

Cynulliad Cenedlaethol Cymru | National Assembly for Wales

Y Pwyllgor Materion Allanol a Deddfwriaeth Ychwanegol | External Affairs and Additional Legislation Committee

Y goblygiadau i Gymru wrth i Brydain adael yr Undeb Ewropeaidd |

Implications for Wales of Britain exiting the European Union

IOB 22

Ymateb gan Y Ffederasiwn Bwyd a Diod a Chymdeithas Brydeinig y Diodydd Meddal

Evidence from Food and Drink Federation and the British Soft Drinks Association

Introduction

- I. FDF is the voice of the food and drink industry - the UK's largest manufacturing sector. BSDA represents producers of soft drinks, still and dilutable drinks, fruit juices and bottled waters. In Wales, FDF's members account 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 food and drink industry contributes almost £1.5 billion to the Welsh economy, support more than 22,000 jobs in Wales, contribute more than £302 million in Welsh exports, and invest more than £4 million in innovation, research and development. The productivity performance of Welsh food and drink manufacturing has increased steadily since 1997 and remains higher per employee than in the UK as a whole.
- II. The food and drink industry is a fantastic asset of which we are very proud. With thriving exports, huge creativity and diversity amongst our members, we are determined to further unlock the potential in our sector. From world-famous brands to innovative Welsh businesses, members of FDF and BSDA are not only leading the way in boosting productivity and export growth, but also creating healthier products and reducing our impact on the environment.
- III. Now that the Prime Minister has announced her intention to trigger Article 50 by the end of March 2017, it is crucial that full account is taken of the voice of the food and drink industry as the UK's largest manufacturing sector. FDF is convening a regular food manufacturing roundtable, made up of over 30 food and drink trade associations, to meet with senior officials from across Whitehall to share the latest analysis.
- IV. This document sets out our priorities, our concerns and our need to set out a clear agenda for the development of a new relationship with the EU which recognises the strategic importance of our industry.

Towards sustainable growth

- V. We are delighted that in its document “Towards Sustainable Growth: An Action Plan for the Food and Drink Industry 2014-2020”, the Welsh government sets out its aim to grow output for the sector by 30% to £7 billion by 2020 and increase the profile and reputation of Welsh food and drink.
- VI. We also welcome the statement by the Cabinet Secretary for the Environment and Rural Affairs, Lesley Griffiths on 22 November 2016 which noted the progress made already in reaching that target, and that the industry’s sales value in Wales has already grown to £6.1bn. Food and drink exports have increased nearly 13% in the first six months of 2016.
- VII. In that same statement the Cabinet Secretary outlined the consultation and engagement taking place with the food and drink industry to inform Welsh government’s vision for the post-Brexit future and we look forward to meeting the Cabinet Secretary in January 2017.
- VIII. FDF and BSDA members share the view that we need to make the best of Brexit. In doing so however, it is vital that the confidence of both our organisations’ membership is maintained and that government focuses on negotiating a workable future relationship with the EU as our most important trading partner.
- IX. A survey of FDF’s members in October 2016¹ reinforces why this needs to be a priority. A majority of companies who responded to the survey reported increased ingredient prices, a drop in product margins, and greater concerns for the future. 69.5% of respondents were less confident about the UK business environment, with only 11.2% more confident. A large majority (71%) of companies surveyed employing EU staff – who number 29% of workers in the industry throughout the UK – reported that their EU employees have expressed concerns about the Referendum outcome, with around one in 12 (8.7%) saying that EU colleagues intend to leave the UK. Food and drink producers face tough trading conditions, with three quarters of companies seeing ingredient prices increasing largely as a result of the fall in the value of the pound, with product margins decreasing for most survey respondents. This trend is expected by most companies to continue over the next 12 months.
- X. The EU is a vital market for UK food and drink. Once Free Trade Agreements (FTAs) are taken into account, our research shows that 94% of exports and 97% of imports of food and non-alcoholic drink are with the EU, or with countries with which the EU has signed or is negotiating a trade deal. There is also an inter-dependency of food between the nations of Great Britain, Northern Ireland and the Republic of Ireland and consideration must be given to the fact that many of those exports/imports come through the North and South Wales ferry routes to Ireland.

Our priorities and recommendations

- XI. More than ever the Welsh Food and Drink industry needs government support and to be treated as a priority sector. We want to work with governments in Cardiff and

¹ www.fdf.org.uk/news.aspx?article=7648

London ahead of the triggering of Article 50 to develop a new vision which is based on four key areas:

The workforce
International trade
Regulatory stability
Industrial strategy

The workforce: Continued access to a skilled workforce for food and drink manufacturers and the wider agrifood supply chain

- XII. 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 29% of the UK's food and drink manufacturing workforce are non-UK EU nationals – almost 116,000 workers. They bring with them talent, spending power, flexibility and huge diversity. While we continue to take steps to develop home-grown talent through ambitious graduate and apprenticeship programmes, EU workers provide a highly valued solution to our skills gap. Our sector's growth potential was already under pressure due to our ageing workforce, with the industry needing to recruit a further 130,000 workers over the next decade. FDF has created a workforce strategy group with its supply chain partners to develop a coherent UK Food Supply Chain workforce strategy post-EU exit that meet the needs of the UK food and drink industry.
- XIII. The prospect of having to operate under WTO tariffs is of considerable concern to our members because 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.
- XIV. For FDF's members, avoiding the reintroduction of customs barriers to the EU is no less important. Analysis by the National Farmers' Union (NFU) suggests the reintroduction of customs checks with the EU would push up the cost of traded goods by a further eight per cent. The Irish border is a crucial issue, given the deeply integrated supply chains and levels of mutual trade in food and drink
- XV. Recommendations:
- **Reassurance for our workforce**
EU workers in food and drink are highly valued and deserve unambiguous reassurance in these very uncertain times. The industry benefits from bringing in skilled labour from the EU and we ask the Welsh government to urge the UK government to confirm that EU nationals working and studying in the UK will be granted the right to remain.
 - **A new immigration policy**

Throughout the UK, our industry will need 130,000 new skilled workers by 2024. We are already taking steps to ensure the UK develops more home-grown talent but a new migration policy needs to be developed that ensures manufacturers have continued access to the workers we need to address our skills gap. All options should be explored including a workable points based system for shortage occupations, sector based schemes and effective transitional arrangements.

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

- XVI. The overwhelming majority of Welsh and UK trade in food and non-alcoholic drink is with the EU – more than 70% of both exports and imports. On a UK level, 94% of exports and 97% 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% 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. 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.
- XVII. A study by Professor Tim Lang of City University, and Dr Victoria Schoen from Food Research Collaboration highlights significant tariff rates that UK exports to the EU would face. These range from more than 5 per cent for coffee and tea, over 20 per cent for beverages, nearly 30 per cent for sugars and confectionery and 36 per cent for dairy products.
- XVIII. Recommendations:
- **Tariff-free customs union with the EU**
Many manufacturers will struggle to substitute EU customers for ones in other parts of the world, including emerging markets, because of differing consumer tastes and limited product shelf-lives. Welsh government should therefore negotiate with the UK government to seek tariff-free market access via a comprehensive UK-EU trade deal before proceeding with the Article 50 negotiation process. Welsh government should also press for discussions to begin urgently with the government of the Republic of Ireland on the long-term future of cross border trade given that the 'border' between the UK and the EU in this respect will be Welsh ports.
 - **Access to tariff-free raw material imports**
The loss of tariff-free access to imports from the EU would pose a grave threat as many manufacturers would struggle to secure alternative sources. Tariff-free market access for imports must also be prioritised via a comprehensive UK-EU trade deal before proceeding with Article 50.
 - **Access to EU Free Trade Agreements (FTAs)**

Wales and the wider UK benefit from 53 FTAs that the EU has secured and should continue to benefit from these deals. The conditions agreed in these FTAs should continue to apply without renegotiation.

Regulatory stability: An appropriate regulatory framework that ensures the continued confidence of consumers and industry

- XIX. 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.
- XX. Recommendations:
- **A roadmap for future legislation**
Businesses need a clear roadmap setting out how government will manage the exit process in the complex area of food legislation, whether that is through the proposed Great Repeal Bill, or any other legislative process either in Cardiff or Westminster. Dialogue with industry is important to ensure an effective regulatory landscape is developed, including discussion of scenarios for the future regulation of food and drink. Consideration should also be given to how industry's ability to innovate might be supported most effectively.
 - **Maintaining confidence in Welsh and UK Food and Drink**
Recognition of Wales and the wider UK should continue to be recognised as a producer of safe, high quality food and drink following the UK's withdrawal from the EU. Domestic consumer confidence and our ability to export must be maintained, underpinned by effective regulation based on sound science and evidence. Government must ensure relevant bodies are appropriately resourced.
 - **A new regulatory landscape**
The existing EU regulatory framework facilitates trade on a level playing field and allows Welsh businesses to access the Single Market. Industry needs to be assured that mechanisms will be put in place to ensure mutual recognition of potentially different regulatory systems, without the need for Export Health Certificates, burdensome customs barriers, and other non-tariff barriers.
 - **Ongoing regulatory developments**
Both the Welsh and UK government should continue to play an active role in ongoing EU policy negotiations. It is reassuring that with the Great Repeal Bill, all current and 'in the pipeline' regulations, whether on food safety, labelling or on broader issues such as health and safety, will continue to apply to Welsh businesses once the UK leaves the EU. However, there are concerns about the potential impact UK

manufacturers might face in terms of the cost and time spent adapting to comply with new EU legislation that could then be revised or revoked by government here, or introduced by the EU after the UK has left.

- **Wales-UK-EU regulatory cooperation**

Consideration must be given to high-level initiatives that are best addressed at a multinational level, such as global emissions reductions, environmental controls and cross-border operations. It would be difficult for Wales or the UK, in isolation, to achieve these objectives without significant cooperation. The UK must participate in any negotiations on significant EU legislation that will directly impact on the UK, including our trading relationships.

Industrial strategy: A business environment that is focused on increasing competitiveness and reducing regulatory burdens

XXI. Our sector makes significant contributions to the Welsh and wider UK economies. It also ensures future food security against the combined challenges of climate change, increasing global demand, and greater pressure on finite resources. Both the Welsh and UK governments recognise our sector's strategic importance and we believe food and drink manufacturing and its wider supply chain should continue to be a priority sector for Welsh government.

XXII. Recommendations:

- **Minimise disruption from new UK or Welsh legislation**

We believe that the pressures and uncertainty facing the industry at this time should be taken into consideration before new legislation is introduced either by the Welsh or UK governments. The UK government should delay the introduction of measures that will impose extra burdens, such as the proposed Soft Drinks Levy, on industry at a time of such economic fragility. A stable and competitive framework for business is essential.

- **Address currency volatility**

Stability in the currency market is a crucial issue, and one which has already seen the cost of imported ingredients rise by up to 20% and more. While many have acted to hedge against currency changes, this only helps for a short period of time and in the long term, currency volatility poses a risk for jobs and growth. Therefore currency volatility continues not just to be a significant concern to businesses – especially small and medium sized manufacturers who are not able to hedge against fluctuations – but one that is having a real impact now on business costs and the price of UK food and drink.

- **Food and Agriculture Policy**

The food and drink supply chain needs the earliest possible indication on how the EU's Common Agricultural Policy (CAP) and Common Fisheries Policy (CFP) will be replaced, so that UK and Welsh farming continues to thrive and form a reliable part of the UK food supply chain for the UK food and drink manufacturing sector. In the

same vein the industry needs reassurance that the UK fishing industry continues to be supported so that this supply chain also remains reliable.

- **Clarification of innovation subsidies**

Food and drink manufacturers in Wales spend more than £4 million on research and development, and the UK is at the heart of the R&D operations for many global companies. We therefore need to have a reliable research environment that continues to be supported, given the level of research and innovation support, academic, engineering and technical expertise emanating from the EU.

- **Support for manufacturing**

Food and drink makes a vital contribution towards rebalancing the economy and closing the productivity gap. The right conditions must be put in place to deliver a more productive, investment and export-driven economy that is aligned with manufacturers' plan to grow.

- **Incentives to support innovation and growth**

While exit negotiations are conducted, there will be an extended period of uncertainty about the economic and political landscape and potential future decisions by major customers or parent companies. Any negative consequences from this uncertainty on investment, innovation and job creation need to be counterbalanced with incentives to support growth.

In conclusion

XXIII. There is no doubt that changes to the arrangements between the UK and EU could have a strong impact on the industry in Wales and we urge the Committee to consider the proposed recommendations in their deliberations. FDF and BSDA understand not only how important the food and drink industry is to the Welsh economy, but also to tourism in Wales and to the national identity. The Cabinet Secretary has emphasised this in the past and noted the importance of promoting Welsh food, culture and language as well as the value of the EU protected food name scheme of which eight Welsh products are currently registered. FDF and BSDA are keen to work with the Welsh government and the National Assembly for Wales to develop the vision set out in this document as a new relationship between Wales the EU is mapped out over the coming months, and ensure that the Welsh and UK food and drink manufacturing sectors continue to be national and international success stories.