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## Inside this Quarterly



# IMPACT OF WTO STATUS ON THE NI BEEF AND SHEEP MEAT INDUSTRY

GIVEN industry concerns about Brexit and the realistic possibility that the UK and the EU fail to agree a free trade deal prior to the UK leaving the EU LMC has commissioned a report to gauge the impact of WTO trading conditions on the Northern Irish beef and sheep meat industry. The report also aims to assess the potential implications of WTO status for the future development of the NI beef and sheepmeat industry.

**Image 1: The Andersons Centre and Oxford Economics were commissioned by LMC to undertake a study on the impact of WTO status on the NI red meat sector**

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OXFORD ECONOMICS

The report commissioned by LMC has recently been completed by the Anderson Centre, a UK based team of farm business and research consultants, in conjunction with Oxford Economics. The report highlights that Brexit is unprecedented and has the potential to cause major upheaval to the UK and Northern Irish agricultural industry, and in particular the beef and sheep meat industries, if it is not handled properly.

The analysis undertaken included an assessment of the impact of WTO tariffs, non-tariff barriers (NTBs) and other impacts arising from Brexit which were cited as causing concern to the sector. The study has also set-out recommendations on how to mitigate the impacts of WTO trading to help support the long-term competitiveness of the Northern Irish beef and sheep meat sector. These will be explored in more detail on page 3 of this publication.

The report also provides an overview of outputs from the NI beef and sheepmeat sectors and how both production and trade may be affected if no free trade deal can be negotiated between the UK and the EU and we revert to a WTO trading scenario.

The report outlines that there are no real precedents to Brexit which are applicable to the UK-EU context. Territories have left the EU in the past and the process of leaving is arduous, even where only a small population is concerned. It should also be noted that where territories have left and trading relationships have reverted to WTO trading conditions, there was a considerable impact on agricultural trade. Although Non-Tariff Barriers (NTBs) are frequently cited as an impediment to agricultural trade, it is difficult to draw conclusions that would be appropriate for the UK-EU situation.

The report also identifies that there are examples of variations in trading regulations within territories (e.g. Canada), and that caution needs to be exercised to ensure that no internal trade barriers are created between NI and the rest of the UK post-Brexit. Within the context of Northern Ireland however this need must be balanced against the terms set out in the Good Friday Agreement.

Whilst the example of Cyprus offers some insights as to how a trading relationship across two jurisdictions on one island could be handled post-Brexit this is a far from an ideal arrangement and would leave numerous challenges to be overcome.

Overall, this study has highlighted that WTO trading would have a devastating impact on NI trade with the EU for beef and sheep meat. Product displacement within the UK market may help to mitigate some of the imports under WTO Equivalence however it would lead to increased retail prices, reduced consumption (in volume terms) and an increased propensity amongst consumers to switch to cheaper protein sources.

A WTO Liberal Trade scenario (i.e. where there are no inward bound tariffs to the UK on goods and services) would seriously damage the red meat industry both domestically and internationally. It is clear from the completion of this study that both of these scenarios need to be avoided.

Whilst fully acknowledging and respecting the Referendum outcome, an alternative approach needs to be found so that UK and EU farmers, businesses and citizens can have greater certainty and a relatively smooth transition to the post-Brexit relationship. Such an approach requires compromise and realism from all sides in terms of the desired outcome and the steps and measures that must be taken to get there.

Hopefully, this report and its findings will bring clarity on the potential routes ahead for the NI beef and sheep meat industry as well as the road that should be taken.

**Copies of the full report are available on the LMC website www.lmcni.com or by contacting LMC on 028 9263 3000**

**Image 2: Reversion to WTO trading or a WTO liberal trade arrangement will negatively affect output from the NI beef and sheep meat industry**

# NI BEEF AND SHEEP MEAT INDUSTRY OUTPUT

THE estimated output of the Northern Irish beef and sheep meat sector for 2016 is valued at £1.1 billion, an increase of 6.1% from 2015 levels. Edible beef and sheep meat (£1.05 billion) accounted for the clear majority of the total output from the sector with the value of sales increasing by 6.4 per cent on 2015 levels.

In volume terms, just over 276,000 tonnes of edible beef and sheep meat were produced in NI during 2016, an increase of 1.8 per cent from 2015 levels. As outlined in Table 1 beef cuts (including boneless and bone-in beef) were valued at £949.2 million, accounting for 86 per cent of total output. Meanwhile sales of lamb cuts representing just over 5 per cent of the total value of outputs from the sector in 2016 and were valued at £59.2 million. The value of edible beef offal was small in value terms and accounted for just 2.4 per cent of sales however accounted for 12.5 per cent of tonnage.

GB continues to be the primary outlet for the NI beef and sheep meat sectors, with more than 70 per cent of sales destined for this market during 2016. Exports of beef and lamb to GB combined with consumption on the domestic NI market accounted for 79.8 per cent of total meat output in terms of value from the NI beef and sheep meat sectors during 2016 as outlined in Figure 1.

On an end-customer basis total sales to the EU during 2016 (including EU-26 and ROI) were estimated at £194.7 million. This accounted for 17.7 per cent of total output from the sector in terms of value with 6.5 per cent destined for ROI and 11.2 per cent to the EU 26 as indicated in Figure 1.

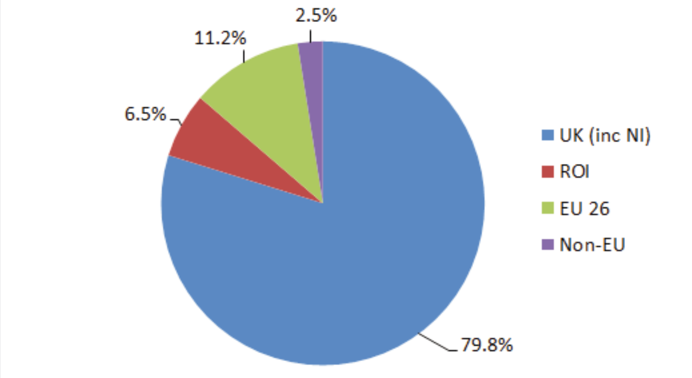
The Non-EU end-customer market during 2016 was estimated to be worth £28.0 million and accounted for 2.5 per cent of total output. Whilst this outlet is relatively small in value terms it performs an important market clearing/carcase balance function by providing an outlet for the parts of the carcase that UK or EU consumers do not utilise.

Table 1: Breakdown of NI Beef and Sheep Meat Output 2016 by value and proportion of sales. (Anderson Centre 2017)

| Product Category | 2016 | |
|---|---|---|
| | £m | % Sales |
| Beef carcases | 5.7 | 0.5% |
| Beef cuts | 949.2 | 86.3% |
| Edible beef offal | 26.2 | 2.4% |
| Lamb carcases | 10.0 | 0.9% |
| Lamb cuts | 59.2 | 5.4% |
| Edible lamb offal | 2.7 | 0.2% |
| Total edible meat output | 1,053.0 | 95.7% |
| Miscellaneous* (incl. hides, inedible offal) | 47.0 | 4.3% |
| Total output (£) | 1,100.0 | |

*Note: Miscellaneous categories do not include weights

Figure 1: Output of the NI beef and sheep meat sector for 2016 broken down by end customer in terms of value. (Anderson Centre 2017)




# IMPACT OF TARIFFS AND NON-TARIFF BARRIERS

THE report has revealed that the projected impact of tariffs on the NI beef and sheep meat industry shows a wider degree of variation than previous studies have suggested. Table 2 outlines that there is variation in the tariffs for consignments destined for ROI versus the EU-26 due to variations in average selling prices between both markets. This illustrates the significant challenge in dealing with tariffs which have both a value determined component (i.e. 12.8 per cent) and a weight-based (fixed) component.

When prices are lower, the overall tariff rises significantly in percentage terms as illustrated by the difference in the total tariff for chilled beef carcases (99 per cent versus 65 per cent). This may appear to some as being academic because no matter which EU Common Export Tariff (CET) rates are used, NI exports to EU would be rendered uncompetitive. However, it does highlight that consideration of the impact of future tariffs needs to take account of prevailing prices within NI and not just across the UK generally.

The NI processing sector will also have to contend with significant tariffs on inputs. If the UK were to apply an equivalent tariff to the EU CET on imports from ROI, then the effective tariff rate for live animals, in value terms, would range from 33 per cent to 78 per cent. The tariff rates for meat inputs would be similar to those outlined in Table 2.

The study also assessed the potential impact of NTBs, focusing on four key areas, namely official controls, customs checks & transport delays, administrative costs and deterioration in product value. The results are summarised in Table 3.

For this report, it is assumed that WTO Equivalence will have minimal official controls (e.g. 1 per cent physical checks) but under WTO Liberal Trade the EU's standard official controls apply (e.g. 20 per cent physical checks). Based on 2016 data, under WTO Equivalence, total NTB costs are estimated at £5.85 million whilst for WTO Liberal Trade the total is £11.12 million. As a percentage of the value of output for EU-27 consignments (£194.7 million), these NTBs amount to a tariff equivalent of 3.0 per cent under WTO Equivalence and 5.7 per cent under WTO Liberal Trade.

Table 2- EU Tariff Rates for Selected Beef and Sheep Commodities Based on N.I. Prices - 2016 (Anderson Centre, Gov.uk and the EU Commission))

| CN Code | Description | Total Tariff ROI (%) | Total Tariff EU-26 (%) |
|---|---|---|---|
| 2011000 | Fresh/chilled beef carcases and half carcases | 99% | 65% |
| 2013000 | Fresh/chilled boneless beef | 109% | 61% |
| 2041000 | Fresh/chilled lamb/sheep meat carcases/half carcases | 48% | 41% |
| 2042230 | Fresh Chilled Lamb Cuts | 49% | 42% |
| 2042300 | Fresh/chilled boneless lamb/sheep meat | 72% | 53% |
| 2044310 | Frozen lamb/sheep meat cuts | 44% | 50% |
| 2061095 | High quality beef offal (thick skirt and thin skirt) | 63% | |
| 2061098 | Fresh/chilled beef offal (other) | 0% | 0% |

Table 3 – Summary of NTB Costs for Northern Irish Beef and Sheep Meat Sector (Anderson Centre 2017)

| NTBs on Inputs | WTO Equivalence | WTO Liberal Trade |
|---|---|---|
| Official controls | £430,601 | £683,145 |
| Customs and transport | £316,541 | £786,742 |
| Other | £251,578 | £-251,578 |
| Sub-Total (Inputs) | £998,720 | £1,218,308 |
| NTBs on Outputs | | |
| Official controls | £1,479,914 | £2,170,886 |
| Customs and transport | £726,141 | £890,795 |
| Administrative | £104,395 | £139,193 |
| Value deterioration | £2,543,901 | £6,701,507 |
| Sub-Total (Outputs) | £4,854,351 | £9,902,380 |
| Overall Total | £5,853,072 | £11,120,688 |
| NTBs as % of Industry Costs | 3.00% | 5.70% |

# EFFECT OF WTO RULES ON OUTPUT AND TRADE

THE report forecasts the short term impact (1-2 years) of WTO trading on the NI beef and sheep meat sector, a summary of which is outlined below

### WTO Equivalence

**Output:** Under WTO equivalence output from the NI beef and sheep meat sector is expected to rise by 4.3 per cent with UK consumption of NI produce expected to increase by 27 per cent (£237 million). However the extent to which UK consumers will tolerate price increases that will occur under such a scenario need to be considered. In addition the long-term commitment of Government to continue such a policy must also be considered, especially given the need to pursue free trade deals with other countries (who will likely demand more access for food products).

**Exports**: Under WTO equivalence exports from NI to non-UK markets are forecast to fall by 82 per cent (£190million) with exports to the EU projected to decline by 93 per cent to under £15 million. Exports to non-EU countries are forecast to increase by £1.3 million which will offset this decline only very slightly.

**Imports:** UK imports from the EU are estimated to fall by £939 million (85 per cent). This occurs due to domestic (NI and GB) produce displacing imports because of the UK imposing the CET on imports.

### WTO Liberal Trade

**Output:** Under WTO liberal trade output from the NI sector is expected to decline by almost 21 per cent (£230 million) as UK producers struggle to compete with imports from around the world. Within this, UK consumption of NI-produced meat is forecast to decline by 5.5 per cent as total imports rise by 11.7 per cent. This will have serious repercussions for the processing industry and the wider rural economy.

**Exports:** Total exports from the Ni sector are expected to decline by 78.8 per cent (£182 million) with EU exports forecast to decline by 91.5 per cent to £17.5 million. Exports to non-EU (up £6.1 million) will slightly offset this.

**Imports:** Non-EU imports are forecast to increase by 166 per cent (£875 million) under this scenario while imports from the EU are forecast to decline by 62 per cent.

# IMPLICATIONS OF WTO TRADING AT FARM LEVEL

THE impact of WTO trading on farming was illustrated using Andersons' Meadow Farm model, a notional 60-hectare livestock farm situated in NI. The results are summarised in Table 4 under both WTO Equivalence and WTO Liberal Trade scenarios.

Consideration was also given to the impact of changes to support by comparing the status quo levels of support with a 33% and a 66% reduction under each WTO trading scenario. Whilst this farm does not necessarily represent the average NI livestock farm, it does reflect the position of a significant proportion of farms across the province today.

Under WTO Equivalence, although beef prices improve slightly (circa 4%) due to a more protected domestic market, lamb prices are assumed to fall by approximately 10%. This fall is due to trade with the EU costing more, whilst New Zealand imports are expected to continue.

Variable costs are forecast to show some increases as inflation has an impact. Overhead cost increases are expected to be more pronounced with the cost of power, machinery, and labour all rising due to inflation. Drawings also increase to take account of inflationary pressures in the general economy.

As a result, even with support levels remaining the same, this farm's performance declines slightly and as support gets reduced, losses start to accumulate. If support is reduced by 66%, then this farm would generate a loss of £175/ha (£10,500).

As depicted in Table 4, the introduction of a WTO Liberal Trade policy would have a devastating impact on the profitability of livestock farming in NI, especially if support payments also decline. Even if support remains the same, Meadow Farm generates a loss of £156/ha (£9,360 for the farm). If support reduces, these losses rise to £15,600 with a 33% reduction and to over £21,000 if support is reduced by two-thirds.

Clearly such losses are unsustainable for any length of time and would require major changes

**Image 2: Changes to farm structure could see a move towards less intensively managed systems in hill areas.**

to operations or a discontinuation of production. The wider farming industry would also be affected in a number of ways including:

**Productivity:** NI farmers will be competing with low-cost producers from across the globe and over the longer term, only the most competitive will survive. Such a move will entail achieving greater economies of scale for the industry generally with a much sharper focus on inputs to outputs usage.

**Farm structures:** the sharp decrease in output under WTO Liberal Trade and the substantial deterioration in profitability outlined above would lead to a major restructuring of beef and sheep meat farming, particularly if support is reduced. The precise nature of such changes is difficult to predict, however, for a farm to survive, its cost base would need to alter substantially.

This could be achieved through economies of scale which suggests a major rationalisation of farming with numerous farmers exiting the industry. In some areas, it is likely to entail a movement towards much less intensively managed systems meaning that sheep being raised on the hills for example will not be inspected by the farmer very frequently and feed inputs etc. will be slashed. This is likely to have negative implications for mortality rates and potentially animal welfare.

However, farmers will be forced to consider such dramatic changes in addition to part-time farming as a WTO Liberal Trade scenario plays out. All the while, the industry will have to contend with a more volatile world market and all of the uncertainties that brings in terms of prices and cash flow challenges.

**Table 4 - NI Meadow Farm Performance under WTO Trading Conditions** **(The Andersons Centre 2017)**

| Current Performance | | WTO Equivalence – 2025/26 | | | WTO Liberal Trade – 2025/26 | | |
|---|---|---|---|---|---|---|---|
| £ per Ha | 2017/18 | Same | -33% | -66% | Same | -33% | -66% |
| Livestock Output | 1,007 | 1,002 | 1,002 | 1,002 | 799 | 799 | 799 |
| Livestock Variable Costs | 399 | 404 | 404 | 404 | 391 | 391 | 391 |
| Gross Margin | 608 | 598 | 598 | 598 | 408 | 408 | 408 |
| Overheads | 493 | 510 | 510 | 510 | 510 | 510 | 510 |
| Rent, Finance and Drawings | 376 | 383 | 378 | 374 | 378 | 376 | 369 |
| Margin from Production | -261 | -295 | -290 | -286 | -481 | -478 | -472 |
| Support | 325 | 325 | 218 | 111 | 325 | 218 | 111 |
| Business Surplus | 64 | 30 | -73 | -175 | -156 | -260 | -361 |

# RECOMMENDATIONS OF THE REPORT

THE authors of this LMC commissioned study into the impacts of WTO trading on the NI beef and sheep industry also outlined a number of key recommendations for the UK Government to ensure a smooth transition as the we leave the EU and also to provide a degree of certainty to businesses. These recommendations are outlined briefly in Table 5 below.

**Table 5: Recommendations identified for the UK Government during the completion of the 'Impact of WTO Trading on the NI Beef and Sheep Meat Processing Industry' report which was commissioned by LMC.**

| | Recommendation | Actions Required |
|---|---|---|
| 1 | Interim Single Market (EEA) and Customs Union membership | This should be the framework to underpin the UK-EU trading relationship for a minimum of 5 years post-Brexit in 2019. This agreement should also include mutual recognition of existing official controls (i.e. veterinary standards, etc.). Interim Single Market (EEA) membership is the best available means to ensure a continued 'open' border and access to skilled labour whilst the details of how a frictionless Irish border would operate post-Brexit are clarified. However, as existing EEA arrangements exclude agriculture, an interim Customs Union arrangement is also needed. This approach would permit a smoother transition, facilitate a better long-term trading arrangement and enable suitable cross-border management systems to be established. During the interim period it would also be helpful to have a mid-way review to examine progress in implementing arrangements (e.g. technology for facilitating frictionless cross border trade) for the finalised post-Brexit relationship with the EU 27. This would enable timelines to be adjusted as required (i.e brought forward or delayed). |
| 2 | Labour | Efforts should be made to resolve the current impasse on the status of EU and UK citizens as quickly as possible. Continuing to be part of the Single Market, for an interim period, will provide security to those already employed in the Northern Irish agri-food sector. In the longer term, set-up an Agri-food Workers' Scheme (encompassing agri-food processing) to permit continued access to labour for NI processors. This should be coupled with incentives for locally-based staff, including training placements for young farmers and subsidised study schemes for veterinary graduates. Provide at least 12 months' notice to industry ahead of any proposed change. |
| 3 | Opening new Third Country markets | Even before exiting the Customs Union, or even the EU, there is plenty that Government Departments (e.g. DEFRA and Dept. for International Trade) could do in terms of getting Northern Irish product approved for sale in non-EU countries. This includes getting mutual recognition and acceptance of veterinary standards, premises approval etc. |
| 4 | Long-term strategy for food and farming | This needs to be initiated immediately and involve multiple departments to ensure better alignment so that the industry is as prepared as possible for the opportunities and challenges arising from Brexit. |
| 5 | Agricultural policy | A new Agricultural Policy needs to be developed which permits Northern Irish farmers to compete on a level playing field with EU counterparts and non-EU imports. This includes ensuring that any food imported from elsewhere is subject to the same rigorous standards as domestic produce. |
| 6 | Adopt EU Official Controls regulations to permit frictionless cross-border trade | A derogation should be sought to permit official controls of animals and meat products to take place at slaughter houses, meat plants and at collection centres for live cattle within the UK and ROI. Central to achieving this will be the need to maintain existing EU official controls standards. |

If WTO trading conditions did come to pass, this study also recommends a number of other steps to be taken by both Government and Industry to mitigate such an impact. These are outlined briefly in Table 6 below.

**Table 6: Recommendations identified for the UK Government and the NI beef and sheepmeat industry during the completion of the 'Impact of WTO Trading on the NI Beef and Sheep Meat Processing Industry' if WTO trading came to pass following the UK's Exit from the EU.**

| | Recommendation | Actions Required |
|---|---|---|
| 1 | Establish Tariff Rate Quotas (TRQ's) | Work on setting up TRQs based on historic volumes to mirror both existing current UK-EU trade and UK/EU-27 trade with non-EU countries. |
| 2 | Increase NI share of the domestic UK market for beef and lamb | The NI beef and sheep meat industry should capture more of the domestic UK market by optimising NI's major comparative advantages. (e.g. ability to grow grass, 65 million affluent consumers on doorstep and its efficient producers). The NI industry has a track record of producing beef and lamb to the highest standards of quality, traceability, food safety and animal husbandry to meet demanding retailer specifications and this should be emphasised. |
| 3 | Establish market access | Government departments should work towards opening new markets to help with carcase balancing: this accompanies the above point and priority should be given to markets which are fast-growing, easy to enter (e.g. South-East Asia) and maximise the value of each carcase produced. |
| 4 | Consider a Cyprus type model for cross-border trade. | A Cyprus-type model for cross-border trade should be considered as a last resort if no other agreement is possible. Whilst this is not ideal it would at least permit some semblance of frictionless trade across the island of Ireland. Under such a model, Northern Irish/UK beef and sheep meat could only be sold in the Irish Republic and not elsewhere in the EU. A reciprocal arrangement would work in the opposite direction, meaning that only beef and sheep meat originating in the Irish Republic could be sold in the UK (i.e. no goods from EU-26 would be permitted tariff-free under this arrangement). Such arrangements would require additional documentation demonstrating the requisite Country of Origin and would likely be subject to TRQs, but it would at least help to facilitate trade reasonably close to existing levels in such a scenario. |

Contact us:
Website: www.lmcni.com
Email: bulletin@lmcni.com
Telephone: 028 9263 3000
Fax: 028 9263 3001

Factory Quotes & Mart Results Updated 5pm Daily

Tel: 028 9263 3011