Brexit Industry Insights
Food and Drink

With the UK’s default to leave the EU without a deal, there are a number of steps businesses in the food and drink sector can take to prepare. Businesses are navigating environmental concerns and increasingly stringent nutritional requirements from consumers. The impacts of Brexit will also lead to change in the sector, which for some businesses could represent a significant departure from ‘business as usual’ – including new animal and food safety checks at borders, tariffs, and the loss of both low skilled and seasonal workers. The risk of the UK leaving the EU without a deal remains high, and the time to act is now. The winners over the longer term will be those in the sector prepared for change and alive to the opportunities.

Brexit and the Food and Drink sector
Food and drink is a significant contributor to both the UK and EU economies. The sector contributes £31.1bn to the UK economy.\(^1\)

Brexit could have significant implications for the food and agriculture sector. 19% of UK land is used for arable crops such as wheat and barley, and 1% for horticultural crops. When the broader agri-food sector is taken into account (including the manufacture, distribution and preparation of food in catering establishments), the workforce exceeds 420,000 people.\(^2\) Sixty percent of the UK’s exports of food, feed and drink are to EU countries and 70% of the UK’s imports of food, feed and drink are from the EU.\(^3\)

What does this mean for business?
Some of the key implications for businesses operating in the sector are:

**People**
Many businesses in the sector, from farming to manufacturing, rely heavily on low-skilled EEA nationals. For example, the agriculture sector relies on seasonal workers – recent estimates suggest there is an annual circulation of between 64,000 to 75,000 EU seasonal/casual workers in agriculture and horticulture while also having to address an existing acute shortage of labour in the sector.\(^4\)

Since the 2016 referendum, there has been a decrease in EU seasonal workers in the fruit and vegetable sectors by 10% in 2017 and 13% in 2018, causing difficulties in particular for fruit companies.\(^5\) The UK government is now also trialling a seasonal workers scheme in anticipation of major regulatory changes post-Brexit, which could lead to more restrictive immigration rules.

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Under a no deal, free movement of people will end once the UK leaves the EU. EU/EEA citizens resident in the UK before 31 October 2019 will retain their rights to settlement and access to services, and they will need to apply under the EU settlement scheme by 31 December 2020. EU/EEA citizens moving to the UK after 31 October 2019 will for a transitional period be able to move to the UK to live and work as they do now. But those wishing to stay beyond December 2020 will either need to apply for European Temporary Leave to Remain by 31 December 2020 or leave the UK. The UK is expected to introduce a new immigration regime from January 2021 for all EU nationals arriving in the UK after this date.

Multinational food and drink companies often have a highly mobile international workforce and are reliant on the efficient deployment of individuals around the world including within the EU. Post-Brexit changes will need to be factored into existing processes to avoid delays in putting feet on the ground and/or increased costs. For example, immigration requirements for UK nationals planning to work in the EU will need to be confirmed on a country-by-country basis including expected time lines for completion of the immigration process.

Dual social security liabilities could arise for employers and mobile employees if member states do not agree to reciprocal arrangements with the UK.

**Agricultural tariffs**

In a no deal scenario, customs duties will apply to the movements of goods between the UK and the EU27. The UK has published a draft temporary Tariff Schedule that would apply in the event of a no-deal Brexit for a period of 12 months. The rate of duty on 87% of imports by value would be reduced to nil. However, tariffs would be applied on a number of agricultural products such as meat, fish, dairy products, some fats and oils, cloves, vanilla, and fruit. Tariffs would apply on goods imported into the EU from the UK. For composite agri-goods containing certain types of milk and sugars, the EU applies an additional code (the Meursing code), and these products are subject to higher duty rates.

Tariff Rate Quotas (TRQs) apply to some agricultural products and allow a certain quantity of product within the quota limit to be imported at a lower rate, with a higher rate applying once the quota level is exceeded. The EU's TRQs are set in the WTO framework. The UK and EU have agreed to split current TRQs in the WTO once the UK leaves the EU with reference to imports from third countries, and as such current quotas will not account for UK-EU trade. This process has not been without controversy from other large agriculture exporters around the world. Any trade between the UK and EU would come under existing TRQs at the WTO. The EU has announced it will not be reducing TRQs in existing EU Free Trade Agreements (FTAs) (which are on top of WTO TRQs), while the UK has been undergoing a process of trying to ‘roll-over’ those trading arrangements into new bilateral UK-Third Country agreements, with far from universal results. UK exporters may face additional barriers in third countries as a result of Brexit.

**Border checks and supply chains**

Once the UK leaves the EU, many animal and plant products moving between the UK and the EU27 will be subject to additional sanitary and phyto-sanitary border checks. The EU will apply third country rules to foodstuffs such as animal products and products of animal origin (POAO) from the UK. The requirements vary by product, but these could include advance notification and certification requirements, physical

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inspections, and entry via a Border Inspection Post (BIP). The UK will introduce similar measures for relevant products entering via the EU. For some businesses, this will entail a significant change to processes, and possible changes to transport routes depending on where BIPs are located.

Producers of perishable goods are likely to be particularly impacted by border delays given the limited ability to stockpile and a delay while goods are in transit could mean goods perish by the time they reach their destination. In a recent letter to the pharmaceutical sector, the government indicated that in a no-deal scenario, the period of disruption at ports (particularly the short straits across the English Channel) could be up to six months\(^6\). Even where stockpiling is possible, 31 October comes at peak time for many retailers, with warehouse space already at or near capacity in preparation for Black Friday and Christmas trading. Businesses are considering mitigation measures where possible, such as alternative sources of supply.

### Regulation

Businesses may need to update the labelling of food products. Lead times to make changes to labels need to be factored in. For example:

- **The origin labelling for food or ingredients from the UK can no longer state ‘EU’.
- **UK addresses will no longer meet the requirement for an EU address on food labels and vice versa for the UK market.
- **Where the food business operator is not established in the EU/UK, the address of the local importer must be included on the label.
- **The EU oval health and identification marks for POAO will need to be replaced with new UK health marks.
- **Geographical Indications (GI) protect certain food and drink products, and in a no-deal scenario the UK will set up its own GI scheme.

There will be a transition period for labelling changes for goods produced or imported and placed on the UK market after exit day. Over the longer term, UK and EU product standards may diverge, and businesses will need to set up processes to comply with two different regulatory regimes.

### Fisheries

The UK will default to its internationally recognised ‘Exclusive Economic Zone’ of up to 200 miles of sea from the UK’s shores. A demarcation between the EU and UK without agreement on access would restrict vessels from fishing within each other’s waters. Furthermore, the impact of a no-deal Brexit on the fisheries industry’s ability to export and trade is likely to be felt across the sector due to increased tariffs and sanitary checks. In addition to the impacts of any tariffs, fisheries products, as all perishable products, could be affected by any increased delays at borders resulting from greater custom controls.

### Commercial Contracts

Contracts may need updating to manage some of the potential risks arising from Brexit or in response to Brexit-related restructuring. Areas of focus include: reviewing risk allocation between parties such as which counterparty bears the risk of border delays and tariff costs; definitions of key terms; changes to pricing structure or frequency of pricing reviews and changes to payment terms and contract enforcement.

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How can Deloitte help?
Deloitte has been supporting multiple businesses across a range of industries to understand the implications of, and prepare for, the UK’s withdrawal from the EU. We have supported many clients with their Brexit planning. Our teams combine Brexit insights, industry knowledge and technical expertise to support our clients with their Brexit readiness planning – from risk assessment to applying the lessons learned to optimise for the future trading environment.

For further information please contact Deloitte Brexit Support at brexitsupport@deloitte.co.uk

Further reading

UK No-deal Technical Notices:
- Prepare your food and drink business
- Farm payments if there’s no Brexit deal
- Animal & Plant Health Agency – no Brexit deal
- Export food, drink and agricultural products
- Food labelling changes

UK Business Preparation Tool:
- Prepare your business or organisation for Brexit

European Commission
Brexit Preparedness:
- Health and Food Safety
- Fertilisers
- Fisheries and Aquaculture
- Animal Feed
- Tariff rate quotas

Industry bodies:
- National Farmers’ Union: Brexit News
- Food and Drink Federation: Brexit resources
- Food and Drink Exporter’s Association: Brexit updates for UK food and drink exporters
- Agriculture and Horticulture Development Board (AHDB): How to prepare for a no-deal Brexit

This no-deal guidance is not exhaustive. Companies should routinely review the latest official updates and technical guidance as and when they are published by the UK, EU, and individual EU Member States.

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