

## FoodDrinkEurope contribution on Brexit

### Overall priorities

- *Brexit must not negatively impact the economic and political stability and prosperity of the EU, or the assurance of consistent quality standards and continuity of supply of food to EU consumers;*
- *The EU27 and the UK must work on a post-Brexit arrangement that recognises their significant economic interdependency and that enables business and workers to remain competitive and thrive into the future;*
- *An extended period of transition will be needed to prepare for new arrangements affecting food and agricultural products as well as food and drink supply chains;*
- *Free trade, access to human and financial capital, regulatory consistency and mutual recognition of standards are in the common interest;*
- *The EU-UK negotiations must swiftly clear up any uncertainty for business.*

### Background

FoodDrinkEurope and its European food and drink industry members regret, but respect, the choice of the citizens of the UK to leave the EU. As a consequence of the Brexit referendum, both the UK and the EU27 are facing an unprecedented and challenging situation, and a considerable level of uncertainty. On 29 March 2017, the formal two-year negotiation period starts in which both parties will have to negotiate the exit conditions; comprehensive transitional arrangements should also be negotiated as early as possible, as well as an ambitious and balanced future EU27-UK agreement. Prolonged uncertainty must be avoided at all costs.

### Key facts

FoodDrinkEurope is committed to playing an active role in the Brexit process. Our goal is to ensure the least disruptive outcome for the food and drink sector – one that would enable us to continue to support jobs in Europe and achieve our ambition of 2.5-3.5% annual growth by 2025<sup>1</sup>.

The food and drink industry is the largest manufacturing sector in the EU in terms of turnover (more than €1 trillion), value added (€212 billion) and employment (4.25 million jobs) and the UK is an important player in this context. It is the single largest trading partner of the EU27 with a total value of food and drink trade of €44.6 billion in 2015<sup>2</sup> - 41% of Irish food exports go to the UK as do more than 10% of food exports from each of Belgium, Denmark, France, Italy, The Netherlands and Poland. Moreover, the food and drink industry transforms 70% of all agricultural raw materials produced on European farms.

The size and success of the food and drink sector in Europe is attributable in large part to integrated supply chains involving operations in both the EU27 Member States and the UK.

### The food and drink industry: a priority sector in the upcoming negotiations

As the leading European manufacturing sector, the food and drink industry has an important role to play regarding growth and jobs. The industry faces economic, social and environmental challenges that demand intensified efforts to create sustainable growth and employment. Minimising uncertainty is essential for growth and investment, as is the maintenance of friction-less trade in raw materials, ingredients and finished food and drink products<sup>3</sup>, and ensuring consistent high food standards; they will all be crucial elements in the negotiations

<sup>1</sup> See <http://www.fooddrinkeurope.eu/publication/a-competitive-food-and-drink-industry-for-growth-and-jobs/>

<sup>2</sup> EU27 food and drink exports to the UK: €31.6 billion ; EU27 food and drink imports from the UK: €13 billion; EU27 food and drink trade balance with the UK: +€18.7 billion (as defined by NACE rev.2)

Note: Total value of EU27-UK agri-food trade (HS Chapter 1-23) is even greater at €56.3 billion –includes agricultural commodities

<sup>3</sup> This trade takes place internally within companies as well as between businesses.

for our industry. It will be vital to ensure there is adequate time for transition to new arrangements for the many highly integrated and complex supply chains that exist in the EU food industry.

Given the importance of the European food and drink manufacturing sector, and of the UK as a trading partner, FoodDrinkEurope urges policy makers to

- i) treat the food and drink industry as a priority sector in the Brexit negotiations
- ii) collaborate in good faith and spirit to secure short and long-term stability and prosperity for businesses, employees and citizens
- iii) closely involve stakeholders in the process of shaping the transitional arrangements, and
- iv) agree rapidly on a clear roadmap outlining the scope of the negotiations and realistic future transitional arrangements, until an ambitious and balanced deal is in place.

## Priority areas

FoodDrinkEurope has identified the following key priority areas that must be considered in the Brexit discussions:

### 1. An ambitious and balanced EU27-UK agreement

Negotiators on both sides must commit to establishing an ambitious and balanced future agreement that prioritises continued friction-less trade, long-term growth, investment, stability and the preservation of reliable and consistent high standards of hygiene, safety and quality, to ensure the continued competitiveness of the EU food and drink industry.

Today's success of the EU food and drink industry is built on the Single Market with its common regulatory frameworks, and its free movement of people, goods, capital and services. The legal certainty and predictability provided by the Single Market and the EU customs union have been key drivers for food and drink company investments in production plants, in the creation of jobs and in research and development. Moreover, it is thanks to the Single Market and EU customs union that companies have established integrated supply chains that stretch across the EU including the UK. Such supply chains create the scale and efficiencies necessary for growth and sustained employment. They also strengthen Europe's position

#### **A hard Brexit would significantly impair the competitiveness of EU exports to the UK**

If no EU27-UK agreement is in place when the UK leaves the EU, trade relations revert to WTO rules, including WTO 'most favoured nation' (MFN) tariffs.

For example, the implementation of WTO MFN tariffs<sup>1</sup> would increase the cost of **French and Irish cheeses** exported to the UK by **58** and **56%** respectively. Export of **Italian pasta and processed vegetables** would also see their costs increased by **20** and **17%**.

1% increase in price of food exported to the UK reduces quantity of exports by 4.85%<sup>2</sup>. Therefore, higher trade prices will cause export volumes from the EU27 to the UK to drop significantly, which may put thousands of EU jobs at risk.

<sup>1</sup> based on approximations of the WTO MFN tariffs

<sup>2</sup> Source: European Commission

in the global market. Avoiding disruption of existing supply chains is of paramount importance to the European food and drink sector's ability to continue to contribute to robust economic activity in the EU.

Regarding the special case of the island of Ireland, it is encouraging that the EU's lead negotiator, Michel Barnier considers ensuring a "frictionless" north – south border post-Brexit as a priority.

### 2. Clear transitional arrangements supportive of EU27-UK supply chains

Clear and pragmatic transitional provisions must be secured to allow European businesses sufficient time to plan and adapt to the new future, long-term EU27-UK terms of trade.

We expect that transitional provisions will be required to bridge the gap between the completion of the UK exit process and the entry into force of the future EU-UK agreement. Transitional provisions will be essential in order to avoid unnecessary legal uncertainty and the possible reversion to high WTO MFN tariffs on (EU and

UK) imports of food, drink, and agricultural products. Any disruption to current supply chains, through tariffs and/or non-tariff barriers, including new burdensome customs procedures, is likely to be passed on to consumers in the form of higher prices and would almost certainly have a negative impact on jobs. It is critical that companies retain as full an access as possible to all markets throughout the region.

Transitional arrangements must prioritise:

- Avoiding tariffs and import quota regimes
- Avoiding requirements for new customs procedures (e.g. documentation and certification) which would create barriers to trade, delays in the movement of goods, and increase administrative costs. Importantly, customs procedures must be dealt with as part of the first phase of Article 50 negotiations and a suitable extended transition period to any new arrangements will be essential.

### **3. Minimal regulatory divergence**

The transitional arrangements and future long-term EU27-UK agreement must ensure that regulatory barriers are kept to a minimum

This is a priority area which, if not properly addressed, could become a huge non-tariff barrier over time. There are more than 2,300 laws<sup>4</sup> covering agriculture and food which would be affected by Brexit. Current EU food and drink regulations and standards must be recognised and maintained by both parties on exit day, and during the transition to the future EU27-UK relationship. Any future EU27-UK trade agreement must involve maximum collaboration on sanitary and phytosanitary measures and technical standards and minimal divergence in the application of such standards, so as to ensure minimal disruption to trade. Administrative barriers to trade must be minimised through mutual recognition of standards and effective regulatory cooperation.

### **Conclusions**

Finally, it is in the interest of all parties to promote a strong and stable EU. The European food and drink industry is the envy of the world for its diversity, quality, innovation and competitiveness. Its reputation is built on the stability and flexibility it has enjoyed for decades within the Single Market. This has allowed producers to develop highly efficient and frictionless supply chains that ensure consistency of quality and food standards for consumers, fair treatment of EU ingredient suppliers and farmers and global competitiveness for the industry as a whole. The Brexit negotiations provide an important opportunity to secure an efficient and competitive food and drink industry, as the EU re-configures its relationship with the UK.

FoodDrinkEurope is ready and willing to work with the EU to contribute to the future negotiating process, to support the detailed planning activities needed for transition and the future arrangements, to ensure the best outcome for all parties, and to deliver a successful and forward-looking Europe that meets the needs of businesses and citizens.

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<sup>4</sup> Source : European Parliament

## EU 28

The EU food and drink industry is...

- the first manufacturing industry in the EU, leading in terms of turnover (15.6%), value added (13%) and employment (15.2%)

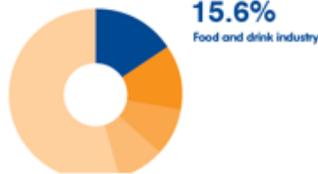
€1,090 billion  
turnover

€212 billion  
value added

4.25 million people  
direct employment

- the first food and drink industry worldwide

Share of turnover in the EU manufacturing industry (2013, %)



285,000 SMEs account for:

49.4%  
of food and drink  
turnover

48.1%  
of food and drink  
value added

62.8%  
of food and drink  
employment

99% of food and drink companies are SMEs

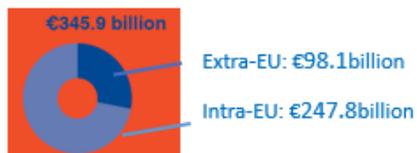
- the first exporter of food and drink products in the world

€98 billion  
value of exports to  
non-EU markets

€25 billion  
trade surplus

17.8%  
global export  
market share

Total EU28 food and drinks exports



## EU 27 <--> UK

EU27 trade with the UK

Products	Exports (€billion)	Imports (€billion)	Trade surplus (€billion)
Agri-food <sup>1</sup>	40	16	24
Food & drink <sup>2</sup>	32	13	19

The UK is the EU27 number 1 trade partner

EU27 -> UK €32 billion

That's twice the EU27 exports to the US and four times EU27 exports to China



Agri-food products: Top EU27 imports from the UK

Product	Imports (€million)
Beverages	3,128
Meat (mainly fresh beef, sheep and fowls)	1,476
Fish	1,422
Preparation of cereals, flour, starch and milk	1,398
Miscellaneous (food preparations, extracts of coffee and tea, condiments etc.)	1,303
Dairy products	1,199
<b>Total agri-food products</b>	<b>16,278</b>

Exports of food and drinks to the UK: Top 10 Member States

Member State	Share of MS total exports (%)	Exports to UK (€billion)	Rank of UK as export destination	Number of workers (1000)
Ireland	41	4.4	1	45
Cyprus	25	0.1	1	11
Denmark	11	1.5	2	61
France	11	4.7	2	593
Belgium	10	2.9	4	87
Netherlands	10	5.3	3	122
Poland	10	1.8	1	396
Italy	10	2.9	4	343
Germany	8	4.4	4	819
Greece	8	0.3	3	76

\* Including intra and extra EU

Top 5 traded food & drink products

	EU27 -> UK (€million)		UK -> EU27 (€million)
Wine	2,564	Spirits	1,958
Biscuits/pastries	1,925	Biscuits/pastries	775
Chocolate	1,812	Food preparations	616
Cheese	1,685	Chocolate	523
Poultry meat, fresh, chilled and frozen	1,468	Crustaceans	456

<sup>1</sup> 'Agri-food products' correspond to Chapters 1-23 of the Harmonised System

<sup>2</sup> Food & drink industry is defined by NACE rev.2 nomenclature, codes C10 (manufacture of food) and C11 (manufacture of drinks)