

IMPLICATIONS OF BREXIT FOR THE UK AND EU MEAT SECTORS

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Brexit will happen – the only question is how?



Discussion of 'hard' and 'soft' Brexit is only relevant to transitional arrangements, not to ultimate goal

Brexit – the UK letter 29 March 2017

- UK does not wish to be a member of the **Single Market**
- UK does not want to be part of the EU's **Common Commercial Policy** or be bound by the EU Common External Tariff, but does want a customs agreement with the EU
- End the jurisdiction of the **European Court of Justice**
- End **budget contributions** to the EU apart from specific programmes
- Seeks ambitious **free trade agreement** with the EU



The Article 50 negotiations

- European Council guidelines (adopted 29 April) and Council of EU mandate for Michel Barnier
- **The withdrawal agreement**
 - Legal status of EU and UK citizens living in UK and EU
 - Settlement of UK financial obligations
 - Recognition of the need to avoid a hard border between North and South of Ireland following Brexit
- **Principles of negotiations**
 - Negotiations focused exclusively through the Commission – no bilateral deals
 - “considers that a state withdrawing from the Union cannot enjoy similar benefits to those enjoyed by a Union Member State”
- **Sequencing of the negotiations**
 - First, withdrawal, then the future relationship and possible transitional arrangements

What we want to avoid or minimise

- Crucial for exporters are the **terms of access** to export markets
- In absence of agreement, UK and EU trade on “**WTO terms**”
 - Re-imposition of tariffs on exports
 - Customs clearance and documentation
 - Compliance must be demonstrated with export market standards
 - For agrifood exports, inspection and sampling at Border Inspection Posts (BIPs)
- Particular implications for **Irish land border**
- **What is at stake** for meat exports?

Beef and veal trade (inc. offals & manufactured meat products)

Carcase weight (inc. live animals), tonnes, 2016

EU28	Consumption	7,925,000		Production	8,082,000	
	Imports from EU27/UK	Imports from ROW	Main traders	Exports to EU27/UK	Exports to ROW	Main traders
UK	458,343	61,857		159,927	33,676	
EU27	159,927	274,100		458,343	668,637	
EU28		335,957	Brazil, Uruguay, Argentina		702,313	Turkey, Hong Kong, Lebanon

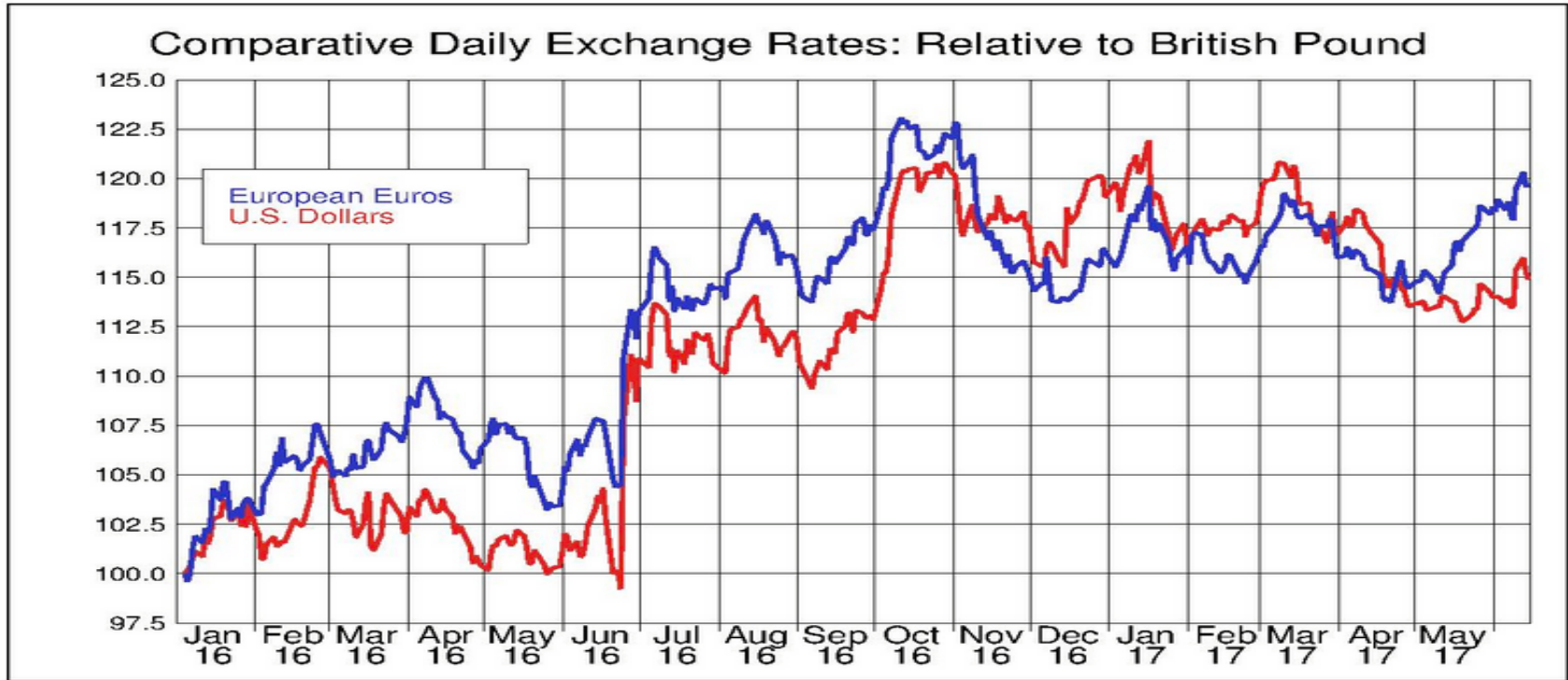
Sources: Own calculations based on DG AGRI Market Outlook, Meat Market Observatory and Eurostat COMEXT statistics

Sheepmeat trade (inc. offals and manufactured products) Carcase weight (inc. live animals), tonnes, 2016

EU28	Consumption	1,061,000		Production	929,000	
	Imports from EU27/UK	Imports from ROW	Main traders	Exports to EU27/UK	Exports to ROW	Main traders
UK	26,561	102,303		69,517	4,174	
EU27	69,517	100,906		26,561	69,135	
			New Zealand			Libya
EU28		203,209	Australia		73,309	Hong Kong Other

Sources: Own calculations based on DG AGRI Market Outlook and Eurostat COMEXT statistics

Brexit – immediate forex impact



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Source: PACIFIC Exchange rate service, 1 Jan 2016 Base = 100

Forging a deep and comprehensive FTA

- **Tariff treatment**
 - Maintaining **tariff-free trade** for agri-food products would seem possible, given complementary UK and EU interests
 - But...there could be tensions over possible **trade displacement** e.g. lamb, beef, sugar, wheat
- **Non-tariff (regulatory) issues**
 - “.. ambition also applies to social, fiscal, environmental and consumer protection standards.. we must prevent regulatory dumping. Guaranteeing and enforcing these common rules and a level playing field will be crucial” (Barnier March 2017).
 - Highly desirable to have a series of **Mutual Recognition Agreements** attached to FTA to allow for equivalence and mutual recognition of inspection procedures
 - Will all take time!

Examples of EU MFN applied tariffs

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%
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%

Source: AHDB Horizon

A transitional (interim) agreement?

- Has been mentioned by both UK and EU sides
 - EU recognises “the negotiations may also seek to determine transitional arrangements”
 - UK talks about “a phased process of implementation”
- EU side has specified conditions
 - These possible arrangements must be supervised by European law and its associated legal system.
 - Their duration will be strictly limited.
 - No form of cherry-picking of Single Market will be allowed
- Huge risk of disruption to supply chains in the 12 months leading up to Brexit because of uncertainty over access conditions
- Possible options for an interim arrangement
 - Limited zero-tariffs arrangement for goods only
 - EEA-type agreement with or without EFTA membership
 - Remain in the customs union

The proposed UK Trade Bill (Bills?)

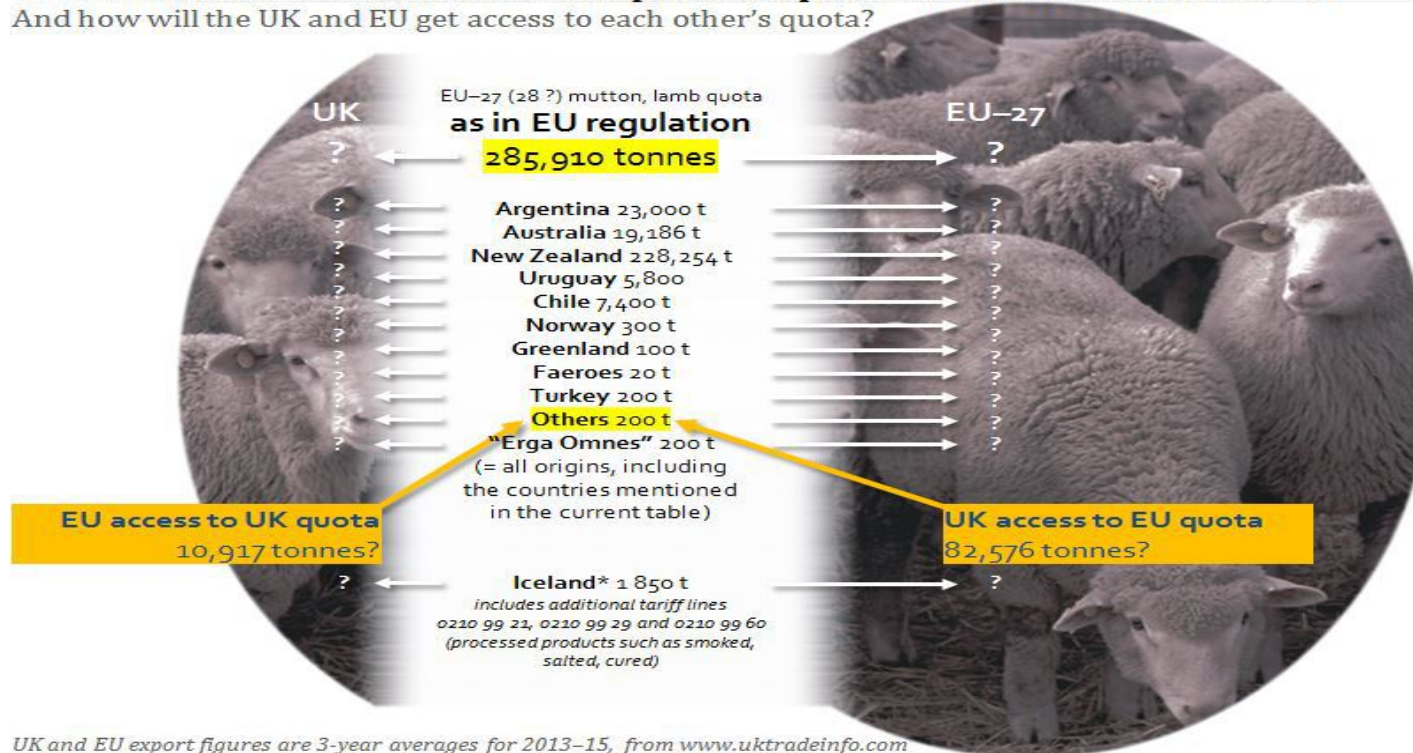
- Promised in Queen's Speech
 - Dealing with matters not covered by Great Repeal Bill
 - Does not need to wait for WTO agreement on schedules in Geneva
- Will need to set out UK MFN applied tariffs
 - Including commitment to Generalised System of Preferences and duty-free access for Least Developed Countries
 - Will the UK seek to move away from EU MFN applied rates, for example, to favour consumers?
- Will possibly 'grandfather' existing EU FTAs with countries that agree to do this
- Will need to announce withdrawal from EEA Agreement (if desired) - 12 months notice required

The proposed UK Trade Bill (Bills?)

- Will need to establish UK Tariff Rate Quotas (TRQs) and administration methods for specified agricultural imports
 - ‘Sharing out’ existing EU28 TRQs makes no allowance for existing intra-EU trade (see next slide)
 - May establish autonomous TRQs as well as implement WTO ones
 - TRQ administration methods as important as quantities
- Could spell out unilateral recognition of EU regulatory standards
 - esp. important for veterinary, food and phytosanitary standards

TRQ example – EU28 lamb TQ

How will the EU-28's lamb-mutton quota be split between the UK and EU-27?
 And how will the UK and EU get access to each other's quota?



Conclusions

- Brexit is a huge additional **source of uncertainty** for UK and EU meat trade
- **Extremely complicated negotiations** to be completed within a relatively short period .. and with limited negotiating resources on the UK side
- Will March 29 2019 remain the **Brexit date**?
- Brexit potentially opens **new export market opportunities** for non-EU exporters, at the expense of EU27 exporters
- The potential for **disruption in supply chains** is very high
- Greater focus needed on **transitional arrangements** following Brexit Day and before FTA can be agreed