

What might Brexit mean for UK trade in potato products?



Potatoes

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In this report, we examine trade flows between the UK, the EU and its other major global trading partners for potatoes and how relationships might change after the UK leaves the EU. We also examine the major global trade flows, to identify areas of potential UK export growth and areas that may be vulnerable to increased competition post-Brexit.

The UK has not yet defined the post-Brexit trade relationship it intends to seek with the EU or with the rest of the world. If the UK were to negotiate free access to the Single Market, little would change in terms of the UK's trade in potatoes. However, other possible scenarios may have a significant impact on trade flows between the UK and both the EU and non-EU countries.

One option is that the UK may seek a Free Trade Agreement (FTA) with the EU but the complex negotiations involved mean it is possible, perhaps even likely, a deal may not have been reached by the time it leaves. If this happens, there may be an interim deal allowing free trade to continue while a permanent agreement is negotiated. If this is not possible, the UK would revert to trading with the EU on the same basis as other WTO members, with UK exports subject to EU import tariffs.

If it is outside the Single Market, the UK would need to decide whether to impose import tariffs of its own, including on imports from the EU. However, this could lead to higher consumer prices, which may be politically unacceptable. Therefore, the UK may prefer to allow wider access to the UK market, at least for some products, by reducing or removing tariffs or by using tariff rate quotas.

The most common type of import tariff is 'ad valorem', where a percentage of the price is paid. Tariffs can also be a fixed amount in monetary terms or a mix of the two. EU tariffs for potatoes and derived products can be found at the back of this report.

Tariff rate quotas (TRQs) allow a specified quantity to enter the market at a reduced (or zero) tariff. Once the limit has been reached, the tariff reverts to the standard rate. Quotas can be specific to one exporting country, a group of specified countries or can be open to all suppliers.

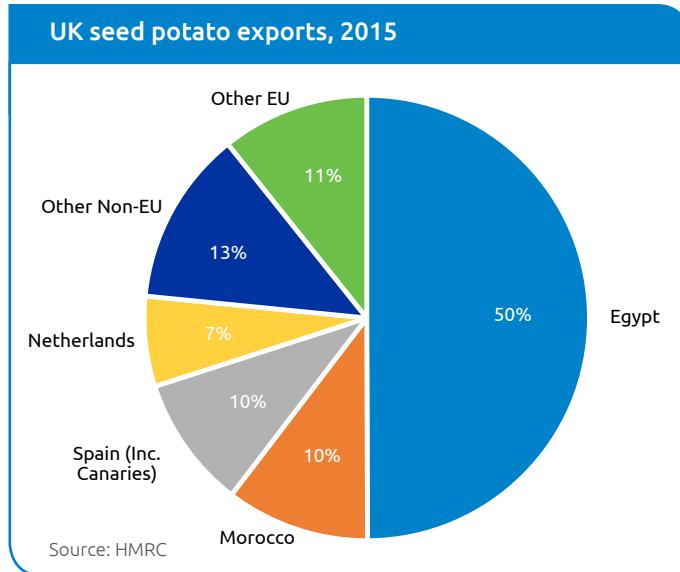
If the UK is outside the EU Customs Union, it would be free to negotiate FTAs with trading partners of its choosing. The position of agricultural goods in these negotiations is likely to be complex. In many trade agreements, tariffs remain in place on 'sensitive products', including agricultural goods. In addition, non-tariff barriers are often used to limit trade in agricultural products.

Both the EU and the UK also have many bilateral agreements covering technical aspects of trade. Some UK agreements rely on the fact that they are subject to EU rules and regulations. Many of these bilateral agreements will require renegotiation to reflect the new situation, and failure to do so could close off trade with the countries involved.

Non-tariff barriers include sanitary and phytosanitary (SPS) measures and technical barriers to trade. SPS measures are used to protect human, animal or plant life or health. Technical barriers are often deemed necessary for environmental protection, safety, national security or consumer information. In practice, these measures are often the hardest to agree in trade negotiations.

Trans-shipment, the unloading of goods from one ship and loading into another to complete a journey, is significant for many UK exports. The most important port involved is Rotterdam in the Netherlands. This gives rise to the so-called 'Rotterdam effect' – the theory that recorded trade with the Netherlands is artificially inflated by goods routed through Rotterdam. This can distort views of the UK's trade relationship with EU and non-EU countries, by increasing reported trade with the EU and reducing it with non-EU countries.

Current situation – exports

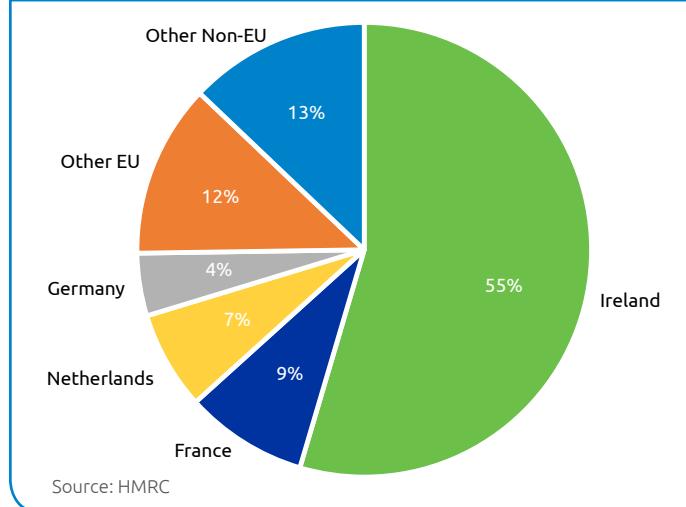


Trade patterns for potatoes are quite distinct between fresh potatoes, seed potatoes and various processed products. UK fresh exports are primarily to well-established markets such as Ireland and the Canary Islands. These tend to be for specific needs (eg frying supplies for Ireland). However, as fresh potatoes are a relatively inefficient and expensive commodity to transport long distances, exports are a minor part of the industry, worth £43 million in 2015 – though they can be a key component of individual businesses.

Seed exports have traditionally been the focus of most UK export development activity and they are worth a similar amount to the UK as other fresh exports. Egypt has long been the main destination for UK seed exports, and is also the largest destination for its main competitor (the Netherlands). This is the only product for which non-EU destinations are a significant UK export market – in 2015/16, 73 per cent of UK seed exports were to non-EU countries.

Among processed products, the most noticeable growth for UK exports is in crisps, which were valued at £63 million in 2015. These have been growing, faster than other EU countries' crisp exports, against a backdrop of strong and consistent EU demand growth over the past 20 years. The added value of processed potato products means they have a higher value to volume ratio than fresh potatoes, making them more efficient to trade. Furthermore, crisps have among the highest value per tonne of all processed products.

UK crisp exports, 2015

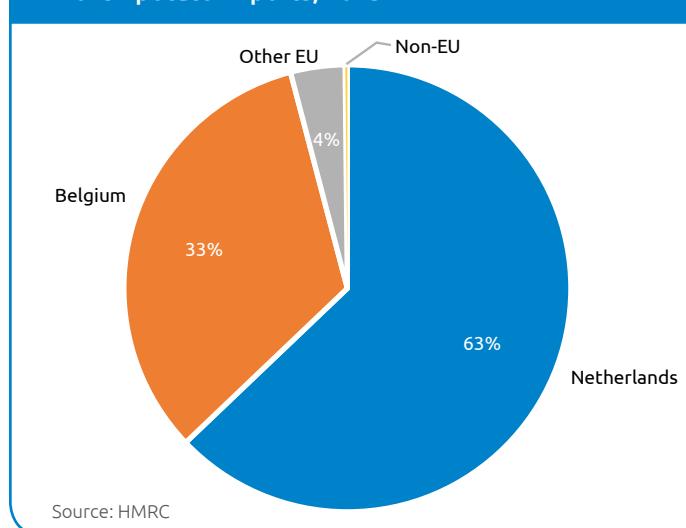


Current situation – imports

Fresh potatoes are mostly imported by the UK industry at specific times of year and for specific uses. For a buyer, this either fills gaps in supply or allows access to new season crop before domestic product is available. In some cases, it also meets consumer demand (eg for Jersey Royal potatoes). Mediterranean countries are often the largest sources of fresh imports for the UK, peaking in the spring, with Israel a particularly prominent origin in 2016.

Frozen processed potatoes, such as frozen chips, account for by far the largest proportion of UK imports, worth £315 million last year. In 2013, and each year since, more were imported than produced in the UK. Average prices are lower for imported frozen products than domestically produced and the average price gap has been widening.

Frozen potato imports, 2015



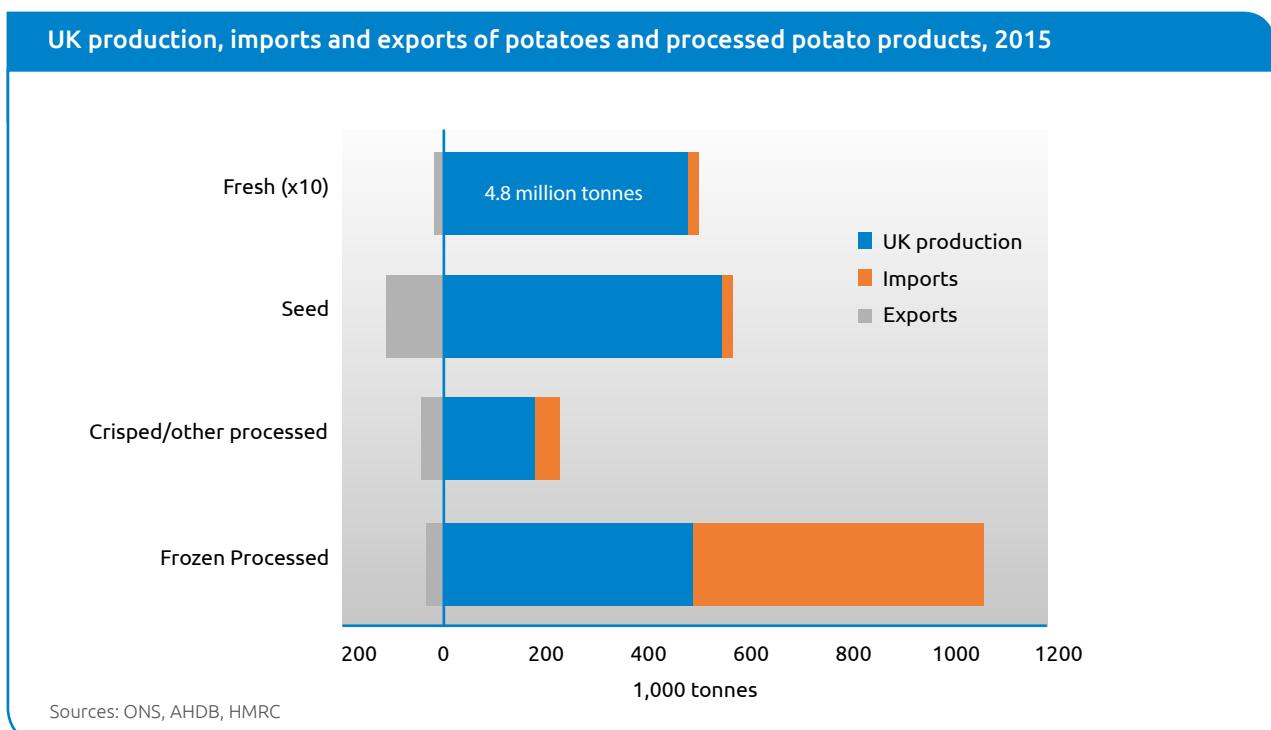
Seed imports into the UK are minor, compared to domestic production but tend to fulfil demand for new (usually processing) varieties, often bred in the Netherlands. Seed breeding takes place in both Scotland and the Netherlands, leading to an amount of trade both ways. Typically, it takes a number of years for a variety to become established in the domestic seed industry, meaning growers must often import to access certain newer varieties in the meantime.

Current situation – tariffs and trade barriers

The standard external tariffs levied by the EU on imports of potatoes and potato products range from 4.5 per cent to 17.6 per cent, depending on the product involved. These are modified by the various EU trade agreements in place. The one most likely to be having an impact on current UK imports is for fresh and new potatoes from Israel tariff-free, although the volume of new potatoes which can be imported under the quota is limited to 33,900 tonnes.

Relatively few countries in the world dominate production and exports of frozen potato products. Outside the EU, the USA and Canada are the only other major world sources. It is possible that access to EU markets could increase for frozen imports from North America as a result of trade agreements currently in negotiations.

The key non-tariff barriers are plant health measures. Even within the EU, there are some differences in regulation (such as when exporting to the Canary Islands). Imports from non-EU countries must meet EU plant health regulations and imports must be accompanied by a plant health certificate to demonstrate freedom from certain pests and diseases. Individual agreements between the EU and other countries mean that the exact regulations differ from case to case. Similarly, non-EU countries importing EU products will have similar agreements in place at both EU- and UK- level, altering regulations from case to case.



Opportunities

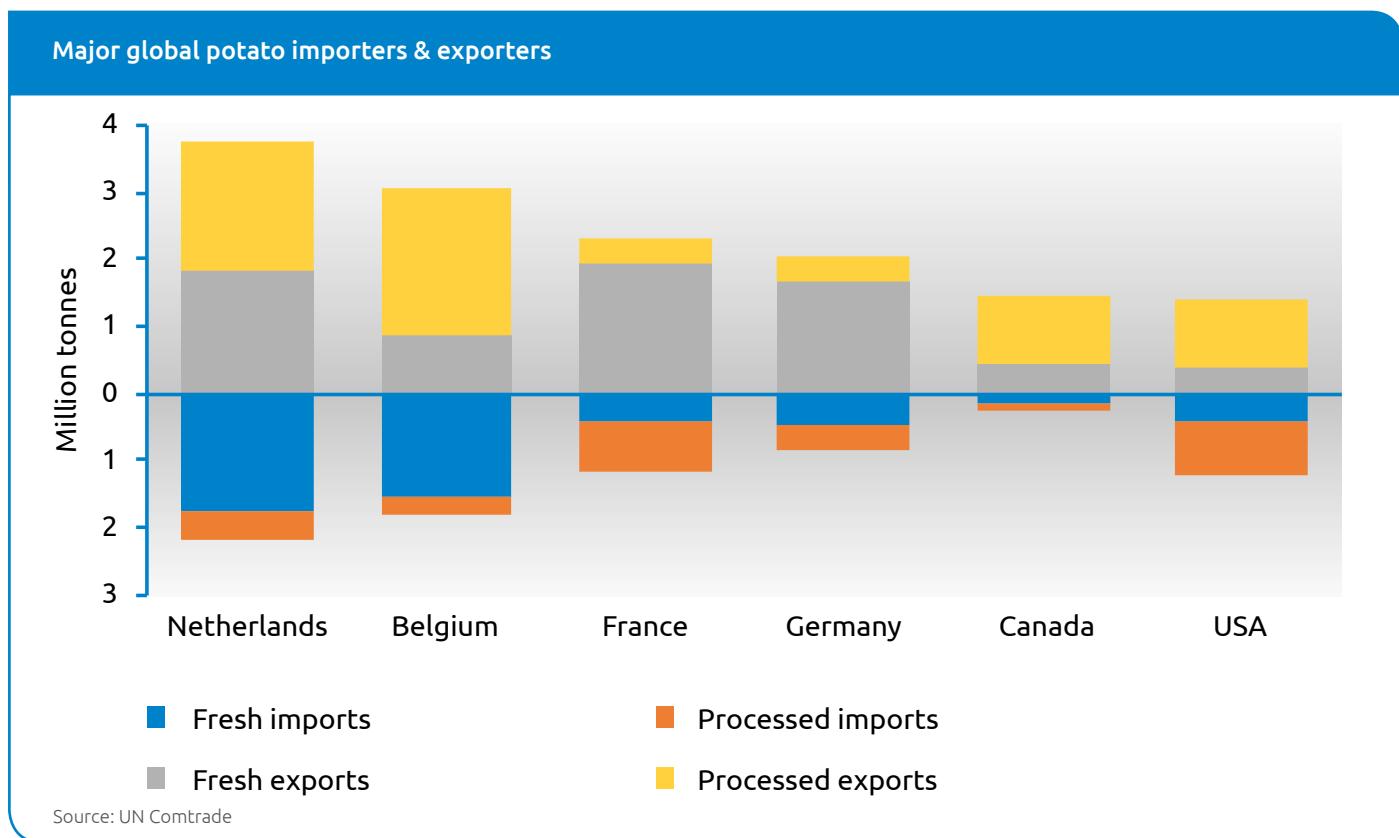
Growth in exports is likely to continue to focus on products with a higher value and/or where the UK has a competitive advantage. Onto both EU and non-EU markets, the UK's main opportunities exist for seed potatoes and crisps, and growing the access of these to non-EU markets, post-Brexit, is a source of great opportunity. On a season-by-season basis, opportunities for growing fresh exports into nearby countries exist but not necessarily consistently. The key here is maintaining the option to take advantage of opportunities as necessary.

Expanding seed exports is mostly constrained by non-tariff barriers, such as phytosanitary controls imposed by importing countries. Gaining access rests on being able to satisfy individual countries' authorities that UK seed can be certified free of a range of pests and diseases. Opportunities to continue to grow seed exports may be greater if the UK gains increased flexibility to negotiate on phytosanitary regulations with potential trade partners. A similar, albeit less substantial benefit, could come for fresh exports too.

The UK industry is likely to gain limited benefit from tariffs being imposed on imports from the EU, should the UK Government choose this path. In the fresh and seed sectors in particular, imports fulfil specific needs the UK is less able to meet.

For processed products, however, there could be some benefits from imposing tariffs on EU product. For example, imported frozen products undercut the average price of UK production, making these more competitive in a larger segment of the UK market than domestic frozen products. Introducing tariffs could help UK production compete, though it is important to see this as a one-off windfall for price competitiveness, not a real driver of efficiency. To make the most of this opportunity, UK production would need to consolidate any market share it can gain, and remain competitive against Dutch and Belgian frozen products.

UK exports of processed products, such as crisps, could be increased if the UK gains more flexibility to negotiate on trade deals. Exports to non-EU countries are still only a small part of the UK crisp export mix. However, over the past few years, driven principally by individual brands, markets have been growing – principally in the Far East, Middle East and North America. If the UK Government chooses to pursue trade deals with these economies, there may be opportunities to reduce or remove tariff barriers on products such as crisps as part of these negotiations.



Threats

If no trade deal has been agreed with the EU when the UK leaves, UK potatoes and products being exported to EU countries would be subject to tariffs. This is most likely to have the largest impact on those sectors that are orientated towards exports to EU countries. Crisps are most likely to be affected, with 22 per cent of UK non-frozen processed production (of which crisps are a major part) being exported. Of UK crisp exports, 87 per cent go to other EU countries. However, while almost all UK fresh exports head to EU countries, they still only amount to four per cent of UK production. The other main exporting sector, seed, is primarily non-EU focused.

There is also a risk from greater non-tariff barriers into EU countries, too. For example, in the absence of an agreement, the EU or UK could impose additional phytosanitary controls on fresh and seed trade. This would make it more difficult for UK exports to enter EU countries – at the very least making the certification process longer, so increasing the cost of doing business for exporting companies.

There is also a number of existing trade agreements between the EU and other countries that benefit the UK potato sector. The EU has agreements in place with many countries around the Mediterranean, which are important UK seed export destinations, such as Egypt and Morocco. In addition, Israel is (in some seasons) the principal source of fresh imports into the UK, as it provides new season potatoes earlier in the year than the UK can.

For Morocco and Egypt, tariffs on seed potato exports from the EU have been completely removed, meaning the UK seed industry would be at a major disadvantage compared to EU competitors, should access to these deals be lost. While Egypt has a standard seed potato tariff of only 2 per cent, Morocco levies 40 per cent outside any trade agreements, which would make UK seed exports there virtually impossible. If the UK loses access to tariff-free fresh imports from Israel, certain buyers looking to specifically source new season potatoes in the spring may find costs rising. It is unlikely these would simply be replaced with domestic supply.

Potatoes sector at a glance

Three-quarters of seed potato exports are to non-EU countries and EU agreements give tariff-free access to important markets

UK-produced processed frozen products are currently uncompetitive on price with EU imports but the situation could change if tariffs are imposed

Crisps are a growth exports market but currently trade is predominantly with EU countries and could be affected if tariff-free access is lost

Relationship with Israel will determine new season availability of fresh potatoes

Any additional phytosanitary controls imposed on fresh and seed potatoes could impact exporters' profitability

EU import tariff rates for potatoes and derived products

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	Fresh/chilled potatoes, excluding new, seed and potatoes for manufacture of starch	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%

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