



What might
Brexit mean
for UK trade
in beef and
lamb products?



Beef

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

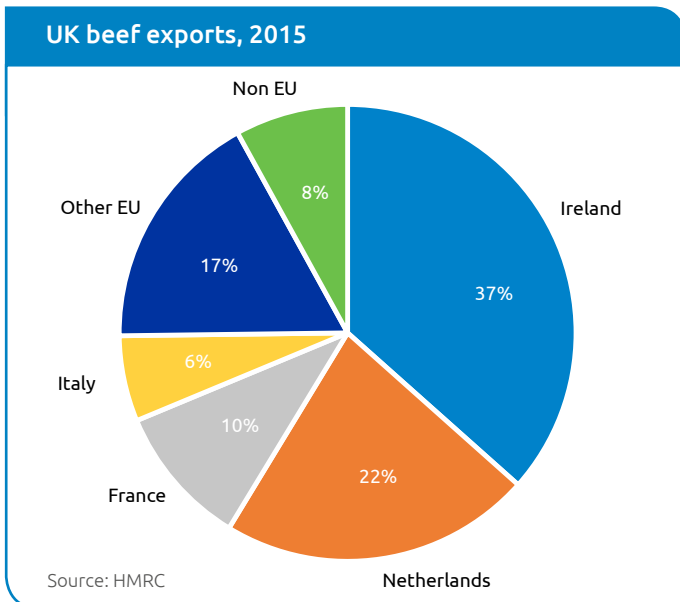
Both the EU and the UK also have many bilateral agreements covering technical aspects of trade. Some UK agreements rely on the fact that it is subject to EU rules and regulations. Many of these bilateral agreements will require renegotiation to reflect the new situation, and failure to do so could close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



Beef and veal exports only resumed in 2006 following the BSE-related ban and remain well below imports. Domestic demand is particularly strong for hindquarter cuts. Therefore, although there are some shipments of premium beef, most exports are either of products for processing overseas, as processing capacity is limited in the UK, or of products with a higher value overseas than in the UK. The latter category includes items for which there is no or minimal demand on the domestic market, such as offal.

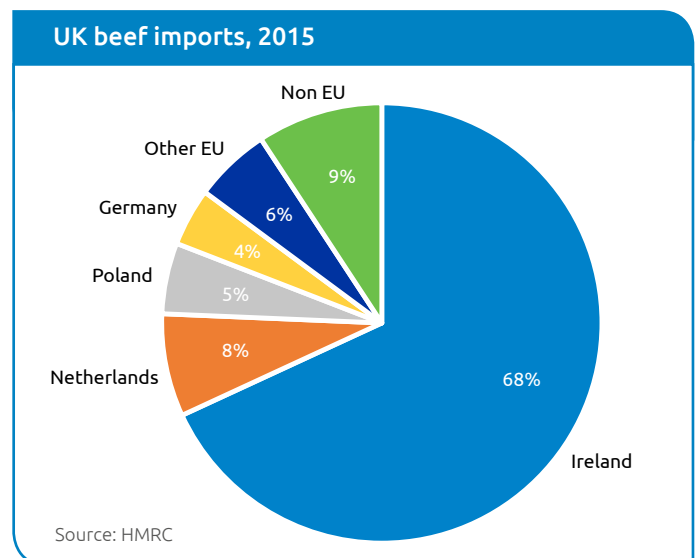
In recent years, beef and veal exports have fluctuated between 100,000–120,000 tonnes, equating to 15–17 per cent of production. Over time, there has been a move away from exporting carcasses towards cuts (and particularly boneless cuts), where the value added in processing is retained on the domestic market. Bovine offal exports have rocketed over the past few years, in part on the back of improved market access outside the EU. Offal exports in 2015 amounted to 48,000 tonnes, more than double 2009's level and up by nearly half since 2013.

The value of UK beef and veal exports in 2015 was £342 million. This was the lowest figure since 2010, as the weak euro hit both the volume and price of exports. On top of this, exports of bovine offal were worth £61 million.

In 2015, over 90% of UK beef exports went to other EU countries. Ireland and the Netherlands are the most

significant destinations, accounting for 55–65 per cent of all trade. This is partly because the UK lost much of its capacity to process cow carcasses during the BSE years and has never regained it. Carcasses are now exported and the meat returned after further processing, the so-called 'carousel effect'. It is thought that much of the other beef entering the Netherlands ends up elsewhere (eg France), sometimes after further processing.

Current situation – imports



The UK currently imports around 35 per cent of the beef and veal it consumes or around 250,000 tonnes annually. Imports have been fairly stable recently, although increasing somewhat in the last two years, partly due to the weak euro. The dominant supplier has always been Ireland, with a market share of almost 70 per cent. No other country accounts for more than eight per cent of UK imports. The EU supplies over 90 per cent of imports, with no single non-EU country supplying more than three per cent of the total.

Around three-quarters of imports are fresh/chilled beef, mostly boneless cuts, which achieve higher prices because little or no further processing is required and transport costs are lower. Carcasses account for less than a fifth of fresh/chilled imports. As outlined above, some imports will be of UK beef (mainly cow beef) returning, following processing in Ireland or the Netherlands. The remaining 25 per cent of imports are frozen consignments, also dominated by boneless cuts.

Current situation – tariffs and trade barriers

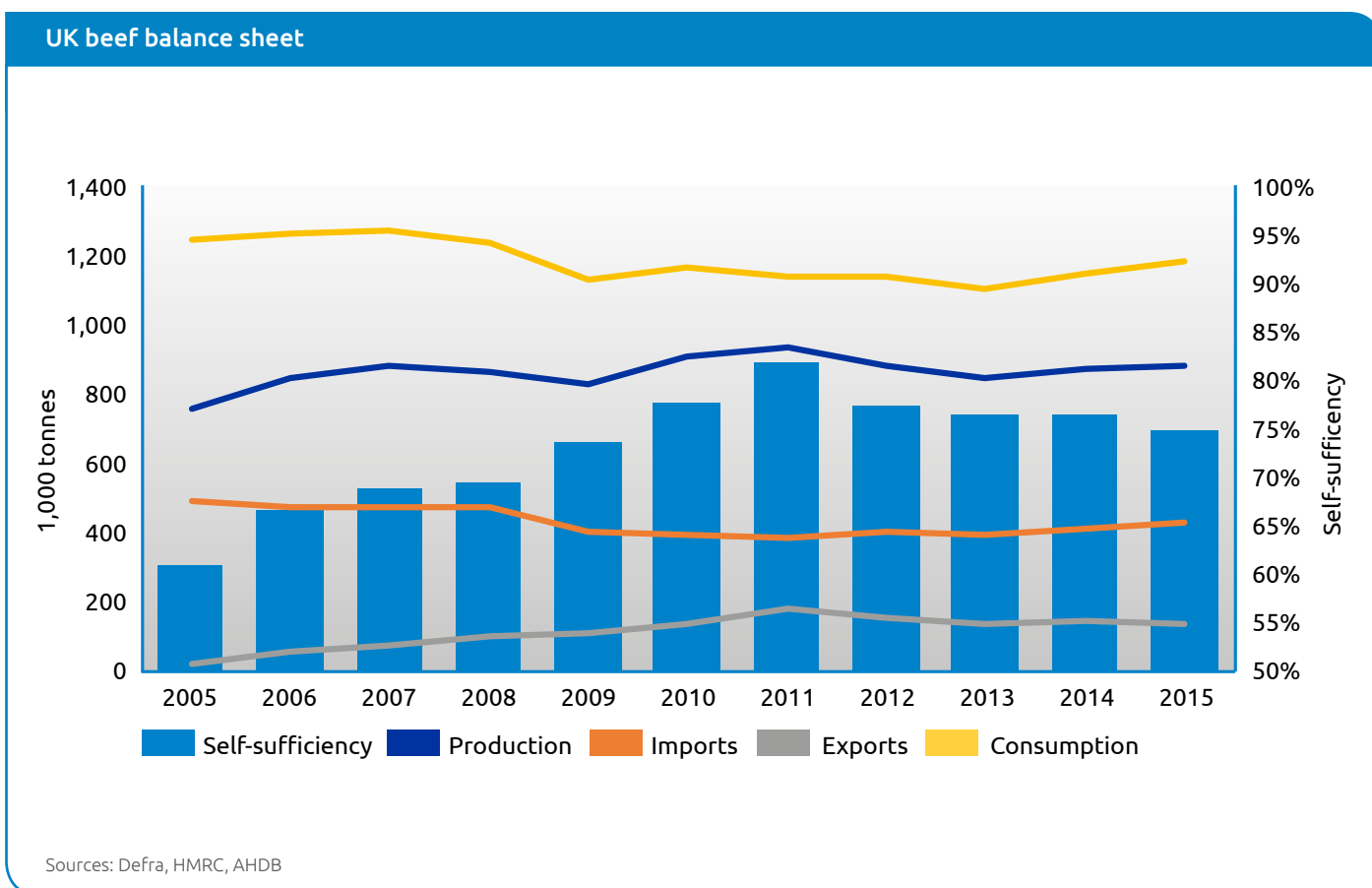
Most beef imports into the EU are subject to ad valorem tariffs of 12.8 per cent, plus a fixed amount ranging from €1,414 to €3,041 per tonne, depending on the cut. In most cases, this tariff equates to an addition of 50 per cent or more to the value of imports, which seriously impacts on the ability of imported beef to compete with EU meat. Processed beef products are also subject to import tariffs but most bovine offal can be imported tariff-free.

Although these tariffs prevent most beef imports, the EU has quotas for import of High Quality Beef from a number of countries in North and South America, southern Africa and Australasia. The quotas allow around 118,000 tonnes of beef to access the EU market at reduced or zero tariffs, although volumes may be negotiated downwards once the UK leaves. Last year, the UK's share of beef imports from the countries with access to the quotas was around 16,000 tonnes.

None of the existing EU FTAs is significant for the beef trade. However, negotiations are underway with several major beef exporters, including Canada, the US, Mercosur (the main South American exporters), Australia and New Zealand. This may result in these countries gaining increased access to the EU market, once concluded.

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 ban on beef from animals treated with growth hormones, a widespread practice in some major exporting countries.

Most other beef importing countries also have tariff and non-tariff barriers in place. For example, China imposes ad valorem tariffs of between 12 per cent and 25 per cent on beef imports.



Opportunities

Expansion of UK beef exports to non-EU markets has been constrained by limited market access. Access to many major beef importing countries has never been restored following the BSE-related restrictions imposed in the late 1990s. We are now starting to see markets reopening but, at the moment, UK beef struggles to be price competitive in many of the countries involved. Even if FTAs can be agreed which provide preferential access, exports are, therefore, likely to be limited to premium cuts. These can be sold into high-end outlets, taking advantage of the UK's pasture-based production systems.

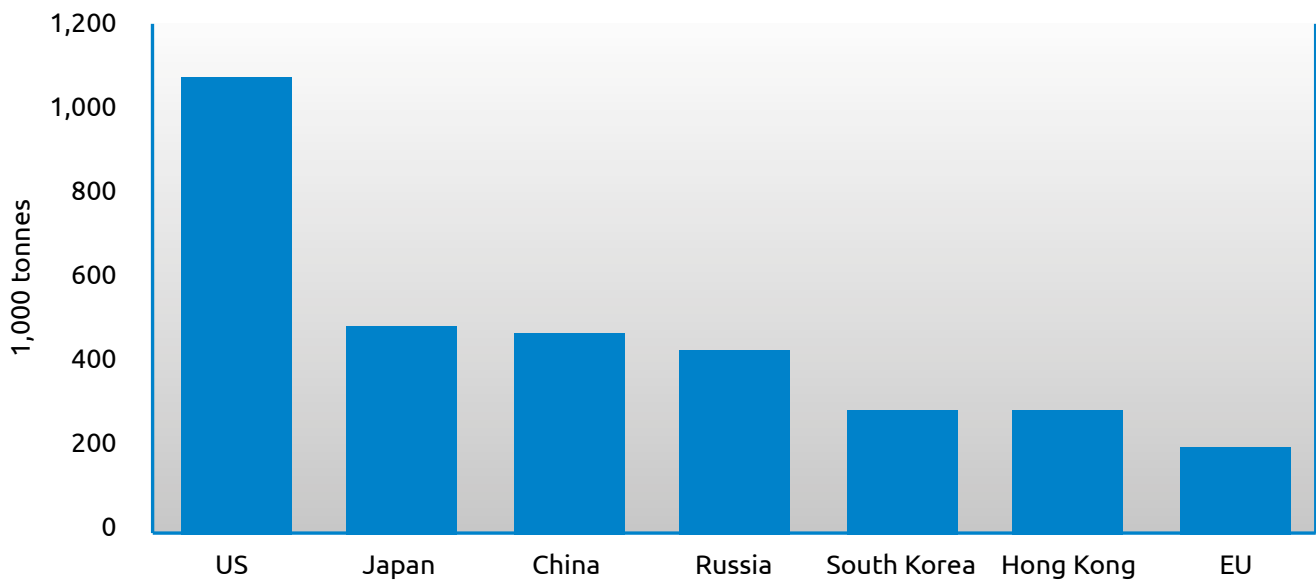
More substantial benefits may come from opening up markets which provide improved opportunities for exporting lower-value cuts and offals. These can deliver improved returns to the UK industry, as these cuts have little or no value on the domestic market.

The most obvious example of this is China, which is widely expected to increase its beef imports significantly. However, UK product would initially be at a disadvantage against countries which have an FTA with China in place, such as Australia and New Zealand. This could change if the UK government was able to negotiate its own trade agreement with China. Other Asian and African markets also have potential to take more UK beef and bovine offal, depending on how trading relationships develop.

In the absence of a trade deal with the EU at the point at which it leaves, the UK may decide to impose tariffs on beef imports. These tariffs would apply to imports from the EU, including the UK's main supplier, Ireland, as well as third countries, which would either limit imports or make them much more expensive.

In the short term, this would significantly tighten supplies on the UK market, as it would take some time for domestic production to react. Even if UK exports to the EU were also subject to tariffs, prices for cattle and for beef would almost certainly rise sharply. The long-term impact would depend, in part, on how consumers responded, influenced by the extent of similar disruptions affecting other meats. If prices become too high, demand may fall, which could have consequences if and when import barriers are reduced.

Leading global beef importers, 2015



Source: GTIS

Threats

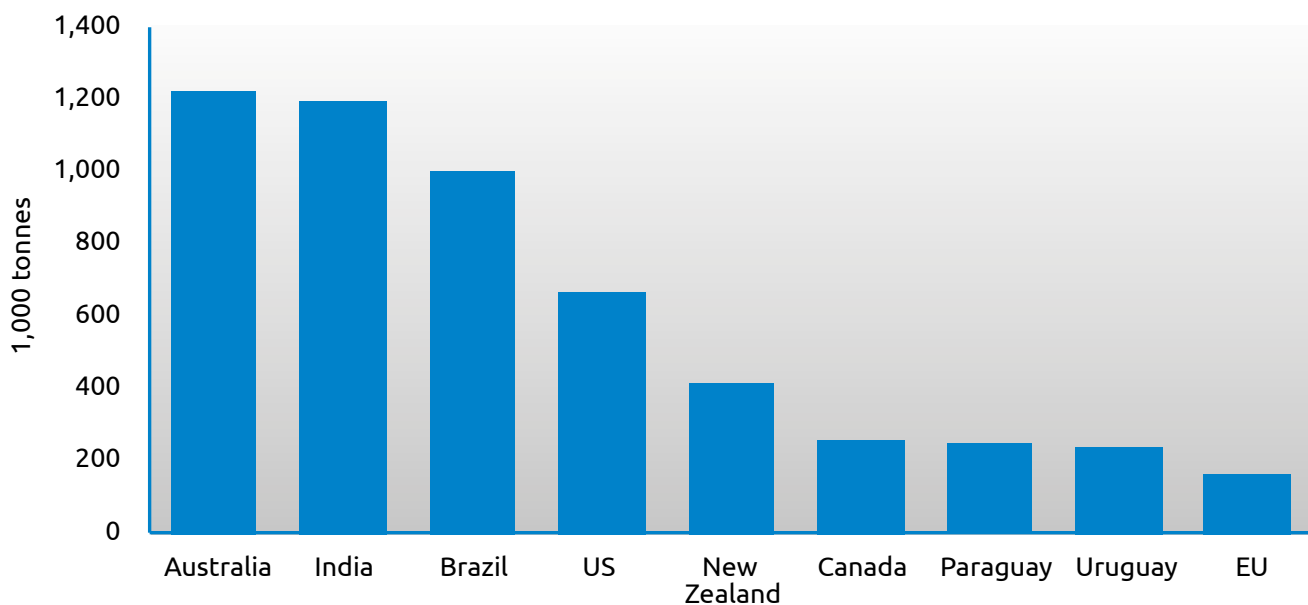
If no trade deal has been agreed with the EU when the UK leaves, UK beef would be subject to tariffs when entering the EU. This would cause particular issues for cow beef, unless domestic processing capacity increases, given the carousel effect described earlier. This trade could involve payment of two tariffs, probably making it uneconomic. This could have significant implications for the cull cow market, affecting dairy as well as beef producers. Although tariffs might lead to some loss of trade in prime cuts, these would probably find a home on the domestic market in the absence of imports, so would have less impact.

As with other meats, there is a risk that access to some markets for beef or offal depends on the UK following EU rules and regulations. If trade deals are not renegotiated, this trade could be closed off, at least temporarily.

If the UK instead decides not to impose tariffs on imports, or negotiates quotas with global exporters, there could be a sizeable rise in imports from the global market. Australia, the US and South America, the most likely suppliers, are all keen to increase their access to the EU market, including the UK. These countries are lower-cost producers, which would mean their beef would be competitive on the UK market, even after shipping costs are taken into account.

Trade would probably be particularly focused on high-value steak cuts, perhaps mainly within foodservice, where provenance is less of an issue. As these cuts drive much of the value in the prime cattle market, increased imports would have a significant impact on returns to UK producers and processors, possibly affecting the viability of many. However, it is worth remembering that tariffs are not the only barrier to trade. Non-tariff barriers, such as growth hormones, may still limit trade, depending on the attitude of the UK Government to such issues.

Leading global beef exporters, 2015



Source: GTIS

Beef sector at a glance

UK is reliant on EU partners for processing beef carcasses, especially cows, a challenge if it loses tariff-free access to the EU

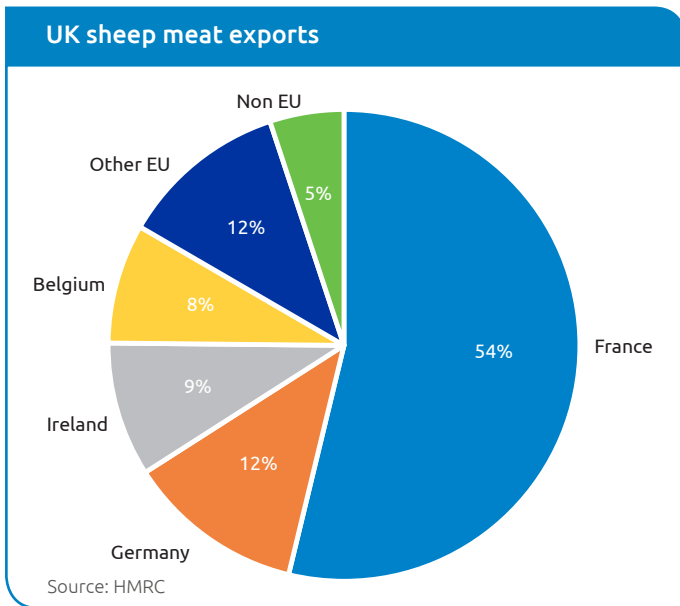
EU tariffs currently prevent most beef imports from leading global exporters but any opening up of market could mean they provide increased competition

Some major beef exporting countries are currently affected by EU ban on use of animal growth hormones

Beef import markets are gradually reopening, following BSE restrictions of late 90s and there may be opportunities to open up new markets more quickly

Lower value cuts and offal are a major opportunity for UK beef exports

Current situation – exports



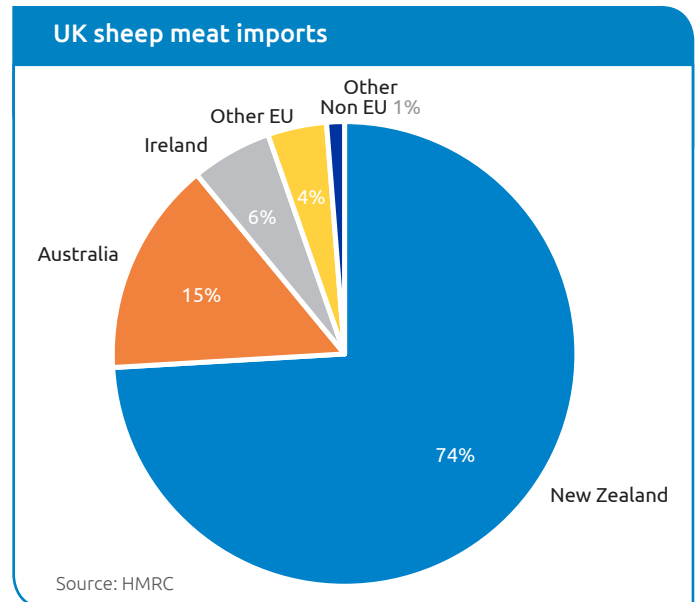
UK sheep meat exports have been recovering since the 2001 outbreak of Foot and Mouth Disease. However, a reduced flock means they remain below levels seen before the outbreak. Exports largely aim to address imbalances in demand for different cuts and the higher supply of sheep meat at certain times of year. Also, additional markets have had to be found to take items for which there is no or minimal demand on the domestic market, including offal and skins.

In recent years, sheep meat exports have fluctuated between 90,000 and 100,000 tonnes, equating to around a third of production. Over time, an increasing proportion of sheep meat has been exported as cuts (and particularly bone-in cuts), where much of the value added in processing is retained on the domestic market. However, carcasses remain the largest proportion of UK sheep meat exports. Ovine offal exports increased sharply between 2005 and 2010, in part on the back of improved market access outside the EU, but have stabilised since then. Offal exports in 2015 amounted to 4,000 tonnes, more than double 2006's level.

The value of UK sheep meat exports in 2015 was £302 million. This was the lowest figure since 2010, as the weak euro had an impact on both the volume and price of exports. However, there are some doubts over the accuracy of the data, with exports believed to be higher than the official data indicate. In addition, exports of ovine offal were worth £6.6 million. Sheep skin exports were worth an additional £60 million, although this was a third less than in 2013 due to declining prices.

In 2015, over 95 per cent of UK sheep meat exports went to other EU countries. France is the main destination, accounting for 45–55 per cent of all trade, although this is a lower share than in the past. The second largest market is now Germany, accounting for about ten per cent of trade, a share which has grown recently. However, uncertainty about the accuracy of export data means trade with all countries may be understated.

Current situation – imports



The UK currently imports around a third of the sheep meat it consumes, or around 100,000 tonnes annually. Imports have been fairly stable recently. The dominant supplier has always been New Zealand, with a market share of over 70 per cent. Australia is the second largest supplier, accounting for around 15 per cent. This largely reflects the different seasonality of sheep meat production in the Southern Hemisphere, which helps to ensure supplies are available throughout the year. The EU supplies around 10 per cent of imports.

Over 95 per cent of imports are in the form of cuts, mostly bone-in, which enables them to be targeted at the best value market for that cut (eg the UK for legs). Carcasses account for less than five per cent of imports. The split between fresh and frozen product is more even, with between 55 per cent and 60 per cent coming in the form of frozen product and the remainder being fresh.

Sheep meat

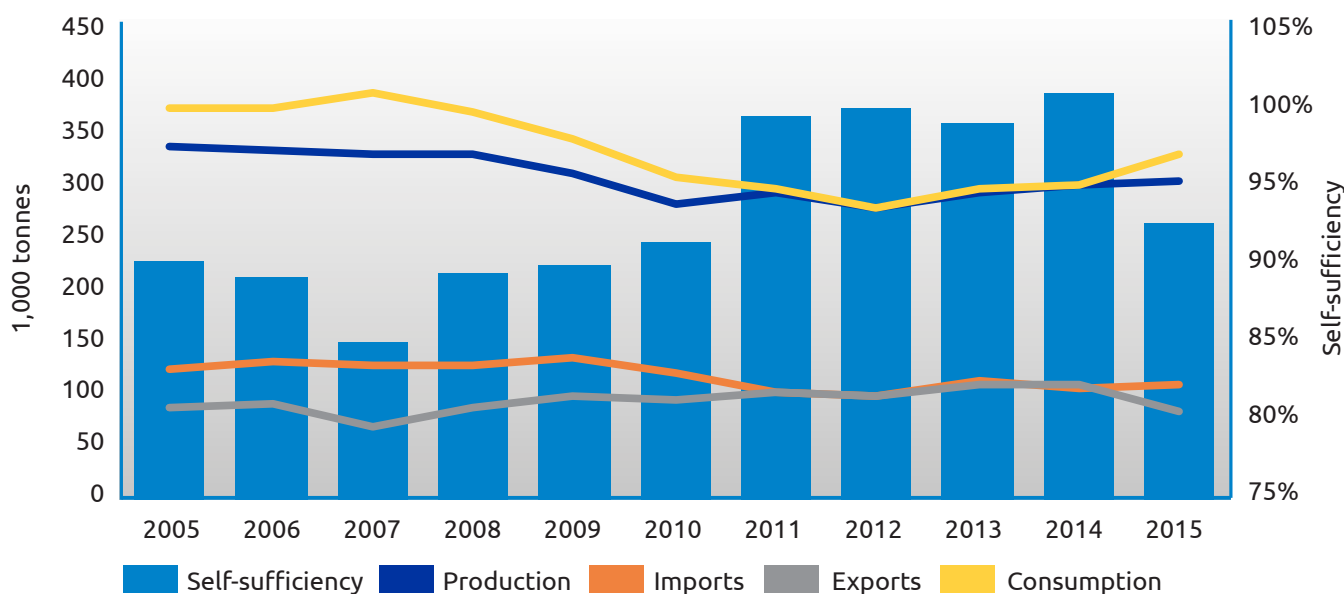
Current situation – tariffs and trade barriers

Most sheep meat imports to the EU fall within a quota, allowing tariff-free access to the EU market for certain volumes of sheep meat. New Zealand has the largest quota, accounting for approximately 80 per cent of the total but it has not come close to filling its quota to the EU since 2011. The current volume of lamb imports available within the tariff-free quota for New Zealand is 228,254 tonnes, with only 76 per cent of this being used in 2015. In comparison, Australia has a smaller quota of just 19,000 tonnes and, unsurprisingly, comes close to filling it. Of EU Member States, the UK is by far the largest importer from the global market.

Any sheep meat imports outside quota or from countries not covered by it, are subject to ad valorem tariffs of 12.8%, plus a fixed amount ranging from €902 to €3118 per tonne, depending on the cut. In many cases, this would be equivalent to an ad valorem tariff of 50 per cent or more, which seriously impacts on the ability of imported sheep meat to compete with EU meat. This, in reality, makes any sheep meat outside of the quota uncompetitive on the EU market, so virtually all sheep meat is imported through the quota.

Most other sheep meat importing countries also have tariff and non-tariff barriers in place. For example, China, the world's largest importer, imposes ad valorem tariffs of 12–15 per cent on lamb and 23 per cent on mutton imports. However, China has FTAs in place with both New Zealand and Australia, the main suppliers, which mean that tariff rates on their imports are gradually being reduced and will eventually be eliminated.

UK sheep meat balance sheet



Sources: Defra, HMRC, AHDB



Opportunities

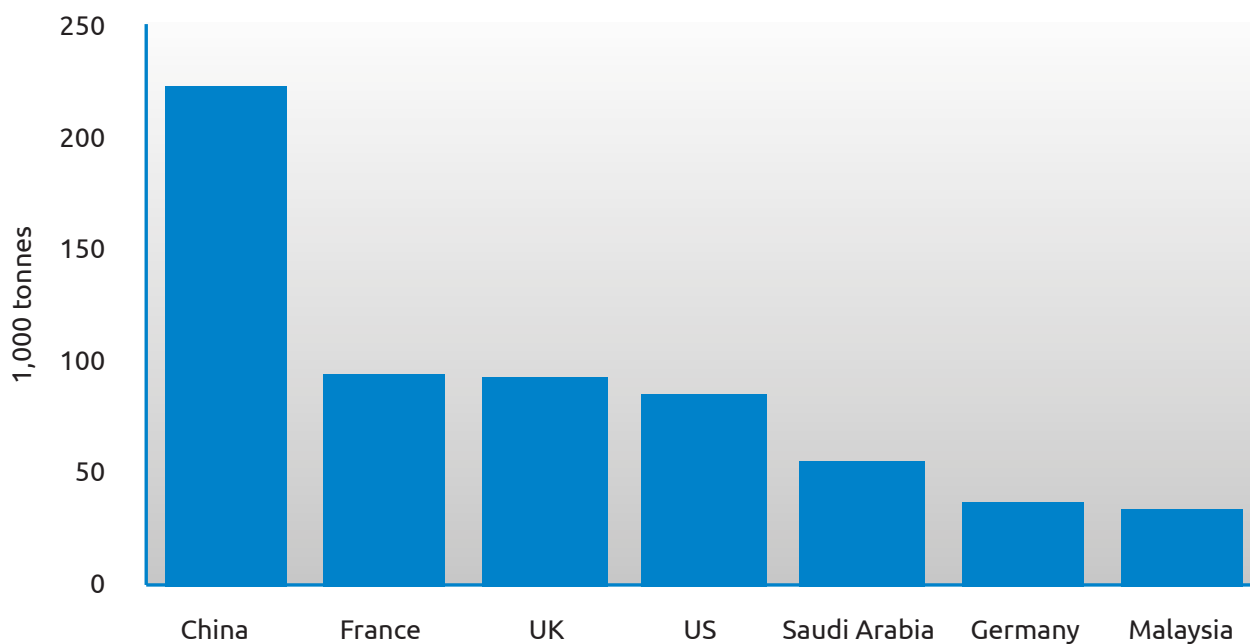
As with beef, market access and competitiveness issues have affected sheep meat exports to non-EU markets. Several new markets for sheep meat from the UK have been opened in recent years but UK sheep meat struggles to be price competitive against the major Southern Hemisphere exporters, which dominate global trade. Exports to some of these markets are, therefore, likely to be limited to premium cuts, which can be sold to consumers who are attracted by the UK's pasture-based production systems.

Greater benefits are, therefore, likely to be derived from markets where there is demand for lower-value cuts and offals. These can deliver improved returns to the UK industry, as these cuts have little or no value on the domestic market. The most obvious example of this is China, already the largest importer of sheep meat and widely expected to increase its imports further.

However, China already has FTAs in place with New Zealand and Australia, so UK product would, initially, be at a disadvantage against them. This could change if the UK Government was able to negotiate its own trade agreement with China. Other Asian and African markets also have potential to take more UK sheep meat offal, depending on how trading relationships develop.

The level of any tariffs or import quotas for sheep meat into the UK will depend on any trade agreement with the EU. The UK might need to decide whether to impose its own tariffs and quotas. If the UK does reduce tariff-free access to its market, it could lead to tighter supplies and provide an opportunity for domestic lamb to replace imports. This would probably lead to higher prices in the short term, particularly as it would take domestic production a while to react. However, UK consumers' preference for legs, in particular, may limit the extent to which domestic lamb could displace imports.

Leading global sheep meat importers, 2015



Sources: GTIS, UN Comtrade

Threats

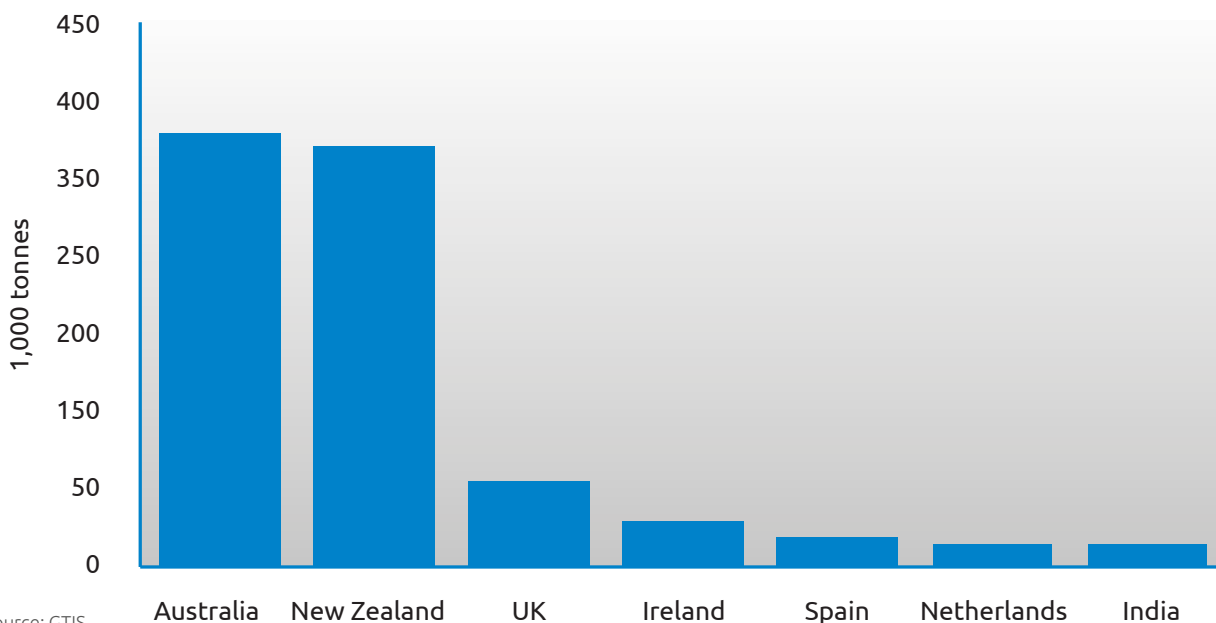
Due to the seasonality of UK lamb production, reduced import access, as described above, could mean much tighter supplies at some times of year, potentially increasing price volatility. The long-term impact on the market would depend on how consumers react to changing levels of supply and prices. If prices of sheep meat, which is already considered expensive, rise, experience suggests consumers are likely to switch to other meats. This could lead to reduced demand for sheep meat, even at times when supply was more plentiful.

As with other meats, there is a risk that access to some markets for sheep meat or by-products depends on the UK following EU rules and regulations. If trade deals are not renegotiated, this trade could be closed off.

If the UK either decides not to impose tariffs or negotiates quotas with global exporters, imports to the UK could stay at current levels or even rise. Import volumes from New Zealand would be expected to remain similar, as it is not filling its quota now. However, there is potential for higher imports from Australia if it had a larger quota or wider tariff-free access. This could provide increased competition for domestic producers, particularly in foodservice. This has the potential to drive down prices, particularly at certain times of year, although, if it stimulates additional demand, it could benefit domestic producers in the longer term.

The overall effect of this would be highly dependent on any trade deal between the UK and the EU, the UK's largest export market for sheep meat. If UK sheep meat was subject to tariffs when entering the EU, it would result in product from the UK becoming uncompetitive in our main markets, potentially leading to a collapse in export volumes. This could be mitigated, if the UK had access to an import quota, although that could limit opportunities for future growth. Tariffs could also limit movement of Northern Irish lambs to slaughter in Ireland.

Leading global sheep meat exporters, 2015



Source: GTIS

Sheep meat at a glance

The EU quota system for sheep meat imports allows New Zealand, in particular, tariff-free access and much will depend on how these imports are managed in future

The UK is by far the largest exporter of sheep meat in the EU, so tariff-free access to the EU market will be crucial to the sector's prospects

France is the UK's biggest customer for sheep meat, accounting for around half of exports

UK lamb struggles to compete on price outside the EU but there are opportunities to position as a premium product

Cheaper cuts and offal may offer a market opportunity in Asia, the Middle East and emerging economies, subject to agreeing market access

EU import tariff rates for selected beef and lamb products

The table below covers a selection of the main beef and lamb products either imported or exported by the UK.

Code	Product	Tariff rate	Effective ad valorem rate (2015 prices)
0102	Live cattle		
01022921	Other cattle, weight 80-160kg, for slaughter	10.2% + €93.1/100kg	17%
01022951	Heifers, weight over 300kg, for slaughter	10.2% + €93.1/100kg	37%
0104	Live sheep		
01041030	Live lambs under 1 year old	€80.5/100kg	18%
01041080	Live sheep, excluding lambs and breeding animals	€80.5/100kg	21%
0201	Fresh or chilled beef/veal		
02011000	Carcases or half-carcases	12.8% + €176.8/100kg	84%
02012020	Compensated quarters, bone-in	12.8% + €176.8/100kg	61%
02012030	Unseparated or separated forequarters, bone-in	12.8% + €141.4/100kg	63%
02012050	Unseparated or separated hindquarters, bone-in	12.8% + €212.2/100kg	70%
02012090	Other bone-in cuts	12.8% + €265.2/100kg	48%
02013000	Boneless cuts	12.8% + €303.4/100kg	65%
0202	Frozen beef/veal		
02012090	Other bone-in cuts	12.8% + €265.3/100kg	160%
02013010	Boneless forequarters (maximum 5 pieces) or compensated quarters in two blocks (hindquarter in 1 piece)	12.8% + €221.1/100kg	123%
02013050	Boneless crop, chuck-and-blade and brisket cuts	12.8% + €221.1/100kg	79%
02013090	Other boneless cuts	12.8% + €304.1/100kg	89%
0204	Fresh/frozen sheep meat		
02041000	Fresh/chilled lamb carcasses/half-carcases	12.8% + €171.3/100kg	46%
02042100	Fresh/chilled adult sheep carcasses/half-carcases	12.8% + €171.3/100kg	45%
02042210	Fresh/chilled sheep short forequarters	12.8% + €119.9/100kg	37%
02042230	Fresh/chilled sheep chines/best ends	12.8% + €188.5/100kg	39%
02042250	Fresh/chilled sheep legs	12.8% + €222.7/100kg	41%
02042290	Other fresh/chilled bone-in sheep meat cuts	12.8% + €222.7/100kg	51%
02042300	Fresh/chilled boneless sheep meat	12.8% + €311.8/100kg	61%
02043000	Frozen lamb carcasses/half-carcases	12.8% + €128.8/100kg	32%
02044210	Frozen sheep short forequarters	12.8% + €90.2/100kg	35%
02044230	Frozen sheep chines/best ends	12.8% + €141.7/100kg	59%
02044250	Frozen sheep legs	12.8% + €167.5/100kg	39%
02044290	Other frozen bone-in sheep meat cuts	12.8% + €167.5/100kg	59%
02044310	Frozen boneless lamb	12.8% + €234.5/100kg	57%
0244390	Frozen boneless mutton	12.8% + €234.5/100kg	72%
0206	Edible offal		
02061095	Fresh/chilled thick skirt and thin skirt	12.8% + €303.4/100kg	69%
02061098	Other fresh/chilled bovine offal	Free	
02062200	Frozen livers	Free	
02062991	Frozen thick skirt and thin skirt	12.8% + €304.1/100kg	143%
02062999	Other frozen bovine offal	Free	
02068099	Fresh/chilled edible offal of sheep and goats	Free	
02069099	Frozen edible offal of sheep and goats	Free	
1602	Prepared or preserved meat		
16025010	Uncooked or mixed cooked/uncooked bovine meat/offal	€303.4/100kg	71%
16025031	Corned beef in airtight containers	16.6%	
16025095	Other cooked bovine meat/offal	16.6%	
16029061	Other processed products containing uncooked or mixed cooked/uncooked bovine meat/offal	€303.4/100kg	52%
16029091	Processed sheep meat	12.8%	

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