



PLANNING FOR BREXIT

Mapping Out the Issues, Developing Your Strategy and Creating Your Plan of Action

HOW TO PROTECT YOUR BRAND AND SEIZE THE OPPORTUNITY TO GAIN COMPETITIVE ADVANTAGE

Brexit “(the withdrawal of the United Kingdom from the European Union)” will have a far-reaching effect on food and drink businesses, potentially impacting the products you sell, the ingredients you source, the people who deliver your brand (in the outlet/factory and behind the scenes), the prices you charge and the way you must describe your products to customers.

Between now and March 2019, when Brexit becomes official, there is only a small window of time in which to plan. Far from horizon scanning for Brexit, it is on our doorstep, right now. Businesses need to start preparing, because in just over a year’s time, whether the government opts for a ‘hard’ or ‘soft’ Brexit, the trading and sourcing situation could change with very little notice.

Businesses that are prepared will be able to position themselves advantageously relative to their competitors. What is the bottom line in terms of managing your safety risks and protecting your brand from disrupted supply and other potentially damaging reputational issues? NSF strongly recommends that, if you do nothing else, you:

- > Secure your supply arrangements: Map your supply chain, know your sources and your vulnerabilities, and act accordingly to protect your position
- > Identify and protect your core brand values, especially the ones that matter to your customers, who will need reassurance about the integrity and provenance of the brands they purchase

Why? Read on to find out the main issues and key impacts of Brexit.



THE CURRENT STATUS

For many businesses, the challenge of Brexit is that while we have identified most of the variable factors, we don’t know how these ‘known unknowns’ will work out. It will depend on the deal the UK reaches with the EU and the trade agreements with territories outside the EU. The exit date is March 2019. A further transition period following this timeframe – potentially a helpful period of stability for business – has been proposed but a decision on this is one of the many issues still up in the air and causing more uncertainty.

The Great Repeal Bill passed its second reading on 11 September, 2017. It will repeal the European Communities Act 1972 (which originally incorporated EU legislation into the domestic law of the United Kingdom) and transfer the entirety of EU law for the past 40 years directly onto the UK statute book. This wholesale adoption has been done in order to allow an



orderly Brexit and will come into effect on day one of Brexit. It is planned that UK legislators can modify these laws post-Brexit as necessary, without seeking further parliamentary approval.

As the EU accounts for 70 percent of UK food exports, in many ways it makes sense to continue with the current legislation and avoid the costs of change, for example what would be involved in changing nutritional labelling that has only recently come into force.

However, many of the food regulations that will henceforth be enshrined in UK law are governed by EU institutions, and therefore the UK institutions – including the Department for Environment, Food & Rural Affairs (Defra), the Food Standards Agency (FSA) and the Advertising Standards Authority (ASA) – will have to step up with increased powers in an environment where they are already seriously challenged by budget and resource restrictions. Equally challenged are food law enforcement and trading standards policing bodies who will in the future potentially have greater workloads because of increased labelling from countries outside the EU. Previously these were dealt with by EU border checks. In future, this will be the UK's responsibility.

The UK FSA will continue to follow the lead of the European Food Standards Authority (EFSA), for example on the evaluation of technical dossiers, making rules around issues like health claims, safety of novel ingredients, GM, etc, while UK scientific and research associations have pledged to continue working closely with their European counterparts. Security and policing systems will also continue to collaborate across borders. These issues are European-wide, rather than strictly EU-related.

The main issues focus on food safety and quality, supply chain, labour and trade, each of which is discussed in more detail below.

Food Safety And Quality

The heart of the issue is that the potential need, indeed opportunity, to source from countries outside the EU is accompanied by the risks of trading with less well-known quantities, often in less developed countries where standards of safety, hygiene and welfare may be lower. The ability to continue delivering your brand and your brand values to your customers is clearly of utmost importance, as is protecting the business and brand from crises that could include fraud, contamination, product quality and disease, animal welfare and ethical employment.

CONSUMER

UK consumers are already taking a keen and growing interest in the sources of their food – they want to know its provenance: where it comes from, that is safe to eat and that it has been produced ethically. This trend will undoubtedly sharpen when it becomes known where our future trading priorities will lie. Consumers will be increasingly scrutinising packaging, product descriptions and menus to understand the sources.

UK SOURCING

The leading UK supermarkets are pledging to source more from the UK. A report commissioned by Morrisons early in 2017 stated that only 52 percent of food eaten in the UK comes from British farmers. Although it makes sense to be less reliant on the global food market and to protect consumers from international price rises, it is not practically feasible to make the UK self-sufficient in food. However, the opposite may also be true – that it is access to international markets that keeps prices low for UK consumers and affords them greater choice.

Of course, sourcing locally is a big consumer passion these days, driven by the desire to support local producers and the local economy and by the belief that UK production values are higher. A survey of shoppers carried out by the Institute of Grocery Distribution (IGD)





in December 2016 reported that 75 percent would prefer to buy British food and drink, although only about 30 percent would be willing to pay for it.

The approach of individual businesses to the opportunities presented by sourcing from the UK will naturally depend on their market positioning and brand values.

GOVERNMENT POLICY

There are diverging opinions within government as to the UK's position on food safety vis-à-vis new trading partners outside the EU, with one party insistent on upholding our current world-leading standards, while another supports the opportunities to compete more effectively by relaxing standards in certain areas, for example adopting the New Zealand model for farmers which permits them to work to lower standards for export. Another example is the acceptance of chlorinated chicken from the USA. The UK accepts that this is not a health risk but an issue of consumer choice and therefore is an ethical dilemma and labelling issue.

REQUIREMENT FOR ROBUST FOOD SAFETY POLICIES

High standards of food safety are a key differentiating factor for UK businesses. Therefore it is all the more important that businesses have a clear and robust food safety policy that is evidenced, meets customer requirements and is able to withstand external scrutiny, be it from consumers, stakeholders or the media.

REGULATION

Notwithstanding the wholesale adoption of the current EU-led regulations into UK law, the FSA has estimated that there are at least 6000 pages of legislation for food safety to consider over time and possibly redraft, if deemed necessary or desirable. In this context, the industry has the opportunity, and indeed, the responsibility, to stand up and fight for the legislation that it wants to see. The EC is often accused of gold-plating and unnecessary restrictions – this is a unique opportunity for change. It is also important to consider that the EU will continue to develop and shape its own legislation going forward without UK involvement and there will be potentially be a gap between its requirements and the UK legislation which in the short term may create export challenges for EU producers and processors, e.g. new veterinary medicine residues in products.

The role of EFSA will change for the UK, with the FSA taking on some of its work in the UK. As already mentioned it is likely that the UK will continue to recognise EFSA and accept its findings, for example on the evaluation of technical dossiers, making rules around issues like health claims, safety of novel ingredients, GM, etc.

On the issue of labelling, the consumer association Which? thinks that no fundamental changes to labelling are needed, although it would like to see more clarification on health and nutrition claims regulation. There is however a trust issue: With enforcement authorities already under strain, how can consumers be sure that they can trust the information on labelling?

The **FSA's Regulating Our Future** (ROF) strategy is not directly related to Brexit. However, it provides further impetus for businesses to develop coherent corporate food safety policies and processes. The intention is that once implemented businesses that can provide evidence of this and meet other defined criteria will be relieved of the burden of local authority environmental health inspections. For more information or assistance on meeting the ROF requirements, contactUK@nsf.org.



Supply Chain

Many businesses may be forced to look at new sources of supply for products and ingredients because current EU sources may no longer be economically viable. Alternatively, new sources of supply which present themselves may offer cheaper or even better quality options.

DUE DILIGENCE AND RESPONSIBLE SOURCING

Changing suppliers, in whatever circumstances, carries with it the attendant risks to stability of supply and the need for product quality assurance and clarity over ethical, environmental, quality, social and animal welfare aspects. Having visibility of the new supply chain, understanding the product origin and being able to trust the supplier and their methods is essential.

PRODUCT TRACEABILITY

Consumers are increasingly seeking reassurance as to the authenticity and provenance of their food. This will be even more important when food is being sourced from less well-known and trusted territories. Traceability systems, ranging from specialist inspection from retail right back to farm, through to RFID and block chain technology, can now offer sophisticated methods to evidence provenance to customers and stakeholders. In businesses with exposures to higher-risk products such as meat, heightened levels of traceability will be a key brand protection.

BUSINESS RESILIENCE

A certain amount of disruption in supply networks following Brexit is to be expected. Many businesses will be searching for raw ingredients in the same new pools and effectively competing with each other. Those

that have prepared and researched alternative sources, ready to move when the opportunity arises, will be at an advantage compared to those who are slower off the mark. With supply issues being compounded by the possible effects of climate change or political or military instability, having alternative sources will help ensure continuity and security of supply.

SUPPLY CHAIN AS A STRATEGIC ASSET

Having a secure, stable and trusted supply chain is a key asset in being able to deliver your products and your brand values to your customers. As this becomes better understood, more advanced businesses are now focusing more strongly on the role that their supply chain plays in fulfilling their customer requirements, and giving a higher priority to this valuable asset.

Labour

This is one of the most prominent and potentially vexing aspects of Brexit. The importance of foreign labour from the EU is recognised across the agriculture, manufacturing and retail, hospitality and leisure sectors. It is likely that measures will be put in place to ensure, at least to a certain extent, the supply of labour in seasonal and essential work. However the prospect of an end to total freedom of movement within the EU is already having an effect on the willingness of workers to come to the UK.

In July a survey of labour provider businesses supplying the food and agriculture sectors, conducted by the Association of Labour Providers¹ highlighted major concerns among recruiters that they will be unable to source enough workers in the coming months, with the quality of workers also slipping. Some 48 per cent of labour providers said they had already seen a decrease in labour supply, with half saying the quality of workers was worse than it was 12 months before. Only one in ten reported that quality had improved. Looking ahead, 30 per cent did not expect to be able to source enough workers for the remainder of this year's peak summer season – up from 21 per cent in February – and 45 per cent doubted they will be able to supply sufficient labour for the upcoming Christmas period.

The government is well behind the curve on this, having only just commissioned a study of the UK's reliance on an EU



workforce, which will not even report until September 2018. Depending on region, EU workers make up between 70 and 100 percent of workers supplied by labour providers, the remainder being British nationals and migrants from non-EU countries that have been given right of residence in the UK¹.

Since the Brexit vote, net immigration has fallen, mainly due to 25,000 fewer Poles and other Eastern European citizens coming to the UK to work and 16,000 leaving. With the fall in the value of the pound sterling, lower unemployment rates and improved quality of life in their own countries, combined with competition for workers from other EU countries, notably Germany, the UK is no longer such an attractive proposition. The National Farmers' Union (NFU) reported the number of seasonal workers coming to the UK has fallen 17 percent this year and that there were more than 1500 unfilled vacancies on British farms in May alone. The Association of Labour Providers (ALP), whose members mainly employ low-skilled and semi-skilled workers, submitted a paper to the Environment, Food and Rural Affairs Committee (EFRA)

Feeding the nation: labour constraints inquiry,

stating that nearly one quarter of labour providers did not expect to be able to source and supply sufficient workers for summer 2017, and that nearly half have had to increase wages to attract workers. ALP also reports that in coming seasons there is likely to be a labour shortfall to meet the summer and Christmas peaks.

MAINTAINING A STABLE WORKFORCE

The options to secure your workforce fall into three areas: retaining current workers, seeking alternative sources of labour from both within and outside the EU, and/or proactively turning to more automated processes where possible.

WORKER INCENTIVISATION

With a limited labour resource available in the UK, businesses that incentivise and motivate their workforce through pay, conditions, training and development are likely to attract and retain staff more readily than competitors who do not. Whether this will also help to attract UK workers to the jobs that are deemed less desirable, such as agricultural field work, is questionable.

Since the referendum result there has been a rise in openly expressed anti-migrant sentiment, from shopfloor banter up to and including hate crime; negative briefings by certain EU states' media to their

citizens regarding working in the UK and a delay in the commitment to EU workers currently in the UK due to UK/EU exit negotiations. These all combine to create uncertainty regarding future employment opportunities and a feeling amongst EU nationals that they are not welcome in the UK anymore².

Businesses would do well to ensure that their policies and company culture minimise the risks to their staff and recognise their value to the business. Companies that have a good reputation in this area will of course be more attractive to workers.

MODERN SLAVERY

Complying with the Modern Slavery Act 2015 and publishing a modern slavery statement is now a requirement for all businesses with a total turnover of £36 million or more³. Despite the work of the Gangmasters' Licensing Authority, instances of trafficking and slavery are still occurring in the UK. It is quite possible that with shortages of legitimate workers, the incentives for criminals will grow and the phenomenon will increase. It is essential for businesses to be aware of the problem and take proactive steps to guard against it in their business and supply chain.

LABOUR IN THE SUPPLY CHAIN

Responsible sourcing encompasses the need to recognise the treatment of workers in supply chains. As discussed above, sourcing from new territories requires extra due diligence in this key aspect of stakeholder reassurance.

AUTOMATION

The capital costs of automated or robotic systems are often prohibitive to all but the largest companies as return on investment is difficult to justify in small to medium size companies that operate on slim margins. For example soft fruit automation has been estimated to be up to 10 years away. However, as demand grows, prices will come down and it is likely that the government will increase incentives that encourage technological development and competitive effectiveness, especially in the agribusiness sector. This will also bring with it new employment and training needs and other potential issues such as health and safety, product safety (e.g. contamination) and quality, and consumer acceptance. Businesses must be prepared to carry out detailed risk assessments if considering such a move.



Trade

Food and soft drinks is the largest manufacturing sector in the UK and 4th largest in the world. The UK food supply chain represents 6.8 percent of gross value added (around £107 billion) and 4 million jobs with around 500,000 people in farming and fishing and over 400,000 people in food manufacturing. The UK is not self-sufficient in food production; it imports 48% of the total food consumed and the proportion is rising. Therefore, as a food-trading nation, the UK relies on both imports and a thriving agricultural sector to feed itself and drive economic growth⁴.

We imported 27 percent of our food from the EU in 2014 and 20 percent from the rest of the world. Fruit, vegetables and meat represent the highest proportion of imports⁵.

FOOD SECURITY

Seventy percent of the UK's imported food comes from other EU countries. The UK is only 40 to 60 percent self-sufficient (depending on the sector) and to date the government has not come forward with any plans to make the country more food secure.

When border controls are re-established, the impact of potential delays at borders will be expensive for businesses, and will probably lead to price increases and product shortages. It may even lead to changes in UK dietary habits as so much of its current imported food is fresh, with a short shelf life. The just-in-time food model operated by many importing companies will be affected by lack of free trade, no doubt with cost consequences.

EXPORTS UNDER NEW TRADE AGREEMENTS

The prospect of new trade agreements offers opportunities in terms of new export markets for UK businesses. The challenges here will be differing consumer tastes and different food safety standards and regulations for the legality of packaging, labelling, etc. Understanding the legislation in potential export markets is an essential first step. Exports to new and different territories will inevitably involve a further level of complexity in production and packaging processes.

PRODUCT REFORMULATION

Reformulation may be necessary in order to meet requirements for different permitted ingredients and additives, or desirable in order to take advantage of laxer legislation. A review of your product specifications should take place in conjunction with reviewing the legislative requirements of a new market.

PRODUCT DESCRIPTIONS AND LABELLING

Businesses must be aware of the local regulatory requirements, which can involve some very specific aspects of ingredients and production.

If new trade agreements lead to a laxer attitude to allow foodstuffs of lower standards than previously accepted by the EU, clear labelling regulations will help play a role in creating UK consumer awareness of food processing, for example labelling for chlorinated washes where no health risk has been identified, such as for bagged salads already on sale in the UK. Hormone treated beef as sold in the U.S. is however deemed a health risk in the EU and it remains to be seen if its sale would be allowed in the UK.

The situation may present an opportunity for UK businesses to differentiate their products through new labelling, for example around environmental impact for CO2 footprint, biodiversity or biodegradable packaging.

However businesses must be aware that divergence in labelling and packaging creates trading costs and therefore risks, in terms of creating non-tariff barriers to trade with other regions.

TARIFFS

How tariffs will be worked out and applied in the EU and in specific trade agreements with other territories is an unknown. However, it is known that application of World Trade Organization (WTO) rules in the absence of an agreed deal would be a complex, costly and anti-competitive process for many businesses, involving individual tariff calculations on every separate ingredient of a product. There is a growing groundswell of industry objections to this happening. Every business can have its say and the trade associations are providing leadership on this.



RECOMMENDATIONS: HOW TO PREPARE

If you haven't already, it's vital to start preparing now.

1. Set up a Brexit 'forum' or core working group. This should be cross-functional and include representatives from operations, legal, technical, procurement, supply chain, HR and marketing.
2. Map out the potential opportunities and desirable outcomes for your business. This will provide you with some outline goals to work toward, which can be firmed up into strategy as the situation becomes clearer.
3. Understand clearly the dynamic between your customers and your brand. What are critical touch points of your offer and your delivery, and how is your food safety, quality and supply chain implicated in this?
4. Map out your vulnerabilities comprehensively, so that you are ready to act when necessary. These may include:
 - Product/ingredient exposures: Critical areas to protect and high-risk products in terms of fraud, scarcity of resource or price competition. Know where you would not want to source product from.
 - Labour sources: How exposed is your workforce in terms of percentage of EU or other workers? Understand your employee origins, staff turnover, and recruitment and training practices.
5. Review your food safety policies and practices. Are these robust and how do they match up to the new ROF requirements?
6. Review your product traceability practices and understand how transferable these would be to new sources in order to maintain full traceability in longer and more complex supply chains.
7. Review your supply chain visibility and performance monitoring practices. How will these stand up to/ transfer to new sources of supply? What minimum standards will you expect of new suppliers and how would you implement these?
8. Think about methods to make your business more resilient to worker shortages through retention, recruitment and job replacement.
9. Undertake methodical preliminary research on potential new markets for your products or services.
10. Take the opportunity now, as soon as possible, to lobby for the legislative changes you want to see – where are current regulations unduly restrictive or unnecessary? Are there other measures you'd like to see adopted?

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Sources:

¹ <http://labourproviders.org.uk/>

² <http://labourproviders.org.uk/wp-content/uploads/2017/07/Addressing-UK-Labour-Constraints-National-policy-options-pre-and-post-EU-Exit-ALP-Position-Paper-July-2017.pdf>

³ <https://www.out-law.com/en/topics/commercial/supply-chain-management/company-disclosure-requirements-under-the-2015-modern-slavery-act/>;

⁴ <https://www.foodsecurity.ac.uk/challenge/uk-threat/>

⁵ UK Department for Environment, Food & Rural Affairs

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