

# Preparing for Brexit

## Report on the preparedness of the food and drink sector in Wales

December 2018

### Introduction

With less than five months until the United Kingdom leaves the European Union, it is an apposite time to explore in more detail the preparedness of various sectors in Wales. This third and final report looks at the implications of Brexit for the food and drink sector in Wales. A significant amount of evidence was received from this sector during part one of our work on Wales' future relationship with Europe, and this report should be seen as a companion to that report.

1. Although our report on Wales' future relationship with Europe touched on some aspects of the implications of Brexit for the food and drink sector in Wales, and our first report on the implications for Wales of leaving the EU included views from the sector, this is our first full report to focus exclusively on the food and drink sector. Since the publication of our earlier reports, a clearer picture of the eventual outcome of negotiations and the potential shape of a final Brexit deal has emerged. Whilst some uncertainty remains, the UK Government has made a number of commitments and proposals in terms of how it would like to see EU-UK relations operate after Brexit. They have included:

- publication of a negotiated text on a final Withdrawal Agreement between the UK and the EU;



- publication of the UK Government’s White Paper on the future relationship between the UK and the EU; and
- publication of the UK Government’s “no deal” technical notices.

**2.** On 14 November 2018, the final negotiated text of a draft Withdrawal Agreement between the UK and the EU was published. This agreement deals with the so-called “divorce issues” arising from the UK’s exit from the EU. Our report is being published to the backdrop of ongoing political developments relating to the Withdrawal Agreement. However, we note that it faces a number of political hurdles before various preparedness issues, particularly a “no deal” scenario, can be ruled out entirely. The timescales for these political hurdles are likely to extend well into 2019, we therefore consider scrutiny of the Welsh Government’s preparedness work to be important in the meantime.

**3.** To inform this report we held evidence sessions with Gwyn Howells from Hybu Cig Cymru and Andy Richardson from Food and Drink Wales on 8 October 2018.

**4.** We questioned the First Minister in more detail during an oral evidence session on 5 November 2018.

**5.** This report summarises some of the key themes from the evidence received and sets out our view, conclusions and recommendations.

## 1. Preparedness of the food and drink sector in Wales – key themes and findings

The food and drink industry in Wales is a key economic sector and is likely to be affected in a number of ways by the eventual shape of Brexit. According to Welsh Government figures, the food and drink sector in Wales accounted for £4.8 billion in turnover and supported 20,400 jobs in 2016.<sup>1</sup>

### 1.1. Market access, regulation, and competition

**6.** Arguably the most pressing issue facing the food industry, and raised with us in evidence, is the uncertainty around trade with the EU Single Market.<sup>2</sup> The Food

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<sup>1</sup> Welsh Government, “[Welsh Food and Drink in Numbers](#)”

<sup>2</sup> Written evidence, [Food and Drink Federation and British Soft Drink Association](#); [Hybu Cig Cymru](#)

and Drink Federation and British Soft Drink Association paper emphasised the fact that food manufacturers operate highly integrated EU-wide supply chains, both for sourcing raw materials and selling finished goods.<sup>3</sup>

**7.** Hybu Cig Cymru (HCC) in their paper, highlighted the fact that Wales only consumes 5 per cent of the lamb it produces, with 55 to 60 per cent consumed in the rest of the UK.<sup>4</sup> The remaining 35 to 40 per cent is exported, of which 92 per cent is exported to the European Union.<sup>5</sup> Furthermore, 15 per cent of Welsh beef is exported, with 93 per cent of export going to the rest of the EU. The value of Welsh lamb exports is around £124 million a year, and Welsh beef amounts to £61 million a year.

**8.** In terms of new and emerging markets, HCC stated that it is working with exporters to grow markets elsewhere such as Canada, Switzerland, Hong Kong and the United Arab Emirates.<sup>6</sup> HCC notes, however:

“If and when exports are permitted to new countries, it is likely to take several years to establish new trading relationships and build brand identity. Supplying increased quantities of fresh beef and lamb to markets further afield than Europe will also require the industry to undertake concerted action over a period of years to increase the shelf-life of red meat products.”<sup>7</sup>

**9.** During oral evidence, Gwyn Howells of HCC told us about the launch of their new strategy which would run to 2025:

“It’s largely a road map of our work on behalf of the industry both now and in the future up to 2025 to actually position red meat from Wales as premium both in the home market, which is a GB market, and that’s the most important market for us, but also in the European market, which is extremely, extremely important to us, and further afield as well. Part of the strategy is to develop those markets, we would call them third country markets, beyond Europe, if you like, at an accelerated pace over the next few years in order to de-risk our portfolio of exports, which is largely in the European basket at the moment.”<sup>8</sup>

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<sup>3</sup> Written evidence, [Food and Drink Federation and British Soft Drink Association](#)

<sup>4</sup> Written evidence, [Hybu Cig Cymru](#)

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Written evidence, [Hybu Cig Cymru](#)

<sup>8</sup> National Assembly for Wales, Record of Proceedings, [paragraph 307](#) – 8 October 2018

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**10.** Andy Richardson of Food and Drink Wales also highlighted the importance of the European market for the food and drink sector in Wales stating that 88 per cent of exports currently go to the European market, with rest of the world sales accounting for around 12 per cent.<sup>9</sup>

**11.** Gwyn Howells also underlined other factors, such as the seasonality of Welsh lamb as a vulnerability for the sector. Mr Howells said:

“[...]we need export market valves opening at certain times of the year, for example, from September on until January, and without that ability to have free trade with the European consumer base, we would find that very, very difficult. The sector would be in some serious short-term problems, given that 35 per cent of all our production—one in three lambs born in Wales—finds itself in European countries as a destination at the end and, therefore, that is a big risk for the sector.”<sup>10</sup>

**12.** In February 2018, the Welsh Government published an EU Exit Scenario report.<sup>11</sup> The report concluded that “the sheep sector faces severe challenges as it relies on export to balance seasonal production and to achieve carcass balance”.<sup>12</sup> It also noted that: “beef remains viable with a buoyant dairy industry to supply calves, with a better carcass balance and a lower dependency on export”.<sup>13</sup>

**13.** The First Minister told us in written evidence that investments via the EU Transition Fund had been designed to help the private, public and third sectors prepare for Brexit and included a £5 million intervention to support the farming, fishing and food sectors prepare for Brexit.<sup>14</sup> On 8 October 2018, the Welsh Government announced additional money to support the red meat sector through a £2.15 million “Red Meat Benchmarking Initiative”.<sup>15</sup> The initiative is designed “to support 2,000 farmers to better understand the technical and

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<sup>9</sup> Record of Proceedings, [paragraphs 310–311](#) – 8 October 2018

<sup>10</sup> Record of Proceedings, [paragraph 309](#) – 8 October 2018

<sup>11</sup> Welsh Government, [“Lesley Griffiths welcomes publication of EU Exit scenario report”](#), - 19 February 2018

<sup>12</sup> Welsh Government, [“Lesley Griffiths welcomes publication of EU Exit scenario report”](#), - 19 February 2018

<sup>13</sup> Ibid.

<sup>14</sup> [Correspondence from the First Minister on preparedness](#) – 2 November 2018

<sup>15</sup> Welsh Government, [“Benchmarking project to help red meat sector prepare for Brexit gets underway”](#) – 8 October 2018

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financial performance of their business and ensure their competitiveness in a changing market”.<sup>16</sup>

**14.** In terms of standards of production and for consumers, Gwyn Howells told us that:

“I think it’s crucially important that, in any trade deal going forward, both with the EU and, indeed, perhaps more significantly, with third countries that wish to export into the UK, the standards and equivalence of food coming into the UK is of the same standard as the food that we produce and eat here. I think that’s really important going forward not only to secure industry, but more importantly to ensure that consumer standards are adhered to.”<sup>17</sup>

**15.** During oral evidence the First Minister told us that it was in Wales’ economic interests to prevent the importing of cheaper foodstuffs from overseas after Brexit. The First Minister said:

“If we’re saying what we want to do is to import cheaper foodstuffs from other countries without any restriction, well, our farmers aren’t going to compete with that. Our agriculture industry is in the same position as agriculture everywhere else in the EU. It’s no different. It’s no more sustainable. It’s not less sustainable. And if we were to allow unrestricted flows of food—quite often of a far lower quality, produced to far lower standards at lower cost—into our market, our farmers wouldn’t compete with that. They couldn’t possibly do it. So, we have to consider that very, very carefully. I don’t think it is a case of inferior products coming into the UK and then into the EU that’s the issue here.”<sup>18</sup>

**16.** The First Minister added buying food on the “world market” would create problems for domestic agriculture:

“[...]you create immense problems for your own agricultural industry, because they’ll never be able to compete on price; it’s not possible. The price of land in the UK is far higher than in many other countries. Environmental regulations in other markets are non-existent, and their climates are different. Take lamb in New Zealand, on the north island,

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<sup>16</sup> Welsh Government, “[Benchmarking project to help red meat sector prepare for Brexit gets underway](#)” – 8 October 2018

<sup>17</sup> Record of Proceedings, [paragraph 357](#) – 8 October 2018

<sup>18</sup> Record of Proceedings, [paragraph 75](#) – 8 October 2018

the grass grows all year round, they don't have to worry about providing feed in the winter. If you look at the animals' growth, they're far bigger, and it takes as much to process a larger animal as it does a smaller animal. And they operate without subsidy, because the price of land is also very low. We can never replicate that in the UK, and we should think very carefully about opening our markets in such a way that will lead to a detrimental effect on the rural areas."<sup>19</sup>

## 1. 2. Our view

We note the concerns about a loss of access to the EU Single Market after Brexit. However we note that if the Withdrawal Agreement is agreed, this should provide more certainty for food producers and manufacturers in terms of market access, for at least the duration of the transition period (currently scheduled to end in December 2020).

We heard that work is underway to explore new and emerging markets for Welsh food and drink exports, particular red meat exports, but that this work may not yield results for many years. Furthermore, we heard that factors involved in the production of red meat in particular, including its seasonality and short shelf-life will require addressing if access to new markets is to be secured.

We welcome the funding earmarked by Welsh Government to undertake research and benchmarking in the sector and believe that the outcome of this work should be released as soon as practicable to allow the sector to prepare.

We understand that the Welsh Government has begun working on a new food and drink strategy and action plan to support the industry after 2020.

**Recommendation 1.** We recommend that the Welsh Government's work on a new food and drink strategy and action plan takes account of the research currently underway to benchmark the sector. Furthermore, any new strategy for the sector after Brexit should set out clear and ambitious aims, including use of appropriate targets, in terms of increasing Wales' access to new "Rest of the World" markets for the export of Welsh food and drink products.

## 1. 3. Protected food names (Geographical Indications)

**17.** The EU's protected food names schemes gives legal protection against imitation of registered regional and traditional foods or drink throughout the Union. There are currently 15 Welsh products registered under the scheme with a

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<sup>19</sup> Record of Proceedings, paragraph.77 – 8 October 2018

further two awaiting approval and cover products such as Welsh lamb, beef, Anglesey sea salt and Pembrokeshire early potatoes.<sup>20</sup>

**18.** During oral evidence Gwyn Howells emphasised the importance for Welsh lamb of protected status since 2002 for adding value to the brand.<sup>21</sup> Mr Howells said:

“For example, to give you some metrics, back in 2003, Welsh farm exports were around £50 million per annum. By last year, 2017, it was £150-odd million, so it’s three times as much over the 15 years. It’s not specifically down to the PGIs, but, obviously, it’s down to the provenance story, and we have a very, very strong brand and awareness in Wales, which has helped—and it’s no coincidence—in those markets where we have traded very, very heavily, such as France, Germany, Italy, the Low Countries and Spain. The protected food name schemes are recognised as marks of quality identified by consumers across the continent, and it’s no coincidence that we’ve grown on the back of that.”<sup>22</sup>

**19.** On 4 October 2018, the UK Government launched a consultation on creating a UK scheme of Geographical Indications after Brexit.<sup>23</sup> The consultation closed on 1 November 2018. Andy Richardson of Food and Drink Wales expressed concerns about the timescales for designing and implementing a new scheme:

“I understand now that the British Government have just started a consultation on GIs, and, effectively, it is getting quite late for that now, and what I’m worried about is that, if we don’t retain the EU system, then we’ll have to set up our new GI system and that will take months to do. So, effectively, the concern I have is what happens when we leave at the end of March.”<sup>24</sup>

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<sup>20</sup> UK Government, “[Protected food name scheme: UK registered products](#)” – [last updated] 9 October 2018

<sup>21</sup> Record of Proceedings, [paragraph 368](#) – 8 October 2018

<sup>22</sup> Record of Proceedings, [paragraph 369](#) – 8 October 2018

<sup>23</sup> UK Government, “[Geographical Indications \(GI\): creating UK schemes after EU exit](#)” – 4 October 2018

<sup>24</sup> Record of Proceedings, [paragraph 362](#) – 8 October 2018

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**20.** Mr Richardson added that he was supportive of continuation of the EU scheme after Brexit:

“As I previously mentioned, firstly, I haven’t seen any reasons why it would be better to break away from that [*the EU scheme*], and secondly, if we do break away, it’s going to take time to set up. And the third point is just to reinforce what’s been said: we have to protect the quality and image of our produce, particularly in Wales, because if we let it slip, it will take months and years to get back.”<sup>25</sup>

**21.** Article 54(2) of the proposed Withdrawal Agreement contains provisions for the continued protection of geographical indications, designations of origin, and traditional specialties within the UK and the EU.<sup>26</sup> According to Dr Tobias Lock of Edinburgh University, who was commissioned by us to provide an expert analysis on the Withdrawal Agreement, these protected food names will “continue to be protected, unless they are superseded by the future relationship agreement”.<sup>27</sup> Furthermore Dr Lock’s paper confirmed that products such as “Welsh lamb” or “Welsh Caerphilly” continue to enjoy protection in the EU; and vice-versa products such as “Parma ham” continue to be protected in the UK”.<sup>28</sup>

## 1. 4. Our view

We note that the UK Government ran a consultation on the potential for a new UK-wide scheme for protection of geographical indications after Brexit, although we regret the very limited four week period that was available for consultees to respond.

We heard concerns about the limited amount of time available to adequately design and implement a successor scheme to the current EU system of protections before the end of March 2019. However, we further note that the proposals contained within the Withdrawal Agreement, if adopted, would remove the need for a new UK scheme until the end of the UK-EU transition period.

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<sup>25</sup> Record of Proceedings, [paragraph 366](#) – 8 October 2018

<sup>26</sup> European Commission, [“European Commission recommends to the European Council \(Article 50\) to find that decisive progress has been made in Brexit negotiations”](#) – 14 November 2018

<sup>27</sup> External Affairs and Additional Legislation Committee, Annex to its report – [“Withdrawal Agreement: implications for Wales”](#)

<sup>28</sup> External Affairs and Additional Legislation Committee, Annex to its report – [“Withdrawal Agreement: implications for Wales”](#)

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**Recommendation 2.** We recommend that the Welsh Government, in its response to this report, outlines what discussions it has had with the UK Government on the creation of a UK-wide scheme after Brexit, including whether or not it has raised concerns about the limited amount of time available for consultees to take part in the consultation.

We believe that retention of protected status for Welsh food and drink products is vital to the continued success of those products and the overall “Welsh brand” of food and drink after Brexit and we welcome efforts to secure this.

## 1. 5. Food supply chains

**22.** Our work on the preparedness of the food and drink sector in Wales has been undertaken to the backdrop of increased UK Government activity in this area. These activities have included the publication of the UK’s Technical Advice Notices in August and September of this year, and the appointment on 3 September 2018 of a Parliamentary Under-Secretary of State at the Department for Environment, Food and Rural Affairs (Defra), David Rutley MP, whose ministerial responsibilities include EU exit readiness and the food supply chain.<sup>29</sup>

**23.** In terms of the implications of a “no deal” Brexit, Andy Richardson told us that there were varying degrees of awareness among the sector:

“I think there’s a range in the way businesses are reacting. So, those businesses that buy and sell—dried powders, for example, have longer shelf lives so it’s actually, to a certain extent, easier to put in place mitigative plans to get around that. I think the challenge will be for those products that come in and go out that are fresh produce—those are the real challenges. I think businesses are waking up to the issue to various degrees. I think some are very, very aware of it, and some are literally just coming around to the implications. So, it’s very important. That’s why I’m saying, as a board, we’re now spending a lot of time engaging with businesses in Wales and getting them to understand.”<sup>30</sup>

**24.** Mr Richardson went on to say that he welcomed the appointment of David Rutley MP at Defra.

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<sup>29</sup> UK Government, “[How to prepare if the UK leaves the EU with no deal](#)”, - [last updated] 12 October 2018

<sup>30</sup> Record of Proceedings, [paragraph 418](#) - 8 October 2018

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**25.** Gwyn Howells told us that the current debate regarding food supplies in the event of a “no deal” Brexit highlighted the wider issue of food security in the UK. Mr Howells said:

“Given the geopolitical challenges on the global scene at the moment, I think we’ve got to make sure as well that we have UK food supplies that are plentiful going forward in order to feed our nation as well, but also for economic growth. I think that’s really, really important, and I’m sure that’ll become higher up the agenda in the next few weeks. Given our self-sufficiency in some foodstuffs—we are very reliant on imports, and therefore I think there is a deficit there. The industry, on a GB or UK basis, can fill some of that void, but I think it needs some direction in order to do that.”<sup>31</sup>

## 1. 6. Our view

We did not receive a large amount of evidence on the continuity of food supplies after Brexit, however we note that activity is underway at a UK level to consider these issues as part of wider Brexit preparedness work. Furthermore, our other work on the preparedness of Welsh ports leads us to conclude that there are potential vulnerabilities in terms of the smooth functioning of food supply chains should new delays and checks be in place in the event of a “no deal” Brexit.

**Recommendation 3.** We recommend that the Welsh Government, in its response to this report, outlines details of the work underway to support businesses to mitigate the effects of a “no deal” Brexit on the security and continuity of food supplies in Wales.

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<sup>31</sup> Record of Proceedings, [paragraph 424](#) – 8 October 2018