

# Market Report August 2019

## Brexit Uncertainty Continues to Impact The Poultry Industry



***In 2018, meat imports accounted for 40.5% of UK total meat supplies for consumption according to (IMTA).***

### **Brexit Update - August 2019**

Since our last update in July 2018, ([www.meadowvalefoods.co.uk/downloads](http://www.meadowvalefoods.co.uk/downloads)) much has happened and in many respects nothing has changed.

Politically, changes in both UK and EU leadership look to have resulted in further entrenched positions. Although at the time of writing there may be a less explosive approach in Boris Johnson's message, saying that the UK could remain within the custom union for 2 years, however also reinforcing the need to 'turbo charge our preparations for a 'no-deal' Brexit.

This uncertainty continues to drive volatility in markets (especially in Forex) and makes running businesses in a smooth and sensible way challenging!

With 40.5% of UK meat consumption coming from imports (IMTA), BREXIT and the continuing uncertainty remains a hot topic.

This report aims to update on a number of issues:

- 1) What happens in the event of no deal?**
  - a) New quota
  - b) WTO TRQ apportionment
- 2) What are the likely effects on supply chain?**
- 3) What other factors are driving the markets?**



## YOUR PARTNERS IN POULTRY

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## 1) What happens in the event of no deal?

Over half of chicken imported into the UK comes from the EU. On exiting Europe, the UK will quickly need to be able to allow goods to come into the UK. In terms of volumes, according to Eurostat, a total of 795,515 tonnes was imported to the UK in 2015 with approximately 450,000 tonnes from the EU.

### 1 a) New Quota

The UK has adopted the second of the two options which we mentioned in a previous Brexit update. This would involve the creation of an 'erga omnes' (all others) quota, allowing for the importation of goods at two rates, firstly an agreed 'in quota' tariff rate (probably zero), plus an 'out of quota' tariff rate on which duty would be paid (we believe €617/tonne).

This 'out of quota' tariff rate is likely to be lower than the existing WTO out of duty quota which applies to the MFN states (Thailand, Brazil, Ukraine and Other) under current WTO rules.

One of the key elements of an 'erga omnes' quota is that it can be used by any origin which is approved. What was EU approved will now be effectively UK approved. The chilled quota will, in the main, continue to be used by EU countries due to the short shelf life of the product. The other poultry quotas, however, will be able to be accessed by any origin.

Quota as % of average EU dispatches to the UK over the last 4 years (April 2015 – March 2019)			
Quota category	Average EU dispatches	Proposed quota	Quota as % of trade
Chilled beef	217,500t	<b>124,402t</b>	57%
Frozen beef	66,380t	<b>56,218t</b>	85%
Processed beef	63,760t	<b>50,043t</b>	78%
Chilled chicken	298,706t	<b>166,197t</b>	56%
Frozen chicken	174,699t	<b>79,510t</b>	46%
Chilled turkey	20,155t	<b>16,009t</b>	79%
Frozen turkey	28,234t	<b>4,198t</b>	15%
Fresh/frozen whole duck and frozen cuts	11,227t	<b>6,152t</b>	55%
Chilled duck cuts	1,800t	<b>1,888t</b>	105%
Processed and salted poultry	203,613t	<b>141,983t</b>	70%



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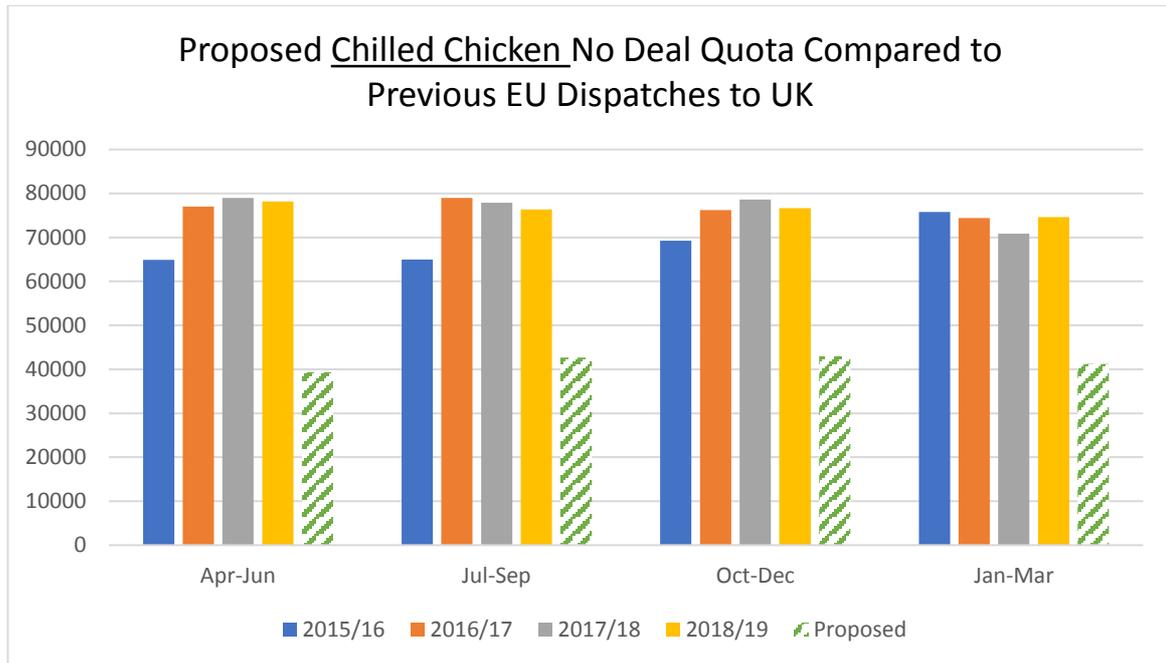
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As the speed of implementation will be key in the aftermath of Brexit, the only realistic way to divide these quotas will be via a first come first served system (FCFS) this is most probably going to be allocated on a quarterly basis.



With the exception of duck, the quota does not cover the whole requirement.

For chilled chicken, for example, the quota will run out before demand is satisfied. Run quarterly that means just over half way through each quarter (approximately 7 weeks) the quota will run out. This could cause difficulty when trying to cost goods for example on a quarterly basis as some product will be in a zero duty and some will not.

To further add to this complication the leave date of 1<sup>st</sup> November 2019 lies part way through a quarter, it is unknown whether this quota will be pro-rated for the year or rebased to start from this date. It's also worth noting that this is in the key meat buying in period for Christmas.

It is tempting to consider self-sufficiency at this point. It is apparent though, in the short to medium term, even if the political will existed, the ability to react makes this a very difficult ask.



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Considering self-sufficiency on chicken breast fillets, for example:

A chicken breast fillet <b>weighs approximately 200g</b>
The UK imports 462,000t of breast products <b>2,313 million fillets</b>
To meet demand the UK would have to produce <b>an additional 1,156 million birds (124% increase)</b>
And find markets for the other <b>75% of the carcass equating to 1.3million tonnes</b>

The UK is primarily a breast fillet market which represents the vast majority of imported products, exporting the dark meat cuts legs and wings and the fifth quarter backs, offals, feet etc.

### 1 b) World Trade Organisation Tariff Rate Quota (TRQ) Apportionment

Under the existing WTO rules the EU and UK have legal obligations to other WTO members who hold TRQ for the EU. In the event of a no deal Brexit these will be divided between the EU-27 and UK. IMTA documents quotes

*'The intention was to assert these shares in the event of a no deal even though other WTO members disagreed with the apportioned volumes. Due to loss of flexibility and inadequate data.'*

The numbers likely to be used can be found in our October 2018 Brexit update, however, they appear to be insufficient, compounded by the inadequate volumes of the 'no deal' tariff policy TRQs (see above).

As an example, of the 170,807 tonnes of Brazilian salted meat chicken quota, 40,877 tonnes will be allocated to the UK. This is in part due to the 'Rotterdam effect' whereby goods originally imported into Mainland Europe and subsequently sent to the UK count towards the original destination's volumes.

An additional complication here is the methodology by which these TRQs are allocated to individual companies is moving from one of simultaneous examination to pro-rata. This is in draft legislation form at this time and could well result in complications as systems change.



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## 2) What are the likely effects on supply chain?

### Storage

As most will be aware, there is a current shortage of cold storage space in the UK. Stock levels rose in the period to March 2019 for the first Brexit deadline and have again for October 31<sup>st</sup>. This will have an impact on the smooth running of supply chains.

A large UK cold storage company recently mentioned that they would happily buy more storage sites or companies but the problem is they are already full!

### Additional Import Documentation

Whilst the government has had a large campaign highlighting the need to register in various schemes (EORI, TSP etc ) and appoint a customs agent for the smooth running of supply chains, the uptake of these has been below target and therefore one must assume that this will add to the complications and negatively impact smooth running of supply chains.

## 3) What other factors are driving the markets?

Although the impact of BREXIT on the market is foremost in most people's minds, there are a number of other significant factors which we should not lose sight of. For the purpose of this report I have chosen 3 that we are monitoring closely.

### African Swine Fever (ASF)

In May of this year we issued an ASF update ([www.meadowvalefoods.co.uk/downloads](http://www.meadowvalefoods.co.uk/downloads)) highlighting the potential impacts of ASF. Whilst these have not been significant in the poultry breast meat market, we have seen certain commodities rise quickly (eg mid joint raw wings). A recent Reuters article stated;

*'The bank said China's herd, by far the world's biggest, was already estimated to have shrunk by 40% from a year ago, well above official estimates which have ranged from 15% to 26%.'*

Given the enormous size of the Chinese pig herd and the likely recovery time (up to five years), the same article said one cannot see how the impact will be contained to pork prices and selected chicken meat cuts.



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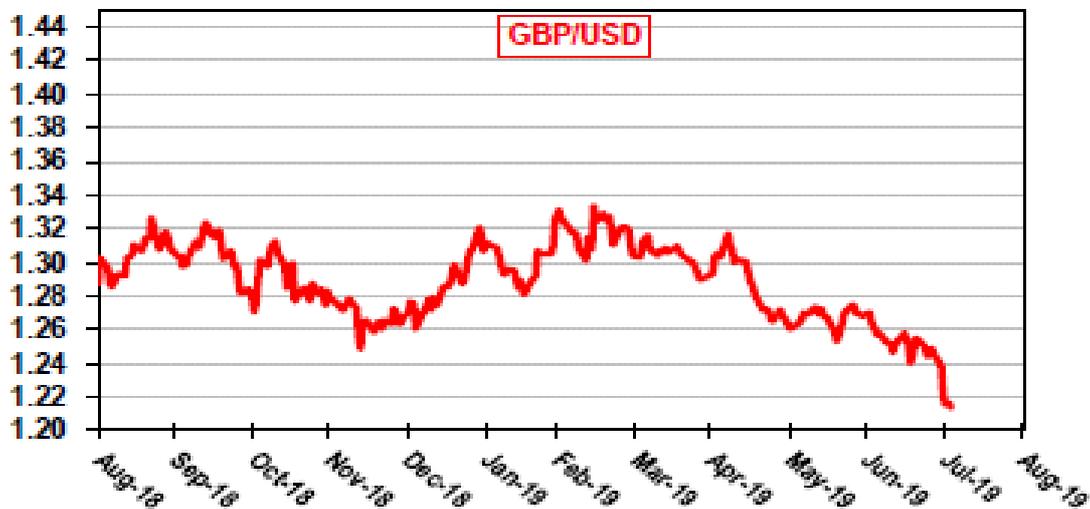
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## Forex

The further weakening of the pound against both USD and EUR has continued to progress. If one considers three potential states of the world the projected rates seem to be in the following order

No Deal	1.10 GBP/USD
Deal	1.45 GBP/USD
No Brexit	1.55 GBP/USD

On this basis the 1.20 rate at the time of writing would suggest a reasonable probability of no deal. This is also reflected in the EUR values



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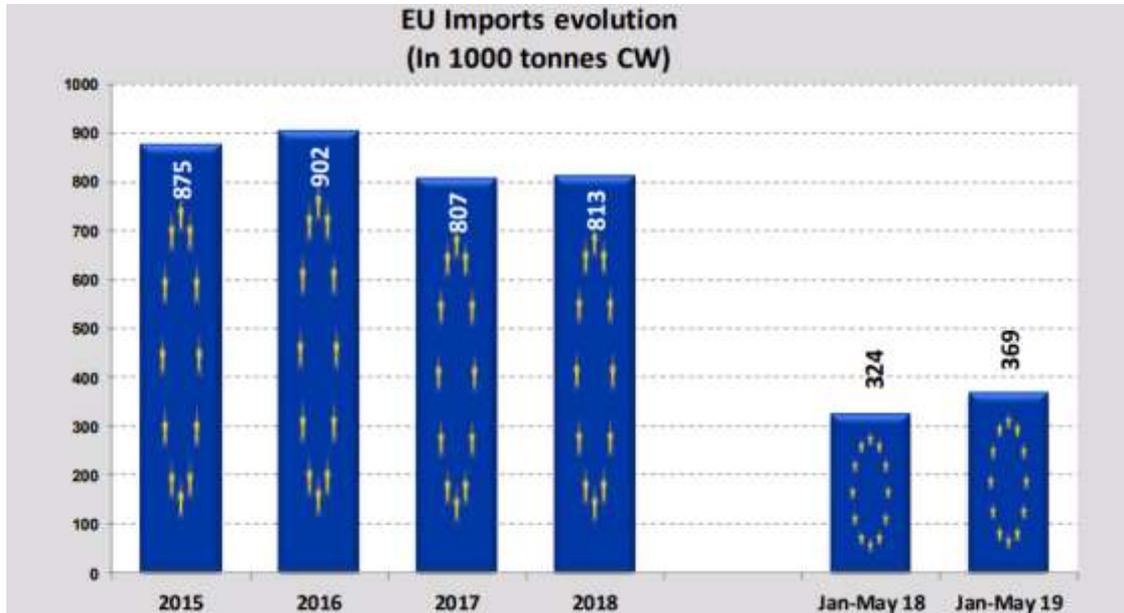
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## Supply

From a European perspective we can see that we are still off the heights of 2016. The banning of a number of Brazilian factories reduced their supply by 200,000t between 2016 and 2018 this is coupled with the large demand from China to try and fill the pork gap created by ASF.



## Imports of poultry meat from selected origins

	2015		2016		2017		2018		Jan-May 19		Compared to Jan-May 18
	tonnes	%	tonnes	%	tonnes	%	tonnes	%	tonnes	%	
Brazil	501 328	57.3%	504 814	55.9%	401 598	49.7%	302 207	37.2%	138 421	37.6%	+ 23%
Thailand	274 524	31.4%	290 602	32.2%	265 927	32.9%	311 468	38.3%	137 171	37.2%	+ 11%
Ukraine	42 513	4.9%	48 103	5.3%	80 128	9.9%	123 664	15.2%	56 127	15.2%	+ 12%
Chile	22 232	2.5%	28 809	3.2%	24 972	3.1%	35 954	4.4%	18 260	5.0%	- 3%
China	18 384	2.1%	16 951	1.9%	19 107	2.4%	24 526	3.0%	13 160	3.6%	+ 36%
Argentina	8 529	1.0%	6 491	0.7%	6 297	0.8%	7 352	0.9%	2 844	0.8%	- 28%
Switzerland	2 424	0.3%	2 548	0.3%	2 736	0.3%	2 901	0.4%	1 195	0.3%	- 9%
Israel	1 285	0.1%	1 487	0.2%	1 170	0.1%	1 063	0.1%	564	0.2%	+ 21%
Others	3 699	0.4%	2 507	0.3%	5 320	0.7%	4 054	0.5%	825	0.2%	
Extra-EU	874 919		902 313		807 254		813 189		368 566		
% change			+ 3.1%		- 10.5%		+ 0.7%		+ 13.8%		



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## Summary

The uncertainty around BREXIT, African Swine Flu, global supply and currency fluctuations continue to impact the industry, with nearly all of them leading to an increased price of poultry.

Critical to the ongoing health and growth of the market in the UK is a consistent, ongoing supply of quality product.

If you would like regular updates please visit our website, or if you wish to discuss this further please speak with your usual contact.

## Meadow Vale Foods

Meadow Vale Foods is a supplier of quality, added value, further processed frozen poultry products to the foodservice and retail industries. Our extensive portfolio of premium products includes everything the modern caterer needs to offer. We have been helping foodservice professional's energise their menus for over 25 years.

Recently accredited a BRC standard Agents & Brokers certificate, this provides us with essential certification for providing purchase, importation or product distribution services in the food and/or packaging supply chain.

Our values within the business remain focused on our people, our customers and our markets. We pride ourselves on our market knowledge within our chosen sectors and seek to work in a collaborative manner, developing sustainable, long-term relationships for mutual benefit.

We invest in ensuring robust supply chains, consistently delivering security, integrity and providing industry leading quality – 52 weeks of the year.

We have been committed to offering high standards and building quality relationships for the last 30 years and will continue to do so in the future.

Meadow Vale is part of an Agri-food group with UK, EU and third country supply chains.



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