



House of Commons

Business, Energy and Industrial
Strategy Committee

**The impact of Brexit
on the processed
food and drink sector:
Government Response
to the Committee's
Seventh Report of
Session 2017-19**

**Fourteenth Special Report of
Session 2017–19**

*Ordered by the House of Commons
to be printed 23 July 2018*

Business, Energy and Industrial Strategy Committee

The Business, Energy and Industrial Strategy Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Energy and Industrial Strategy.

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The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

Committee reports are published on the Committee's website at www.parliament.uk/beis and in print by Order of the House.

Evidence relating to this report is published on the [inquiry publications page](#) of the Committee's website.

Committee staff

The current staff of the Committee are Chris Shaw (Clerk), Ben Sneddon (Second Clerk), Jeanne Delebarre (Senior Clerk), Ian Cruse and Becky Mawhood (Committee Specialists), James McQuade (Senior Committee Assistant), and Gary Calder (Media Officer).

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Eleventh Special Report

On 22 April 2018, the Business, Energy and Industrial Strategy Committee published its Seventh Report of Session 2017–19, on the impact of Brexit on the processed food and drink sector. The response from the Government was received on 17 July 2018. The response is appended below.

In the Government response, the Committee's conclusions and recommendations appear in **bold text** and the Government's responses are in plain text.

Appendix: Government Response

Introduction

- (1) The Government welcomes the BEIS Committee's inquiry into the impact of Brexit on the processed food and drink sector.
- (2) It is a key priority of this Government to enable an innovative, productive and competitive food supply chain from farm and sea to fork, that invests in its people and skills. This includes a successful processed food and drink sector.
- (3) There is a major programme of work across Government to ensure that: the UK is fully prepared, and has enabled business to be ready for leaving the EU; it has identified and is well placed to respond to the challenges and opportunities for consumers and producers; and it is achieving the best outcome for the United Kingdom.
- (4) On the 12th July, the Government published a detailed proposal for the UK's future relationship with the EU. This proposal builds on the vision set out by the Prime Minister at Lancaster House, in Florence, at Mansion House and in Munich. It explains how our relationship with the EU would work, what benefits it would deliver for both sides, and why it would respect the sovereignty of the UK as well as the autonomy of the EU.

Impact of tariff barriers

- (i) **Striking a free-trade agreement with the EU should be the number one priority in order to protect the UK's processed food and drink sector's competitiveness in the short term.**
- (ii) **The Government will have to carefully balance the impact that non-EU imports could have on the competitiveness of UK businesses and the cost of timely deliveries with the merits of continuing to rely primarily on EU imports.**
- (5) Securing a deep and special partnership with the EU is a key priority for this Government. The EU is our biggest trading partner for processed food and drink; our future relationship with the EU-27 is of vital importance.

- (6) The UK wants to create a free-trade area with the EU for all goods, underpinned by a common rulebook on industrial goods and agri-food goods, covering only the rules necessary for securing frictionless trade at the border. Frictionless trade for our food and drink sectors is particularly important for perishable produce, where time is of the essence.
- (7) The EU enjoys a considerable trade surplus in food and drink vis-a-vis the UK; so maintaining access to the UK market is firmly in Member States' interests. Indeed, the Government believes it is mutually beneficial to work towards an agreement that sustains the flow of goods through free and frictionless trade. A free-trade agreement is in the interests of both sides and we are confident we can work together to achieve it.
- (8) UK businesses will take account of a range of factors in deciding where they wish to source their products including cost, timeliness of delivery and the quality of goods. UK businesses have access to a diverse range of sources of supply, including domestic production and both EU and non-EU imports. This will continue to be the case after the UK leaves the EU.
- (9) While we are committed to helping food and drink manufacturers and farmers grow more, sell more and export more great British food, sourcing is ultimately a commercial decision for individual businesses to take.
- (10) In setting our future tariff policy, the Government will ensure that tariffs are set in the best interest of UK consumers and businesses. What that means in any particular instance will change depending on a range of factors, including the outcome of negotiations with the EU.
- (11) The Taxation (Cross-Border Trade) Bill will give the Government a range of tools, including tariff suspensions and autonomous tariff-rate quotas, to respond rapidly to any changes in the trading environment. As ever, the Government will deploy its fiscal instruments, such as tariffs, in the national interest.

Impact of non-tariff barriers

- (iii) **We urge the Government to end the uncertainty regarding future customs arrangements by negotiating a new partnership with the EU as soon as possible. In order to minimise potential increases in food costs, it should prioritise securing as few additional border requirements as can be negotiated.**
- (12) The Government has been clear that as we leave the EU, we will also leave the customs union. By leaving the customs union and establishing a new and ambitious customs arrangement with the EU, the UK will be able to forge new trade relationships with our partners around the world, and maintain as frictionless trade as possible in goods between the UK and EU, providing a positive and powerful voice for free trade.
- (13) The Government's preference is to agree a facilitated customs agreement with the EU, which would remove the need for customs checks and controls between the UK and EU as if a combined customs territory. The UK would apply the UK's tariffs and trade policy for goods intended for the UK, and the EU's tariffs

and trade policy for goods intended for the EU. This system would become operational in stages as both sides complete the necessary preparations. This would enable the UK to control its own tariffs for trade with the rest of the world and ensure businesses paid the right or no tariff, in the vast majority of cases upfront, and otherwise through a repayment mechanism.

- (14) In terms of what is negotiated, it is also important to note that the UK's and the EU's rules on food safety will be aligned at the point of departure, as enshrined in the Withdrawal Act. Our assessment is that the respective animal and plant health hazards posed by imports from the EU of animal products, plants and plant products will not significantly change immediately after we leave the EU. We will continue to analyse how this risk could change over the longer term as a result of leaving the EU and will take steps to address this, in discussion with devolved administrations and stakeholders.
- (iv) **The Government will have to put considerable resources into increasing customs capacity at UK border points and should put forward proposals on the type of support it will provide for SME and large suppliers in transitioning towards a new customs model.**
- (15) We note the Committee's views on resources necessary at the border, which will be dependent on the outcome of negotiations.
- (16) Front line customs operations are undertaken by Border Force. HMRC is working closely with Border Force on the contribution they will need to make to customs compliance work after EU Exit. Border Force has run a campaign for circa 1000 roles across the organisation, covering both staff turnover for their existing functions, and extended functions due to EU Exit. They are also recruiting 300 frontline officers.
- (17) Government departments have plans and arrangements to ensure that they have the necessary resources in place to manage any increased border-related activities. These are kept under close review to ensure that they can be implemented in time, and to avoid nugatory cost.
- (18) The Government is working with a wide range of stakeholders, including large businesses and SMEs, across all sectors and will continue to do so in order to prepare them for the facilitated customs arrangement. We will build on our extensive engagement with businesses to ensure they have the necessary support, education, and guidance structures in place to be ready for future trade with the EU.
- (19) Government ministers and officials from several departments have met ports and other relevant stakeholders as part of our comprehensive engagement on EU Exit. The Government is committed to continuing to engage with stakeholders to ensure that circumstances at ports are fully understood and taken into account.
- (20) We have set up a Border Delivery Group to bring together individual departmental plans, forming an overall picture and plan of what we need to do at borders. Through the Border Delivery Group, we have been working regularly with

core border stakeholders including ports and intermediaries to share current thinking and understand the operational implications from their perspective, and to enable them to plan for changes.

- (v) **In order to support trading communities on both sides of the border, the Government should prioritise developing proposals that provide businesses with clarity regarding future customs arrangements at the border between Ireland and the UK.**
- (21) We want to ensure that UK food and drink producers have the maximum freedom to trade with and operate within European markets – and to let European businesses do the same in the UK.
- (21) In the December Joint Report, we reached a balanced set of commitments that reiterate both our commitment to avoid a hard border between Northern Ireland and Ireland, and our clear position on preserving the constitutional and economic integrity of the United Kingdom. The UK’s intention is to achieve these objectives through the overall UK-EU relationship, but have agreed that, at least, the ‘backstop’ should be translated into legally binding form in the Withdrawal Agreement.
- (21) Officials have launched a programme of stakeholder engagement with industry stakeholders in Northern Ireland, geared towards operational readiness.

Regulatory alignment

- (vi) **We agree with the sector that overall the UK should stay as close as possible to EU regulations after we leave the EU. This would facilitate exports to the EU market and build on consumer trust for EU-branded products. Key EU regulations like geographical indicators must be preserved to maintain the competitiveness of flagship UK products and to allow UK consumers confidence in what they buy (eg. Cheddar cheese).**
- (vii) **We conclude that large manufacturers are already used to dealing with different regulations for different national markets and could probably adapt if they were given enough time and certainty to do so. Nevertheless, this is not something that all of them will welcome and it should only be done where it presents a clear advantage for British businesses and British consumers. [Regulatory divergence] should only be done where it presents a clear advantage for British businesses and British consumers.**
- (viii) **As a result, we recommend that the Government seeks to secure mutual recognition of standards as soon as possible to provide these businesses with the necessary certainty.**
- (24) As set out in the Government’s Future Framework White Paper, published on 12th July, our proposal is for a free-trade area for all goods, including agri-food products, between the UK and the EU. This would be underpinned by a common rulebook that would cover only those rules necessary to provide for frictionless trade at the border.

- (25) During the Implementation Period, the UK will no longer be a Member State, but market access will continue on current terms. This will give food and drink producers certainty, as common rules will remain in place until the end of the period. This will mean that businesses will be able to trade on the same terms as now up until the end of 2020 and will have the time to adapt to any new rules following the end of this period.
- (26) On regulatory divergence, we know that consumers buy certain products for a range of reasons which also include provenance and sustainability. The Government has no intention of undermining the UK's reputation for quality by lowering standards in pursuit of a trade deal. There are tried and tested mechanisms for ensuring that exporters from foreign countries abide by British standards, which will be adhered to.
- (27) The Government shares the Committee's view as to the economic and cultural importance of Geographical Indications (GIs). GIs are important in maintaining the UK's reputation as a great food nation and play a huge role in boosting the UK's global food status. We will use the EU (Withdrawal) Act 2018 to roll into UK law the operable GI schemes for wines, aromatised wines, spirit drinks, and agricultural products and foodstuffs. This will ensure that on Day One of EU Exit, all 86 UK GIs enjoy continued protection in the UK, and that consumer confidence is maintained in UK GI products. These include Stilton cheese, Scotch Whisky and Welsh lamb.

Trade opportunities post-Brexit

- (ix) **We welcome the Government's Food and Drink Action Plan and any other initiatives to boost UK food and drink exports. We believe this cannot be done without seeking a free-trade agreement with the EU as a priority given the sector's current reliance on the EU as an export destination. The Government should also prioritise the roll-over of existing EU trade agreements to the UK and then focus on establishing new free trade agreements with third countries.**
- (28) The Government's International Action Plan for Food and Drink 2016–2020 aims to support exporters to sell more UK food and drink across the globe. We promote exports through a range of initiatives. Our activities include ensuring a strong UK presence at international food trade shows, 'meet the buyer' activities, advice to prospective exporters, the conduct of market access negotiations and trade missions.
- (29) The Government is seeking the broadest and deepest possible partnership with the EU. This partnership, together with the new trade deals we strike with allies across the world, will open up new markets for our exporters.
- (30) Through membership of the EU, the UK is currently party to around 40 international trade agreements covering over 70 countries, to the benefit of British consumers and businesses. This will be a technical process rather than

a renegotiation of existing terms. Initial reactions from a range of international partners have been broadly positive and we are confident of securing a smooth transition for businesses and consumers.

- (31) The existing EU trade agreements facilitate the movement of goods and services with the UK's major markets outside the EU, bring increased investment to the UK and creating economic growth. They also benefit consumers through more competitive pricing, greater product choice, and recognition of our standards.
- (32) Leaving the EU offers us an opportunity to forge a new role for ourselves in the world: to negotiate our own trade agreements and to be a positive and powerful force for free trade. We are considering our future trading relationships with all our partners as we prepare to leave the EU. The Government has established working groups and high-level dialogues with a range of key trade partners including: the US, Australia, China, the Gulf Cooperation Council, India, Japan and New Zealand. Any new trade agreements must work for UK consumers, farmers and companies as well as ensuring food safety, animal welfare standards and environmental protection.

Skills

- (x) **In the short term, the Government should ensure that once we leave the EU the sector can continue to have immediate access to the skills it needs. A visa system will add costs and bureaucracy to a sector dominated by SMEs who lack the resources and expertise to deal with a new immigration system. The sector needs support as soon as possible to adapt.**
- (xi) **The Government must also continue to work with the sector to meet its skills gap and ensure the sector is an attractive destination to UK nationals for a career.**
- (33) Access to a sufficient and appropriately-skilled workforce is essential to continued industry growth, productivity and safety in the food and drink sector. The Government recognises the contribution EU and EEA nationals have made and continue to make to UK businesses, and that enterprises must be able to attract the skills, expertise and employees they need.
- (34) We recognise the concerns of stakeholders and understand that providing certainty to workers and business is crucial. Therefore, until the end of the Implementation Period, employers in the agricultural and food processing sectors will be able to recruit EU citizens to fill vacancies and those arriving to work will be able to stay in the UK afterwards.
- (35) In June 2018, the Home Office announced further details about how EU citizens who will arrive into the UK before 31st December 2020 can obtain settled status in the UK. The Home Office has been engaging with stakeholders, including with the Federation of Small Businesses, the Food and Drink Federation and UK Hospitality.
- (36) The Government is also working with the sector to improve the productivity and sustainability of the industry. The Food and Drink Sector Council, at its

inaugural meeting on 29 January 2018, identified skills as one of its first priorities. The Council established a Workforce and Skills Group, chaired by Dame Fiona Kendrick, to develop a long-term action plan to secure a world-class workforce for all sectors of the food chain. Defra, the Department for Education (DfE) and the Department for Digital, Culture, Media & Sport (DCMS) attend the Group, and other Departments will be involved as necessary.

- (37) After we leave the EU, we must have an immigration system which works in the best interests of the UK. The Government is considering the options carefully, and will ensure that businesses and communities, including representatives from across the food chain and SMEs, have the opportunity to contribute their views. Furthermore, the Government has commissioned the independent Migration Advisory Committee (MAC) to assess the role that EU citizens play in the UK economy and society, and provide advice on how to align a future immigration framework with modern industrial strategy.
- (38) We welcome the MAC's interim report, published in March 2018, which also took into account evidence from across the food chain. We will consider its evidence in full, once it publishes its final report in September 2018.

Research and Development

- (xii) **The Government should now clarify the level of access to EU nationals and EU facilities that will be available to the food and drink R&D sector after the transition.**
- (xiii) **We would welcome clarity on the type of associated membership that the EU would allow for the UK in the European Food Safety Authority and its future interactions with the Food Safety Agency.**
- (39) This Government wants the UK to be the go-to place for innovators and investors across the world, and we intend to secure the best-possible outcome for the UK research base, including the food and drink sector, as we exit the EU.
- (40) To retain the UK's position as a world leader in research and innovation, we need to continue to attract global talent from the EU and beyond, with high-level skills that can support research and innovation, the industrial strategy and benefit the wider UK economy. We hugely value the contribution of EU and international staff and students.
- (41) No decisions have been made about our future relationship with EFSA, this will be subject to forthcoming Exit negotiations.
- (42) The FSA has a long tradition of close collaboration with EFSA which is greatly valued and we hope continues in the future. Exchange at a technical level of data, information and expertise is common practice among international risk assessment organisations. EFSA have participation agreements with Member States, Norway and Iceland and observer agreements with Switzerland and EU candidate countries. EFSA has formal agreements with non-European risk assessment agencies, for example with Australia, Canada, Japan, New Zealand and the USA.

- (43) We are considering a range of options for the future of risk assessment and scientific advice in the United Kingdom after the UK has left the EU.
- (44) Our priority is to maintain the UK's high standards of food and feed safety, and to ensure we take a proportionate approach when providing risk assessments and making risk management decisions.
- (xiv) **The Government should seek to maintain the UK's membership of collaborative EU R&D projects, while clarifying approval processes and the role of the Food Safety Agency beyond March 2019.**
- (44) We have consistently stated our commitment to ongoing collaboration in research and innovation with the EU. The Prime Minister has said that the UK is committed to establishing a far-reaching science and innovation pact with the EU, facilitating the exchange of ideas and researchers. This would enable the UK to participate in key programmes alongside our EU partners. It is in the interests of the UK and EU for us to continue to collaborate in this area and to work together on a mutually beneficial outcome.