



UK Poultry Market

The

CONTINUED

IMPACT *of*

**AFRICAN & BREXIT
SWINE FEVER**

MARKET

Report

January 2020

How will we remember 2019 in terms of the UK Poultry Market and Food Service? The year of Brexit preparation & deadlines? African Swine Fever (ASF) forcing changes to global meat supply landscape? The year when food delivery service growth exploded?

"The Perfect Storm" has become a cliché, but in terms of our current market it seems a fitting analogy for 2019.

From the extra-ordinary supply chain impacts of BREXIT and Quota uncertainty to the acceleration of ASF running businesses in a smooth and sensible way remains challenging.

This report looks forward to the ongoing and escalating ASF situation and Trading Agreements that could play out in 2020 and their likely impact on the Poultry Market:

1. ASF AND ITS IMPACT ON POULTRY DEMAND

2. TRADE AGREEMENTS - A CHANGING LANDSCAPE

LOOKING FORWARD
to **2020** 

1. ASF AND ITS IMPACT ON POULTRY DEMAND

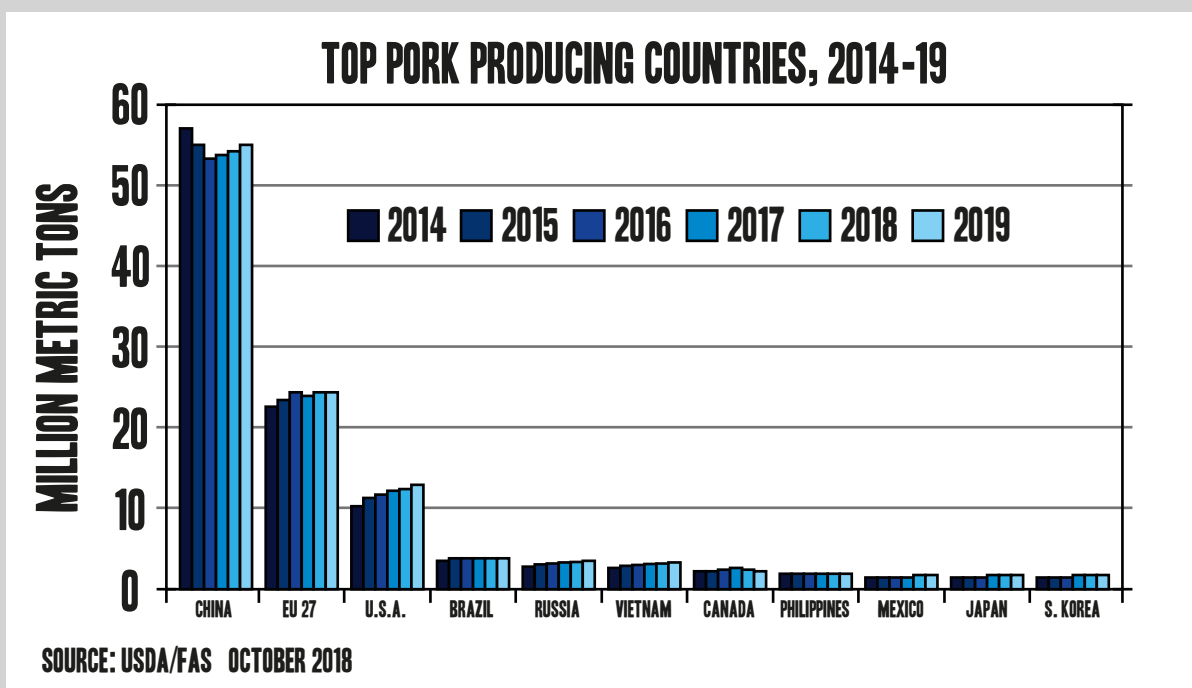
China produces and consumes about half of the world's pork, and the impact of ASF has created a protein gap that suppliers aren't able to fill immediately.

According to the FAO's Food Outlook Biannual Report on Global Food Markets, November 19 2019 world meat production is forecast to decline by 1% vs 2018. This marks a significant switch vs historical stable growth for over >20 years and also represents a sharper fall than anticipated in the previous FAO Report (May 19).

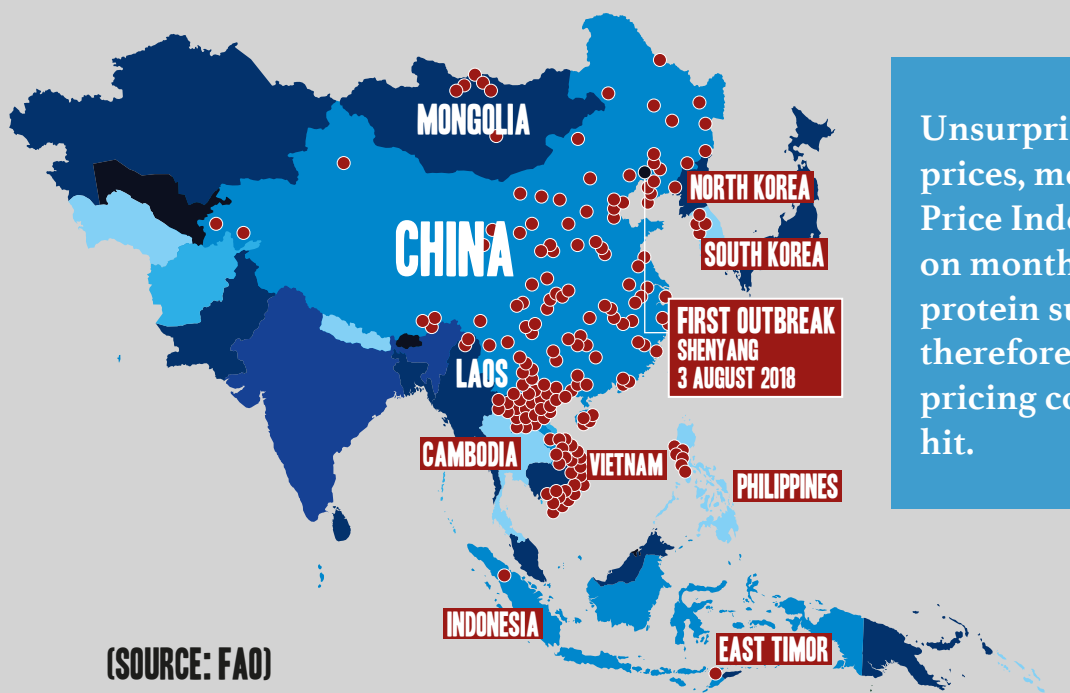
The primary reason for the decline in production is the deeper than expected impact of ASF in China and its spread to several East Asian countries and into Europe.

ASF and the subsequent significant global protein gap is, in turn, driving a surge in demand for poultry and knock on impacts on supply forecast to continue into the foreseeable future.

Therefore, to understand poultry market supply and possible future trend changes, the impact of ASF should not be underestimated. The chart below provides a useful illustration of the importance of Asia and Europe in the pork production landscape.



ASF: MAJOR OUT BREAKS IN ASIA



(SOURCE: FAO)

Unsurprisingly, international meat prices, measured by the FAO Meat Price Index, continue to rise month on month. Chicken is the preferred protein substitute for pork and therefore poultry supply and pricing continue to be significantly hit.

According to Swine Health Information Centre Reports, between 27th September and 10th October 2019 alone, 507 new outbreaks were officially notified, the total number of ongoing ASF outbreaks worldwide is now 9,491 (6,083 in Vietnam only). In December, Indonesia became the latest Asian country to face an outbreak.

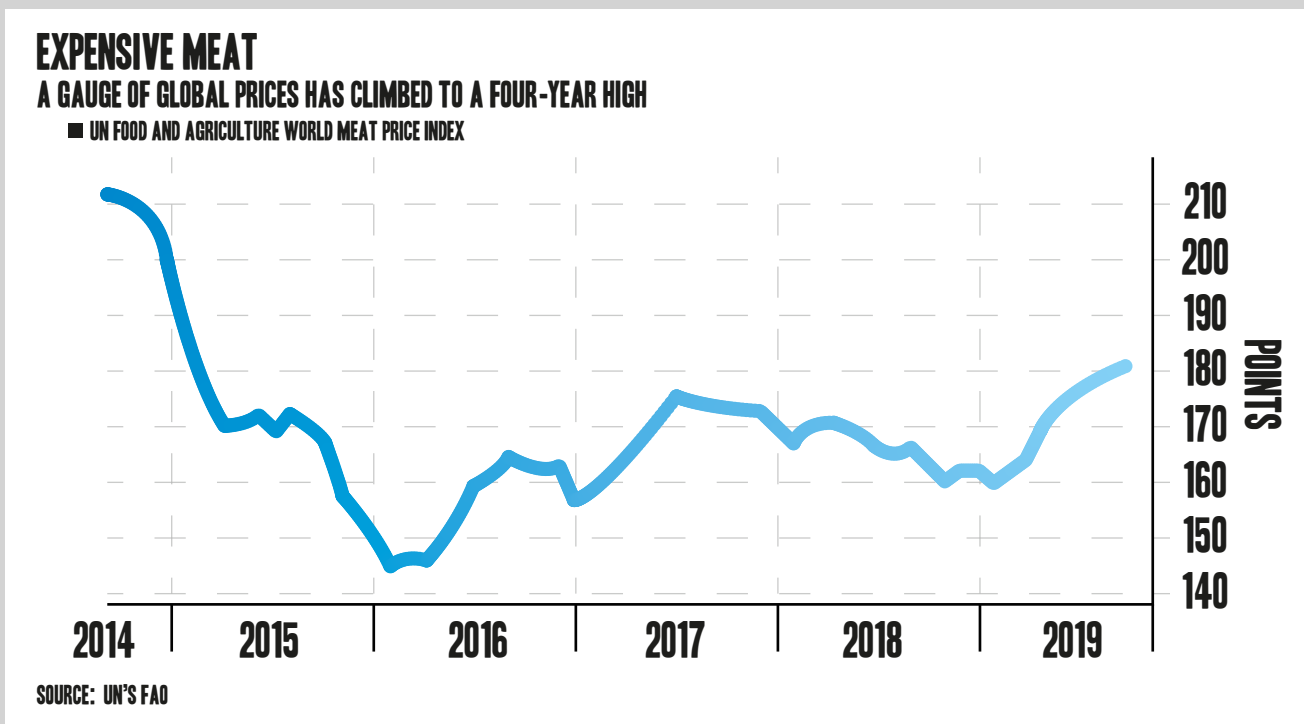
China's pig meat output is forecast to fall by at least 20%, partially offset by higher production of other meats, however forecasts suggest overall meat output will still fall by 8%. In order to satisfy demand there are indications that China is prepared to lift a ban on U.S. poultry that's been in place since 2015. China's overall meat imports are expected to rise by 35% (around 2 million tonnes), this increase is across all meat categories.

Rabobank said that China's pork imports from the US have doubled. Beef and chicken prices have also increased because of additional demand from consumers switching from pork. With a further price spike expected as demand grows for Chinese New Year.

Pork prices across Asia have increased, and in some cases, fuelled inflation. China's most recent inflation figures showed consumer prices rising at 4.5%, the fastest level in nine years, with pork accounting for much of that increase.

Ratings agency Fitch said that domestic wholesale prices in the country nearly doubled in 2019, and predicts prices in South East Asia are also likely to rise.

The Thai Broiler Processing Exporters Association report that soaring pork prices in China have led to an over 700 percent increase in Thailand's chicken exports to China between January and July 2019 (33,550 tonnes). With more Thai factories being approved for export to China together with the UK reliance on Thai poultry, further price and supply pressure is anticipated.



One thing is clear, this will have a long term impact on the market. Rebuilding the breeding stock will take a matter of years not months and only time will tell, the impact on consumer protein consumption patterns.

2. TRADE AGREEMENTS: A CHANGING LANDSCAPE

A. TRADE WITH THE EU

Following the December 2019 Election, are we any closer to clarity on the trading position with the EU?

In principle the answer should be yes, however there are many scenarios and much debate and negotiation ahead of us, all of which results in a level of ongoing uncertainty and a need for contingency planning to continue.

Below we explore just a selection of scenarios and considerations.



A BREXIT deal has been agreed in principle with the EU. Whilst no-deal looks unlikely, if the agreement is not approved by 31st January 2020, the UK could still leave the EU without a deal on that date.



According to a range of Commentators and EU officials it would not be straight forward to push back the end-June deadline for extending the transition.



Both the UK and the EU need to approve and sign the withdrawal agreement, negotiations on new trade arrangements will then start. During this negotiation there will be a transition period to December 31st 2020.



With a large parliamentary majority, Johnson may pay less heed to hard-line Brexiteers in his party than prior to the election and renege on his pre-election pledge not to extend the transition period beyond 2020.



The EU hopes to start trade talks with Britain by March, leaving just 10 months to strike a deal and gain approval by London and the EU, including the parliament of all Member States.



If Johnson fails to reach an agreement with the EU by the end of the year, and he refuses to negotiate passed his own deadline, then the legal default would be a no-deal divorce.



Trade agreements with the EU typically take years to complete, and few in Brussels believe the transition period will be long enough to seal a deal with Britain.



If Britain were to stay in the transition period beyond 2020, it would require a financial settlement as the EU enters its new 2021-27 budget.



There remains the option to prolong the transition. If this is the preferred approach, London must request an extension by the end of June 2020.



London would be reluctant to keep on contributing to EU coffers so that discussion would again be complex and undoubtedly challenging.

Just from the brief overview above, it is clear that uncertainty remains and operating a smooth and efficient supply chain will remain challenging from a BREXIT perspective alone.

B. TRADE WITH THIRD COUNTRIES

The EU has about 40 free trade deals, covering more than 70 countries. This means, as a member of the EU, the UK can currently trade with countries like Canada without having to pay taxes (tariffs) on most goods.

Rather than paying extra taxes on goods under WTO (World Trade Organization) terms, in the run-up to BREXIT, the UK has been trying to replicate some of the EU's trade deals, which would secure the same tariff-free access to these countries after the transition period.

Up to now, the UK has only been allowed to negotiate and sign deals with countries that have existing EU trade agreements. After BREXIT day, the UK will be free to negotiate and sign new trade deals with countries that have no existing EU deals - for example the US.

As illustrated in the chart below, (source: EU Market Situation for Poultry, Committee for the Common Organisation of the Agricultural Markets, 21 November 2019) trade with 3rd Party Countries is growing and therefore establishing trade deals with non-EU countries will be key to stable UK Poultry supply.

IMPORTS OF POULTRY MEAT FROM SELECTED ORIGINS

	2015		2016		2017		2018		JAN-AUG 19		COMPARED TO JAN-AUG 18
	TONNES	%	TONNES	%	TONNES	%	TONNES	%	TONNES	%	
THAILAND	274 524	31.4%	290 602	32.2%	265 927	32.9%	311 520	38.3%	215 562	37.4%	+ 5%
BRAZIL	501 328	57.3%	504 814	55.9%	401 598	49.7%	302 207	37.2%	215 293	37.3%	+ 13%
UKRAINE	42 513	4.9%	48 103	5.3%	80 128	9.9%	123 664	15.2%	89 003	15.4%	+ 4%
CHILE	22 232	2.5%	28 809	3.2%	24 972	3.1%	35 954	4.4%	26 853	4.7%	- 6%
CHINA	18 384	2.1%	16 951	1.9%	19 107	2.4%	24 525	3.0%	20 881	3.6%	+ 32%
ARGENTINA	8 529	1.0%	6 491	0.7%	6 297	0.8%	7 352	0.9%	4 611	0.8%	- 13%
SWITZERLAND	2 424	0.3%	2 548	0.3%	2 736	0.3%	2 901	0.4%	1 723	0.3%	- 14%
ISRAEL	1 285	0.1%	1 487	0.2%	1 170	0.1%	1 063	0.1%	1 354	0.2%	+ 82%
OTHERS	3 699	0.4%	2 507	0.3%	5 320	0.7%	4 054	0.5%	1 585	0.3%	#N/A
EXTRA-EU	874 919		902 313		807 254		813 240		576 866		
% CHANGE			+ 3.1%		-10.5%		+ 0.7%		+ 7.4%		

During the transitional period we assume very little change in the imports of poultry from today. Quotas will still apply although the underlying legislation for these imports is likely to change.

The methodology used to allocate TRQs to individual companies is changing, moving from one of simultaneous examination to a pro-rata mechanic. Still in draft legislation form at this time, this change could well result in complications during transition to the new approach. The likely implementation date is early 2021, which may impact UK supply. As more information is available on the changes and timeframes, the impact on supply will be clearer.

Free trade deals between non EU countries and the UK are likely to be addressed in order of importance to the UK. Commentators suggest that the first batch are likely to be USA, Australia, New Zealand and Japan followed by Thailand, China, India and the Gulf States.



SUMMARY

ASF continues to impact current demand for and supply of poultry as the preferred protein alternative to pork for the foreseeable future as the outbreak is first contained and secondly breeding stock restored. However, only time will tell whether the switch to poultry and changes to import restrictions will lead to a long term change in poultry consumption in China and across Asia.

Closer to home, with the 31st January and BREXIT looming together with the changes to quota systems due to be implemented in 2021, managing a stable supply chain continues to be challenging.

Our April Market Report will take a fresh look at Market Trends from a demand perspective.

Nigel O'Donnell
Managing Director
Meadow Vale Foods

Tel: +44 1978 666 100
www.meadowvalefoods.co.uk

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