

Brexit and the Food and Beverage Industry





Welcome and introduction

Webinar hosts

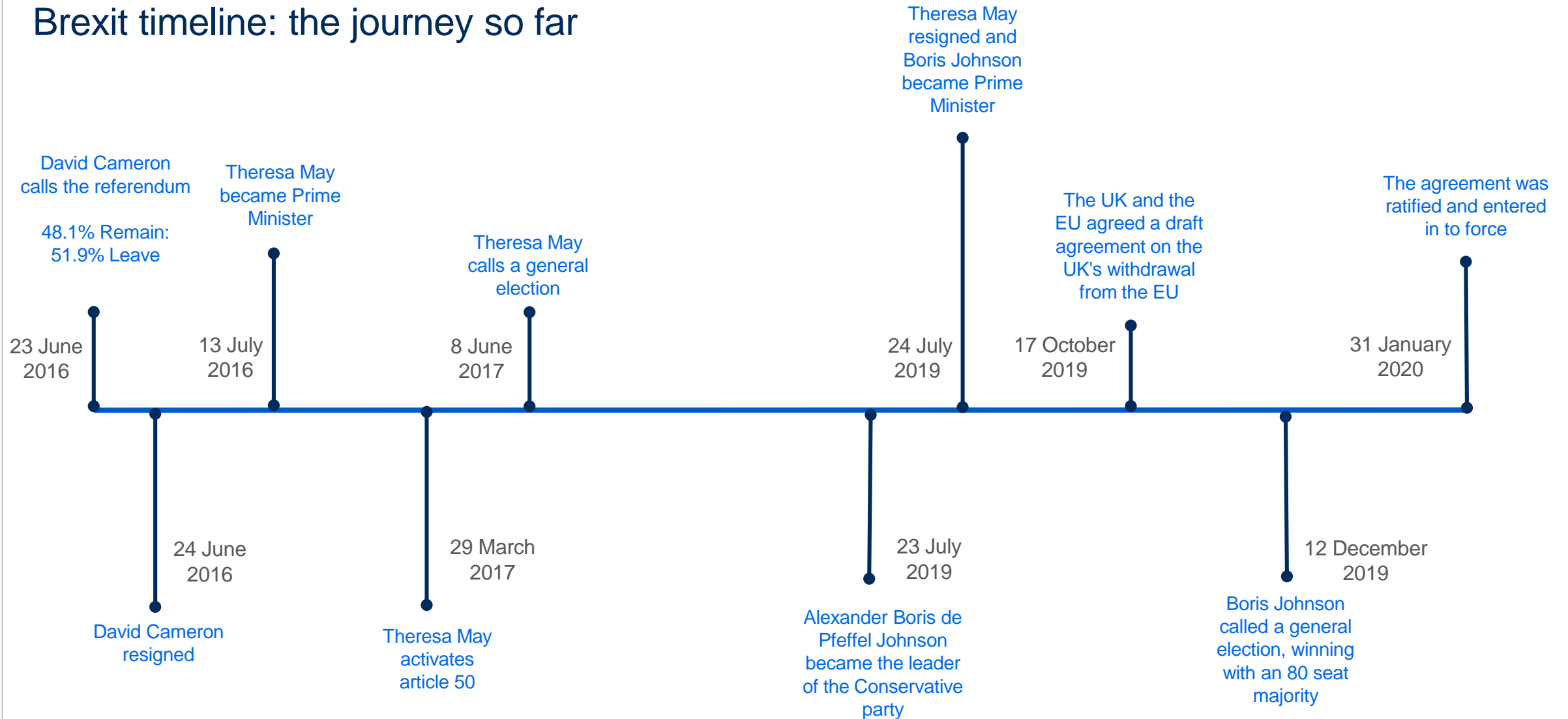
Oliver Leedam, Regulatory Consultant and
Jenny Arthur, Head of Membership



Agenda

- 1 The journey so far
- 2 What happens next: our perspective on potential changes in UK regulation
- 3 Challenges and opportunities from different perspectives
- 4 Conclusions
- 5 Recommendations
- 6 Q&A

Brexit timeline: the journey so far



What happens next?

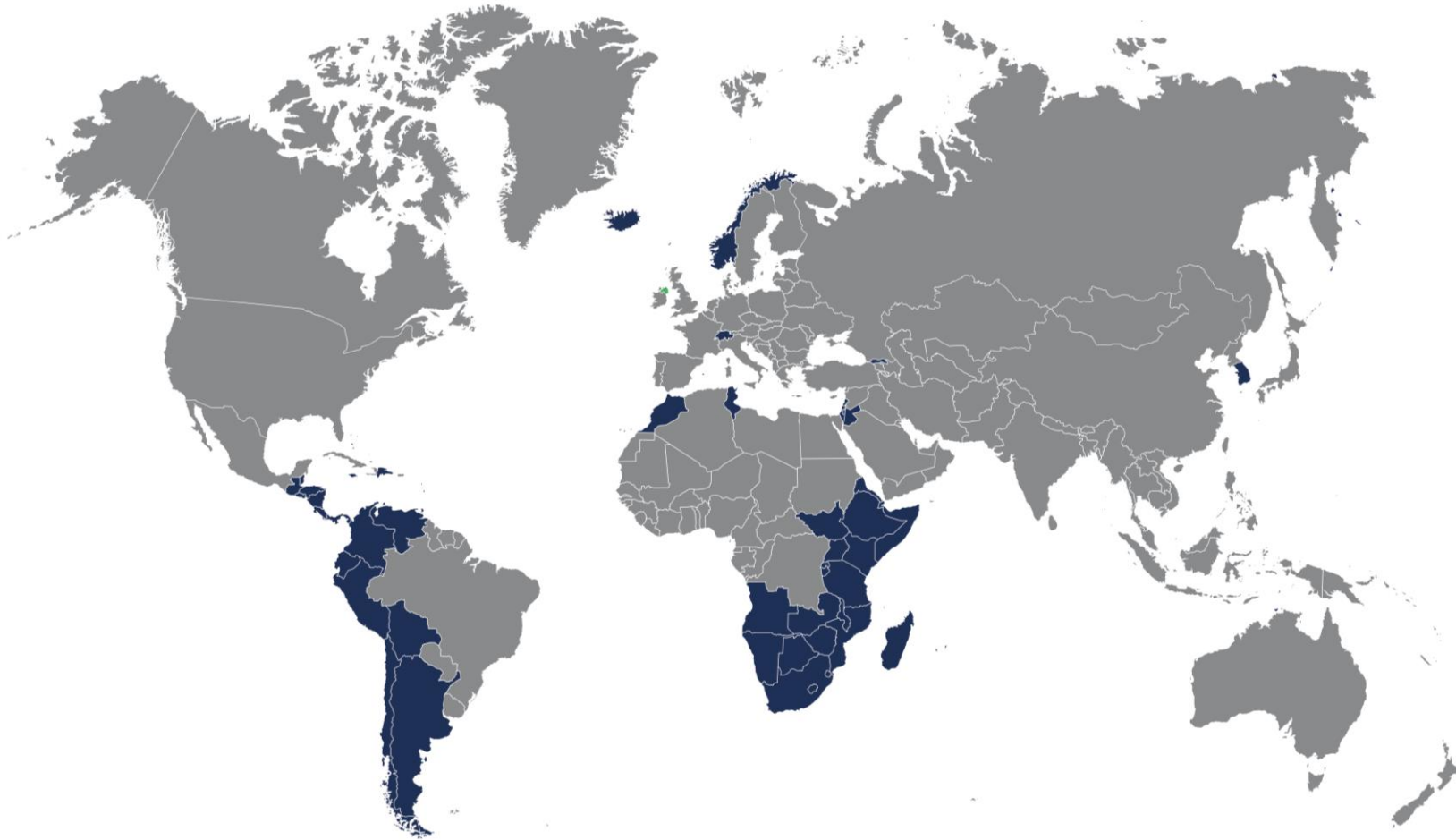




“Trade deals in the short time available need to be prioritised on the market share”

Sajid Javid

Trade deals achieved so far:



Key: ● Trade deals achieved in 2018

TOTAL: £210,185bn

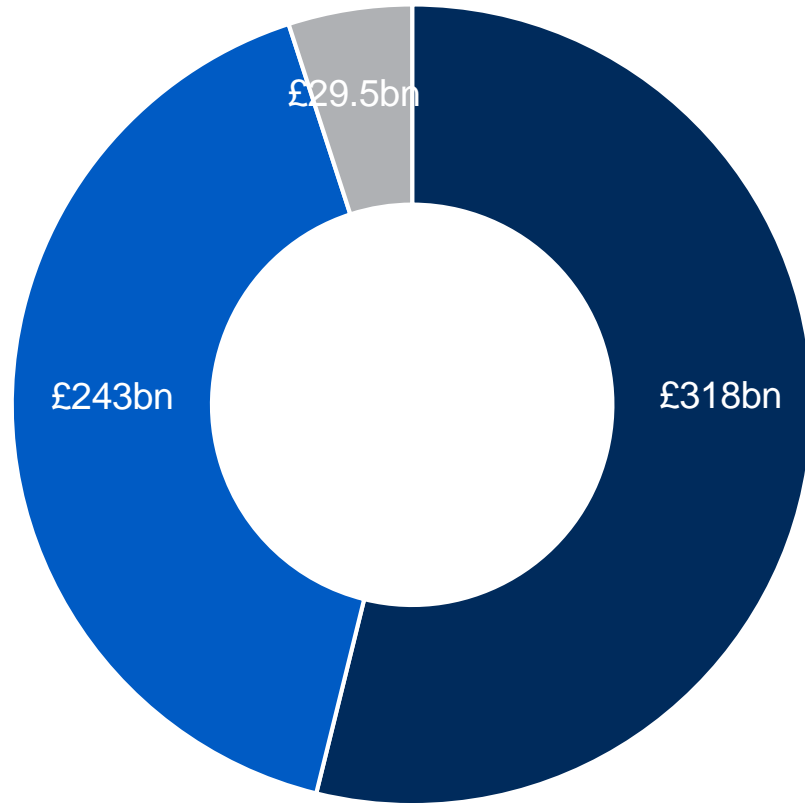
Switzerland: £32.4bn
Norway and Iceland: £30.6bn
South Korea: £14.8bn
Southern African nations : £10.2bn
Israel: £4.2bn
Caribbean countries: £3.7bn
Andean countries: £3.4bn
Morocco: £2.5bn
Eastern and Southern Africa: £2bn
Chile: £2bn
Central America: £1.1bn
Lebanon: £762m
Tunisia : £542m
Jordan: £448m
The Faroe Islands: £252m
Pacific Islands: £163m
Liechtenstein: £146m
Georgia : £123m
Palestinian Authority: £41m
Kosovo: £8m

The EU trade deal will be prioritised

How much does the UK trade with the EU and the rest of the world?

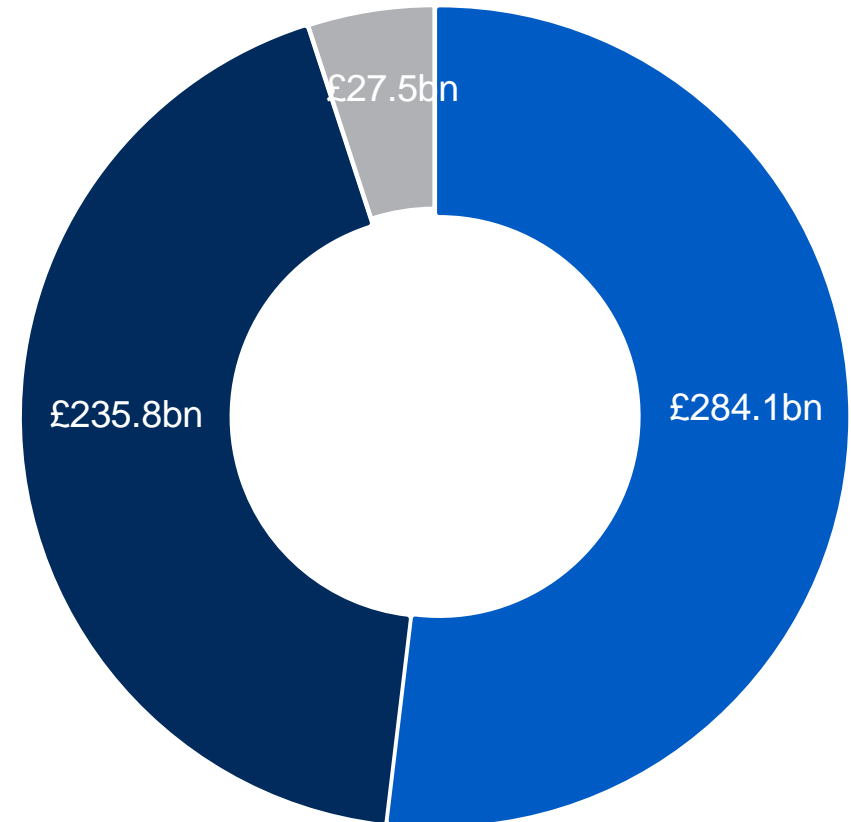
UK Imports 2016

Total Imports: £590.5 billion



UK Exports 2016

Total Exports: £547.5 billion



Key: ● Rest of the world ● EU ● European free trade association

Current negotiating stance: EU and UK



"We will go as far as we can, but the truth is that our partnership cannot and will not be the same as before and it cannot and will not be as close as before because with every choice comes a consequences with every decision comes a trade off."

Ursula von der Leyen
President of the European Commission

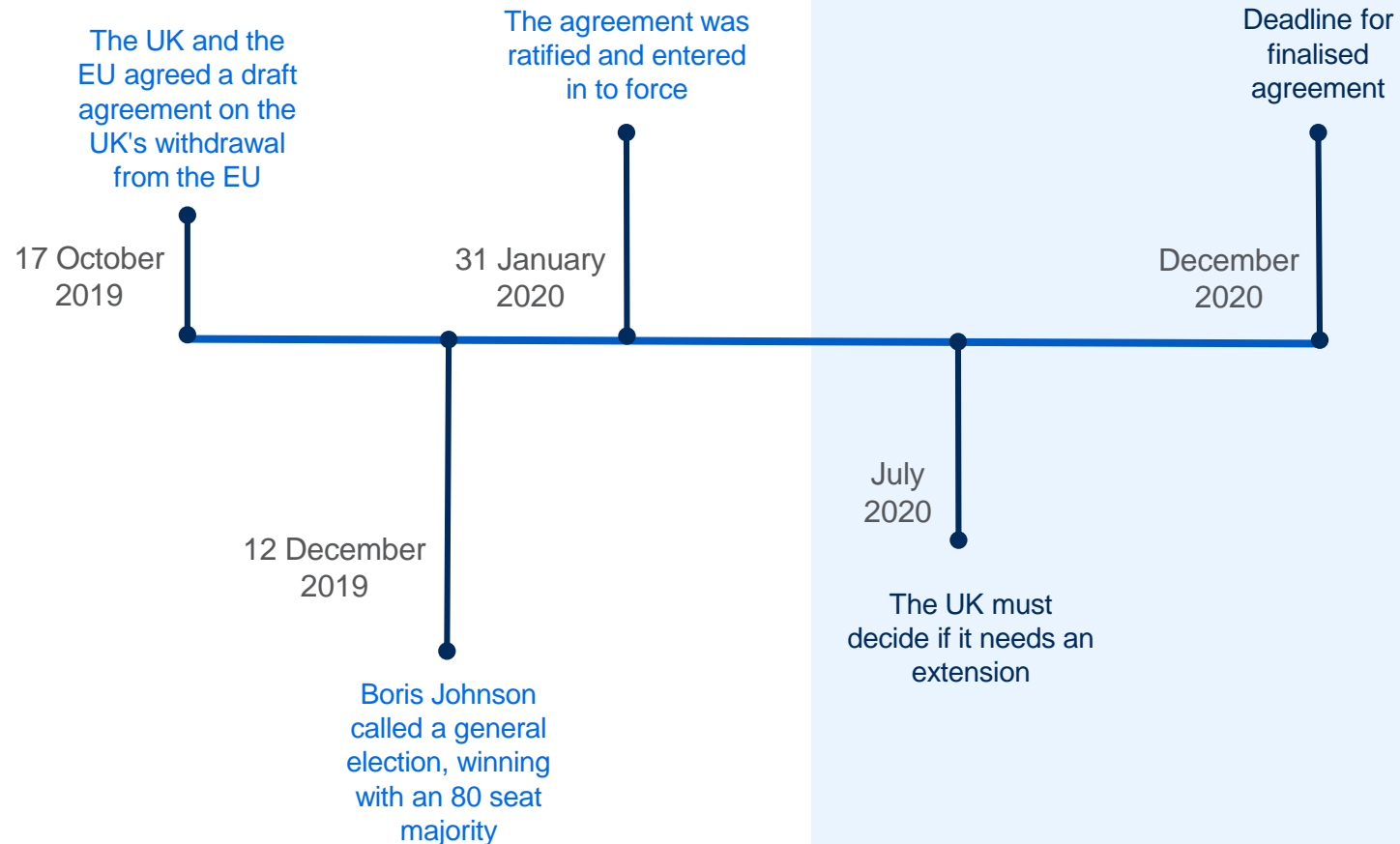


"We have made our choice - we want a free trade agreement, similar to Canada's but in the very unlikely event that we do not succeed, then our trade will have to be based on our existing Withdrawal Agreement with the EU."
[World Trade Organization (WTO) terms]

Boris Johnson
British Prime Minister



Timeline for EU negotiations



A non-member of the EU that does not live up to the same obligations as a member cannot have the same rights and enjoy the same benefits as a member;

Ursula von der Leyen warned it would be 'impossible' to reach a comprehensive trade deal by the end of 2020.



A potential fall-back: The World Trade Organisation (WTO)

- The UK remains a member of the WTO
- Should a deal not be agreed, the UK would default to WTO terms as per the schedule submitted on 24 July 2018, despite 20 countries objecting.
- The WTO doesn't only deal with tariffs but also in conjunction with the Codex Alimentarius non-tariff barriers to trade.



“Let’s liberate the UK’s extraordinary bioscience sector from anti-GM rules. Let’s develop the blight-resistant crops that will feed the world.”

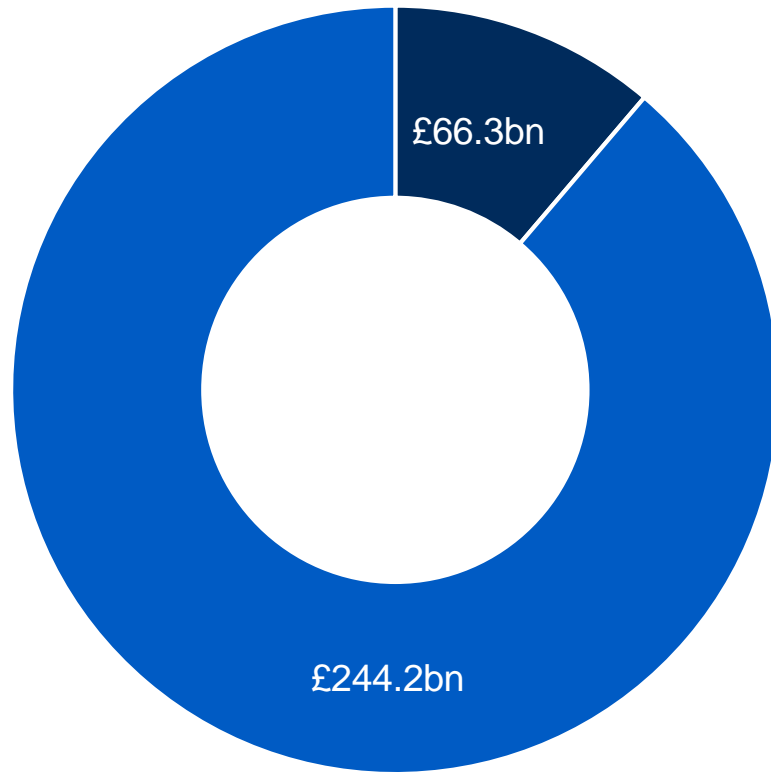
PM Boris Johnson

The US is our most significant single country trading partner

How much does the UK trade with the US and the rest of the world?

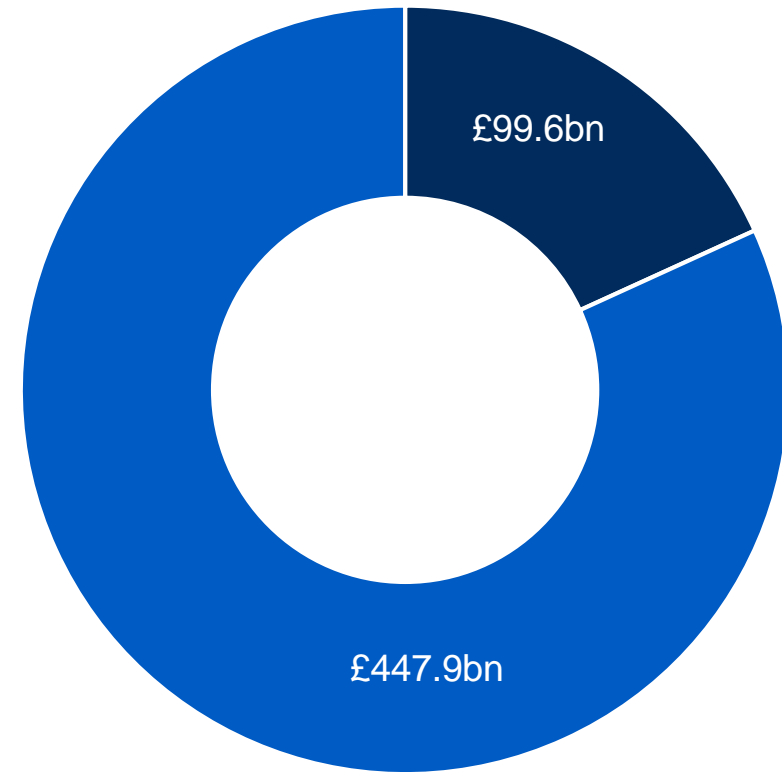
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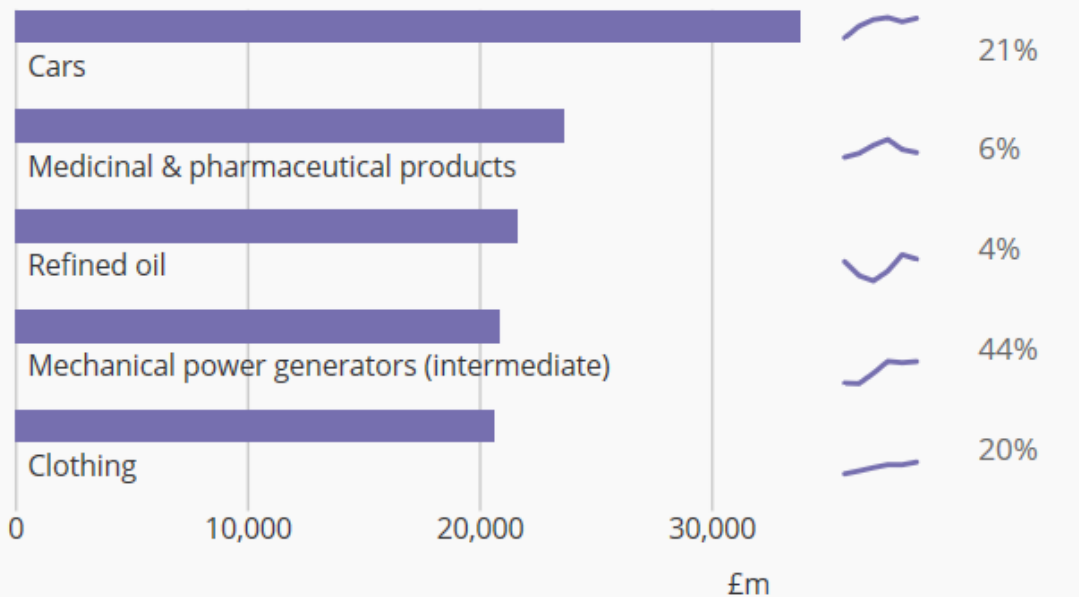


Key ● Rest of the world ● United States of America

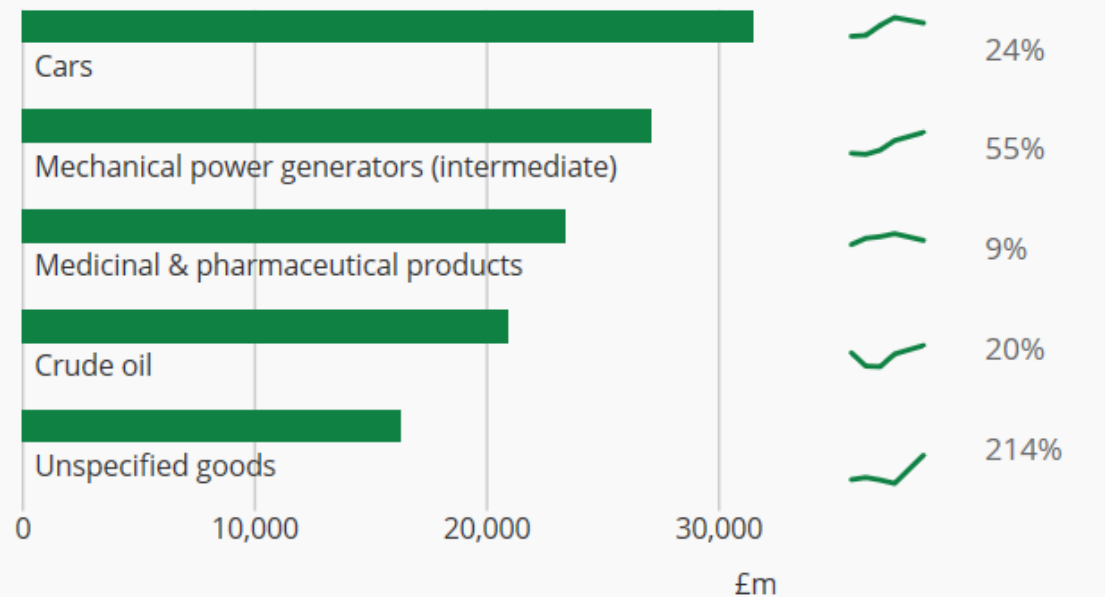
However, Food and Beverage is not top of the priority list: services, automotive and pharmaceutical goods will likely dominate negotiations

UK Trade in Goods 2019

Top 5 **imports** goods



Top 5 **exports** goods



The US food and beverage agenda

Selected objectives from the US administration negotiating objectives:

- Secure comprehensive market access for U.S. agricultural goods in the UK by reducing or **eliminating tariffs**
- Promote greater **regulatory compatibility** to reduce burdens associated with unnecessary differences in regulations and standards, including through regulatory cooperation where appropriate
- Establish specific commitments for trade in products developed through **agricultural biotechnologies**, including on transparency, cooperation, and managing low level presence issues, and a mechanism for exchange of information and enhanced cooperation on agricultural biotechnologies



What could divergence look like?



US and EU alignment: a philosophical quandary



Precautionary principle

In specific circumstances where, following an assessment of available information, the possibility of harmful effects on health is identified but scientific uncertainty persists, provisional risk management measures necessary to ensure the high level of health protection chosen in the Community may be adopted, pending further scientific information for a more comprehensive risk assessment.

Article 7 paragraph 1 EU Reg 178/2002



US – Generally recognised as safe (GRAS)

The substance is generally recognised, among qualified experts, as having been adequately shown to be safe under the conditions of its intended use.



“There will not be alignment, we will not be a rule taker, we will not be in the single market and we will not be in the customs union.”

Sajid Javid

Areas of potential movement within UK regulation

Novel/ new ingredients:
Unlikely



- Consumer appetite strong (e.g. CBD)
- Increased manufacturing diligence and auditable proof of isolation required
- EFSA and FSA recognises need for speed but unlikely to compromise precautionary principle

GMO:
Unlikely



- Consumer appetite needs qualification
- Increased manufacturing diligence and auditable proof of isolation required
- Devolved governments unlikely to approve

Areas of potential movement within UK regulation

Chlorinated chicken:
Unlikely



- A modest market opportunity
- Highly contentious with UK and EU consumers
- Misaligned with welfare standards

PDO:
Unlikely



- International precedent suggests this is not possible (e.g. Japanese Champagne, Belgian Chocolate Association (non-legislative mechanism))

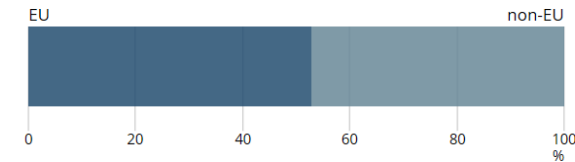
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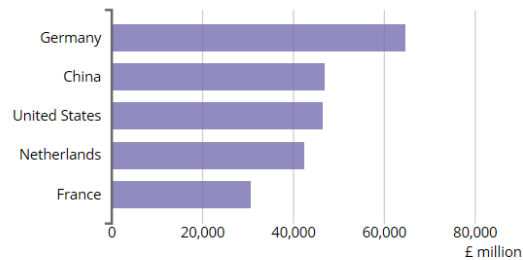
Commodities



EU / Rest of World split



UK's top trading partners

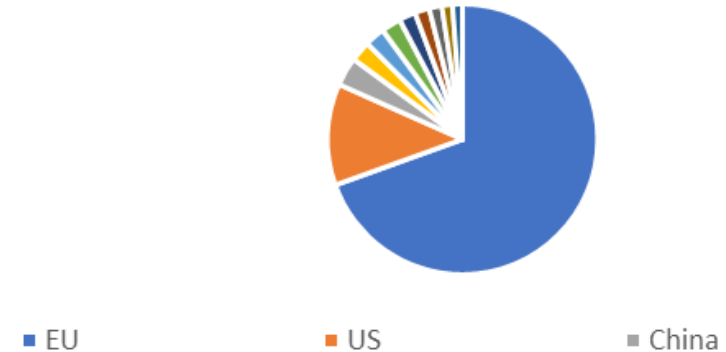


Food and Live Animal Imports Data

Ever since 1997, member states of the EU have refused to accept imports of chlorine-treated poultry and this has been a point of contention with the US. The EU maintains that chemical washes are a form of quick fix covering up for lower treatment standards, including lower animal welfare standards.

RSPCA Assured

EU Compared to the Other Top 20 Food Export Markets 2018





Divergence in the detail: fortified flour

- The Bread and Flour Regulations 1998 require flour produced in the UK to have Calcium, Iron, Thiamin and Nicotinic Acid
- Mutual recognition principle lost
- Without agreement UK standard flour and products produced using it will not be legal to sell in the EU



Divergence in the detail: milk chocolate

- The Cocoa and Chocolate Products (England) Regulations 2003
Not less than 20% total dry cocoa solids; not less than 20% dry milk solids
- CFR §163.130 Milk chocolate.
Not less than 10% by weight of chocolate liquor. Not less than 12% by weight of total milk solids



Divergence in the detail: other

- CFR 150.160 Fruit preserves and jams. Over 50 lines of legislation
- The Jam and Similar Products (England) Regulations 2003 32 lines of legislation



Challenges and opportunities



US supply chain

- Potential lower cost of entry to UK markets
- Removal of non-tariff barriers to trade
- Free access to a £23 billion pound market
- Potential gateway to EU?



EU supply chain

- Increased complexity of UK export and import market
- Deficit of UK product within EU creating growth opportunity
- Supply from UK may need re-evaluating



UK supply chain

- Increased competition from US
- Decreased competition from EU
- Economies of scale of manufacture of UK/EU exports reduced
- Price fluctuations and supply potentially shifts from EU to US
- Increased auditing from trade partners

Conclusions and recommendations



Conclusions

- EU trading relationship will not be compromised, at least in the short term
- A fully agreed free-trade agreement is unlikely to be achieved by Dec 2020; the UK must decide if it needs an extension by July 2020
- It is too early to define the details of an interim trade agreement but it is unlikely that either party will want to make significant changes from the status quo
- We foresee a trade deal will be negotiated with the US but timelines and specifics are unclear
- From a financial perspective, food and beverage is low on the priority list, but it is an emotive topic and closer regulatory compatibility is expected but not to the extent that it would compromise UK-EU trade
- The devil is in the detail: specified products, designations of origin, GMO, novel foods (for example) may all be under negotiation and this will impact each business differently

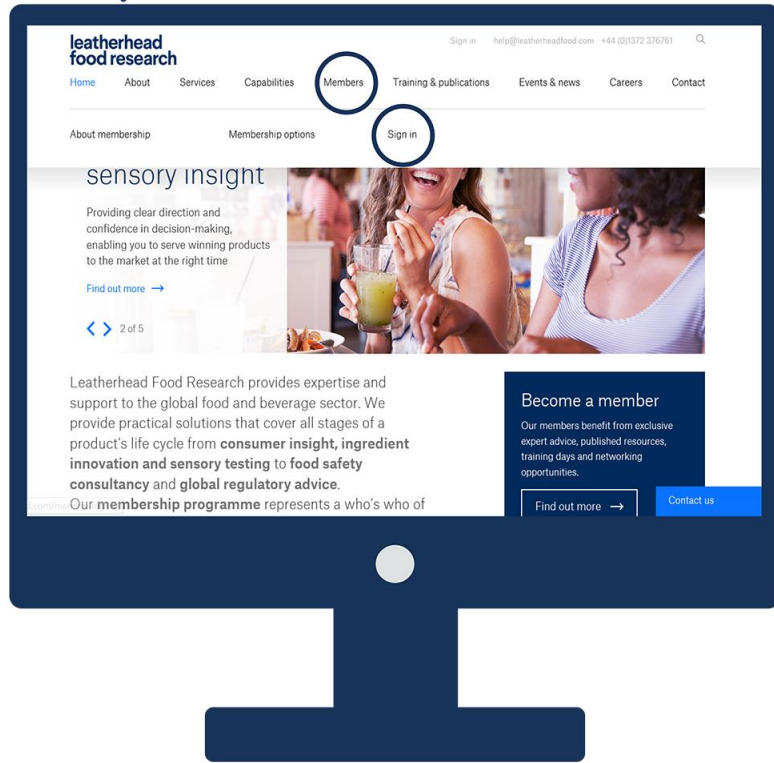
Recommendations

1. Look through your supply chain and understand the difference in regulations between EU and US – every detail counts
2. Monitor trade deals and qualify new opportunities that may open up from other markets if regulations allow
3. Stay up-to-date with the situation: it's changing daily. (Gold and Platinum members can get free access to our Brexit newsletter, email membership@leatherheadfood.com to sign up)
4. Be prepared: consider relevant scenarios and potential implications specific to your business.
5. Get second, third and fourth opinions: nobody truly knows and use your helpline if needed. Contact us at legislation@leatherheadfood.com

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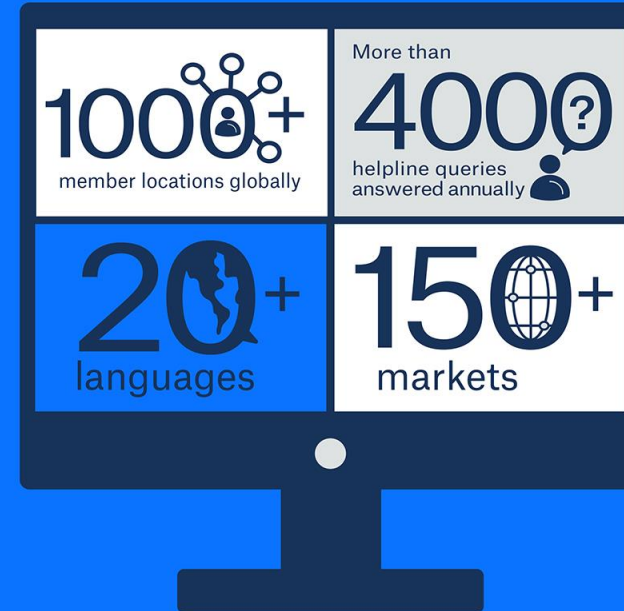


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You now have access to:

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Member helpline

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3. Member only Brexit white paper to be released in the next few months. Daily food news and global legal highlights newsletter sent weekly

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Questions

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