

# Food and Drink Federation (Supplementary) (ABR0044)

## Questions that were not asked (in full)

- Could reduced trade in agriculture and food with the EU be off-set by increasing trade with other non-EU countries or regions?
- Do tariff rate quotas present particular challenges after Brexit?

On Tuesday 21 February 2017, FDF announced full year export statistics<sup>1</sup> for the food and drink industry in 2016. The figures show total exports of food and drink grew by 10.5% reaching £20.2bn. Exports of branded food and non-alcoholic drink grew by 11.5% to £5.2bn, the 16th year of consecutive growth. The infographic<sup>2</sup> shows more detail. It is also worth noting that the trade deficit grew by 5.7% and now stands at -£22.4 billion.

Food and drink producers are keen to take advantage of the increasing demand overseas for UK food and drink. FDF believes that Government should boost its support for new and would-be exporters to help them find opportunities in new markets. With only 20 per cent of food and drink firms actively exporting, there is huge untapped potential.

However, the overwhelming majority of trade (over 70 per cent of exports and vital imports) is with EU member states – and 94 per cent of imports and 97 per cent of exports are with countries with which the EU has negotiated an FTA. Continued export growth is therefore dependent on maintaining access to these markets, as well as finding opportunities in other markets further afield. Due to differing consumers tastes and limited product shelf-lives, European markets are likely to remain the natural starting point for many exporters.

The Government has indicated that it intends to secure the UK's fair share of existing TRQs post-Brexit. Achieving this will be important for importers that rely on these quotas to bring in essential imports of raw materials from third countries, particularly in the meat sector, as well as for companies that export finished goods outside the EU by taking advantage of these preferential tariffs secured via EU bilateral trade agreements. It would seem likely that Government will target a share of these quotas that is based on historical trade flows, however this will not be entirely straightforward. Trade statistics on use of TRQs by UK industry are lacking. The matter is further complicated by the trans-shipment of goods from third countries through ports elsewhere in the EU such as Rotterdam, Hamburg or Naples. It is essential that Government

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<sup>1</sup> <https://www.fdf.org.uk/news.aspx?article=7745&newsindexpage=1>

<sup>2</sup> <https://www.fdf.org.uk/publicgeneral/fdf-exports-2016-snapshot-full-year-2016.pdf>

undertakes a detailed consultation of industry to ensure it is fully aware of where industry is currently benefiting from the use of TRQs.

- The Prime Minister has indicated the UK will seek a comprehensive free trade agreement with the EU and a bespoke agreement regarding the Customs Union. What impact would this have on the agriculture and food supply chains?
- Will the supply of raw materials, seeds etc be affected differently?

Clearly we do not know the shape of any future trading environment, but it is vital that essential imports of ingredients and raw materials from the EU, and countries with which the EU has negotiated an FTA, do not face tariffs or costly non-tariff barriers. To meet consumers' demands for food, our industry must have access to sufficient supplies of raw materials that are safe, of high quality and competitively priced.

We know that food and drink can be a challenging area in EU trade negotiations. The risk of a sub-optimal deal increases significantly if left till late in the negotiations, where trade-offs could take place. We would support an early agreement on future UK-EU tariffs to provide industry with the confidence it needs, and believe this could best be achieved through zero-for-zero tariffs.

- What impact would new or more comprehensive customs checks, certification requirements and other non-tariff barriers to trade have on your members or sectors?

We are greatly concerned by new non-tariff barriers, whether the definition of foods or burdensome procedures and processes. Non-tariff barriers can be as costly as tariffs for a business. Analysis by the NFU suggests that the reintroduction of customs check could increase the cost of goods by eight per cent with certain composite products likely to be higher. FDF is seeking reassurance that the UK's physical and digital infrastructure, whether at the ports or data systems, are able to meet these new challenges. Any measure of disruption to the vital movement of goods and related industries that allows this to happen (machinery, packaging, logistics) could pose a very serious risk to producers across the EU given the scale of independence.

Manufacturers trading in products of animal origin could face requirements to register as authorised exporters with the EU and need costly Export Health Certificates accompanying every shipment to or from the EU.

- Can you explain the practicalities of monitoring and demonstrating equivalent standards, e.g. the resource and timescales involved, and the impact this would have on your sector?

The UK's current regulatory alignment and equivalence with EU Member States is the key to trading on a level playing field and offers the greatest opportunity to secure a zero-tariff FTA. Exiting the EU clearly provides opportunities to review the regulatory framework, however maintaining consumer confidence is crucial. In the longer term, industry needs to be assured that mechanism will be in place to ensure mutual recognition of potentially different regulatory systems. We would also be concerned about any further fragmentation across the nations of the UK.

- What impact would new or higher tariffs for exports and imports have on your members?

The prospect of having to operate under WTO tariffs is of considerable concern to our members. We believe it would have the unwelcome consequences of stifling exports and restricting the import of essential raw ingredients. While EU applied tariffs for non-food goods average only 2.3 per cent, food and drink would face tariffs entering the EU averaging 22.3 per cent, including peaks of 42 per cent for dairy, 25 per cent for confectionery and 15 per cent for cereals.

### **Questions arising from the session**

- One question that was not asked in the session was "Will official controls, inspections and paperwork be needed each time a product is moved or shipped between the UK and an EU country?" However, Ian did say that "we are also very concerned about the way customs regulations are interpreted at ports, and we are particularly concerned about the transition because it is only two years away and a lot of the systems that we will need to do this stuff are not in place." Could he elaborate on what those concerns and systems are?

The food supply chain has benefitted from seamless borders and operates 'just-in-time' systems. Any new processes, procedures or physical changes which delay or impede the free movement of goods and ingredients will have an impact and put the UK's food security at risk. There will need to be significant changes to ports and other infrastructure such as data systems, so an issue such as a road jam does not delay vital deliveries of products or ingredients.

- Ian also suggested that "I think the Government's wish is that this becomes a great repatriation Bill and that the whole lot is lifted and shifted—we keep hearing this expression—into UK law and then we

edit it at our leisure. If that is the case that would be something our industry would welcome because, although there are bits of the regulatory framework we do not like..." Could he give examples of regulations that the industry does not like?

We are currently assessing industry's priorities for change. There may be areas where the EU has agreed regulation not based on the best available science and evidence, or according to risk-based principles. However, we are seeking the effective transfer of EU regulatory requirements to the UK in the immediate post-exit phase, including mutual recognition of systems between the UK and EU, to provide stability, continued access to EU markets and to maintain consumer confidence.

- Ian gave an example of Bailey's Irish Cream in Ireland, where milk crosses the border five times. Could he elaborate on the extent to which food supply chains in the UK and the EU are linked? Do food products often cross borders between the UK and other Member States in their life cycle?

For the last 40 years the UK has benefitted from a single market in food and drink, where ingredients, finished products and packaging cross borders multiple times. The most worked-out example is Ireland's agri food industry which is fully integrated. For example, the flour requirements for the industrial bakeries in the Republic of Ireland (ROI) are supplied from mills either in Northern Ireland or England. Due to the nature of ROI's domestic wheat crop, flour mills import the wheat they require, mostly from England, France, Germany and Scandinavia. A potential scenario could therefore be:

- Tariff on wheat imported by UK (NI or English millers) from outside UK
- Tariff on flour exported by those UK millers to ROI
- Tariff on finished bread product exported by ROI bakery to UK

**6 March 2017**