

Written evidence submitted by Arla Foods UK (BBP0002)

Introduction

1. Arla Foods welcomes the opportunity to provide an update to the Business, Energy and Industrial Strategy Select Committee (BEIS Committee) in advance of its evidence session on 8 December 2020.
2. Arla is a cooperative owned by around 9,900 dairy farmers based in seven northern European nations. Approximately 2,300 of our farmer owners are in Great Britain, representing between a quarter and a third of the UK's total number of dairy farmers. We also have ten processing and logistics sites in England and Scotland and employ around 3,400 colleagues. Our much-loved brands include Lurpak, Castello, Anchor and Cravendale, and our turnover in the UK is around £2 billion per year.
3. The UK has a significant deficit between production and consumption when it comes to dairy; as a country we import around 15 percent of all dairy products consumed, including in particular major quantities of butter, yoghurt and cheese. Arla itself brings in large volumes of products particularly from Denmark. As such we are very concerned about the potential impact of any disruption at the UK's ports that may follow the end of the transition period on 31 December.
4. Since the referendum took place in 2016 we have been very active in expressing our concerns and proposing solutions. Earlier this year we commissioned a report from the London School of Economics on vulnerabilities in supply chains for food and drink as a result of Brexit.¹ This noted that up to 40% of all of our food and drink is imported from the EU, and found therefore that the imposition of trade tariffs and the establishment of new non-tariff barriers will have a major impact, with the price of fresh foods expected to rise significantly.
5. At present (on 27 November) it is impossible to know whether or not the UK will secure a trade deal with the EU, nor what it will cover. Our assumption is that an agreement will be reached and that as a result tariffs will not be imposed on imports and exports of food and drink. Nevertheless, it also seems likely that trade flows will face new non-tariff barriers such as increased paperwork and customs checks. These will still have a major impact, increasing prices and reducing product availability. It is worth noting that research we conducted earlier in the year shows that consumers are not ready for this: they expect to have the products they want on the shelves, and do not want or expect to pay any more.²
6. The rest of this submission sets out details of the preparations we have made for the end of the transition period, and identifies areas in which steps might be taken to reduce the impact of the disruption that will inevitably occur. During the next few weeks the food and drink sector is facing a 'triple whammy' of Covid-19, Christmas demand and Brexit: we urge the Committee to press the Government to take the steps needed to support our vitally important sector during this challenging period.

Preparations for the end of the Brexit transition period

¹ Please see: <https://www.lse.ac.uk/business-and-consultancy/consulting/consulting-reports/vulnerabilities-of-supply-chains-post-brexit>

² Please see coverage of the research here: <https://www.politicshome.com/members/article/what-the-covid19-crisis-taught-us-about-food-chain-resilience-and-brexit>

7. As mentioned, we have been preparing for the UK finally to leave the EU since the referendum took place more than four years ago. In recent months we have of course stepped up the pace. We now feel as ready as we can be for 1 January 2021, but with so much uncertainty about whether a trade deal will be agreed there are still significant areas of uncertainty. We also repeatedly uncover new issues that we have not been aware of before.
8. We do very strongly welcome the Government's willingness to engage with industry in recent months. At the outset of the Covid-19 pandemic the Department for the Environment, Food and Rural Affairs established a Food Resilience Industry Forum (FRIF) led by the Secretary of State which provided an invaluable channel through which to raise concerns and have them swiftly addressed. This Forum has been revitalised in the past few weeks and is now also to focus on the end of the transition period as well as the impact of coronavirus. In addition, we have been invited to join a roundtable established by the Cabinet Office which is also looking at the UK's preparedness for 1 January 2021. These and similar forums, reflecting the Government's willingness to be open and responsive when industry raises issues, will be vital in ensuring that we successfully navigate the next few months.

Non-tariff barriers

9. Over recent months we have been proactive in our preparations to mitigate delays and other issues along the supply chain, including:
 - a. Increasing our stocks of finished goods
 - b. Putting in place additional resources to deal with documentation management; we have also engaged our logistics partner, Maersk, through an extended services agreement to manage paperwork such as prelodgement and Import declarations
 - c. Instituted measures for reducing potential delays at ports, including by applying for CFSP (Customs Freight Simplified Procedures)
 - d. Working together with retailers and suppliers to address challenges
 - e. Securing additional external storage facilities.
10. Matters we are looking at very actively at the moment include putting in place for unmanned freight movements arrangements for the Certificate of Inspection for organic products which require physical checks; we are also hoping for equivalence in recognition of organic standards for products exported to the EU and into the UK. Labelling compliance for products exported to Ireland is becoming clearer but remains somewhat confused. And we are reviewing our contingency planning for unexpected volume displacement at port in the light of the congestion experienced in the past few weeks at Felixstowe which has resulted in ships being re-routed and containers left on the quayside as hauliers could not book a slot to enter the site.
11. Looking forward we would recommend that the Government considers:

- a. Establishing a 'one-stop-shop' for the food industry able to offer truly comprehensive guidance on all of the new requirements and paperwork that will apply from 1 January
- b. Ensuring that forums such as FRIF continue to allow all sides to speak honestly and openly behind closed doors to solve issues, and should look at potentially waiving competition rules to enable a frank discussion
- c. Providing guidance to much smaller businesses such as individual farmers about their supply chains and availability of inputs and examine more effective ways of reaching these audiences (eg. not banner or digital advertising but via cooperatives, unions, agricultural suppliers, direct mail from Rural Payments Agency, etc)
- d. Ensuring that 'secondary' ports such as Immingham are as well-prepared for disruption as those on the Dover Straits, which have received a lot of attention and investment
- e. Working with the storage industry to ensure free space can be prioritised for food sector; at present it is estimated that only 3 percent of storage is available
- f. Stepping up the testing of revised import protocols.

Labour market issues and freedom of movement

12. Freedom of movement of people also ends on 31 December, which could have a significant impact on the labour market. Although we welcome recent moves to extend the Shortage Occupation List to include some roles in our sites where we may in future face difficulties in recruiting staff, many positions in our processing sites and logistics chain and also on farm are not covered.
13. Therefore, in order to mitigate the potential impact of these changes on the availability of labour we have engaged with the EU nationals amongst our colleagues and supported their applications for Settled Status; we have also helped farmer owners to do the same amongst their staff. But we remain concerned about this issue and we will therefore be keeping a close eye on how the market develops. We trust that the Government will be doing the same and will respond quickly to ensure that the industry is not adversely affected.
14. As we have mentioned, Arla Foods is a pan-European co-operative and we have benefitted from frictionless travel across Europe, with significant numbers of regular business travellers. At the moment it can be very difficult to find out what each of the EU27 nations will require in order for British passport holders to enter their countries. For example, we are told that from the start of next year it will be mandatory for business travellers to hold an A1 certificate providing proof of where they pay social security. However, there has been limited communication about this and no certainty about what will happen if a traveller does not have this document on arrival in another country. It would be helpful if the Government could provide greater clarity on visa and other requirements by country, and a fast and simple route to get visa applications processed.
15. Finally, in the medium term the Government should do what it can to encourage the development of training and recruitment schemes to fill roles typically covered by EU nationals in the UK. These include warehouse operatives, lorry drivers and other operational positions.

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