

HORIZON

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**Brexit prospects for
UK potatoes 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 Potato trade could be affected once the UK leaves the EU, under both an agreed withdrawal and under a 'no deal' scenario.



POTATOES



Rob Clayton
AHDB Strategy Sector Director

The UK recently signed a deal that would allow seed potato exports to China, which is important given that the country is the world's largest potato consumer. The Chinese market is continuing to expand and there is high demand for chips and crisps, so the UK could see a rise in exports of seed potato varieties used to make these processed products.

Continuing to showcase seed potential in Kenya remains a priority, as a positive trading relationship there would unlock a bloc agreement across all COMESA members, where a challenging climate is leading to a dependence on imports of high-quality seed each year.

Cuba offers another opportunity. The country imports around 17 kt of seed potatoes from France and the Netherlands. Due to a new export procedure drafted by Science and Advice for Scottish Agriculture, the UK can now try to capitalise on the fact that British produce is held in high regard by the Cuban government due to its health standards.

Keeping the focus on South America, there is also the prospect of higher UK seed potato exports to Brazil, following an agreement on seed potato certification standards between Brazil and Scotland.

In terms of its main existing seed potato export markets, the UK could potentially see export tariffs of 2% for Egypt and 2.5% for Morocco. While this would mean higher export costs, these could easily be negated by other factors such as currency effects.

Tariffs aside, there could be additional phytosanitary controls on fresh and seed potato trade between the UK and EU. Not only would this make it more difficult for the UK to export to the EU, but it is likely to make the certification process longer, increasing costs for businesses.

If the UK decided to apply import tariffs on frozen potato products, then it could potentially look towards import substitution. In Scotland, there is limited opportunity for farmers to grow processing varieties, but seed potato varieties for processing could be transported to England. This could allow the UK supply chain to produce domestic products at a price advantage to imported products. However, it is unlikely that the UK will have sufficient processing capacity to satisfy domestic demand. While some companies are investing in increasing their processing capabilities, the scale of this is unlikely to match the processing capacities available in Belgium, the Netherlands, France and Germany, where raw product can move freely across borders. So, in order to capitalise on this opportunity, considerable investment will be needed.

What's the current trade situation?

UK potato trade comprises various types of raw and processed products.

The UK's main activity in potato exports is for seed potatoes. Average UK seed potato exports (2013–2017) were 109 kt (Figure 1), with an average value of £47.6 million. Average imports of seed potatoes over the same timeframe were 20 kt.

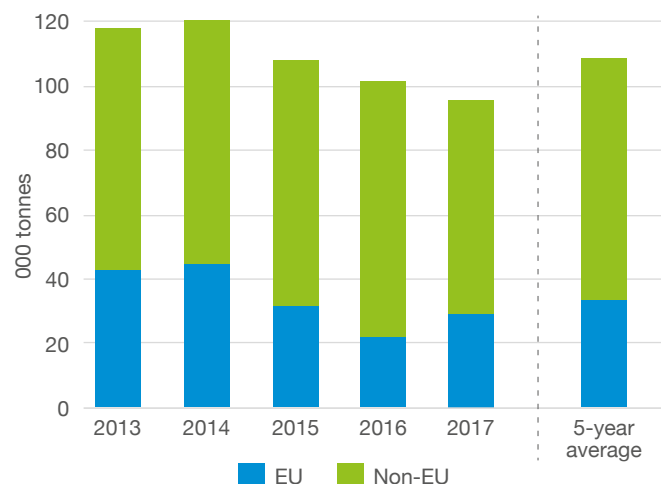


Figure 1. UK seed potato exports

Source: HMRC

However, since 2014, there has been a decline in seed potato exports. Likewise, imports of seed potatoes have also fallen below average in the past few years, totalling around 10–11 kt.

Seed potato exports are primarily destined for non-EU countries. Over the past five years, Egypt has accounted for almost half of all UK seed potato exports, while Morocco has accounted for an average of 9%. In recent years, the share of non-EU exports has increased.

The recent decline in seed potato exports are due to lower shipments to Egypt. There are suggestions that this may be due to some experimental seed multiplication of the variety Hermes. Additionally, Egyptian importers bought too much seed in previous years, which they have had trouble selling on the domestic market, and so this has lowered their requirements.

The Central Administration for Plant Quarantine (CAPQ) of the Egyptian Government recently published a new decree for the importation of seed potatoes into Egypt for 2015/16, indicating a reduction in the maximum permissible tuber size from 60 mm to 55 mm. This change has also impacted UK seed potato exports to Egypt.

A major programme in Egypt designed to promote domestic cultivation of seed potatoes and reduce reliance on imports was also launched in April 2018.







Processed potato products, such as crisps, are another key export area in the potato sector. Compared with seed potatoes, UK crisp exports increased between 2013 and 2017, with 2017 exports above the five-year average. The UK crisp market is saturated and so crisp manufacturers have increasingly turned their attention to overseas markets. The UK's reputation for producing quality premium products could be a likely factor behind the growth in exports between 2013 and 2017.

The EU is the main destination for UK crisp exports, accounting for an average of 87% of all exports between 2013 and 2017 (Figure 2). Ireland is the main customer of UK crisps, with shipments averaging 54% of total exports.

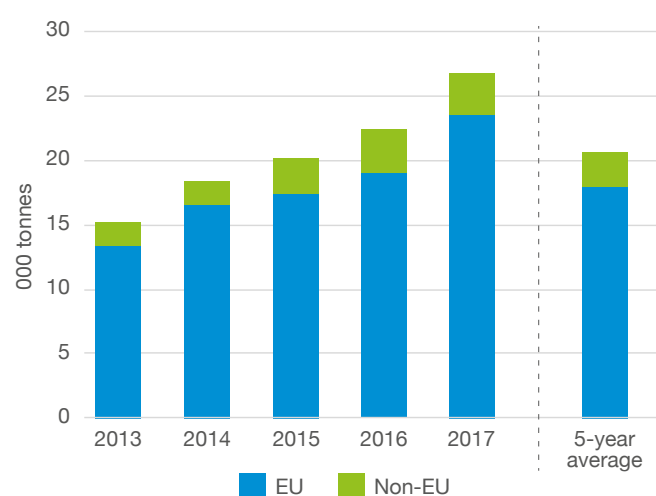


Figure 2. UK crisp exports

Source: HMRC

Frozen potato products are the main category of UK potato imports. Virtually all (99%) frozen potato product imports over the past five years have originated from the EU.

In 2017, there was an increase in frozen potato product imports (Figure 3). At 612 kt, these were higher than the five-year average, mainly due to higher shipments from Belgium. Frozen potato product imports were worth £436 million in 2017, up from £338 million in 2016.

The UK is typically a net importer of fresh/chilled potatoes. The EU is the main source for imports (76% average from 2013–2017), while Israel is the main non-EU source.

Most UK fresh/chilled potato exports are sent to the EU (97% average 2013–2017). Within the EU, most exports are sent to Ireland, usually for frying. The average value of UK fresh/chilled potato exports (2013–2017) was £50.3 million.

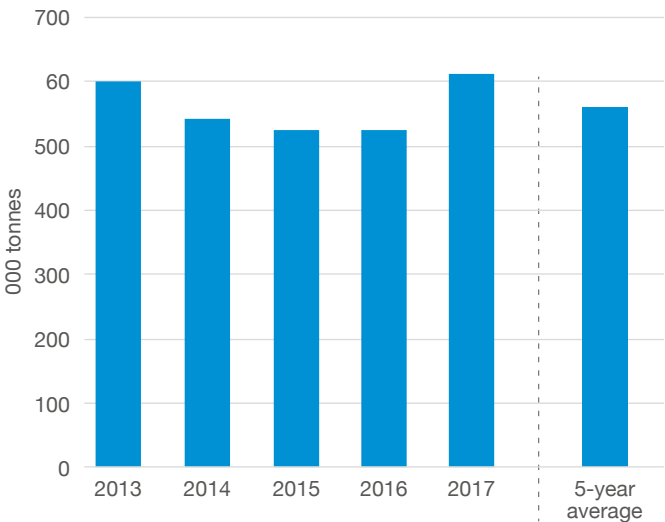


Figure 3. UK frozen potato product imports

Source: HMRC



What does the domestic supply and demand situation look like?

UK fresh potato production was between 3.0–3.4 Mt between 2013 and 2016, but in 2017, output was over 3.5 Mt (Figure 4). The pre-packed segment is the largest

fresh potato category, accounting for an average of 64% of fresh potato production between 2013 and 2017. Despite the relatively lower production volumes, the UK is self-sufficient in seed potatoes and therefore exports are important in order to avoid a large surplus (Figure 5). The UK is a net importer of total processed potato products.

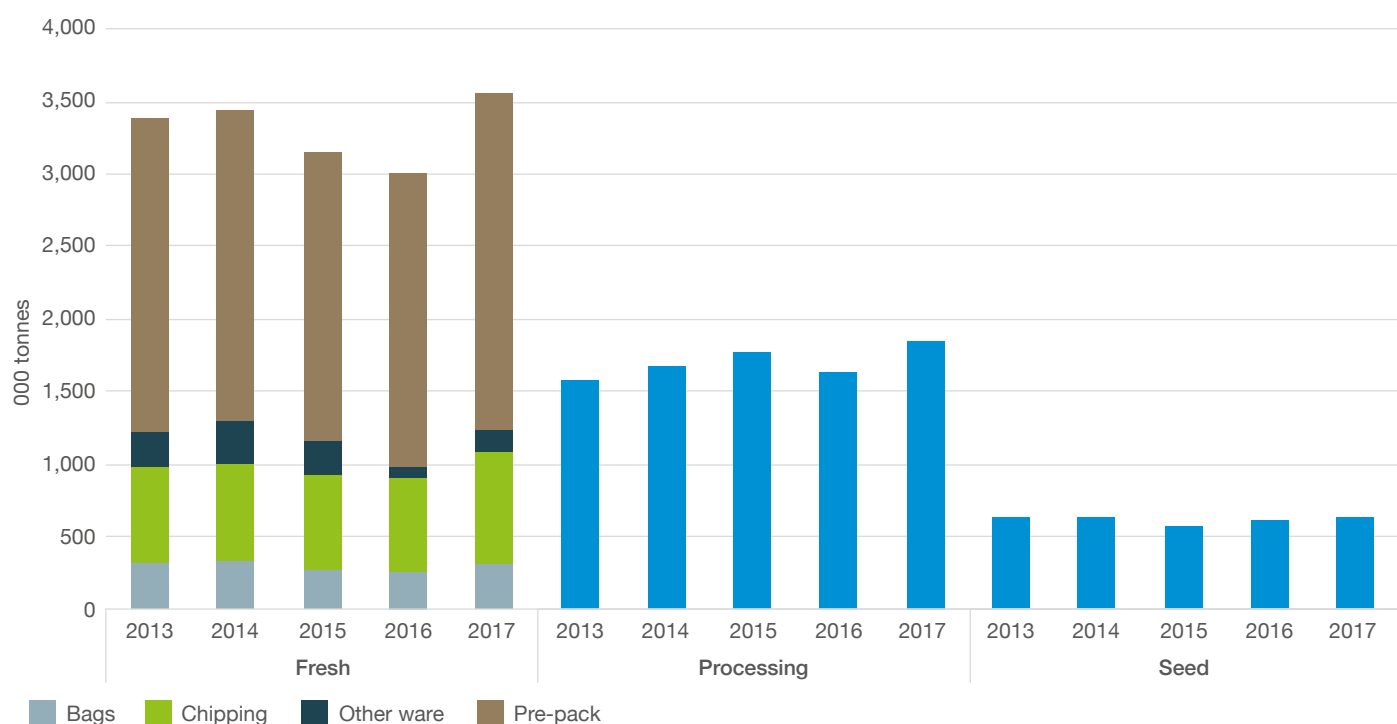


Figure 4. UK potato production by type

Source: AHDB Grower Panel Survey

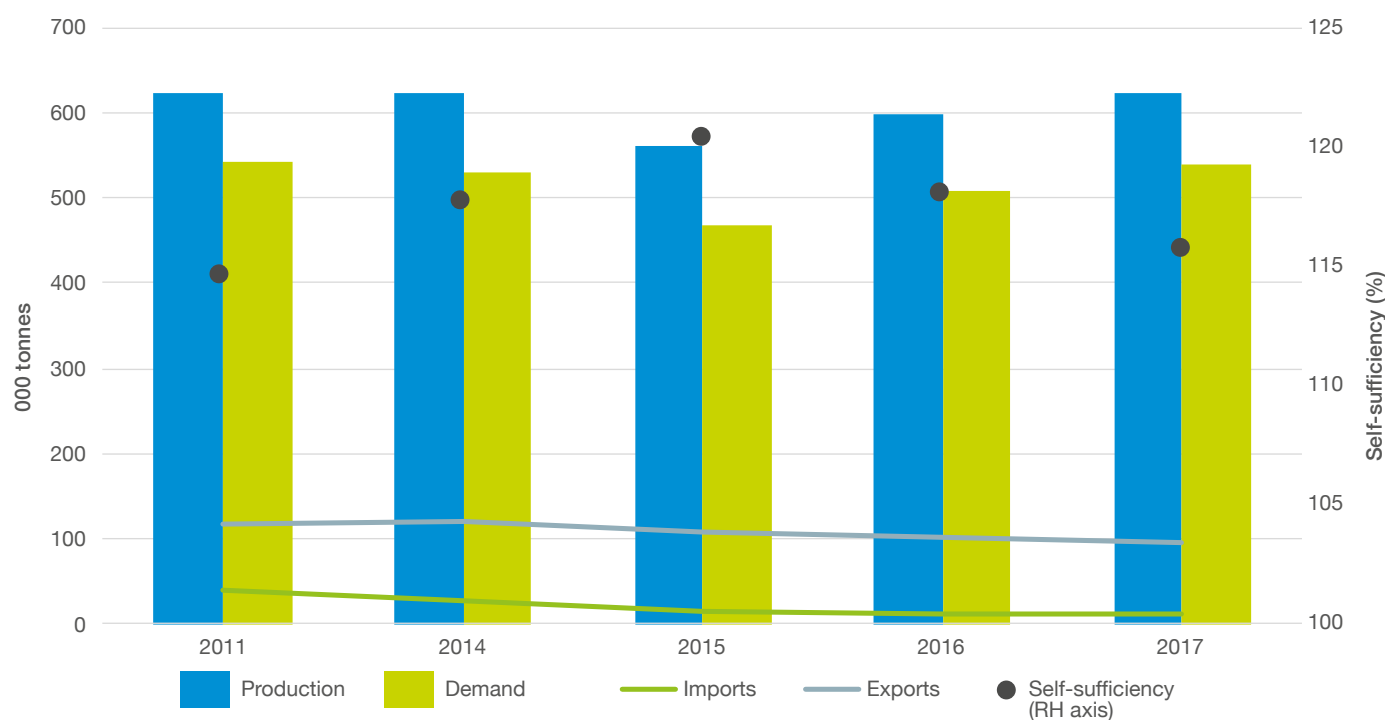


Figure 5. UK seed potato supply and demand

NB: Demand calculated using production + imports - exports
Source: AHDB, HMRC

How could tariffs impact potato trade?

Egypt and Morocco impose WTO third-country tariffs of 2% and 2.5% respectively on seed potato imports. However, neither imposes tariffs on imports from the EU, so, post-Brexit, the UK would have to incur these extra costs on seed potato exports to these key destinations if there is no trade agreement in place. Imports of fresh/chilled potatoes into the EU are subject to a WTO third-country tariff of 11.5%. However, under a preferential agreement, EU imports of fresh/chilled potatoes from Israel are tariff-free. Given that most non-EU fresh potato imports into the UK are from Israel, the UK may need to negotiate its own agreement with Israel unless it decides to remove tariffs on all imports. Compared with frozen potato imports, fresh potato imports are much smaller. Between 2013 and 2017, the UK imported just over 270 kt of fresh/chilled potatoes (52 kt of which were sourced from Israel), compared with almost 560 kt of frozen potato product imports.

For crisp imports, the EU imposes a WTO MFN third-country tariff of 14.1%. This could have a considerable impact on UK crisp exports, given that the majority are shipped to the EU market. In order to remain price-competitive on the export market, domestic crisp prices may have to fall.

EU tariffs on frozen potato product imports range from 14.4–17.6%, which could increase the cost of shipments into the UK and raise prices if the UK decided to impose tariffs at a similar level. At the time of writing, there is no information regarding tariff rates the UK may impose on potato product imports if there is a 'no deal' Brexit.

If the UK decided against imposing tariffs on imports from the EU, then it would have to do the same for all other nations, under WTO rules, which could increase competition for domestic producers.

The *erga omnes* TRQ for fresh potato imports into the EU is 4,295 tonnes, which is around 2% of the quantity of fresh potatoes the UK imports on average. When the UK leaves the EU, existing TRQs will be split between the two (see the full report for more details). The EU will have access to 99.9% of the *erga omnes* quota¹, although from a UK point of view, this is insignificant given the small quantity of the TRQ. This means that the majority of UK fresh potato imports could be subject to a tariff of 11.5%.

¹ Please note that this percentage split could change in the future as negotiations are ongoing.



EU import tariff rates for potatoes and derived products

The table below covers a selection of potato products either imported or exported by the UK.

Code	Product	Tariff rate
0701	Fresh or chilled potatoes	
07011000	Seed potatoes	4.5%
07019010	Potatoes for manufacture of starch	5.8%
07019050	New potatoes, from 1 January to 30 June	9.6% (1 Jan–15 May) 13.4% (16 May–30 June)
07019090	Other potatoes	11.5%
0710	Frozen vegetables	
07101000	Frozen potatoes	14.4%
1105	Flour, meal, powder, flakes, granules and pellets of potatoes	
11051000	Flour, meal and powder	12.2%
11052000	Flakes, granules and pellets	12.2%
2004	Frozen processed potatoes	
20041010	Pre-cooked frozen potatoes	14.4%
20041091	Frozen potato flour, meal or flakes	7.6% + amount depending on starch content
20041099	Other frozen processed potato products	17.6%
2005	Other processed potatoes	
20052010	Potato flour, meal or flakes	8.8% + amount depending on starch content
20052020	Crisped potatoes	14.1%
20052080	Other processed potato products	14.1%

AUTHORS



Amandeep Kaur Purewal
Senior Analyst



Felicity Rusk
Analyst

Produced for you by:

AHDB

Stoneleigh Park
Kenilworth
Warwickshire
CV8 2TL

T 024 7669 2051

E comms@ahdb.org.uk

W ahdb.org.uk

🐦 @TheAHDB

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