



# Impact of Brexit on the UK Food & Drink Industry

April, 2017



# UK food & drink industry snapshot<sup>1</sup>

**Food and drink**  
accounts for 16% of  
total manufacturing  
turnover in the UK

**UK farmers**  
received almost  
€3.1bn in direct  
payments from the  
EU CAP scheme in  
2015

**72%**  
food and  
non-alcoholic  
drinks exports are  
to the EU

**£18bn**  
The value of food  
and drink exports  
in 2015

**£201bn**  
Total consumer  
expenditure on food,  
drink and catering in  
2015

**In 2015**  
52% of food  
consumed  
originated in  
the UK

**10million**  
tonnes of food and  
drink wasted in the  
food chain annually  
in the UK

**98%**  
of seasonal  
workers originate  
from the EU

## Food manufacturing<sup>2</sup>

- The food & drink industry contains by far the largest manufacturing sector in the UK. It accounts for 16% of total manufacturing by turnover across a £108 billion UK food chain and directly employs about 400,000 people across 6,620 businesses.
- It is estimated that 130,000 of this 400,000 workforce are non-UK nationals, with many from Eastern Europe, often doing valued seasonal work in agriculture and factories. Over the next decade, as many ageing staff retire, the sector could see a shortfall of over 100,000 workers. The increasing reliance on UK workers may therefore prompt companies to change their business model, particularly as this will have significance on wage costs.
- As Brexit will affect the UK's agriculture sector through a potential loss of farming subsidies, manufacturers are likely to be impacted by the availability of ingredients, which in turn could give way to cheap imports from other countries. Food and drink producers are already facing tough trading conditions, with many companies seeing ingredient prices increase largely as a result of the weak pound. This trend is unfortunately expected to continue over the next 12 months. A lower pound is also likely to increase raw material costs for food manufacturers which could call a halt to the recent deflationary food environment.

## Drinks<sup>3</sup>

- The devaluation of the pound sterling and access to trade are the two big uncertainties that will impact the drinks sector, given the UK has the biggest trading relationship with the EU over anywhere else. This is especially true for EU beverages imports, although our exports are on more of a level playing field to EU and non-EU destinations.
- 2.7% of the total workforce in the manufacture of beverages originate from EU countries. Whilst this number is not significant, it could still have an impact on the sector particularly if Brexit negotiations make it difficult for EU workers to take up employment in the UK in the coming years.
- The EU is the biggest supplier of wine to the UK and France, Italy and Spain alone supplied 60% of British imports in 2015. As new trade deals might raise or lower barriers between the UK and the EU, this relationship may not last if it is cheaper or easier for the UK to import wine from other producing countries. British spirit imports will also see changes as the exchange rate fluctuates and similarly Scotch suppliers may lose out on the potential loss of free trade agreements with the EU.
- Roughly 18% of the UK's beer market is imported with many of the bigger brands being owned by international brewers who have production facilities in the UK and overseas. Brexit may affect business models once the outcomes of negotiations become clear. The UK craft beer scene could however be positively impacted by Brexit by the easing of domestic competition as foreign competitors struggle with a weak pound sterling. Import tariffs and trade agreements will also affect the sector and its livelihood.

1. Food Statistics Pocketbook, Department for Environment, Food & Rural Affairs, 2016; Food and Drink Federation, 2016

2. Brexit leaves fragile food manufacturing industry confidence, New Food Magazine, 2016 ; Food and Drink Federation, 2016 ; Brexit and the UK food sector, PwC, 2016

3. Brexit A 'Rude Awakening' For The Drinks Industry, The Drinks Business, 2016 ; Food and Drink Federation, 2016

## Agriculture<sup>4</sup>

- The UK's departure from the EU will mean a departure from the Common Agricultural Policy (CAP) and its subsidy, which could have a drastic impact on farming. The CAP represents almost 40% of the EU budget.
- In 2015, UK farmers received almost €3.1bn in direct payments from the CAP scheme and farmers have access to the €5.2bn pot of funding that has been allocated to the UK for rural development projects over the period 2014-2020. In total, 55% of UK total income from farming comes from CAP support.
- Leaving the regime is therefore expected to reduce farm incomes, as the Government is unlikely to match current levels of subsidy. This could also lead to a rise in food inflation. However, Brexit could bring wider benefits to the economy as whole, as the UK will be free to negotiate bilateral trade deals and have more flexibility on pricing.

## Dairy<sup>5</sup>

- Dairy provides an 80,000 strong workforce across the country and helps generate revenues for thousands of companies involved in the dairy supply chain.
- At 14.8 billion litres of milk output per annum, the UK is the third largest milk producer in the EU but to remain competitive, the UK dairy industry needs a level playing field with its European and global partners. Post-Brexit, Government must ensure it does not inadvertently create non-tariff barriers which would hinder dairy companies' ability to export. It is also very important for dairy companies that existing equivalency agreements for production and sanitary standards should be maintained, as well as tariff-rate quotas currently in place.

- Brexit could make the dairy industry more competitive and profitable, but the sector will need to fully exploit trade agreements to fortify its position as a global dairy player. Dairy has been seen a strong domestic market for years and exports have been increasing, satisfying the demand in emerging countries, for example exports to non-EU countries have increased by 91% in volume over the last five years. As global demand for dairy is expected to grow at 2% over the next 10 years it gives the UK an opportunity to unlock new markets and increase dairy exports across the globe.

## Aquaculture<sup>6</sup>

- One issue that will impact the sector and will need to be determined once withdrawal negotiations take place is whether the UK will allow access by foreign vessels to the UK Exclusive Economic Zone (EEZ). If it is allowed, the UK will have to maintain a strong relationship with the EU to enable the monitoring of landings and to co-ordinate on wider regulation in the sector, and will also have to agree a mechanism for deciding upon catch limits.
- In the North Sea, where despite the UK being Europe's largest producer of cod, haddock and mackerel, it is entirely reliant upon an EU negotiator at the North East Atlantic Fisheries Commission annual coastal states meetings. Leaving the EU would however give the UK a place at the table to deliver a good deal with regards to the future fishing opportunities for these stocks.
- Brexit could also allow the UK to re-establish national control for 200 nautical miles or the median line as provided for in international law, putting the country in a stronger position to address the issue of relative stability and to argue for a better share of quota allocations in many fish stocks.

4. Food and Drink Federation, 2016 ; What would Brexit mean for farmers and the Common Agricultural Policy?, The Telegraph, 2016

5. Brexit and the future of dairy exports, Dairy UK, 2016 ; <http://www.foodmanufacture.co.uk/Business-News/UK-dairy-exports-more-profitable-after-Brexit>

6. <http://www.worldfishing.net/noindex/wf-and-a-2016/wf-august-2016/for-production/analysis/brexit-a-game-changing-vote-for-fishing> ; <https://www.undercurrentnews.com/2016/10/11/report-eu-vessels-catch-more-fish-in-uk-waters-than-british/> ; Food and Drink Federation, 2016

7. Food and Drink Federation, 2016; Tumbling pound is feeding through into rising exports, The Times, 2016 ; Food and Drink Federation, 2016; <http://www.foodmanufacture.co.uk/Business-News/Brexit-what-it-means-for-food-and-drink-manufacturers>

# Major factors that will impact the food & drink industry

## Trade<sup>7</sup>

- UK imports and exports of food and non-alcoholic drinks account for the majority to and from the EU. The ability to trade unhindered by tariffs and with minimum administrative errands is therefore essential to the competitiveness of the industry. Food and drink exports are a crucial part of the economy and the Government must use all resources available to promote and boost trade in a post-Brexit UK.
- However, while the EU currently dominates UK food and drink exports, the sector has been enjoying a sharp increase in the amount of products it sells elsewhere. Growth to markets outside the EU grew at twice the rate of those to markets within the EU and this growth is very encouraging for the industry. Furthermore, exports of branded British food and non-alcoholic drinks shot up by nearly 14% in Q3 last year after the steep plunge in the pound since the referendum.
- At present, products move freely across the border between the UK and other EU member states. As all EU member states have access to the Single Market, there are no tariffs, quotas or taxes on trade and the free movement of goods, services, capital and people. As the UK leaves the EU, Government will need to negotiate several new trade deals with these European trade partners and with those other countries where it previously benefitted from EU trade agreements. This is more important than ever, given the Prime Minister's recent speech where she announced we would no longer be involved in the Single Market after we leave the EU.
- Brexit will therefore allow the UK to set its own trade and investment policies, however there could be costs in doing so on its own rather than as part of a group of countries, meaning whether the UK's trade negotiating strength and efficiency would be greater outside the EU is uncertain. On the one hand, concluding deals might be easier for the UK alone, given the greater diversity of interests involved when the EU negotiates as a group. On the other, the smaller size of the UK market may mean other countries give higher priority to deals with the EU.
- There are claims that Brexit will offer Britain the opportunity to grow food and drinks exports more quickly, improve the national defences against plant and animal diseases, benefit from the latest scientific advances and allow Government to support the nation's food producers more effectively, however nothing will be certain until negotiations formally begin.



## Health and safety<sup>8</sup>

- All current regulations, whether on food safety, labelling, or health and safety, will apply to UK business. Product standards will still need to be observed by UK companies in order to avoid problems when trading with the EU. However, uncertainty in the exit period could lead to errors and non-compliance.
- The Government's Competency Review noted that an extensive body of EU legislation on animal health, veterinary medicines, medicated feeding stuffs, animal welfare, food and feed safety and hygiene, food labelling, and compositional standards has developed. This is mainly to facilitate trade and to provide the EU with comprehensive disease and food safety alert systems.
- Many of these areas have international standards, meaning Brexit will not greatly change standards in the UK. Some also already allow Member States to maintain stricter rules if they have them: e.g. UK slaughter rules and animal welfare. However, Member States also share expertise, intelligence and resources to support these systems, so without access to such resources the UK may have to replicate some of the services currently provided or seek to participate in them on other terms.

## Consumer protection<sup>9</sup>

- The potential implications of an EU exit may be significant. Consumer protection covers a very wide range of goods and services and it is impossible to know what the impact of Brexit will be in any meaningful way without knowing the basis on which the UK would continue to interact with the EU.
- The problem lies as a huge amount of UK consumer protection regulation is derived from the EU. For example,

directives implemented in the UK protect consumers from unsafe products, unfair practices, misleading marketing practices, distance selling etc. If the UK sought to remain in the EEA, it would join the EEA/EFTA states, such as Iceland and Norway, who have participated in EU consumer programmes since the EEA Agreement came into force in 1994.

## Common fisheries<sup>10</sup>

- The EU's Common Fisheries Policy, which was designed to conserve stock levels, has long been criticised as too harsh and resulted in dead fish being thrown back into the sea to avoid penalties for breaking quotas. The EU recently introduced a discard ban to prevent this. However, the policy has also contributed to the recovery of fish like cod from dangerously low levels. Politicians have hinted a similar policy will be set up during our Brexit negotiations.

## Climate change and the environment<sup>11</sup>

- The EU exit will not remove the legally binding UK climate targets under the Climate Change Act 2008 although it could increase focus on all aspects of UK-based generation.
- Brexit will however affect the UK's international climate targets under the United Nations Conference on Climate Change as currently the UK negotiates as a part of the EU block and has internally set targets that together with those of other Member States aims to meet the EU's overall target.
- Brexit could give more scope for changing environmental objectives, meaning the UK may decide to lower, raise or maintain current environmental requirements in areas such as air and water quality, emissions, waste, chemicals regulation or habitats protection.

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8. Food and Drink Federation, 2016

9. Food and Drink Federation, 2016

10. Food and Drink Federation, 2016; What would Brexit mean for farmers and the Common Agricultural Policy?, The Telegraph, 2016

11. Food and Drink Federation, 2016

# In Western Europe, the Irish food & drink industry will suffer the most from Brexit<sup>12</sup>

- The UK is Ireland's largest trading partner for food and drink, with 41% of exports worth €4.4bn going to the UK. It is estimated that Ireland's exports to the UK could fall by 30% in the decade following the UK's exit. Brexit also leaves those employed in the Irish food and drink industry particularly exposed.
- The volatility and weakness of the sterling will also impact the Irish food and drink industry, which is dependent on stable exchange rates. One analysis estimates that a 1% weakness in sterling results in a 0.7% drop in Irish exports to the UK. This is not positive news for the industry considering there is likely to be a prolonged period of currency fluctuations.
- Despite being the third-largest milk producer in the EU, the UK is still a net importer of dairy products. The primary requirement is cheese and the main contributors to these imports are France and Ireland, with Ireland also providing the majority of butter imports. Given their level of exposure to the UK market, these two countries stand to be most affected. However, as the volume of imports is very great, trade will almost certainly continue under new agreements.

## Reliance on the EU as supplier and buyer of UK food

2014 provisional data '000 tonnes	Cereals	Refined sugar	Fresh veg	Fresh fruit	Beef and veal	Pigmeat	Mutton and lamb	Poultry meat
Production ('000 tonnes unless otherwise specified)	24,468	1,446	2,796	427	871	820	307	1,648
Imports from the EU	2,645	476	1,925	1,452	237	726	17	465
Total imports	4,018	1,175	2,179	3,614	324	737	112	495
EU imports as % of total imports	65.83%	40.51%	88.34%	40.18%	73.15%	98.51%	15.18%	93.94%
Exports to the EU	1,795	232	103	97	125	157	116	237
Total exports	2,471	326	118	99	134	219	117	331
EU exports as % of total exports	72.64%	71.17%	87.29%	97.98%	93.28%	71.69%	99.15%	71.60%
Total supply	26,016	2,295	4,857	3,942	1,061	1,338	302	1,812
<b>EU imports as % of total supply</b>	<b>10.17%</b>	<b>20.74%</b>	<b>39.63%</b>	<b>36.83%</b>	<b>22.34%</b>	<b>54.26%</b>	<b>5.63%</b>	<b>25.66%</b>

Source: Defra 2015

12. [http://www.just-food.com/analysis/brexit-rabobanks-early-assessment-of-the-impact-on-food\\_id133636.aspx](http://www.just-food.com/analysis/brexit-rabobanks-early-assessment-of-the-impact-on-food_id133636.aspx) ; Brexit – the challenge for the food and drink sector, Food and Drink Industry Ireland, 2017

# Brexit is predicted to worsen the labour shortage in the UK food & drink industry<sup>13</sup>

**Brexit has added to mounting concerns over a chronic labour shortage forecast to hit the UK food and drink industry over the coming years. The industry is heavily reliant on migrant workers from the EU and without free movement of labour as many as 25% of the workforce could be lost. Ian Wright, Director General of the Food & Drink Federation, has estimated that there is already a 100,000 person skills gap between now and 2022 and Brexit is predicted to exacerbate this even further.**

- The situation surrounding labour in the food and drink industry was already precarious, in part due to the abolition of the Seasonal Agricultural Workers' Scheme in 2015, which started the difficulties in attracting overseas workers. The horticulture sector, for example, employs as many as 85,000 seasonal workers and 98% come from the EU. It is predicted by the NFU that this number will rise to 95,000 by 2020 due to growing demand, meaning labour supply in the industry is facing a real and urgent threat.
- The uncertainty that has followed the referendum result has already led to fewer EU workers, with many citing they no longer feel welcome in the UK.

Most significantly, however, is that seasonal workers are now earning less than ever before due to the drop in the value of the sterling. The UK's attractiveness as a place to work has therefore plummeted, in particular for those workers from Bulgaria and Romania, who provide 84% of the workforce but who have opted to look for employment elsewhere.

- Workers from the EU who partake in seasonal work are highly flexible employees who provide an excess of skilled and un-skilled labour. It has been suggested that the industry will not function properly without access to the same talent pool, as most workers from the UK are either disinterested in these jobs or they don't have the necessary skillset.
- Leaders in the industry have called upon the Government to ensure the food and drink supply chain receives the same treatment as other sectors if the UK is to adopt a work permit system to control immigration. They believe that all options should be considered, including a seasonal worker scheme, particularly where it has such an impact on the UK market. Similarly, the NFU has renewed calls for a visa-controlled permit scheme to allow seasonal agricultural workers employment in the UK.

## Non-UK EU Employees in the UK agrifood and drink sector (2014)

	Number of non-UK employees from the EU	% of total employment
Crop, animal production, hunting	21,101	6.4%
Manufacture of food products	95,351	26.9%
Manufacture of beverages	1,675	2.7%
Food and beverage service activities	138,140	11.3%
<b>Total employed in the UK</b>	<b>1,833,655</b>	<b>6.1%</b>

**Source:** ONS data cited in "Food, the UK and the EU: Brexit or Bremain?" Tim Lang and Victoria Schoen, 2016

13. <https://www.ft.com/content/7ceb876c-b58d-11e6-961e-a1acd97f622d> ; Government must ensure food and drink's priorities are at the heart of Brexit negotiations, Provision Trade Federation, 2016; <http://www.fwi.co.uk/news/nfu-issues-warning-potential-labour-shortage.htm>; <https://www.theguardian.com/sustainable-business/2016/jan/16/brexit-nightmare-scenario-uk-food-and-drink-business>.



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