BREXIT

What's at stake for Suppliers of Food Products to and from the UK

A quantification and analysis of the main categories of UK food imports and exports at risk in the event of a Brexit

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The UK - a major market for EU food suppliers …but a significant food exporter as well

At the end of May the UK will vote whether or not to stay in the EU.

A great deal has already been written on what might or might not happen if it pulls out – looking at potential duties, quotas, non-tariff barriers etc. – but very little has been said about the actual volumes of trade at risk, particularly in the food sector.

Yet UK imports are vitally important for continental food producers. Just one example: the UK imports nearly twice the volume of cheese that Russia did before its August 2014 embargo halted all imports from the EU, the result of which is still playing a major role in collapse of EU and even world milk producer prices.

In reality, UK imports are one of the mainstays of continental EU food demand, and any diminution of this trade will be felt to at least some degree by the main supplier countries.

But the other side of the coin is also important, since UK food consumption depends to large degree on EU (and other country) imports. As an example, the UK imports over 20% of its requirements for beef and a much higher percentage of its raw and processed pork needs. And over 60% of its cheese consumption is imported from the EU.

In 2015, the UK imported food & drink products (excluding tobacco and alcoholic drinks) for a total of €44 billion altogether, of which €31 billion (70%) came from the EU.

In exchange, it exported €15 billion worth of food & drink, of which €11 billion (73%) went to the EU.

We therefore thought that it might be of either direct or indirect interest to a number of our clients just to set out the UK’s current import and export situation in the main food categories concerned.

In so doing, we give no opinion on the rights or wrongs of a Brexit.

For this analysis we have primarily relied on 2015 data derived from Comext.
The UK's imports of food & drink have shown a strong value growth trend over the last ten years.

- Even including the "bad" years 2009-10, total such UK imports from the EU (excluding alcoholic drinks & tobacco) grew at 4.7% p.a., well above inflation.
- This was a slightly higher rate than imports from outside the EU (the Rest of the World - "RoW" on our charts).

The €31 billion of UK food & drink imports from the EU in 2015 were relatively evenly spread among the UK's 4 major suppliers: the Netherlands -18%; Ireland -15%; Germany - 14%; France - 12%.

- **NL**: essentially two products – fruit and vegetables (€1.9 billion) and meats (primarily poultry and further processed).
- **Ireland**: mainly meats (€1.8 bn – mainly beef and further processed), dairy (€0.8 bn - over 50% cheese), and fruit and vegetables.
- **Germany**: quite a wide spread of food categories, with meats (mainly processed) and fruit & vegetables both at over €700 million, followed by confectionery, bakery (mostly sweet) and dairy (mostly cheese and chilled).
- **France**: primarily dairy (cheese and chilled) and fruit and vegetables.
- **Denmark** features for €560 million of meat, mainly processed & raw pork.

UK imports from the Rest of the World, at €13 billion in 2015, are primarily fruit & vegetables (35%), followed by fish (12% - caught, farmed and processed) and meat (11% - mainly processed, 51%, and lamb, 32%).

UK exports of foods to the EU are significant - €11 bn - but just a third of imports. 72% of these (i.e. 52% of total exports) go to just EI, FR, NL & DE.

- A third, €3.7 bn, go to Ireland alone as a wide range of products.
- The next largest customer is France, at €1.7 bn for number of products.
We have seen that the largest part of the UK’s food import bill - 28%, € 12.6 bn in 2015 - is spent on fruit, vegetables & their preparations.

- Nearly two thirds comes from the EU, with 25% of this from the Netherlands.

Raw and processed meats come next, at € 7.4 bn, of which nearly 80% from the EU. We analyse this sector in more detail on the next page.

Dairy imports, at € 3 bn, are effectively an all-EU affair. They are analysed in more detail on page 6 below.

Confectionery & chocolate, at € 2.3 bn, are also in the vast majority imported from the EU. Germany accounts for 25% of this, followed by Ireland and the Netherlands at 11% each.

Bakery products (not including cornflakes), at € 2.2 bn, are over 90% imported from the EU. 70% of EU imports are from France, Germany, Ireland, Belgium and the Netherlands, with France and Germany well ahead of the others. This sector is also analysed on page 7 below.

Other UK imports of food & drink:
The above shows that a few individual supplier countries have built very strong positions on major UK import markets and, as such, they are potentially vulnerable to the negative effects of a Brexit. However, some EU countries are also "over-represented" in UK imports of other products:

- France was also particularly strong in the UK’s 2015 imports of: grains (30% of all UK imports from the EU in value); sugar (56%); tea, coffee etc. (27%)
- The Netherlands in vegetable oils and fats, with nearly a third of all the UK’s EU imports.
- Germany has around 17% in value of UK imports of fish, although this is far less than imports from RoW.
The UK is an important importer of raw & processed meats. Of a total of € 7.4 billion in 2015, € 5.9 billion (80%) were from the EU.

**In volume terms, the UK imported just over 2 million tons of meats in 2015, of which 1.7 mn tons (84%) from the EU.** The largest single suppliers were the Netherlands and Ireland, with just under 400 KT each, each of them more than the UK’s total imports from outside the EU.

**By far the largest imported meat category is Processed Meats** (around 45% in both volume and value). It includes a wide variety of products, above all bacon from the EU but also speciality hams (Italy etc.) and processed poultry products from Brazil.

- UK imports are split almost evenly between the four main suppliers: NL, Germany, Ireland & Denmark, at 125 - 150 KT each.

**Poultry** is almost all imported from the EU.

- 168 KT came from the Netherlands in 2015 – 41% of total.
- The remainder is split among a number of sources.

**Pork** is all from the EU.

- Denmark supplied 94 KT in 2015, 27% of imports; Germany 65 KT.

**Beef**: three quarters of beef imports from the EU are Irish (170 KT).

The exposure of EU meat suppliers to the UK market:

It is very difficult to assess the importance for a given country of supplying meats to the UK. However, if we compare a country’s 2015 UK meat exports in value to the value of its total meat production (2012 is used here, the latest available from Eurostat), we get an idea how vulnerable it could be to a major UK import market disruption due to Brexit:

- For France and Germany, their UK meat exports are an insignificant part of their total national production, less than 2% in value.
- Exports to the UK could represent around 13% of the Netherlands’ total meat production, and they appear to be a good third of Ireland’s.
Effectively all the UK’s dairy product imports of € 3 billion in 2015 were from the EU.

**Cheese:** the UK is the world’s second largest importer of cheese, (just) after Italy. 
By far the largest part of total dairy imports was represented by cheese, 58% in value for a total of 480 KT.
- Ireland alone represented 29% of total UK cheese imports in volume, 139 KT, and slightly less in value.
- There were large imports from several other countries, including over 100 KT from France

**Chilled products:**
France was by far the largest supplier, with 151 KT in 2015, representing 46% of total. Only Germany also supplies quite high volumes.

**Milk & cream:**
- Ireland supplies 52% of the UK’s imports in volume, but only 35% in value, indicating a strong presence of liquid milk in the product mix.
- Remaining volumes are supplied from a wide range of EU countries.

**Powders:** Ireland is again the main supplier, with around a third of volumes and value. France follows, at the head of quite a long tail.

**Butter:** 69% of volumes in 2015 were from Ireland, at unit prices 15% below the overall import average.

**The exposure of EU dairy suppliers to the UK market:**
It is very difficult to assess the importance for a given country of supplying dairy products to the UK, not least because of their varying milk content. However, if we compare a country’s 2015 UK dairy exports in value to the value of its total dairy production (2012 is used here), we can get an idea how vulnerable it could be to a Brexit.
- Only for Ireland are UK dairy exports important, probably over 20% of the value of its total dairy production.
- For the other major suppliers, France, Germany & NL, it is under 2%.
By volume, bakery products imports by the UK rank fourth after fruits and vegetables, meat and dairy products. Of a total of €2.2 billion in 2015, €2.0 billion (92%) were from the EU.

**In volume terms, the UK imported just over 870 KT of bread, biscuits, sweet and savoury bakery products in 2015, of which 815 KT (93%) from the EU.** The largest supplier was Germany, with almost 200 KT.

**Savoury bakery products** (pizza, quiches etc.) was by far the largest imported category (around 30% in volume and value).
- UK imports are split almost evenly between the three main suppliers: Ireland, Germany & France, at 55 - 60 KT each.

**Sweet bakery products** (tarts, cakes & pastries) are 85% imported from the EU, with some imports from USA, China & Thailand.
- Germany supplied 82 KT in 2015 – 46% of total.

**Sweet biscuits**: the Netherlands supplied 38 KT in 2015, 28% of imports; Germany 24 KT.

**Bread**: 40% of imports (44 KT), are from France, followed by Ireland (26 KT).

**The exposure of EU bakery suppliers to the UK market:**

It is very difficult to assess the importance for a given country of supplying bakery products to the UK. However, if we compare a country’s 2015 UK bakery exports in value to the value of its total bakery production (2012 is used here), we can get an idea how vulnerable it could be to a Brexit.

- For Ireland again, UK bakery exports are really important, with over 50% of the value of its bakery production.
- Exports to the UK could represent around 17% of the Belgian's total bakery production.
- For France and Germany, their UK bakery market exports are an insignificant share of production, less than 4% in value.
It should be remembered that the UK is also a food exporter - €15 billion in 2015 - even if this is only a third of the cost of its imports. Although the UK does not have the vocation to be a major food exporter, its exports have been growing well over the last decade.

Of the total, € 11 billion (73%) of UK exports went to EU buyers.

The graphs here show the major food sectors exported and their countries of destination:

Food Sectors and Destinations: Ireland appears as almost part of the UK’s home market - and vice versa.

- **Meat products** are the leading export category, with a relatively well-balanced mix of raw meat species and products, with beef & lamb at the top. - Ireland is the main buyer (€ 560 million in 2015), taking 29% in value. France is number 2, with € 350 mn.

- **Fish** comes next, representing a mix of added value: from UK boats landing caught fish abroad to sales of Scottish smoked salmon (much to France).

- **Dairy**: 1.1 million tons of dairy products were exported to the EU from the UK in 2015. Over 40% of this in value (€ 458 mn, 123 KT) was cheese. - again Ireland is the main client (importing the equivalent of 58% of its exports to the UK), with large volumes of raw milk being sold in 2015 from Northern Ireland to processors in the Republic.

- **Fruit & vegetables, Bakery and Confectionery & chocolate**: Ireland is a major taker of UK exports here, with smaller amounts being sold to wide range of EU and non-EU clients.

It is possible that any export market disruption caused by a Brexit would ultimately be compensated for by the opportunities for UK production otherwise destined for export to replace lost imports.
If a "Brexit" UK were to **totally close its frontiers to EU food & drink imports**, two things would happen:

- There would probably be a far more dramatic crash in agricultural prices (fruit & veg., meat & milk) in the EU than even the 2014 Russian embargo caused. This would hit Ireland disproportionately hard, while the other major EU food exporters would suffer less.

- UK exports would be switched back to the domestic market, where prices would have risen considerably. But as in the case of Russia, several important products will simply not be able to be sourced in sufficient quantities domestically or from non-EU suppliers.

**HOWEVER, THIS WON'T HAPPEN.**

**Looking at the possible scenarios:**

- **A significant hike in EU duties on UK exports** of food would make many UK products uninteresting to Continental buyers in what is already a very price-oriented retail and foodservice situation. These would initially be turned back onto the EU market, creating considerable price disruption.

- **Assuming tit-for-tat reciprocity, the UK would impose duties** on all or a number of imports from the EU. This will initially increase prices for the UK consumer, although eventually, UK raw materials originally destined for processing for export will be used for supplying the domestic market, thus somewhat (but far from entirely) alleviating the situation.
  - Paradoxically, this might give a much-needed shot in the arm for UK inflation…
  - And it could also stimulate increased production and consolidation, where the potential exists already (e.g. milk production).

- But the figures presented in the pages above make us think that the UK authorities, unlike the Russians, would likely adopt a more piecemeal, targeted approach to import duties on food.

For those essential imports that the UK cannot or (economically) should not produce - fruit & vegetables, cheese, etc. - **a zero or low duty rate could be combined with quotas. Anything over quota or without quota could be hammered.**

So if the UK brexits in a "civilised" way, taking account of its consumers' and domestic food industry's interests, the changes are likely to be introduced slowly, over a period of years that should allow EU exporters time to redirect products to other markets. For those products that the UK needs but cannot reasonably produce itself, it is unlikely to seriously challenge the status quo.