Early Brexit blues offer food for thought for Irish firms

The New Trade and Cooperation Agreement with the UK opens some interesting opportunities for the Irish food industry. Bank of Ireland’s head of Food & Drink Sector Roisin O’Shea offers advice for businesses.

The new Trade and Cooperation Agreement signed between the UK and EU following the UK departure from the EU is the single biggest change to trading conditions on this island since we joined the EU. And like all significant disrupters it brings both problems and opportunities.

This especially applies to trade in Food & Drink where the supply chains between the two countries have been intrinsically linked for decades. In terms of food & drink, the UK accounts for 34pc of our exports and we account for 17pc theirs.

While the headlines have heralded tariff-free trade as a result of the recent Brexit deal, and there have been no major backlogs at the border yet, the changes wrought by Brexit are only just beginning to emerge.

In essence, as the Brexit agreement is so narrow, there has been a huge burden of complexity added to our previously seamless trading relationship with very short preparation time.

This complexity increases the risk of delays and in turn delays mean added costs and stock inefficiencies. We know from previous sampling, that the error rate on customs documents from 3rd countries is circa 60pc - while that may cause problems at 1.7m annual customs declarations (current numbers), it will be a significant issue at 20m (forecast) especially given the shortage of trained customs staff.

Rules of Origin

While the additional paperwork associated with post Brexit trade has long been flagged, the most significant area to emerge as a game changer in the agreement has been around the finer detail of the Rules of Origin. The TCA (Trade and Cooperation Agreement) provided that goods produced in the UK would not attract tariffs into the EU. However, in order to stop the UK buying in cheaper non-EU/UK ingredients and packaging them up as UK goods, a “rules of origin” clause was applied.

This means that in order to attract tariff free trade a certain percentage of the goods must come from within the EU or UK and a particular level of processing must also take place. The rules are highly complex and vary by product area (the UK government issued a 37-page briefing document on 30 December).

While the UK has indicated it will not require rule of origin statements until later in 2021, the EU is requiring them now.

An example of the complexity can be seen with grated cheese – if EU cheese is imported to the UK, grated there, but then exported back to the EU it will have to pay tariffs on entry to the EU as the level of transformation on the product is not sufficient despite it originating within the EU.

Another example is flour used by Irish bakeries which comes from the UK. As a significant proportion of this comes from Canada before being milled in the UK it will attract a tariff on the finished good.

An EU product that has been finished in the EU and then comes to the UK for distribution onward into Ireland also attracts customs. This has proved a significant additional burden, in particular for UK exporters and retailers who would normally send product into Ireland directly from distribution hubs in the UK.

Unless this complexity is addressed, it is likely that we will see the end of UK hubs being used for deliveries for Ireland and it may mean significant structural changes in the retail and distribution landscape. For Irish exporters, it means additional paperwork for any UK exports, although deliveries will not be stopped for this reason in the interim.

The other significant area of change for Irish Food & Drink companies relates to the landbridge to Europe. Given the perishable nature of many food & drink products, the sector has been a key user of this route. While, there is a simplified transit procedure in place that will limit the checks needed if exporting via landbridge to the continent,   the pre-Christmas backlog at Dover has deterred many from using it and direct routes have been increasingly full. The new direct Dunkirk route is particularly welcome as it lands trucks directly in Northern Europe; however prices remain high deterring full use of the route to date.

Advice for food and drink companies

- **Check the origin of your goods:** For those who are importing goods from the UK, don't assume that they will now be tariff free. Request details on the origin of the products. Incoterms are key to understanding as to where the responsibility lies for complying with the rules of origin, as well of course all the other customs formalities.
- **Look at new export opportunities:** UK businesses exporting to the continent now face significant new hurdles including rules of origin, SPS checks and other customs formalities. If you compare two seafood processors exporting to France – the one in the UK has to complete 26 additional administrative steps before it can sell its product compared to the Irish company. The lack of preparedness by the UK government – particularly in areas such as veterinary certification of animal origin products - is again a benefit to Irish exporters.
- **Look at import substitution:** Many of the UK goods on our shelves are consumer packaged goods where UK companies have built brands across UK and Ireland. Many of these will now be subject to tariffs – either because they do not have sufficient UK ingredients in the product or if they are simply UK branded packaging on EU goods. This creates real opportunities for Irish companies to review SKUs that are likely to be affected and to be proactive with retailers in substituting them. Where there are strong brands involved there may be an opportunity to produce under licence for the brand owner. There may also be opportunities to look at business with UK retailers based here and in Europe whose normal supply chains are now threatened as a result of the TCA.
- **Consider whether you need a comprehensive guarantee:** While the TCA eliminated many tarrifs, particularly for exporters of primary Irish products to the UK, it is clear that there will be many tarrifs remaining on UK imports. A comprehensive guarantee and deferred payment account with revenue will help smooth cash flow. The comprehensive guarantee will also be needed to access the simplified transit procedure for the landbridge.
- **Investigate state support:** In addition to ongoing supports. the Irish Government announced a €100M Brexit scheme via enterprise Ireland for the meat and dairy sector in order to support innovation in processing and marketing of products.
- **Assess the ongoing costs of customs compliance and review customer terms;** Many suppliers committed to holding prices for customers at least at the start of the post transition period. This early period should be used to assess the real costs of customs compliance, including other new costs such as tarrifs, and profitability and pricing should be reviewed. This may mean exiting unprofitable customers if there are better opportunities elsewhere.
- **Prepare for delays –** as traffic builds up, delays at ports are only likely to increase. This is particularly the case when the UK starts implementing full health & sanitary checks in April.
- **Manage currency –** The large downside for Sterling may have been removed (for now) as we've averted no deal but Covid-19 restrictions are weighing heavily on the UK outlook which could be a recurrent theme this year.

Roisin O'Shea joined Bank of Ireland in 2019 as Head of the Food & Drink Sector*, in order to support the Bank's business in this strong, indigenous industry. She brings an in depth understanding of the Food & Drink sector to the role due to her wealth of experience in both Ireland and the UK across a number of companies and product categories. She has held a number of* *senior commercial positions in both indigenous and multinational consumer goods companies including PepsiCo, Valeo Foods, Carbery, Boyne Valley and Robert Roberts Ltd. Her knowledge base spans end to end product development from procurement and new product development, to branding, marketing and sales achievement. Her most recent role was in the Sports Nutrition Industry. Roisin holds an undergraduate Law Degree from UCC, an MBA from Warwick Business School and Post Graduate qualifications in Digital Business and Digital Marketing.*

Published: 12 January 2021