quantity of fruit imported was 3.7 million tonnes. Around 40 per cent of these imports came from elsewhere in the EU, with the remainder sourced from other countries. The suppliers of fruit to the UK are diverse, reflecting the different climate requirements of each crop.

The largest part of these imports was made up of fruits which are not generally grown in the UK, such as bananas (which made up nearly a third of the total value), citrus fruit and melons. However, the UK also imports significant quantities of most of the fruits which are grown domestically. To some extent, this is required to ensure year-round supply of fruit which can only be produced seasonally in the UK. Imports make up the majority of supplies for apples (60 per cent imported), pears (85 per cent) and plums (80 per cent). They make up a lower, but still significant, proportion of supply for soft fruits.

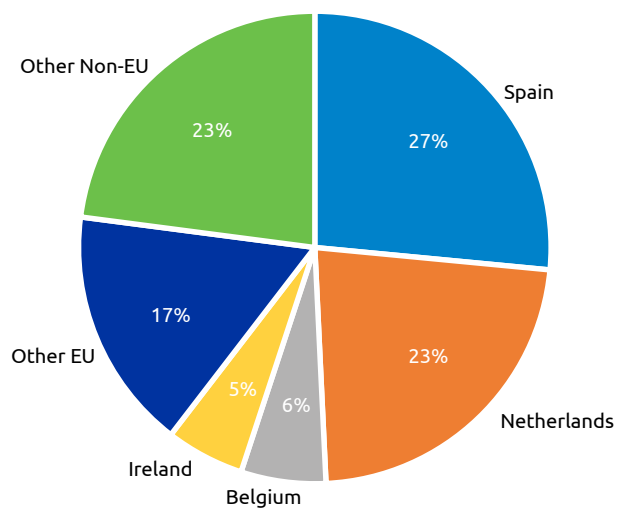
The value of UK imports of fresh vegetables (excluding potatoes) was £2.1 billion in 2015, with a further £196 million worth of dried vegetable imports. The quantity of vegetables imported was just under 2.5 million tonnes, with 2.3 million of this, fresh produce. More than 80 per cent of vegetable imports came from the EU, with Spain, the Netherlands and, for some crops, Ireland, the major suppliers.

A large proportion of imports are salad crops, such as tomatoes, sweet peppers, lettuce and cucumbers. Most of these are also grown in the UK, predominantly in protected environments. However, for most of these crops, the clear majority of produce consumed in the UK is imported.

Among field crops, the most significant imports to the UK are cauliflowers/broccoli and onions. Around 60 per cent of supplies of cauliflowers/broccoli are imported and about half of the latter. For other field crops, such as cabbages and other Brassicas, carrots and other root crops, imports form a much smaller proportion of supply.

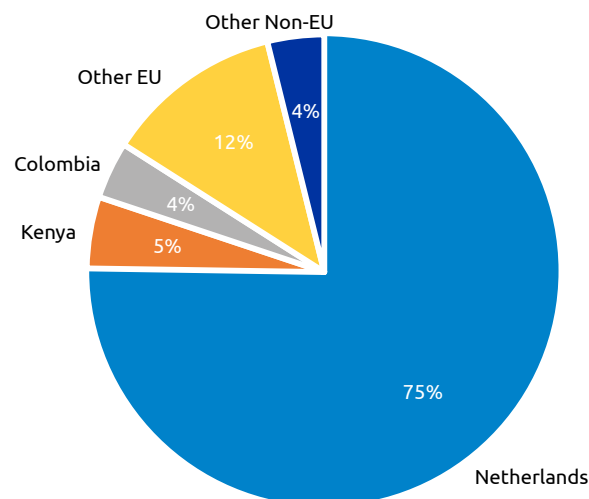
Horticulture

Imports of vegetables, 2015



Source: HMRC

Imports of plants and cut flowers, 2015



Source: HMRC

The figures provided above exclude processed fruit and vegetable products, including fruit juices and preserves. These amounted to over two million tonnes worth of imports in 2015, with a value of close to £2 billion. In 2015, the UK imported £1.1 billion worth of ornamental horticultural produce. Over 60 per cent of this was made up of cut flowers. Most of the remainder was live plants, cuttings or bulbs. Nearly 90 per cent of ornamental imports come from elsewhere in the EU.

Most non-EU imports are of cut flowers, most notably roses, with Colombia and Kenya the two key suppliers. However, imports of cut flowers are dominated by the Netherlands, which accounted for around three-quarters of imports, although this may be somewhat exaggerated by the 'Rotterdam effect'. The Netherlands is also the dominant supplier of other ornamental products.

Current situation – tariffs and trade barriers

Imports of horticultural produce into the EU are generally subject to import tariffs. In most cases, these are ad valorem tariffs of below 20 per cent and, for some products, they vary seasonally. It is clear from the levels of imports which occur, that these tariffs are not sufficiently high to prevent imports. However, they will provide a degree of protection for EU growers from the extremes of price competition from other global suppliers.

Processed fruit and vegetable products are also subject to import tariffs when entering the EU. These are usually somewhat higher than for the raw produce, which provides some support to the processing industries in the EU.

The EU has trade agreements in place with many of the countries supplying fresh horticultural produce to the EU, including the UK. These grant tariff-free access to the countries involved for most products. Countries with such agreements in place include many in Africa, Latin America and the rest of Europe.



Opportunities

How trade between the UK and EU develops post-Brexit will depend on whether a trade deal is in place and on what terms. One possibility, if there is no such deal, is that import tariffs will be imposed on trade between the UK and the rest of the EU. As the UK is such a major net importer of horticultural produce, this will have a bigger impact on its imports than on exports.

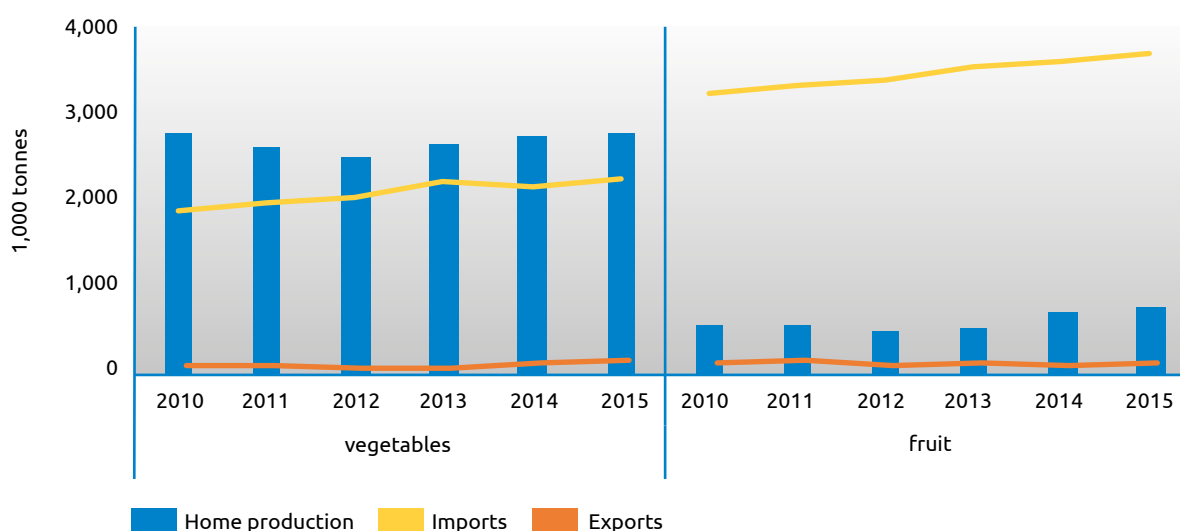
If the UK chooses to impose the same tariffs as the EU currently applies to imports from third countries, it would effectively increase the price of imported produce. This should mean that domestic produce becomes more competitive and could allow UK production of some horticultural crops to expand and displace some imports.

The extent to which the UK industry is able to expand production will depend on a wide range of factors. As well as availability of funds for investment, seasonality will also be a factor. Input costs will also be an important consideration in an industry where margins are typically tight. Many inputs to horticultural production are imported. Therefore, the costs involved will depend on the extent of any tariffs imposed on them and on the exchange rate.

Labour is a key component, accounting for 30–70 per cent of total costs, depending on the crop. It has been well documented that the horticulture sector faces particular challenges around labour. If there is no longer free movement of workers between the UK and the rest of the EU, post-Brexit, availability and cost of labour may be challenging and so the industry may not be in a position to expand production. These issues are discussed in detail in a previous edition of Horizon, available at ahdb.org.uk

Unlike most other sectors, the domestic focus of most horticultural production means there is unlikely to be much scope to open up new markets outside the EU through negotiating preferential trade deals.

Supplies of fruit and vegetables in the UK



Sources: Defra, HMRC

Threats

A number of UK horticultural businesses have made investments in overseas production to supplement their domestic supply. The majority of this investment has been made in southern parts of the EU, although there has also been some investment in Africa. The products involved are predominantly salad crops and fruits.

At present, these crops from elsewhere in the EU can be imported into the UK without tariffs. However, this would change if the UK Government decides to impose import tariffs. While these may not be high enough to prevent trade of this kind, it could discourage some such investments in the future. This could limit expansion plans for these businesses, which may have a knock-on effect on their UK operations.

Although it is possible that the UK Government may decide to put import tariffs in place in the absence of an EU trade deal, this could mean consumers would have to pay more for fruit and vegetables. This may be politically unacceptable and, therefore, the Government may prefer to reduce or remove tariffs. While this would make little difference to existing trade with the EU, which is already tariff-free, it would also apply to shipments from non-EU countries.

In this situation, UK produce may face increased competition from supplies from elsewhere. This may not be too disruptive, given that most imports of products which are competing with UK produce are sourced from the EU or from countries with preferential access to the EU market.

However, for some products the UK currently imports from the EU, it may lead to suppliers from elsewhere increasing their sales to the UK. This would be because their produce would be more competitive than previously or because they could get a better price in the UK than elsewhere in the EU. The extent to which this might happen would also depend on exchange rates, however, as well as factors such as sanitary and phytosanitary (SPS) controls.

Horticulture at a glance

The UK is hugely reliant on imports to satisfy high consumer demand, as well as out-of-season products and produce that cannot be grown in the UK

Current EU tariffs on horticultural imports offer a degree of market protection but not enough to deter non-EU imports

UK tariffs on imports could make domestic produce more competitive but also raise prices for consumers

Any opportunities to expand production to displace imports may be tempered by labour availability and seasonal nature of production

There is uncertainty around continued collaboration and investment between UK producers and overseas partners

EU import tariff rates for selected horticultural 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
06	Live plants, bulbs, roots, cut flowers and ornamental foliage	
06029050	Outdoor plants other than trees or shrubs	8.3%
06029091	Indoor flowering plants, with buds or flowers, excluding cacti	6.5%
0603	Fresh cut flowers	8.5% (1 Jan-31 May, 1 Nov-31 Dec) 12% (1 Jun-31 Oct)
07	Edible vegetables	
07020000	Fresh or chilled tomatoes	8.8% (1 Jan-14 May, 1 Nov-31 Dec) 14.4% (15 May-31 Oct) + variable amount depending on price
07031019	Fresh or chilled onions (other than sets)	9.6%
07041000	Fresh or chilled cauliflowers and headed broccoli	9.6% (1 Jan-14 Apr, 1-31 Dec) 13.6% (15 Apr-30 Nov) Minimum €1.1/100kg or €1.6/100kg
07051900	Fresh or chilled lettuce (excluding cabbage lettuce)	10.4%
07070005	Fresh or chilled cucumbers	12.8% (1 Jan-15 May, 1 Nov-31 Dec) 16% (16 May-31 Oct) + variable amount depending on price
07082000	Fresh or chilled beans	10.4% (1 Jan-30 Jun, 1 Oct-31 Dec) 13.6% (1 Jul-30 Sep) Minimum €1.6/100kg
07095100	Fresh or chilled mushrooms of the genus Agaricus	12.8%
07096010	Fresh or chilled sweet peppers	7.2%
07108095	Various frozen vegetables, uncooked or boiled/steamed (not elsewhere specified)	14.4%
07133390	Dried kidney beans	Free
08	Edible fruit and nuts, peel	
08039010	Fresh or dried bananas	€127/tonne
08043000	Fresh or dried pineapples	5.8%
08044000	Fresh or dried avocados	4% (1 Jan-31 May, 1-31 Dec) 5.1% (1 Jun-30 Nov)
08045000	Fresh or dried guavas, mangos and mangosteens	Free
08051020	Fresh or dried sweet oranges	16% (1 Jan-31 Mar, 16 Oct-31 Dec), 10.4% (1-30 Apr), 4.8% (1-15 May), 3.2% (16 May – 15 Oct) + variable amount depending on price
08052010	Fresh or dried clementines	16% + variable amount depending on price
08052050	Fresh or dried mandarins and wilkings	16% + variable amount depending on price
08055010	Fresh or dried lemons	6.4% + variable amount depending on price
08061010	Fresh table grapes	11.5% (1 Jan-14 Jul, 1 Nov-31 Dec) 14.1% (15 Jul-31 Oct) + variable amount depending on price
08062030	Sultanas	2.4%
08071900	Fresh melons (excluding watermelons)	8.8%
08081080	Fresh apples (excluding bulk cider apples)	Rate varies depending on price and date
08083090	Fresh pears (excluding bulk perry pears)	Rate varies depending on price and date
08101000	Fresh strawberries	11.2% (1 Jan-30 Apr, 1 Aug-31 Dec) 12.8% (1 May-31 Jul), minimum
08104050	Fresh cranberries and blueberries	3.2%
20	Processed vegetables, fruit and nuts or other parts of plants	
20021010	Peeled tomatoes, prepared or preserved	14.4%
20055100	Shelled beans, prepared or preserved, not frozen	17.6%
20091200	Orange juice, Brix value ≤20	12.2%
20091919	Orange juice, Brix value >67, value ≥€30/100kg	33.6%
20091998	Orange juice, Brix value 20-67, value ≥€30/100kg	12%

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