

Introduction

- I. FDF is the voice of the UK's food and drink industry, the UK's largest manufacturing sector. FDF represents and advises food and drink manufacturing firms across the United Kingdom, including leading brands and home-grown businesses, large and small. BSDA represents producers of soft drinks, still and dilutable drinks, fruit juices and bottled waters. In Wales, the food and drink industry accounts for £4.3 billion in turnover – which has increased by 55 per cent over the last five years. This is significantly more than Welsh manufacturing in general, which grew by 11 per cent. The sector contributes almost £1.5 billion to the Welsh economy, supports more than 22,100 jobs in Wales, contributes more than £337 million in Welsh exports, and invests more than £4 million in innovation, research and development.
- II. As the sector that faces the greatest impacts as a result of Brexit, Welsh food and farming has much at stake in the negotiations. As the Welsh Government's Brexit trade paper highlights, food and drink is particularly vulnerable to both tariffs and non-tariff barriers, with World Trade Organisation (WTO) tariffs for sugars and confectionary, cereals and meats reaching up to 50 per cent. The paper also outlined that falling back onto WTO rules would mean higher commodity prices and so higher food prices.
- III. We are ready to seize any new opportunities, whether in exports, domestic sourcing or greater innovation. However, to maintain the quality, choice, and value that consumers and shoppers demand, we are looking for four key outcomes for our industry:
 - a. The right to remain for valued EU citizens, and in the medium term, access to the skills and talent we need to address our sector's skills gap.
 - b. Zero-tariff and frictionless trade across borders.
 - c. Recognition of the island of Ireland's special circumstances.
 - d. Stable regulatory framework to maintain consumer confidence in the safety and authenticity of UK food and drink.
- IV. Securing a status quo transition period is an immediate priority for the sector and we hope swift agreement will be reached by the March European Council. We cannot afford a 'cliff edge' scenario and businesses need to have confidence in 'day one' readiness on both sides of the Channel. Any transition period must maintain the ease of trading currently enjoyed so that businesses have continued access to vital imported ingredients and export markets, and avoid the need for two points of change.

- V. The transition period should have a clearly defined start and end point and the duration provided should not be decided arbitrarily. The length of time required for importers and exporters in UK food and drink manufacturing to adapt, change and test their systems will vary significantly from business to business. This will depend on a range of factors, including the product sector, the complexity of value chains across the EU and their existing experience of trading outside the EU. For some businesses, this can be achieved relatively quickly, painlessly and with minimal cost, however for others this will present a more significant challenge.
- VI. Crucially, this should avoid the need for two points of change. This would create additional complexity, necessitating further negotiation with the EU to put in place implementation procedures and would generate additional costs for businesses and Government alike.

Towards sustainable growth

- VII. We are delighted that in the “Towards Sustainable Growth: An Action Plan for the Food and Drink Industry 2014-2020”, the Welsh Government set out its aim to grow output for the sector by 30 per cent to £7 billion by 2020 and increase the profile and reputation of Welsh food and drink.
- VIII. We welcome the Cabinet Secretary’s most recent Statement on the Welsh food and drink industry made on 23 January 2018, which highlighted the significant challenge to the industry that is posed by Brexit. We agree with the Cabinet Secretary that we should embrace change in mindset, processes and structures, and we are eager to make the most of the potential opportunities that could arise from the UK leaving the EU.
- IX. For example, we believe exports growth is a key area of opportunity, building on the excellent reputation of Welsh food and drink for quality and provenance. Looking to individual markets, China, India and the UAE come out as the top three targets for exporters, however businesses currently struggle to enter these markets due to their complexity, cost and unfamiliarity. In the case of China, FDF research shows that the UK lags significantly behind EU competitors in terms of both market share and export growth.

The right to remain for valued EU citizens, and in the medium term, access to the skills and talent we need to address our sector's skills gap.

- X. Food and drink manufacturers in the UK, like the rest of the agrifood supply chain, benefit from bringing in skilled labour from outside the UK. Around 30 per cent of the UK's food and drink manufacturing workforce are non-UK EU nationals – almost 117,000 workers. They bring with them talent, spending power, flexibility and huge diversity.
- XI. FDF leads an EU Exit workforce group, with farming, food retail and hospitality bodies. Our joint August 2017 report [‘Breaking the Chain’](#) revealed that an abrupt reduction in the number of workers from the EU able to work in the UK after Brexit would cause significant disruption to the whole food and drink supply chain. Almost half (47%) of businesses surveyed said EU nationals were considering leaving the UK due to uncertainty surrounding their future, and over a third (36%) said they would become unviable if they had no access to EU workers. The report's recommendations to Government included reviewing the recording of immigration data, increasing efficiency through adequate Home Office resourcing and investment in skills provision.
- XII. While companies are working hard to build their pipeline of home grown talent, achieving this significant step change will take time. Our sector's growth potential was already under pressure due to our ageing workforce, with the industry needing to recruit a further 140,000 workers over the next decade. The UK Government and the Migration Advisory Committee must work with industry to ensure practical and evidence-based solutions. Automation does have a role to play in mitigating this and improving the sector's productivity, and we welcome the UK Government's Industrial Strategy and the formation of the Food and Drink Sector Council, which will include this in their forthcoming Sector Deal. However, we cannot afford a 'cliff edge'; which impacts on our ability to grow, produce and serve the food we eat.
- XIII. With record high levels of employment in key geographical locations, it is often a question of local labour availability for the roles we are seeking to fill. Our sector already faced a large skills gap due to demographic change. Across the UK, we will need 140,000 new skilled workers by 2024. Future migration policy must ensure that industry has access to the workers it needs to address our skills gap, and that food and drink gets its fair share.
- XIV. We welcome the reassurances from the UK Government that EU workers will have the right to remain, but it is vital that the registration system is simple, cost-efficient and operational as swiftly as possible.

International trade: Continued tariff-free market access for both UK food and drink exports and for vital imports of raw materials

- XV. The overwhelming majority of Welsh and UK trade in food and non-alcoholic drink is with the EU – more than 70 per cent of both exports and imports. On a UK level, 94 per cent of exports and 97 per cent of imports of food and non-alcoholic drink are with the EU or with countries that the EU has signed or is negotiating a trade agreement. Data from the Value of Welsh Food and Drink report shows that 88 per cent of all exports in 2015 from Wales were to the EU, worth £264 million in 2015. Our members are committed partners of our domestic agriculture industry, however they also often need to import ingredients that are not produced in the UK or are not produced in sufficient quantity to supplement their use of UK ingredients (for example in spices or oranges). To meet consumer demand for food, our industry must have access to sufficient supplies of raw materials that are safe, of high quality and competitively priced.
- XVI. UK food and drink manufacturers operate in increasingly open and competitive markets when selling their products. Manufacturers operate highly integrated EU-wide supply chains, both for sourcing raw materials and selling finished goods, while the largest producers have factories in both the UK and the EU. The success of the UK's largest manufacturing sector is inextricably linked to our ability to import and export raw materials and finished goods across borders.
- XVII. It is vital that Welsh Government recognises the strategic importance of food production, and works with UK Government to make sure that essential imported ingredients and raw materials from the EU and countries with which the EU has preferential trade agreements do not face tariffs or costly non-tariff barriers after we leave the EU. This access is essential to enable continued growth of both UK food and drink production and exports, and to avoid the very real risk of price rises and reduced product choice for consumers.
- XVIII. A no-deal scenario could pose a real threat to UK food and drink and the trade in our industry's products. The EU's WTO Most Favoured Nation (MFN) tariffs for agrifood and drink are significantly higher than for other goods, with peaks of more than 100 per cent on many products. For example, tariffs on meat can reach a maximum level of 104 per cent, fruit and vegetables 157 per cent, oilseeds 170 per cent, sugars and confectionery 127 per cent, and beverages 152 per cent.
- XIX. Food is part of the UK's Critical National Infrastructure and 'just in time' (JIT) supply chains mean empty shelves in four days or fewer if supply is delayed or interrupted. Most food has a limited shelf life and some is highly perishable. Many manufacturers form part of complex European supply

chains, developing local specialisations which help to boost company competitiveness. The ability to import and export goods and ingredients seamlessly across borders is critical to business models.

- XX. The UK Government should also ensure continuity between existing EU-third country preferential trade agreements and successor UK agreements. Any change to trading terms with these fifty or more markets would be hugely disruptive and unwelcome. Any loss of international competitiveness could have implications for domestic production and ultimately for the choice and affordability of products enjoyed by consumers.
- XXI. When negotiations start with the existing EU Free Trade Agreements (FTAs) and other trade-related treaties, the devolved nations should be consulted prior to any final agreements.
- XXII. Most food and drink products crossing the EU's external border are subject to a range of sanitary and/or veterinary certification and inspection requirements which necessitate physical checks at point of entry, including for animal and plant health. These simply cannot be resolved through the use of technology. At present, most of these mandatory physical checks do not apply to movements of products between the UK and the rest of the EU.
- XXIII. However, without explicit agreement in the negotiations, food and drink will be treated by the EU on a par with existing third country requirements, adding significant logistical challenges and costs, as well as potentially increasing food waste if delays lead to spoilage of goods in transit. EU rules for imports of meat, fish and plant products from third countries pose clear risks, e.g. physical checks needed on 62 per cent of fresh produce and 50 per cent of poultry and 100 per cent documentary and ID checks.
- XXIV. Delays at border would also threaten our industry's exports to the EU, which currently total more than £12 billion each year. We know from experience that European retailers will not tolerate delayed deliveries. Avoiding a hard border during the transition period will be vital if we are to maintain strong export growth into the valuable EU market which is currently growing at a faster rate than sales to the rest of the world.
- XXV. Designing and negotiating a new customs model to put in place beyond the transition period, that delivers the same ease of trading that UK food and drink currently enjoys with the EU27 will be a major challenge. Government will need to put in place customs arrangements that are as frictionless as possible and as a matter of priority avoid disruption to supply chains that rely on unimpeded movements of perishable ingredients and sales of limited shelf life consumer products.
- XXVI. Continued close cooperation will be required between UK-wide authorities and EU counterparts. Technical challenges will arise that require solutions on the EU27 side to ensure trade that is as frictionless as possible. Frontier

authorities need to communicate effectively and efficiently to ensure continued interoperability after the UK's new customs system enters into force. FDF also participates in the Welsh Government's Trade and Supply Chain Working Group which regularly discusses the potential challenges that may arise in this area.

Recognition of the island of Ireland's special circumstances

- XXVII. Our future trade arrangements are of particular importance in the case of the Republic of Ireland, the UK's only land border with the EU. The UK is Ireland's largest trading partner in food and drink. It buys more from us than the United States, China, Russia, Brazil, Canada and Japan combined. Nearly a fifth of UK food and drink exports go to Ireland, with more than a third of Ireland's reaching UK shores. Many of those exports/imports come through the North and South Wales ferry routes to Ireland.
- XXVIII. There are enormous practical challenges facing us in food and drink. Most UK food businesses treat the island of Ireland as a single territory. Workers, raw materials, part-finished and finished goods cross the border, sometimes several times. The UK and EU negotiating teams must swiftly agree practical solutions which provide certainty for businesses around the future of the seamless and highly valuable market in food and drink that exists between Great Britain, Northern Ireland and the Republic of Ireland. Agreement on mutual recognition of product standards and regulations will be crucial to avoiding burdensome health or veterinary checks.
- XXIX. In the medium term, there will be an opportunity for the UK Government to establish ambitious new Free Trade Agreements (FTAs) with trade partners. We expect this will provide new growth opportunities for manufacturers in terms of both sourcing ingredients and raw materials, as well as opening export markets to help fulfil our industry's export growth potential. At present, across the UK fewer than one in five food and drink manufacturers actively exports their products overseas.

Stable regulatory framework to maintain consumer confidence in the safety and authenticity of UK food and drink.

- XXX. The safety and authenticity of our products remains paramount for industry and continues to be the top priority for FDF and BSDA members. The production, processing, distribution, retail, packaging and labelling of food and drink is governed by a wealth of laws, regulations, codes of practice, and guidance, the majority of which are put in place at an EU level. Common

regulatory and legal requirements informed by sound science and evidence allow companies to do business and trade on a level playing field, while also protecting consumers. However, where EU regulation creates barriers and burdens that limit businesses' ability to innovate we believe improvements can be made where possible.

- XXXI. FDF would want to continue to have access to expertise and advice from existing European bodies, notably the European Food Standards Agency (EFSA). Any proposed changes to food and drink regulation as between the UK and EU – and across the devolved administrations of the UK – should be subject to detailed consultation with industry and we offer FDF's expertise for the task ahead.
- XXXII. Agricultural and environmental policies are fully devolved, so it is crucial that the UK develops a comprehensive agricultural framework for the sector after Brexit. It must be sensitive to needs of all the UK's nations, without creating new barriers for business across the UK's internal market.
- XXXIII. It will be vital to minimise regulatory fragmentation across the nations of the UK, and to ensure government has the right mechanisms to ensure mutual recognition for seamless trade. It is in no-one's interest to have, for example, different composition or labelling rules in different parts of the UK creating costs for business and confusion for consumers.
- XXXIV. How powers are devolved to the nations and how the funding structure replacing CAP are crucial questions for our sector. Ideally, these would be UK frameworks agreed equitably between all the UK administrations as these are likely to provide the strongest signals to business.