Brexit – business challenges and innovation solutions

12th June 2018

Overview

- Food Drink Ireland
- Ecosystem
- Trade flows
- Key issues for agri-food sector
- Ibec Brexit survey
- Brexit challenges -> innovation drivers
- Key asks for Agri-food sector
- Annex - [A guide for business]

About Food Drink Ireland

- **Main trade association for the food and drink industry in Ireland**
- **150 food and drink members – manufacturers and suppliers**
- **Part of Ibec**

The ecosystem

- Business expenditure on R&D
- SME absorption capability
- Brexit uncertainty – business planning impact
- R&D tax credits
- Horizon Europe

PCF Centre

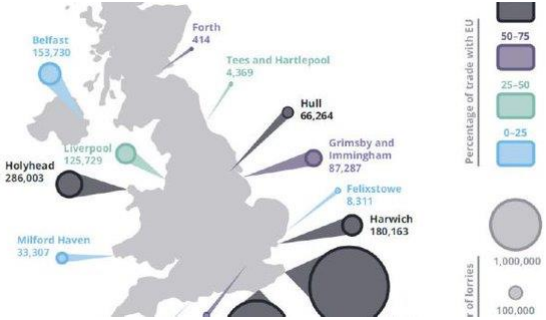
Irish food and drink trade flows

Irish Exports	€12.6bn (2017)	
Export Destination	UK	35% (€4.5bn)
	EU 26	33% (€4.1bn)
	Non-EU	32% (€4bn)

UK Exports to Ireland - £3.4bn (2016)

Route to market - 850,000 trucks travel by ferry between Ireland and Britain (45 % are perishable food and drink)

EU 27 / UK food and drink trade flows - €45bn



Sources: Bord Bia, FDF, Chamber of Shipping

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Key Issues for Agri-food

Sterling: impact of Brexit already being felt by businesses (-15% / increased volatility)

Tariffs: imposition of tariffs would completely undermine trade for many food products

Customs & Veterinary Controls: more costs, more details, threat to fresh food trade and just-in-time delivery

Regulatory Divergence: increased costs of processing, increased control checks, UK opening up to low-priced competitors

And wider Business Issues: supply chains, contracts, IT & data, workforce

Exchange rate impacts on demand – the Irish example

Previous exchange rates – 2009 example

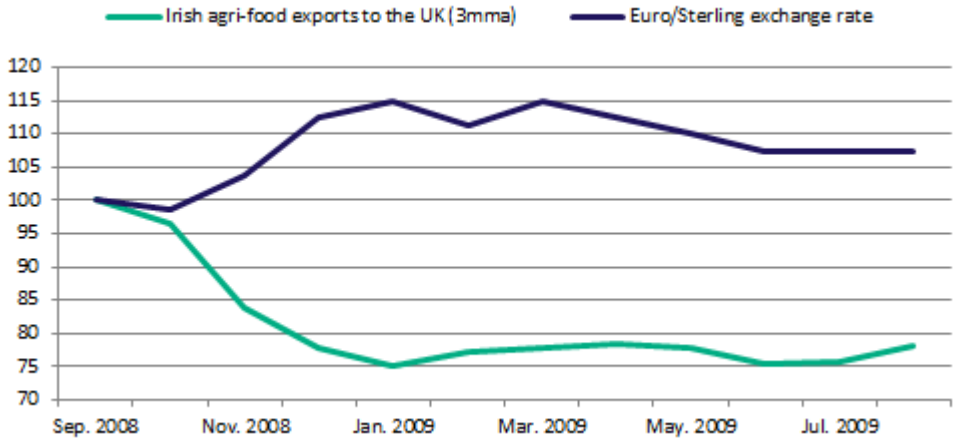
- €/£ exchange rate climbed by 15%
- Monthly Irish agri-food exports fell by 25%
- UK food retail sales fell by only 2.6%

Shock effect

- 1993, 2009, 2016/17

Analysis of the historical exchange rate and agri-food export relationship shows

- The tipping point for agri-food exports is 88p
- Every 1% weakening in Sterling results in a 0.7% drop in Irish exports to the UK



Source: FDI analysis utilising CSO data

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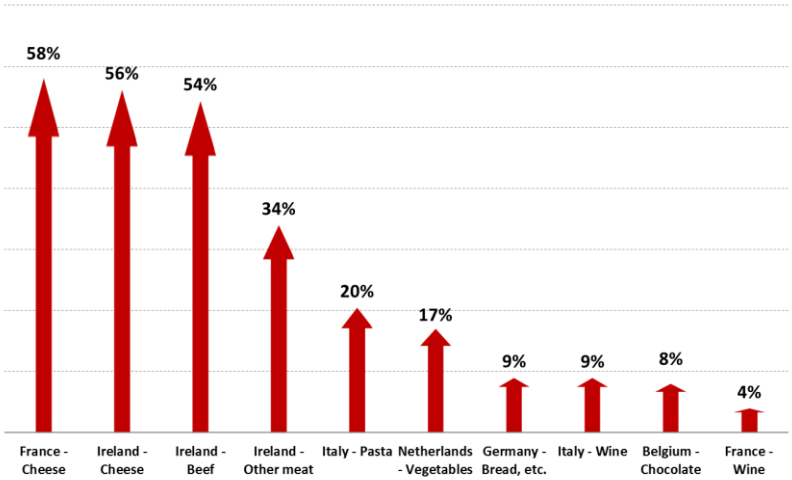
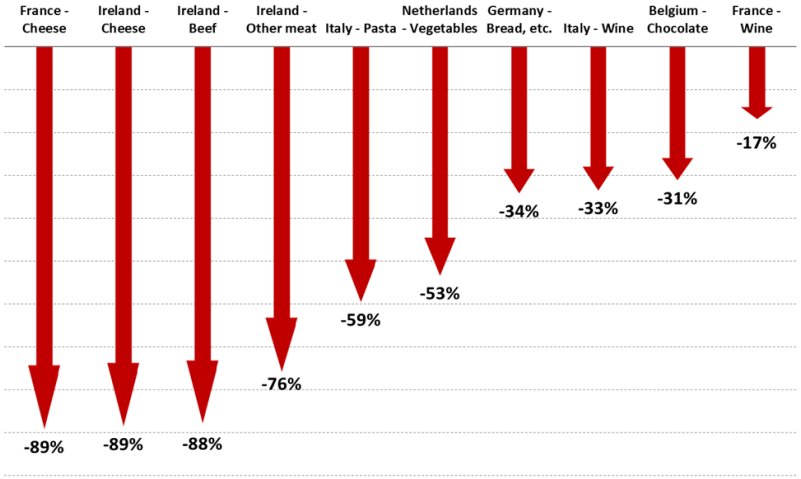
Trade / tariff impact - snapshot

WTO MFN tariffs could increase EU food and drink export prices to the UK significantly



Higher trade prices will therefore cause export volumes from the EU to the UK to drop significantly



Source: FTI for FoodDrinkEurope utilising EC commissioned research into 'trade price elasticities'

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Trade and Customs

Currently the UK:

- is a member of the single market
- is a member of the customs union
- applies the EU common external tariff and trade policy

If any, or all, of these things change there will be an impact on trade and customs

No 3rd country has a customs-free border with the EU

Food products, particularly those of animal origin face additional veterinary checks, as well as customs controls

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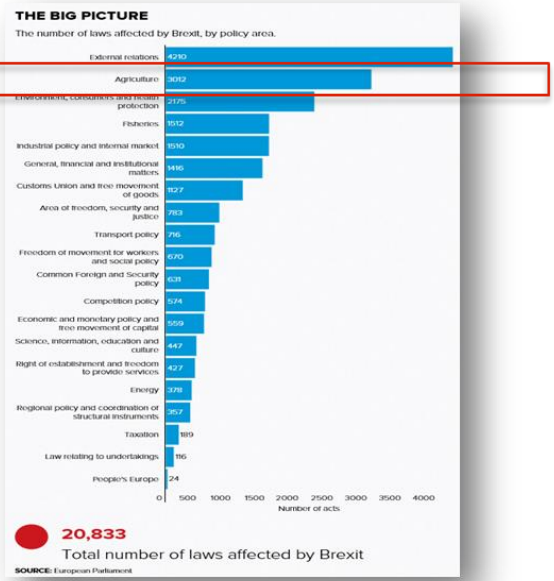
Regulatory divergence– challenges and solutions #1

Over 2,000 (EU) laws affecting agri-food!



EU Law

- Common Agricultural Policy (CAP)
- EU quality certification schemes (PDO, PGI, TSG, organic, etc.)
- General Food Law, incl. secondary legislation
- Official food and feed controls
- RASFF
- EFSA
- Applications (e.g. novel foods, health claims, food improvement agents)
- Consumer information

‘Soft’ policy (mixed competence)

- Nutrition and public health policy
- Audio-visual Media Services Directive (AVMSD)
- Unfair Commercial Practices (UCP) Directive

‘Emerging’ EU policy/regulatory fields

- Sustainability (food waste, packaging, animal welfare)

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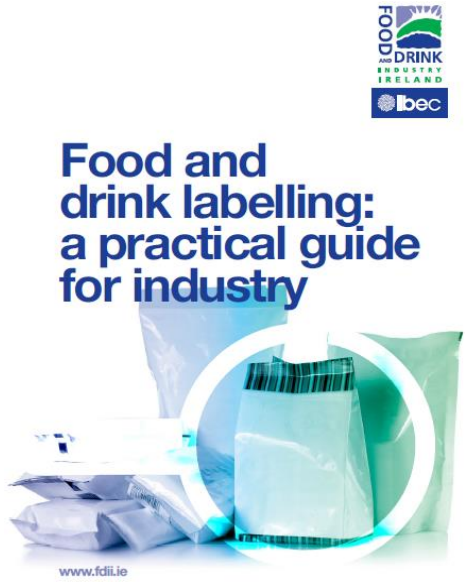
Regulatory divergence snapshot

7x increase in labelling budget to implement FIC Regulation

Higher changeover cost impact on private label producers



Three current examples of potential legislative change

- Renewable Energy Directive II – feedstock classification
- Packaging and Packaging Waste Directive – suggested change in the legal basis from internal market to environmental protection
- Fipronil – possible creation of a 'food safety officer' in each member state

And many many more ……..

More than 700 new EU laws have been introduced into the U.K. since the Brexit referendum, adding to the estimated 19,000 EU regulations, directives and other rules that are already part of U.K. law. If that rate continues, a further 1,260 European laws will have become applicable in the U.K. by the end of March 2019, when the U.K. leaves the EU.
Politico Brexit Files, 25th June 2017

Ibec Brexit survey – key findings for food and drink businesses

- 50% of food and drink companies said Brexit would have a negative impact on the value of export sales (an increase from 42% in summer 2016) compared with 28% of businesses generally
- In relation to island of Ireland impact, 89% expressed concern about increased custom and certification procedures (60% for all businesses) and 72% highlighted the risk to all-island supply chains, including rules of origin (43% for all businesses)
- 59% of food and drink companies had a hedging or pricing arrangement in place (an increase from 51.5% in summer 2016 when the previous Ibec Brexit survey was published) compared with 35% of businesses generally
- Customs procedures is seen by 66% of companies as the area where the greatest skills shortages are likely to occur. Logistics, distribution and supply chain management skills are the next most frequently cited areas

Ibec survey - the biggest impacts that the UK leaving the EU would have on food and drink businesses

- Cost of customs compliance with procedures with NI/GB (83% for food and drink compared with 45% for all business)
- Exchange rate movements (67% for food and drink compared with 47% for all business)
- Value of export sales (56% for food and drink compared with 29% for all business)
- Volume of export sales (50% for food and drink compared with 27% for all business)

Ibec survey - the most common elements of contingency plans for food and drink companies

- Focus on new geographical markets outside the UK (50% compared with 32% for all business)
- Diversification of business into new products (33% compared with 25% for all business)
- Alternatives to transit of goods through the UK (28% compared with 25% for all business)
- Sourcing strategies for materials (22% compared with 21% for all business)

Brexit challenges -> innovation drivers

- 15% currency impact on competitiveness
- No deal – tariffs and market disturbance
- Customs procedures
- Land-bridge / sea-bridge
- Regulatory divergence
- Contingency #1 – new markets
- Contingency #2 – new products
- Continency #3 – transit alternatives
- Contingency #4 – sourcing strategies

- Product innovation – to support a focus on new markets, regulatory divergence, longer supply chains, rules of origin constraints
- Process innovation – to support cost competitiveness, enabling technologies, state aid rules
- Skills – technical functions, innovation management
- Business process innovation
- Supply chain innovation

Brexit – Key Asks for Agri-food

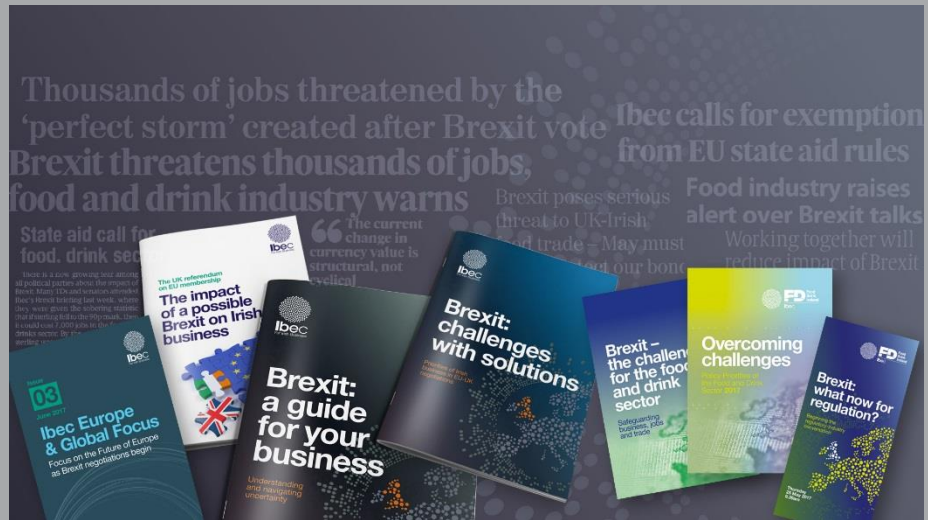
- **Transition Period**
  - Will take time to agree a future trading relationship
  - Companies need time to adapt to new arrangements
  - Certainty is needed – transition period which maintains as close to status-quo as possible
- **Future Trading Relationship**
  - Keep current arrangements in so far as is possible
  - Important considerations: Tariffs, Customs, Veterinary checks

- **Regulatory Convergence**
  - UK leaving Single Market = potential difference in standards
  - Need an equivalence agreement to ensure standards consistent (and avoid veterinary checks)
- **Other Support Measures**
  - Exceptional State Aid support, market access, investment in port facilities, simplified transit system and approved consignor/ consignee status

Thank You

www.fooddrinkireland.ie

Our Brexit resource page



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ANNEX

Brexit – a guide for your (food) business (operator)

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Brexit and your business: potential impacts

CURRENCY
Currency volatility and exchange rate uncertainty

SUPPLY CHAIN
Trade barriers and border controls

CONTRACTS
Legal uncertainties in the UK

FINANCE AND FUNDING
Harder to access finance and capital

WORKFORCE
Disrupting freedom of movement

TECHNOLOGY
Updates and adaptations required

REGULATION
Divergent standards and deregulation

TAX
Complexity of taxes relating to UK trade may increase

MARKET
Ease of market access and customer behaviours may change

OPERATING STRUCTURE
Current operating structures may no longer be viable

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“No regret” actions to manage Brexit

Contain

1. Give Brexit **Senior Leadership** Attention
2. Start the **discussion** across your organisation
3. **Communicate** widely and often
4. Build support **networks**

Assess

5. Assess the **Impact** of Brexit on your business
6. Sharpen your **strategies**
7. Find **opportunities**
8. Seek **advice**
9. Stay **informed**

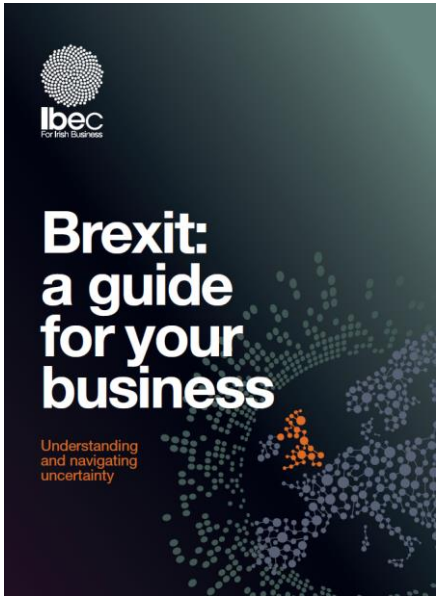
Position

10. Establish your **position**
11. Establish **channels**

Take Action

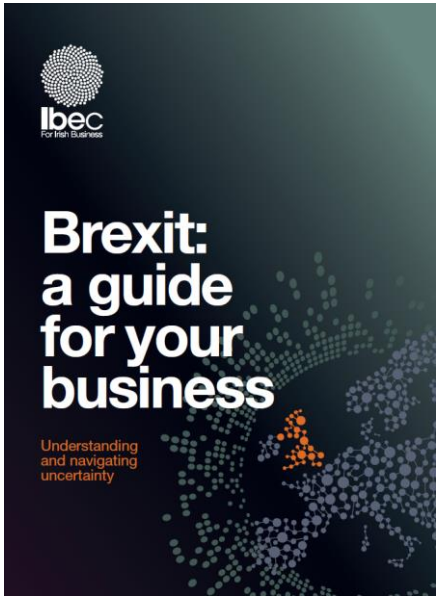
12. Build **contingency** plans
13. **Monitor** and prepare to act
14. Accelerate **strategy**

Assessing impact and planning your response – currency



Checklist question	DO NOW	PLAN AND BE READY
Do you buy or sell goods or services with the UK?	First, understand your level of exposure and protect yourself from short-term volatility: ■ **Identify areas of exposure.** Do you have areas of significant exposure to currency exchange? Look at your cost base and revenue streams. ■ **Stress test.** At what exchange rate does business become unviable? Run scenarios on different euro/sterling FX rates to identify where your threshold lies. ■ **Check your contracts.** Do they allow for currency-linked price adjustments? How might this impact your exposure? ■ **Hedging options.** What is your appetite for risk? Do you hedge to manage short-term currency risk? If you don't, then start talking to your financial advisor about options.	Identify your options for managing prolonged period of volatility: ■ **Explore natural hedging options.** Could you move operations in to the UK to service your UK customer base? Do you have UK-based suppliers servicing your UK customers that you could pay in sterling? Could you use UK sources for raw materials to counter-balance price pressure? ■ **Look to new markets.** Are you over-exposed to the UK market? Do you need to look for new markets to reduce your exposure? ■ **Innovate your cost base.** Are there innovations that you can make to reduce your cost base? For example, new digital channels to market, product re-engineering, etc.

Assessing impact and planning your response – supply chain



Checklist question	DO NOW	PLAN AND BE READY
Do you import or export goods and services to or from the UK? *Does your supply chain/ production flow across the border?* *Do you operate on an all-Ireland basis?* *Do you transit goods through the UK?* *Do you use the UK as a land-link to the rest of Europe?*	Understand how duties and border controls could affect your supply chain and overall competitiveness: ■ **Map goods:** Identify your flow of goods in and out of the UK today to understand the scale of your UK trade and the possible challenge points in your supply chains where new costs and processes may be required. ■ **Processing costs:** How would additional administrative burden impact costs? How would border controls impact lead times? ■ **Sensitivity:** How would trade barriers impact price and costs? How sensitive are your customers to price? How tight are your margins? Can you absorb some of the cost? How will time-sensitive deliveries be impacted?	Explore options for optimising your supply network for duties and border controls: ■ **Supply chain reconfiguration:** Could production capacity be moved to avoid customs? Are there alternative sources for raw materials? What alternative transport routes are available for goods currently being transported via the UK? Implement initiatives to improve logistics and increase flexibility (e.g. managed service, re-letting client's 3PL contracts to meet new network requirements) ■ **Assess network risk:** Assess your customer and supplier base. How is currency volatility impacting their business? Are they looking for or resisting price increases? Are they at risk and what does this mean for you? ■ **Plan for borders:** Identify what additional capability your business would need to put in place to support customs and start planning now: • Do you have in-house trade expertise needed to support cross-border trade? Are you familiar with import/export declarations? If not, then plan now to plug this gap. • Do you have a customs clearance agency authorised to certify and manage consignment across countries? If not, then plan the sourcing process now. • Do you have an alternative route to mainland Europe if there are transit barriers in the UK? Are your systems ready for border controls? How easily can they be reconfigured? How long will this take?

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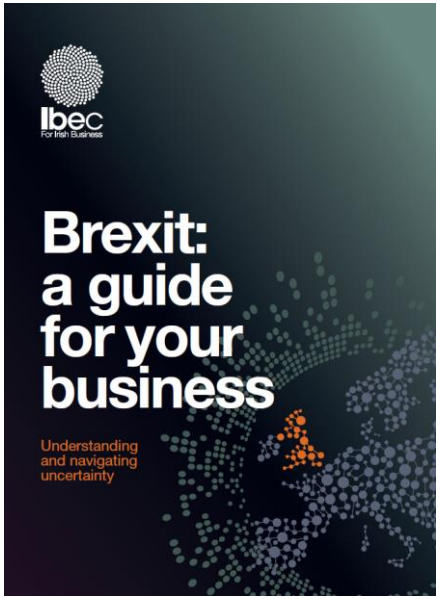
Assessing impact and planning your response – contracts



Checklist question	DO NOW	PLAN AND BE READY
Do you have commercial contracts with UK counter-parties or under UK law?	■ **Conduct contract audit:** Review commercial contracts, particularly those that run after 2019 and assess risk, for example: • Do contracts assume the UK is a member of the EU? • Does their ability to meet obligations assume free movement of goods, people, etc.? • Do contracts assume common regulatory regimes? • Do contracts allow for price increases in the event of tariffs?	■ **Mitigate Brexit risk:** Identify strategies to mitigate risk on future contracts, such as strengthening terms and conditions. ■ **Alternative jurisdiction:** Explore options for alternative contract jurisdictions for contracts currently under UK law with non-UK counterparties.

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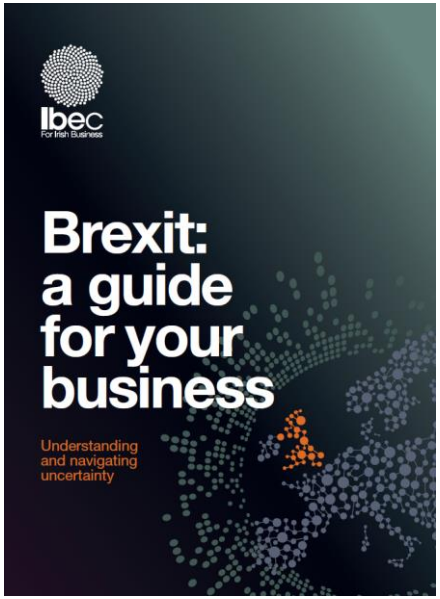
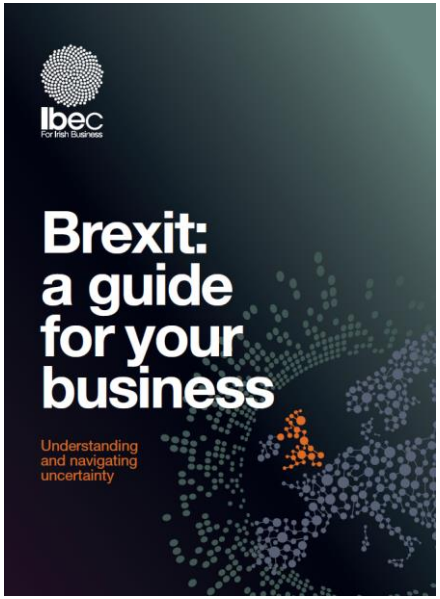
Assessing impact and planning your response – IT & data



Checklist question	DO NOW	PLAN AND BE READY
Do you transfer personal data between the EU and UK? *Does your business have data centres in the UK?* *Are your systems flexible to respond to trade barriers, etc.?*	■ **Audit systems:** Conduct a high-level evaluation of your system readiness in light of Brexit scenarios. Are your systems flexible enough to meet changes in border controls, travel restrictions, tax, legal entity, etc.? How significant an investment would you need to reconfigure or upgrade your systems? ■ **Assess data risk:** Look at where you host and use personal data. What implications would restrictions on transfers of data to and from the UK have on your ability to do business? What does this mean for your data infrastructure?	■ **Refresh investment plans:** Refresh your IT investment plans. Are there projects that should be delayed – or even expedited – while the outcome of a UK exit remains unclear? What are the lead times on critical system changes that may be needed? Do you have budgets in place or approved in principle? Are there changes that you can't afford to "wait and see" on? ■ **Update your IT Strategy:** Organisations with robust, flexible IT systems and infrastructure will, by definition, be quicker and better enabled to respond to Brexit impacts and wider digital disruption. Is now the time to move your business to the cloud, or restructure your IT functions to be more agile?

Assessing impact and planning your response – workforce



Checklist question	DO NOW	PLAN AND BE READY
Do you have workforce in the UK? *Is your business model dependent upon flexible allocation of resources across borders?*	■ **Assess impact:** Assess the impact of restrictions on the movement of people on your operations and workforce: • Do you have staff in the UK that could be impacted by visa restrictions? Engage your suppliers to audit the current state of your contingent workforce. • How would restrictions on allocating resources across borders impact your business model and ability to deliver service? • How would restrictions on immigration and longer lead times on sourcing talent impact operations in the UK? • Should recruitment plans be delayed or changed due to the uncertainty caused by Brexit plans? ■ **Communicate with employees:** Start to communicate with staff and management. Give reassurance that you are on the front foot with Brexit.	■ **Reduce your exposure:** For UK operations, review your long-term workforce planning and assess dependency on non-UK workers. Explore outsourcing opportunities or labour arbitrage. ■ **Plan for movement restrictions:** If your business depends on flexible allocation of resources across borders, then evaluate alternate options for service delivery. ■ **Plan to fill skills gaps:** Are you missing skills in areas that may be required post-exit, e.g. customs and trade expertise? Where might there be future over-demand for scarce talent as a result of Brexit? Plan how you are going to fill critical gaps. ■ **Opportunistically attract talent:** Does the uncertainty caused by Brexit provide an opportunity to attract non-UK nationals to address the skills gaps that you have today? ■ **Communicate frequently:** Monitor implications for employees as information emerges. Keep staff informed; maintain a two-way flow of communication.