

Culture, Tourism, Europe and External Affairs Committee

Inquiry - Article 50: Preparedness

Written submission from Food and Drink Federation Scotland

Introduction

This submission is made by the Food and Drink Federation (FDF) Scotland. FDF Scotland represents the food and drink manufacturing industry in Scotland. We are Scotland's largest manufacturing sector, accounting for 30% of total manufacturing turnover and our gross value added to the economy is £3.8bn, representing 29.7% of Scottish manufacturing value added. We have 1,015 food and drink manufacturing businesses, employing 45,000 people, which represents 25% of the Scottish manufacturing workforce. In 2017, all food and drink exports from Scotland have increased by 11% to £6bn.

FDF Scotland welcomes the opportunity to make comments on our members preparations for implementation of Article 50. We consulted our membership to get their experiences and their responses are collated under the questions posed by the Committee. The companies that provided views have asked to remain anonymous.

What impact the Article 50 negotiations have had upon your business / organisation to date?

Members reflected that both customers and consumers have a lack of certainty and are extremely nervous about the outcome of the Brexit negotiations. The result of this is hesitancy in investment decisions by both member companies and their customers.

The weakening of the pound against other foreign currencies but most importantly the euro and the US dollar is resulting in increased costs of purchasing ingredients, packaging and equipment. For example, a Scottish member sources 30% of ingredients and packaging from Europe and the rest of the world and have seen sharp increases in raw material and packaging from abroad.

An FDF member company has estimated the staff time and resources looking at potential options invested in providing input and understanding potential outcomes at £100k to date.

One member has already lost business opportunities from customers that would have bought products from Scotland but decided not to risk the disruption to their supply chain. They estimate this lost business is around £200k to date.

There has been much discussion both in the media and in businesses about stockpiling. Some members are reviewing their stock to ensure enough supply to ship before end March 2019. Much of this stock will be produced with the assumption of sale which is not guaranteed, the assumption that March 2019 will be the deadline and, for one member, the capital invested in stock they will not sell until 6 months' time. This member estimates that they have a £6m stockpile in an external warehouse. Even if they sell the stockpile, the cost of warehousing this stock will cost several hundred thousand pounds.

Other members may not be able to stockpile as there is a shortage of warehousing capacity in Scotland.

What preparations, if any, are being made by your business / organisation for the range of scenarios which may result from the Article 50 negotiations?

Companies reflected that it is difficult to make any preparations due to lack of clarity in negotiations and general uncertainty

Stockpiling was hailed in the media as a potential solution but for many members it will simply shorten shelf life and this may not be accepted by their customers resulting in huge financial losses.

One food manufacturer has been asked by most of their suppliers to provide 12-month sales forecasts, to enable them to look at manufacturing stock further ahead and putting that volume into the supply chain. The additional stock will need to be paid for by the food manufacturer which will tie up a high proportion of working capital. This is extremely risky in the current economic climate and could threaten the viability of this medium-sized Scottish company.

As mentioned in the previous question, one member has invested around £100k of staff resource to understand the impacts of various scenarios on their business and provided some in depth insights to various scenarios. If a mutually beneficial deal can be reached in which there is a suitable transition period and little change March 2019. The ongoing costs will be:

- a. **Customs declarations and declarations using TRACES and the UK alternative declarations** – Resourced either internally or contracted out. It will involve a full-time employee being trained in understanding the customs declaration process to manage imports and exports to the EU.
- b. **Additional Export Health Certificates** – The EU will require export health certificates which will increase certificate needs at cost of £50k

What you consider the impact of a no-deal outcome would be for your business / organisation?

FDF members are already feeling the impact of Brexit. The Scottish food manufacturing sector is 95% SMEs and many businesses do not have the resource or expertise to plan for a no-deal.

Tariffs - Members foresee a further increase in costs due to higher import tariffs from goods coming from within the EU which could cost individual Scottish manufacturers hundreds of thousands of pounds and cumulatively run in to millions. Members will also be subject to tariffs to export to the EU, for one company this could increase a low-margin product by over 5% making the Scottish plant potentially unviable.

In event of a no deal, there will need to be increased stock holdings to allow for delays at ports. This will result in increased storage charges, affect cash flow and be in danger of not meeting minimum remaining shelf life needs.

The harsh reality is that in the event of a no deal, some members will lose all EU27 business, one member quantified a loss of around 25% of their total Scottish plant business resulting in potentially closing their Scottish site and losing several hundred jobs.

To what extent, the guidance issued by the European Commission and UK Government has been helpful in helping you to prepare for the UK's withdrawal from the EU?

Members were very clear that the guidance issued to date has been of no use to aid contingency or capacity planning and forecasting. In fact, the guidance has caused both business customers and consumers alarm and fear.

The primary focus of our members is to ensure that they can weather the pre-Brexit storm. Members are focused on as much "business as usual" to ensure orders are fulfilled and customers are satisfied, members are facing a cumulative burden of policy initiatives including potential tax on plastic and a potential ban on promotional activity in Scotland which is making "business as usual" ever more challenging and costly.

What further support or guidance you consider the Scottish Government, UK Government and / or European Commission should be providing to enable individuals, businesses and organisations in Scotland to prepare for the UK's withdrawal from the EU?

In terms of practical support, a step-by-step plan for Brexit, of things to do and consider for Brexit and a no-deal Brexit would be of use for businesses.

Members are concerned that there is a lack of contingency planning and capacity building by officials for the no-deal scenario. For example there has been no planning for increasing capacity at or number of border inspection posts to allow export of animal product from Scotland.

Key to all of this is for all politicians to work together to ensure a deal is reached before 29 March. The best deal for food and drink manufacturing is a deal which will ensure no customs tariffs between the UK and EU and eliminate the need for new customs and vet controls/checks which do not presently exist.