ASSESSING FOOD FRAUD AND TRADE

SSAFE-PwC Food Fraud Assessment Framework

Opportunities

Motivations

Control Measures

Food Fraud Vulnerability

Rules of Origin

Profit

Official & Customs controls

Food Fraud Vulnerability

Complex supply-chains

Corruption level

Traceability systems

Resourcing

Arbitrage (price divergence)

Competitive environment

Legal framework & enforcement

Geographic proximity

Sudden changes to Terms of Trade

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Sources: SSAFE and PwC
TRADE BARRIERS - TARIFFS
MAJOR SOYBEANS TRADE FLOWS (TONNES)

Sources: Rabobank / Bloomberg / USDA
US-CHEA TRADE WAR IMPACTS

- US agricultural exports to China estimated at $20 billion
  - soybeans ($12bn) account for 60% of this amount
  - 25% tariff projected to reduce US trade by >38% ($4.5bn)
  - more US soybeans coming into Europe.
  - Brazil is gaining and prices are 20% higher than US.

**Graph:**
- US $/T
- Brazil $/T
- China announces plan to impose 25% tariff
- Potential Fraud Opportunity?

**Sources:** USDA / CEPEA / Andersons
CHINA – IMPACT ON FOOD SECURITY

Commodity Trading (5 Year Average)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Imports</th>
<th>Domestic Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>220,100</td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td>116,100</td>
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<tr>
<td>Soybeans</td>
<td>94,320</td>
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<tr>
<td>Pig meat</td>
<td>55,622</td>
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<tr>
<td>Chicken meat</td>
<td>12,743</td>
<td></td>
</tr>
<tr>
<td>Dairy</td>
<td>40,211</td>
<td></td>
</tr>
<tr>
<td>Beef &amp; Veal</td>
<td>7,543</td>
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</tr>
</tbody>
</table>

Sources: Rabobank / Bloomberg / USDA
NON-TARIFF BARRIERS (NTBs) AND BREXIT
UK-AGRI-FOOD TRADE SITUATION 2017

Sources: HMRC / Andersons

- Beverages, spirits & vinegar
- Fruit & vegetable preparations
- Misc preparations (cereals, starch, etc.)
- Meat & edible offal
- Live animals
- Dairy, eggs, etc.
- Vegetables (incl. tomatoes)
- Cereals

Expatriate £ Billion
- Exports (EU)
- Exports (Non-EU)
- Imports (EU)
- Imports (Non-EU)

£ Billion
-10.0  -5.0  0.0  5.0  10.0  15.0

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Sources: HMRC / Andersons
**BREXIT TRADE EFFECTS**

**Trade Deal with EU?**
- Yes
  - Little change in prices. *Small ↓ due to extra trade costs (customs etc.)*

  **Current Trade Balance?**
  - Yes
    - Prices fall. *Due to tariffs on exports*
  - No
    - Net Importer (e.g. beef, cheese, pigmeat, etc.)

  **Post-Brexit UK Tariff Level?**
  - High (e.g. similar to current EU)
    - UK prices rise. *Due to tariffs on imports*
  - Low ('cheap food' policy or trade deals*)
    - UK prices fall. *Cheap imports*

  **Net Exporter (e.g. lamb, feed wheat, etc.)**
POTENTIAL NTB IMPACTS

• Customs and official controls would rise significantly
  - estimates of increased checks vary from 325% - 800%
  - Official Controls require physical checks (20% red meat; 50% poultry; 5% cereals)
  - exports to non-EU require new certification processes
  - severe staff shortages, no clear plans on addressing gaps

• Various studies on effective ‘cost’ of NTBs
  - Andersons’ N. Ireland meat study suggests 5.7% tariff equivalent if no agreement on standards between EU/UK
  - increases with divergence (e.g. >25% for US→EU agri-food)
  - UNCTAD suggests 131 NTBs imposed by EU on 3rd countries

• Greater effect on ‘just-in-time’ products (meat) than bulk commodities (grain) - 2 min delay at Dover = 17 mile tailback
CONCLUDING REMARKS

• Protectionism is rising and is causing distortions which increase vulnerability to food fraud.
• Biggest impacts in geographically proximate markets vulnerable to illegal substitution, concealment etc.
• US protectionism unlikely to change in short-term.
• **Brexit:** upheaval as trade affected by new processes
  - prices for agri-food goods to be more volatile
  - cross-border trade to cost more (currency + NTBs)
  - on *average*, lower profitability in the industry
  - agri-food supply chains will be less ‘lean’ (storage, staffing etc.)
  - greater incentive to commit fraud, affect food security
• Key means to mitigate this is continued standards harmonisation (*processes and outcomes*)
Thanks For Your Attention!

*Merci De Votre Attention!*  

Any Questions, Please Contact:  

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