

# HORIZON

Bitesize



Brexit prospects  
for UK cereals and  
oilseeds trade



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## FOREWORD

AHDB has been at the forefront of analysis and insight relating to Brexit's impact on UK agriculture. We have explored areas including trade, policy, availability of labour and the regulatory environment in our Horizon series of publications in order to help farmers and growers understand the changes ahead and how they can best prepare their businesses in these uncertain times.

At the time of writing (January 2019), there remains considerable uncertainty regarding many aspects of Brexit, including the UK's future trade relationship with the European Union (EU). The prospect of a 'no deal' Brexit cannot be ignored and we now find ourselves in a very fluid and rapidly changing political environment. A 'no deal' scenario could have a seismic impact on UK

trade in agricultural products and, subsequently, major implications for all of the UK's agricultural sectors. It is crucial that this is understood by farmers and policy makers if disruption throughout the industry is to be avoided.

In response, AHDB will be publishing relevant information to help our farmers and growers understand the evolving situation, what it means for them and how they can prepare.

The aim of this report is to provide readers with an understanding of how Cereals and Oilseeds trade could be affected once the UK leaves the EU, under both an agreed withdrawal and under a 'no deal' scenario.



# CEREALS & OILSEEDS



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The Tunisian export market probably presents the best opportunities for hard and soft milling wheat, as it is a destination the UK has been able to supply in ‘typical’ production years. Similarly, Tunisia, alongside Algeria and Saudi Arabia, represents good prospects for UK feed barley exports. However, increasing competition from low-cost producers, such as Russia, and low moisture requirements are a threat. Competing in the commodity market is becoming more and more challenging and the potential of tariffs on exports to the EU is likely to make things more difficult. However, this is only really relevant when the UK has an exportable surplus of wheat – in the last few seasons, it hasn’t. Looking forward, the UK needs to be increasingly focused on added-value or niche products such as Group 3/soft milling wheat, rather than commodity exports.

Regardless of tariffs, UK flour trade could see considerable disruption, especially regarding exports to the Republic of Ireland. Even if there is a Free Trade Agreement (FTA) in place between the UK and EU, Rules of Origin criteria would apply, which means that a certain proportion of the flour must be made from UK inputs. Given that the UK usually imports a proportion of its milling wheat supplies from North America, as well as France and Germany, it would be difficult to differentiate flour produced from UK wheat and it

is likely that the proportion of imported wheat used to produce the flour would be higher than the Rules of Origin limit. As a result, the UK could see higher domestic supplies of flour, putting pressure on prices.

Any situation that opens up access to the UK market would mean increased competition for domestic products. The UK has already seen wheat face competition from maize imports in recent years in both the animal feed and distilling sectors.



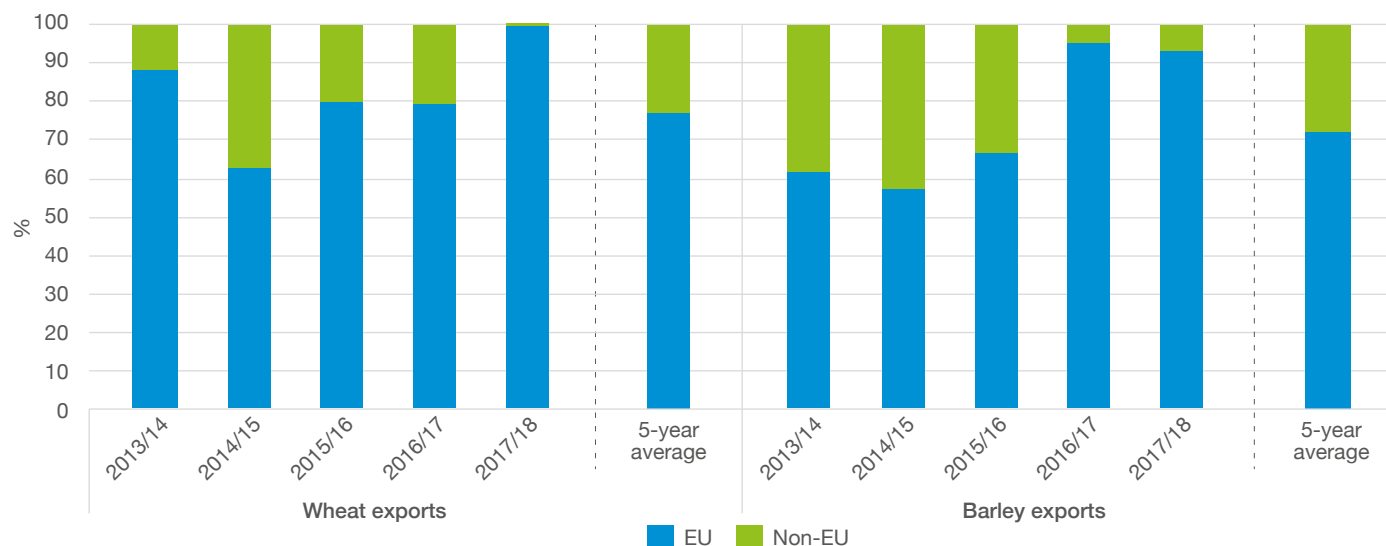


Figure 1. UK cereals exports

Source: HMRC

Over 60% of cereals grown in the UK are used to produce animal feed, so the size of livestock production is important for the grain markets in general. Although the animal feed and premium markets are different, for many growers the animal feed market acts as a financial safety net if their products don't reach the specifications required for the premium markets. UK production could look very different if animal feed demand declined dramatically and the UK became primarily a premium grain producing industry.

UK barley exports to the EU could be hit considerably if the EU applies import tariffs of €93/t on the product. Although there may be some scope to use existing TRQs, this would still involve a tariff of €8–16/t. This is likely to lead to an oversupply on the domestic market, if current production trends remain in place, and put downward pressure on prices. There is an opportunity to make the

most of the UK barley brand in markets further afield – particularly malt in artisan brewing markets like the USA.

If imports in to the UK face tariff barriers, it is reasonable to expect some import displacement in products like rapeseed oil. Import substitution of six-row barley is also an option, but suitable varieties need to be approved first and so this isn't really viable in the short term. More widely, tariff barriers on agricultural imports from Europe would be largely positive for UK agriculture, yet few commentators view them as being a realistic or long-lasting option.

A more detailed discussion of the opportunities and threats facing UK cereals is found in other Horizon reports, such as **Post-Brexit prospects for UK grains** and **Brexit scenarios: Impacts on the UK's milling and malting sectors**.



## What's the current trade situation for cereals?

In the past five crop years, UK wheat exports have ranged between 430 kt (2013/14) and 2.83 Mt (2015/16), with the 2017/18 total at around 445 kt. On average, in the period 2013/14–2017/18, 77% of UK wheat exports were sent to the EU (Figure 1). However, in the 2017/18 crop year, virtually all UK wheat exports were shipped to the EU. The UK has consistently shipped wheat to the non-EU markets of Algeria and Morocco in four of the past five seasons. However, in 2017/18, there were no shipments of wheat to these countries. In absolute terms, 2017/18 UK wheat exports were the lowest since 2013/14, mainly due to tight domestic supplies.

UK barley exports to the EU from 2013/14–2017/18 averaged 72% (Figure 1), with Algeria, Saudi Arabia and Tunisia key non-EU destinations. However, similar to wheat exports, the proportion of exports sent to non-EU destinations has declined in the past few seasons.

UK wheat imports have averaged around 1.73 Mt in the past five seasons, with 70% of these imports originating from the EU (Figure 2 see page 6). However, the share of non-EU imports has grown in recent years, reaching 34% in 2017/18, compared with 21% in 2013/14. Virtually all UK barley imports are sourced from the EU.

The UK is, typically, a net importer of milling wheat, while any surplus in feed wheat is exported. The UK's exportable surplus of barley is of feed quality. High-quality malting barley is not in surplus and would most probably only be exported when it had a higher value overseas than in the UK market.

UK feed wheat faces competition from maize imports, mainly for animal feed demand. Over the past five seasons, the UK has typically imported around 2 Mt of maize per annum, with almost 60% of this sourced from the EU on average (2013–2017).

UK flour is traded almost entirely within the EU, with exports to the Republic of Ireland particularly important. The UK is a net exporter of malt, most of which is shipped to non-EU destinations. The UK trade situation for flour and malt is discussed in more detail in the report **Brexit scenarios: Impacts on the UK's milling and malting sectors**.



## What does the domestic supply and demand balance look like?

Tighter domestic supplies of wheat, along with increasing global competition, have created a challenge for UK wheat exports in recent years. Since 2013/14, the UK has been a net exporter of wheat in only two seasons (2014/15 and

2015/16), as shown in Figure 3. Since 2014/15, the UK wheat area has declined per season, although the relatively higher prices this season could incentivise a higher area to be planted. The main unknown for UK wheat consumption is usually whether or not the two UK biofuel companies, which use feed wheat as raw material, will be in operation

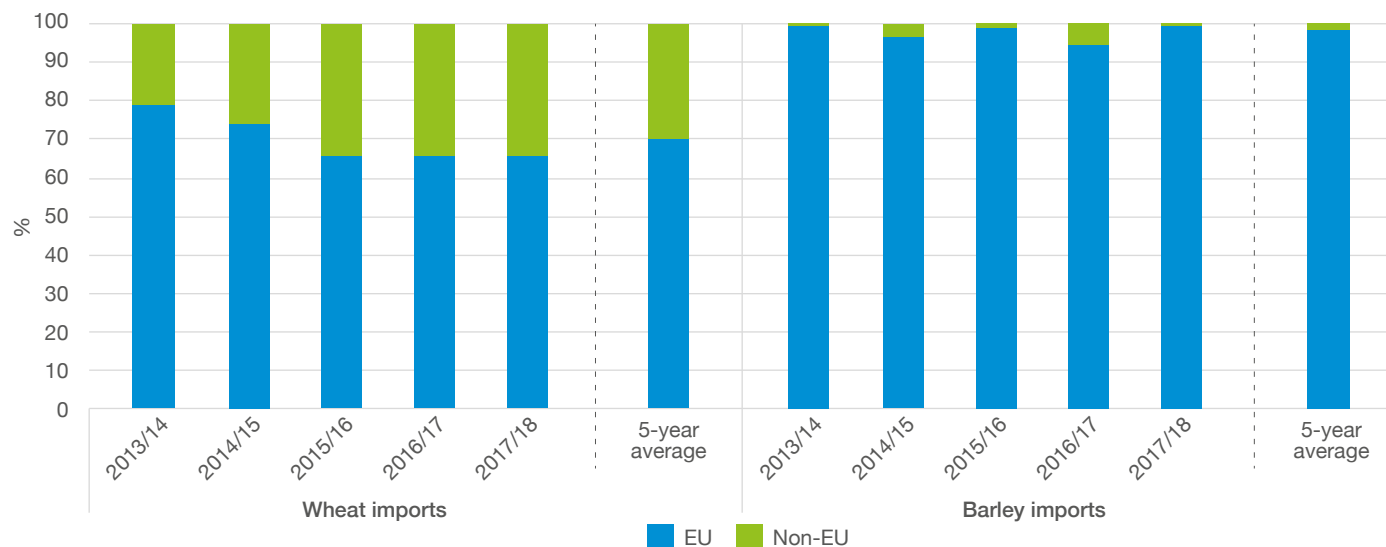


Figure 2. UK cereals imports

Source: HMRC

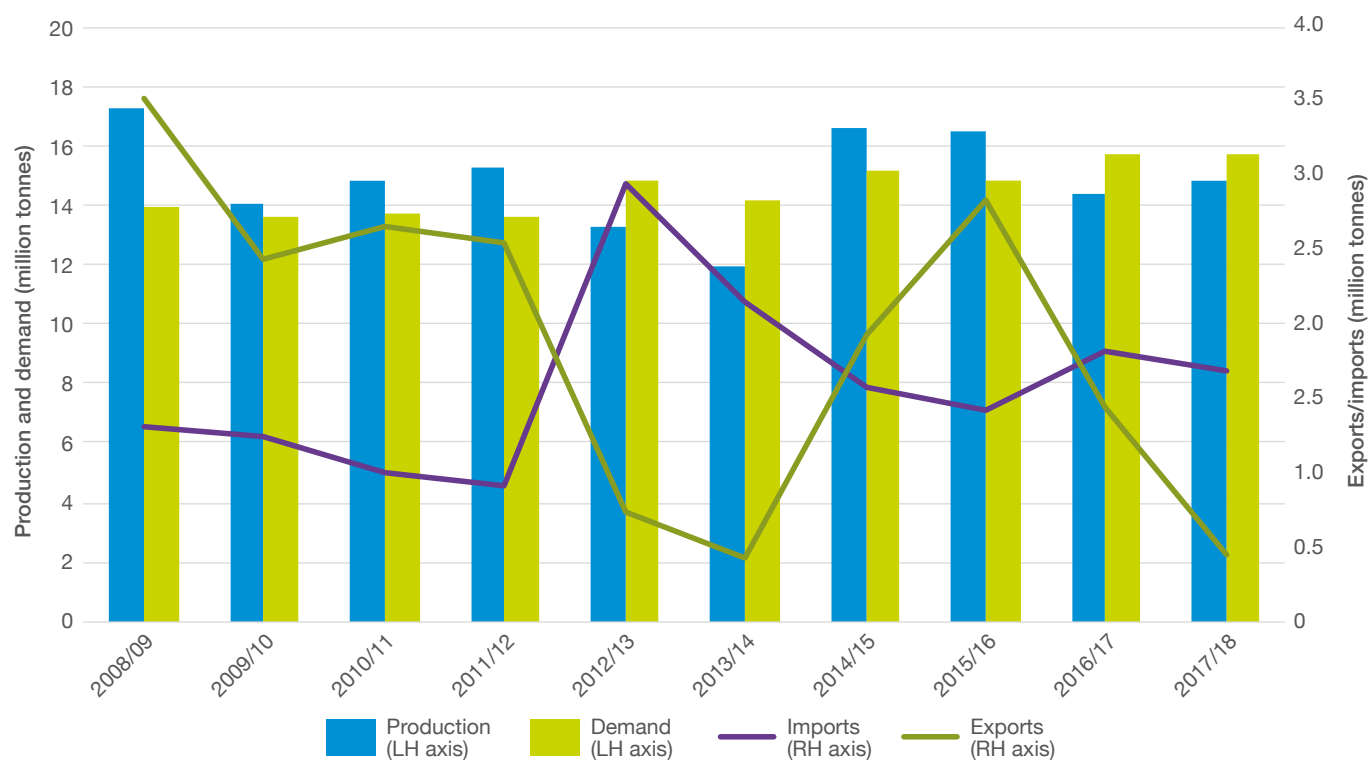


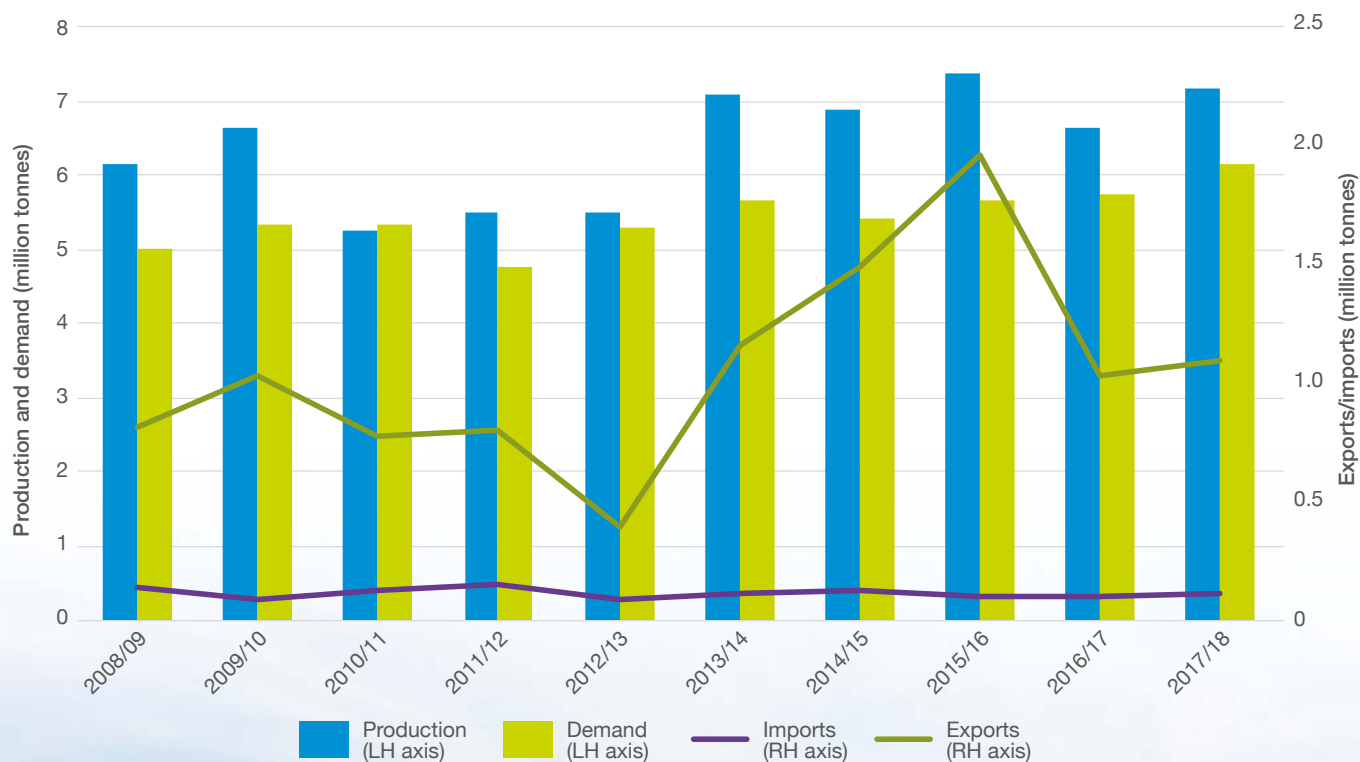
Figure 3. UK wheat supply and demand

Source: HMRC, Defra, AHDB



and how long for in a given year. Recently, one of these companies, Vivergo Fuels, announced its decision to close and so is likely to reduce wheat demand in the North East compared with recent years. However, looking at the bigger picture, the impact of lower wheat demand for bioethanol production will be reduced for overall UK wheat consumption in 2018/19. This is due to much higher demand for wheat in animal feed production as forage availability is lower following drought conditions over the summer. Furthermore, continuing growth in the poultry sector has also led to higher demand for wheat in feed.

The trade situation for UK barley is more clear-cut than for wheat, as the UK has consistently been a net exporter of the commodity (Figure 4). The agronomic challenges presented by black-grass have contributed to an increase in the spring barley area and production, which has helped to maintain an exportable surplus.



**Figure 4. UK barley supply and demand**

Source: HMRC, Defra, AHDB





## What's the current trade situation for oilseeds and oilseed products?

In the past five seasons, on average, 93% of UK rapeseed exports were destined for the EU, mainly for use in biodiesel production. Imports are mainly from the EU as well, although in some seasons, such as 2016/17, imports from Australia were more than total imports from the EU due to Australian prices being more competitive than European prices. Although the UK has been a net exporter of rapeseed for most of this decade, in the past two seasons it has been a net importer. In 2016/17, this was due to UK rapeseed production falling to the lowest level (1.78 Mt) since 2004/05. In 2017/18, production levels rebounded to above 2 Mt, due to near-record yields. However, imports were maintained at relatively high levels as it had been expected that production would be held back by the lowest area sown since 2004.

The UK has imported an average of 2 Mt of soya cake (commonly referred to as soya meal) in the past five seasons, primarily for use as protein animal feed. Typically, 73% of UK soya cake imports are from non-EU origins.

The UK is usually a net exporter of rapeseed oil (net exports in the past five seasons have averaged 81 kt, with 85% shipped to the EU). Vegetable oils are largely substitutable for one another. Between 2013/14 and

2017/18, 298 kt of sunflower oil was imported into the UK on average, with 74% of this sourced from the EU. Over the same time period, an average of 406 kt of palm oil was imported, with 423 kt imported in 2017/18. The majority (79% on average) of palm oil imports were sourced from non-EU countries, predominantly Indonesia and Malaysia.

## How self-sufficient is the UK in cereals and oilseeds?

The UK is self-sufficient in barley and, on the whole, largely for rapeseed, although the ratio for rapeseed has dropped in recent years (Figure 5). UK self-sufficiency in wheat has also declined recently, a result of lower domestic supplies.

It is also worth noting that the UK is dependent on milling wheat imports with higher protein contents than those usually found domestically. North America and Germany are key import destinations for these.

Self-sufficiency in rapeseed has declined in recent years due to a general decline in the area, which is likely to be a result of increased technical challenges in growing the crop, such as pressure from cabbage stem flea beetle, as well as restrictions of neonicotinoid use. Low market prices have also been a factor in some seasons.







Figure 5. **Self-sufficiency ratio**

Source: HMRC, Defra





## How could tariffs impact cereals and oilseeds?

Rapeseed and other oilseeds, such as soya beans, are tariff-free under the WTO Most Favoured Nation (MFN) tariffs adopted by the EU. Oilseed cakes are also tariff-free.

WTO MFN tariffs on vegetable oil imports have variable rates (generally under 10%). The tariff for importing crude rapeseed oil for use in food is 6.4%, while the tariff for refined rapeseed oil for use in food applications is 9.6%.

If export tariffs are in place on rapeseed oil after Brexit, this would lower the domestic price of rapeseed oil by the amount of the tariff. An import tariff would serve to increase the domestic price, but as the UK is typically a net exporter of the oil, the export tariff would be expected to have a larger influence. While other factors, such as currency movements, may to some extent mitigate the effect of tariffs, a lower domestic price of rapeseed oil could negatively impact UK rapeseed crush margins and so, indirectly, rapeseed prices.

The UK, however, imports other vegetable oils, which would become more expensive for processors if import tariffs were in place. Sunflower oil imports could

potentially see a bigger difference in terms of importing costs. Ukraine is the world's top sunflower oil producer and the EU has an agreement with Ukraine, allowing tariff-free access for sunflower oil imports. Post-Brexit, this agreement may not extend to the UK.

Import tariffs on vegetable oils may provide opportunity for domestic rapeseed oil to displace imports. However, while most oils are substitutable, there may be some applications where switching between oils is not favourable.

Tariffs on cereals depend on the commodity, grade and origin. Existing tariff rate quotas (TRQs) could play an important role if tariffs are placed on UK exports/imports to and from the EU. For example, in-quota imports of common wheat are subject to a tariff of €12/t (*erga omnes*), whereas out-of-quota the tariff is a prohibitive €95/t. When the UK leaves the EU, existing TRQs will be split between the two (see full report for more details). Table 1 shows how the *erga omnes* TRQs for wheat and barley will be divided, although this may change in the future as negotiations with the third countries affected are still ongoing.

**Table 1. Split of non-country specific (*erga omnes*) TRQs for wheat and barley**

	Bound Tariff	Tariff Rate Quotas			Comments
		Tonnage		Tariff	
		UK	EU		
Common wheat (medium and low quality)	€95/t	0	129,577	€12/t	There are also a number of country-specific favoured tariffs, for example with Ukraine and North America.
Quality wheat	Variable tariff but rarely applied	0	300,000	n/a	The tariff applies to wheat types not generally grown in the EU. The tariff is strictly variable, but since it is applied only once the wheat price is below €155/t, it has rarely been applied.
Barley	€93/t	293	306,812	€16/t	See comments for common wheat.
Malting barley	€93/t	30,101	20,789	€8/t	



# How do the UK's costs of production for cereals and oilseeds compare with its competitors?

The UK's production costs for wheat are among the highest of its key competitors and above the level of gross revenue (Figure 6). In the event of tariffs being placed on wheat exports, UK farmers are likely to see their profit margins squeezed to a greater extent than their counterparts

elsewhere, if production costs remain at this level and domestic prices fall. A similar situation is seen for UK barley production costs (Figure 48). It is worth noting that while both the euro and pound depreciated against the US dollar between 2013 and 2017, the devaluation of the euro was to a lesser extent than the pound, and so shows a larger difference between the UK and other EU countries.

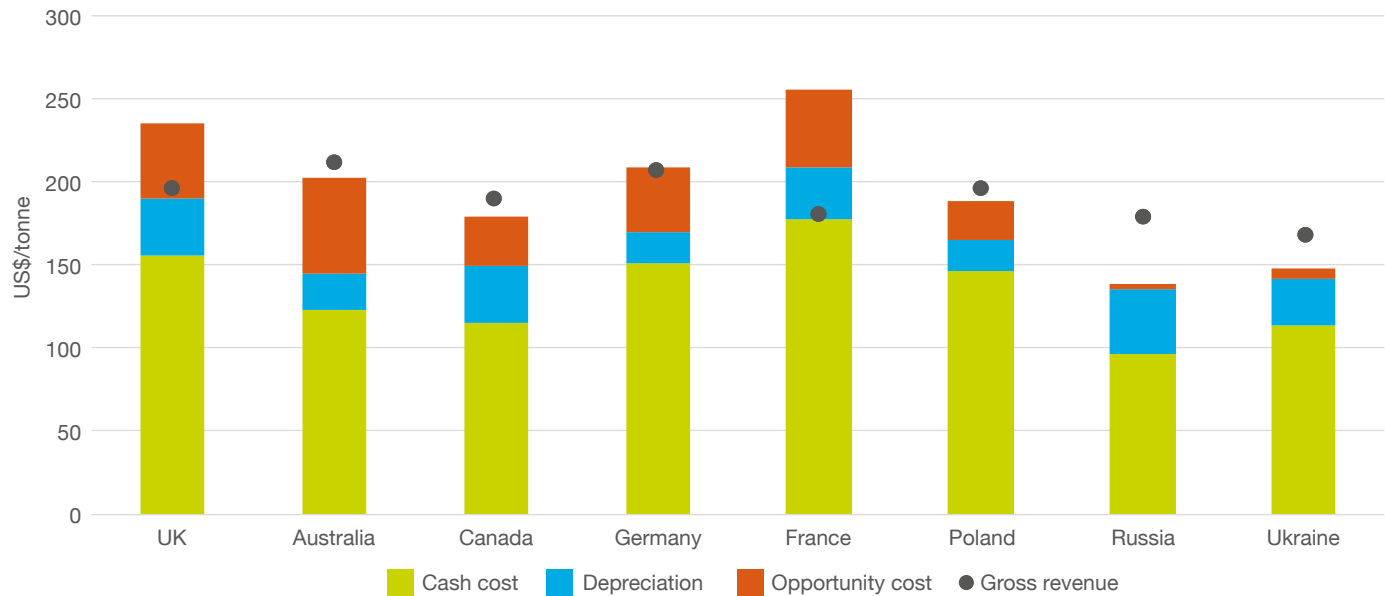


Figure 6. Wheat average\* cost of production and revenue (2013–2017)

\*Average of representative farms in a given country, not the national average  
Source: agri benchmark

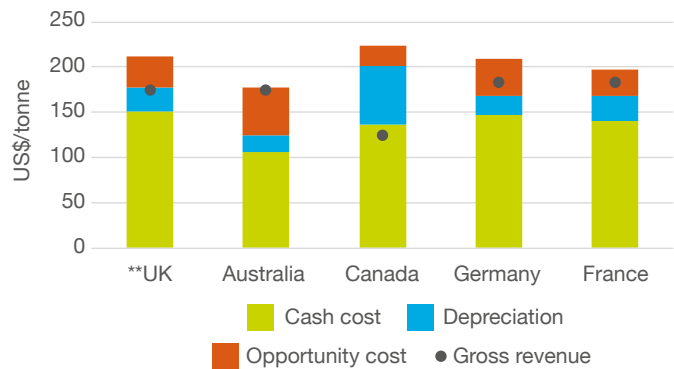


Figure 48. Barley average\* cost of production and revenue (2013–2017)

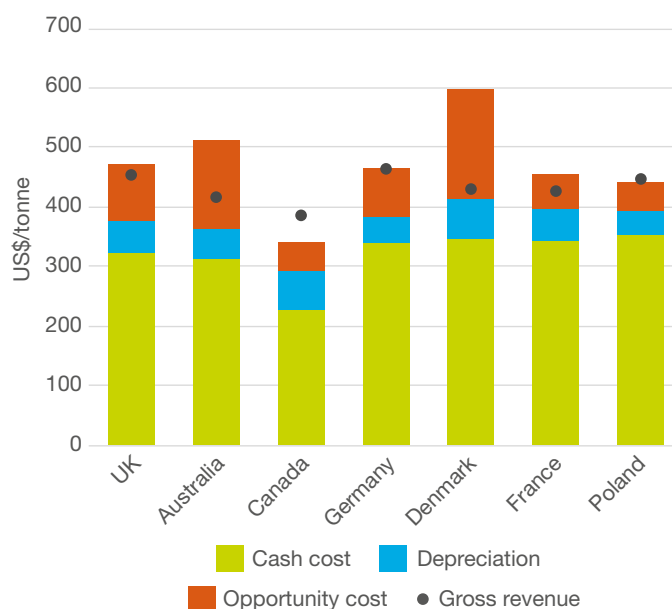
\*Average of representative farms in a given country, not the national average  
Source: agri benchmark, \*\*AHDB (Farmbench)





If the UK is a net importer of wheat and import tariffs were in place, domestic prices would be expected to increase, helping farmers' margins. In the AHDB commissioned study, **Brexit scenarios – impacts on the UK's milling and malting sectors**, it was estimated that the milling wheat import price could increase by around 15%, assuming there was no reduction in flour production.

With the exception of Canada, the UK's average cost of production for rapeseed (2013–2017) has been on par with, or lower than, some of its main competitors (Figure 8). Furthermore, the lack of tariffs on oilseeds means that UK rapeseed is in a better position than wheat or barley in terms of trade if there is no trade deal between the EU and UK. This may influence UK cropping decisions in the future. Although it is important to note that rapeseed faces a number of technical challenges, such as restrictions on neonicotinoids and pest problems. Potential tariffs on rapeseed oil could also indirectly affect rapeseed prices.



**Figure 8. Rapeseed average\* cost of production and revenue (2013–2017)**

\*Average of representative farms in a given country, not the national average  
Source: agri benchmark





## EU import tariff rates for selected cereals and oilseeds and derived products

Within a report of this kind, it is impractical to list tariff rates for all products. The table below, therefore, covers a selection of the main products either imported or exported by the UK.

Code	Product	Tariff rate	Effective ad valorem rate (2015 prices)	Effective ad valorem rate (2017 prices)
<b>10</b>	<b>Cereals</b>			
10011900	Durum wheat (excluding seed for sowing)	€148/tonne	63%	25%
10019120	Seed of wheat	€95/tonne	50%	53%
10019900	Wheat and meslin (excluding seed for sowing)	€95/tonne	53%	53%
10031000	Seed of barley	€93/tonne	44%	14%
10039000	Barley (excluding seed for sowing)	€93/tonne	53%	54%
10041000	Seed of oats	€89/tonne	49%	19%
10049000	Oats (excluding seed for sowing)	€89/tonne	30%	37%
10059000	Maize (excluding seed for sowing)	€94/tonne	49%	50%
10063067	Milled long grain rice (parboiled)	€175/tonne	23%	29%
10063098	Milled long grain rice (not parboiled)	€175/tonne	12%	20%
<b>11</b>	<b>Products of the milling industry</b>			
11010015	Flour of common wheat and spelt	€172/tonne	36%	39%
11041290	Flaked oat grains	€182/tonne	18%	18%
11071099	Malt (excluding roasted, wheat and flour)	€131/tonne	24%	30%
11081200	Maize starch	€166/tonne	10%	8%
11090000	Wheat gluten	€512/tonne	36%	36%
<b>12</b>	<b>Oilseeds</b>			
12019000	Soya beans (excluding seed for sowing)	Free		
12051090	Rape or colza seeds, low erucic acid (excluding seed for sowing)	Free		
12059000	Rape or colza seeds, high erucic acid	Free		
<b>15</b>	<b>Fats and oils</b>			
15079090	Soya bean oil (excluding crude or for technical/ industrial uses)	9.6%		
15111090	Crude palm oil (excluding for technical/ industrial uses)	3.8%		
15121191	Crude sunflower-seed oil (excluding for technical/industrial uses)	6.4%		
15121990	Sunflower-seed or saffseed oil (excluding crude or for technical/industrial uses)	9.6%		
15141990	Low Erucic Acid rape or colza oil (excluding crude or for technical/industrial uses)	9.6%		

Note: Effective ad valorem rates calculated using export unit prices



Code	Product	Tariff rate	Effective ad valorem rate (2015 prices)	Effective ad valorem rate (2017 prices)
19	Preparations of cereals, flour, starch or milk; pastrycooks' products			
19011000	Food preparations of infant use	7.6% + *	Varies	Varies
19012000	Mixes and doughs for preparation of bakers' wares	7.6% + *	Varies	Varies
19021910	Uncooked pasta, not stuffed, containing no wheat flour or meal	7.7% + €24.6/100 kg	22%	20%
19022099	Stuffed pasta, uncooked, containing <20% meat or fish	8.3% + €17.1/100 kg	13%	14%
19023010	Dried pasta	6.4% + €24.6/100 kg	16%	17%
19041010	Prepared foods obtained by the swelling or roasting of maize	3.8% + €20.0/100 kg	10%	11%
19041030	Prepared foods obtained by the swelling or roasting of rice	5.1% + €46.0/100 kg	18%	19%
19041090	Prepared foods obtained by the swelling or roasting of other cereals	5.1% + €33.6/100 kg	16%	17%
19051000	Crispbread	5.8% + €13.0/100 kg	10%	10%
190531	Sweet biscuits	9% + *	Varies	Varies
190532	Waffles and wafers	9% + *	Varies	Varies
19059030	Bread, not containing added honey, eggs, cheese or fruit	9.7% + *	Varies	Varies
19059045	Biscuits (excluding sweet biscuits)	9% + *	Varies	Varies
19059055	Extruded or expanded products, savoury or salted	9% + *	Varies	Varies

\* The additional tariff on these products varies depending on the mix of ingredients, with separate rates for the quantity of flour, dairy products, eggs etc. The range is from zero to €276 per 100kg.







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