

# AGRI-FOOD: UNITED KINGDOM

## RISK ASSESSMENT: **HIGH**

### HIGHLIGHTS AND OUTLOOK

Agriculture accounted for 0.7% of UK's GDP and 1.5% of employment in 2017. Total income from farming (the income left to farmers when all costs are deducted) increased by 41% to GBP 5.7 billion. This significant growth is due to favourable market conditions and British agri-food actors' competitiveness resulting from the pound's depreciation, as well as a rise in crop production due to favourable weather conditions.

However, in 2018, the country has so far suffered from both episodes of heavy snow during the late winter and heat waves during the summer, which is likely to impact upcoming crops as well as dairy and livestock production. Main crop production in the UK takes place between July and September.

Agriculture is an important sector for British international trade performance, as exports for agricultural products make up 6.5% of UK total exports. These exports are mostly to European Union (EU) countries, the Irish Republic being by far its most significant trading partner.

The food and beverage industry is the UK's largest manufacturing sector (larger than automotive and aerospace combined), and is known for its innovations in frozen food, ready meals, and healthy products. Between 2010 and 2015, business turnover grew by 28%, with profits growing by 10%, and employment grew by 6%. In 2017, the industry had a turnover of GBP 97.3 billion, and accounted for 19% of UK manufacturing sales and 17% of UK manufacturing gross value added. Nevertheless, according to a survey conducted by the British food and drink federation (FDF), 60% of businesses saw product margins decrease in the first quarter of 2018, mainly due to increasing costs (ingredients, energy and packaging).

Despite this positive momentum, there is uncertainty over 2019. There is no assurance that the UK and the EU will agree a trade deal before the 29th March 2019 (the official Brexit date). The UK's departure from the EU will surely affect the country's agri-food sector: the EU is the UK's main food trade partner, both for exports and imports. Moreover, as the EU has trade deals with around 60 countries, a "no Brexit deal" scenario would affect British agri-food trade in numerous ways, such as an erosion of consumer confidence and subsequent lower sales, as well as higher costs due to the increased tariffs for imported products as per World Trade Organization (WTO) rules. In such a scenario, the supply chain in the sector would also be hit hard. Furthermore, Common Agricultural Policy (CAP) 1 payments represent more than half of farm incomes (55% in 2014 according to the UK government).

*The Common Agricultural Policy is a system of subsidies and support programmes for agriculture operated by the European Union*

### Strengths

- Food and drink industry is the UK's largest manufacturing sector
- Innovative and highly mechanized

### Weaknesses

- Uncertainty over the future UK's relationship with the EU
- Trade deficit in agricultural and agri-food products

### Key Players

**Food & Beverage UNILEVER:** Anglo-Dutch international company, turnover : EUR 53.7 billion in 2017

- **Beverage: DIAGEO** 5th world's largest alcoholic beverages company. Turnover: EUR 13.7 bn in 2017
- **Food & Beverage: ASSOCIATED BRITISH FOODS.** Total group turnover: EUR 17.7 bn; Food & Beverage turnover: EUR 9.2 bn in 2017

Sources: annual reports

### Regional Risk Assessments: Agri-food

ASIA	MEDIUM
CENTRAL & EAST. EUROPE	MEDIUM
LATIN AMERICA	HIGH
M. EAST & TURKEY	HIGH
NORTH AMERICA	HIGH
WESTERN EUROPE	MEDIUM

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## DEMAND

Based on the farm-gate value of unprocessed food, half of food consumed in the UK was local in 2017. The leading foreign supplier is the EU that accounted for 70% of imports in 2017. In addition, the UK consumer demand for ethical food and drink including organic, fair-trade and free range and freedom foods has been surging since 2007(+134%, to GBP 9.8 billion in 2016, equivalent to EUR 8.5 billion).

On the foreign demand side, exports are concentrated to few markets, with Ireland, France, the United States, the Netherlands and Germany representing over 50%. Trade ties are particularly strong with the Irish Republic that accounts for 16.8% of UK agri-food exports.

In 2017, the value of UK food, feed and drink exports increased by 8.2% to GBP 22.1 billion (EUR 19.3 billion). This increasing trend is expected to maintain in 2018, as exports rose by 5.5% YOY in the first semester. The 3 top export products are whisky (GBP 4.5 billion/ EUR 3.9 billion), salmon (GBP 729 million/ EUR 635 million) and chocolate (GBP 716 million/ EUR 635 million)

Despite continued strength in UK agri-food exports to non-EU markets over the past 20 years, the EU remain a key market, accounting for 60% of UK food, feed and drink exports. While sustained growth in the EU supported foreign demand in recent years, the Brexit brings uncertainty. In case of a no deal Brexit, World Trade Organization's most favoured nation clause would be implemented, leading to higher tariffs. In the short term, agricultural products that run a trade deficit, for example butter, pork and rice, would become more expensive due to insufficient local supply whereas this would negatively impact export competitiveness for agricultural products running a trade surplus such as wheat, milk or sugar.

Regarding non-EU countries, the United States and China represent the two main importers of UK food and drink products. On the one hand, exports to China are likely to keep rising thanks to Chinese market buoyancy. Moreover, after 20 years, Chinese government lifted its ban on beef imports from the UK in June 2018. On the other hand, UK exports to the USA could be affected by the protectionist measures implemented by the US administration.

## SUPPLY

In 2017, the UK's utilised agricultural area (UAA) slightly increased (+0.7%, to 17.5 million hectares), while the number of farm holdings has continued to decline, leading to a larger average size holding. Large farms (above 100 hectares), account for 22% of all farm holdings and cover nearly three quarters of the UAA. The agricultural area is primarily for animal production (milk, beef, and lamb in particular). Despite rising by 1.9% in 2017 after several years of decline, the fully converted organic area is marginal: it covers only 3% of the country's UAA. Most of this area (58%) is concentrated in England.

With regards to meat, the UK produces mainly poultry (1,600,000 tonnes in 2016; +5%), pig (912,000 tonnes; +2%) and beef (912,000 tonnes; +3%). These three kinds of meat represent 87% of total production.

In contrast, crop output decreased by 10% in 2016. The top crop is still wheat, with more than 14,000,000 tonnes (37% of total harvest) in 2016, followed by barley (17% of total), sugar beet (15%), and potatoes (14%).

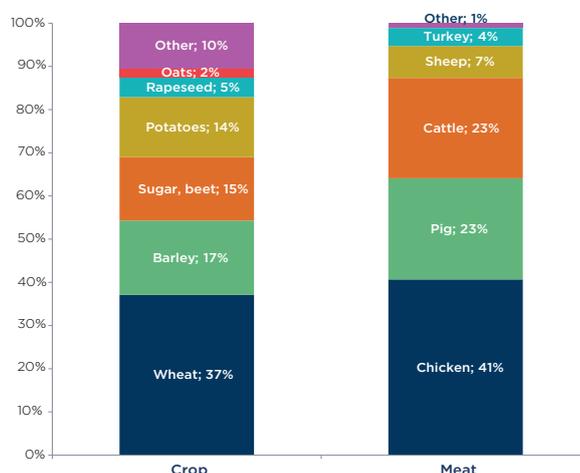
Total income from farming is estimated to have risen by 41% between 2016 and 2017, with England being the major contributor (accounting for 71% of total income). However, farm business income (FBI) greatly varies across farm holdings, and around 20% of farms registered negative FBI in 2016-17. In 2017-18, average income is expected to rise thanks to higher commodity prices (due to the British pound's depreciation) and higher productivity. However, Brexit could reverse this positive trend, due to the removal of CAP payments and the reduced competitiveness of British producers due to the higher tariffs as per WTO rules.

The food and beverage industry is fragmented, being 96% composed of small- and medium-sized enterprises. In 2018, estimated revenue from this manufacturing segment totalled GBP 9.3 billion, and is expected to grow at an annual rate of 8.4% over the next four years, according to Statista forecasts.

Nevertheless, insolvencies in the agri-food industry increased in 2017 (+8% to 98 insolvencies), and this trend has continued in 2018 (+4% YOY in the first half of the year).

Both the food and drink industry and the agriculture industry employ an ageing workforce (29% of the total workforce) and rely on EU workers (20%). These two sub-sectors could therefore face a shortage of workers after Brexit. Moreover, Brexit could disrupt supply chains due to delays and additional paperwork, as lot of farm products cross the border several times during the production process.

## CROP AND MEAT PRODUCTION IN THE UK : BREAKDOWN (by volume)



Source: FAO