PROVISION TRADE FEDERATION

Society of Dairy Technology
Brexit and the Cheese Industry
Monday 24 July 2017

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Director General

Recapping the basics

- **Referendum last year followed by months of “Brexit means Brexit”**
- **..Until 17 January Lancaster House speech…**
- **… followed by White Paper “anticipating success”**
- **29 March letter to Council President Donald Tusk – triggering Article 50 and starting 2 year clock**
- **29 April EU “negotiating guidelines” adopted by Council..**
- **…and turned into mandate for Michel Barnier’s team**
- **19 June – talks start in Brussels**
- **Allowing for European Parliament and other ratification processes, this leaves around 15 months of actual discussion, unless there is unanimity to extend the 2 year deadline**

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What Article 50 actually says

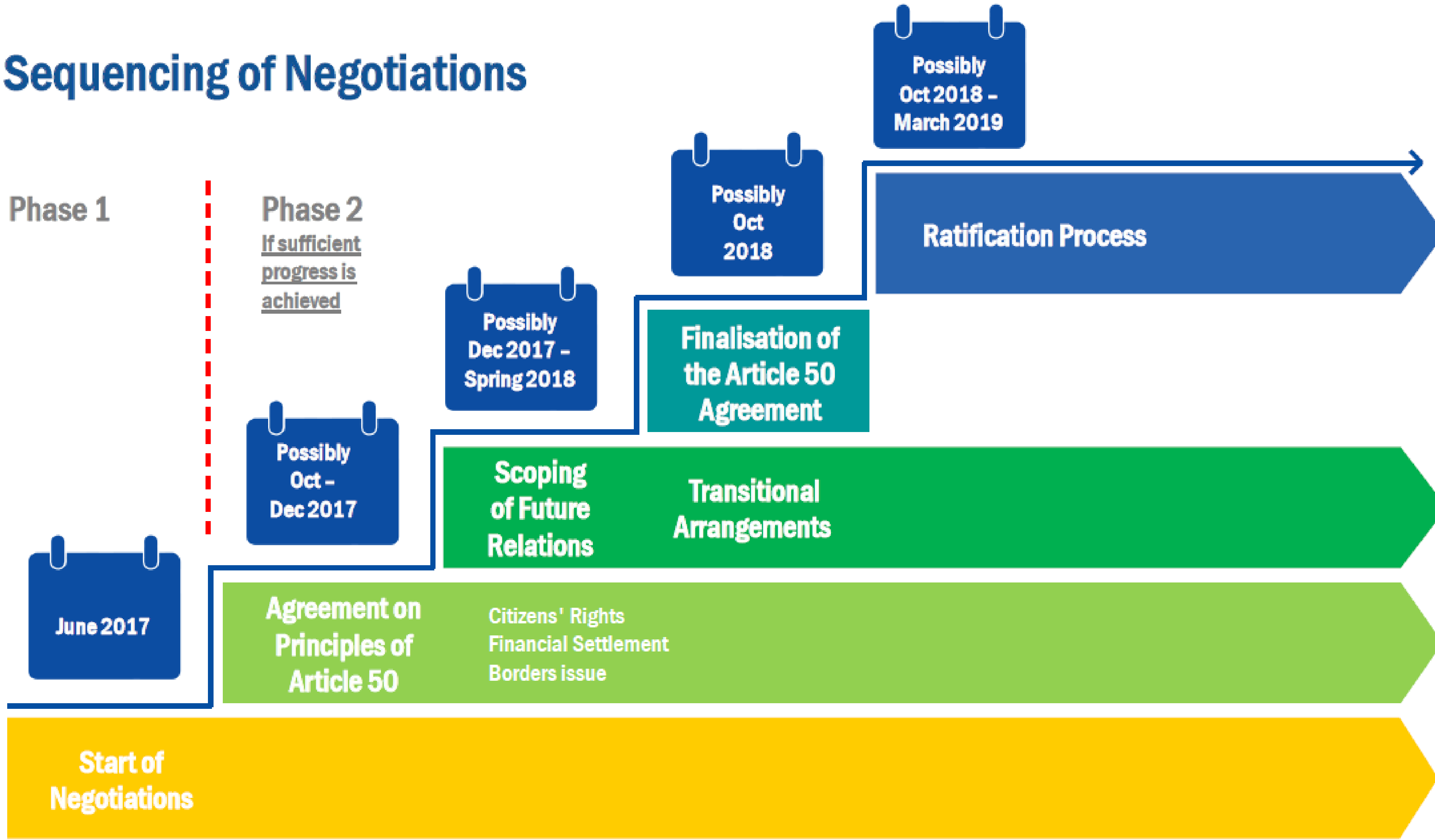
1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.

2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.

3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.

European Commission

Sequencing of Negotiations



European Commission

4-week Negotiation Cycle

Week 1
Preparation

- Preparation with EU27 and the other EU Institutions

Week 2
Exchange with the UK

- Exchange of papers with the UK
- If needed, preparation and finalisation of negotiating position with EU27 and the other EU Institutions

Week 3
Negotiations

- Negotiations at chief negotiators' level and in technical groups

Week 4
Reporting

- Reporting to EU27 and the other EU Institutions
- Start of preparations for the next round of negotiations

The European Commission will negotiate in a transparent and open manner

The current UK stance

- Leaving the EU means leaving the Single Market and the Customs Union
- It also means leaving the jurisdiction of the European Court of Justice (ECJ)
- Both are needed to allow the UK to “take back control of immigration” and “make our own trade deals with third countries”
- And … Article 50 talks should cover everything from the outset, with no pre-conditions (concurrent not sequential)

How the EU 27 see it

- The Council (and Parliament) want a two-phase process, with “sufficient progress” on withdrawal as a pre-condition for talking about a future (trade) relationship
- Negotiating guidelines identify “people, money and Ireland” as key phase 1 issues
- They also specify that “ a non-member of the union” cannot have “the same rights and enjoy the same benefits as a member”
- The “four freedoms” of the Single Market are also indivisible and there can be no “cherry picking” or sector specific deals

Why food is a special case

- UK imports about 40% of what we eat
- Most comes from other EU Member States
- The EU is also our largest export market
- The potential imposition of tariffs would have major effects on supplies and consumer prices
- We also rely more heavily than many other sectors on non-UK (EU) labour and on imported machinery and consumables
- Many food businesses are internationally owned or financed and neither wholly UK or EU entities

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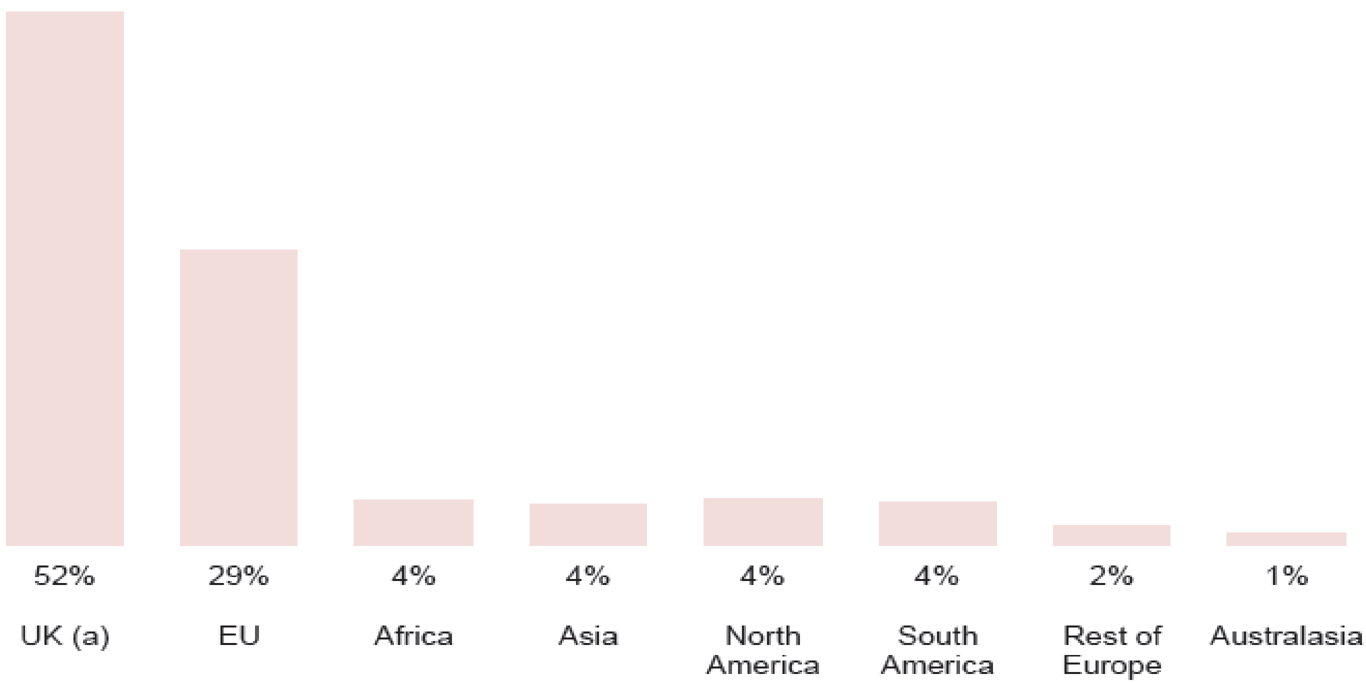
3.1 Origins of food consumed in the UK, 2015[1]



(a) *Consumption of UK origin consists of UK domestic production minus UK exports.*

Other specific factors – 1. Tariffs

- The EU's external tariffs for food, farming and fishery products are many times higher than for other goods – between 30% and 50% for dairy and meat, compared to low single figures for most industrial products
- This is to protect incomes under the Common Agricultural and Fisheries Policies from being undercut by cheaper world supplies
- Reverting to "WTO terms" would mean these high tariff levels being applied to UK/EU trade in both directions, unless otherwise agreed
- This would cause huge market disruption and the potential collapse of many businesses

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2. Labour and skills

- UK food factories typically employ up to 60% -70% of non-UK nationals
- Many of these are in relatively low-skilled jobs and paid at minimum wage levels
- But there are also shortages of engineers, food technologists and other specialised skills where training programmes have not been put in place because of assumed future free movement to provide replacements
- These challenges will take time to address

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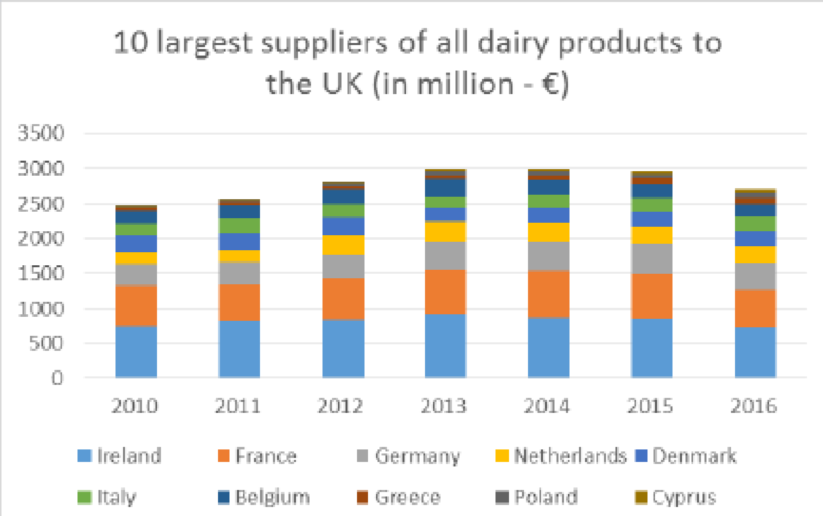
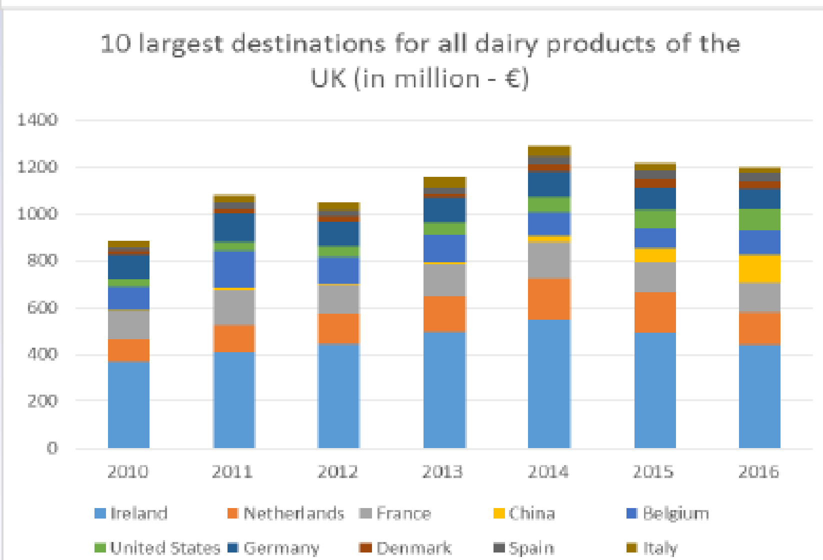
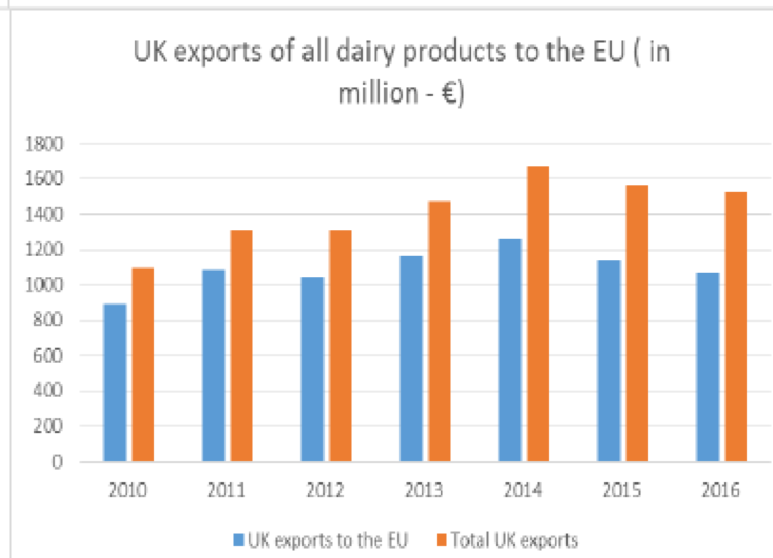
3. Regulation

- Consumer confidence is vital to the food industry
- Food safety and integrity are non-negotiable, along with product standards, labelling and traceablility
- The UK has been an integral part of formulating current EU rules and is fully compliant with them
- Any risk of divergence has the potential to create non-tariff barriers and lead to unfair competition (in both directions)

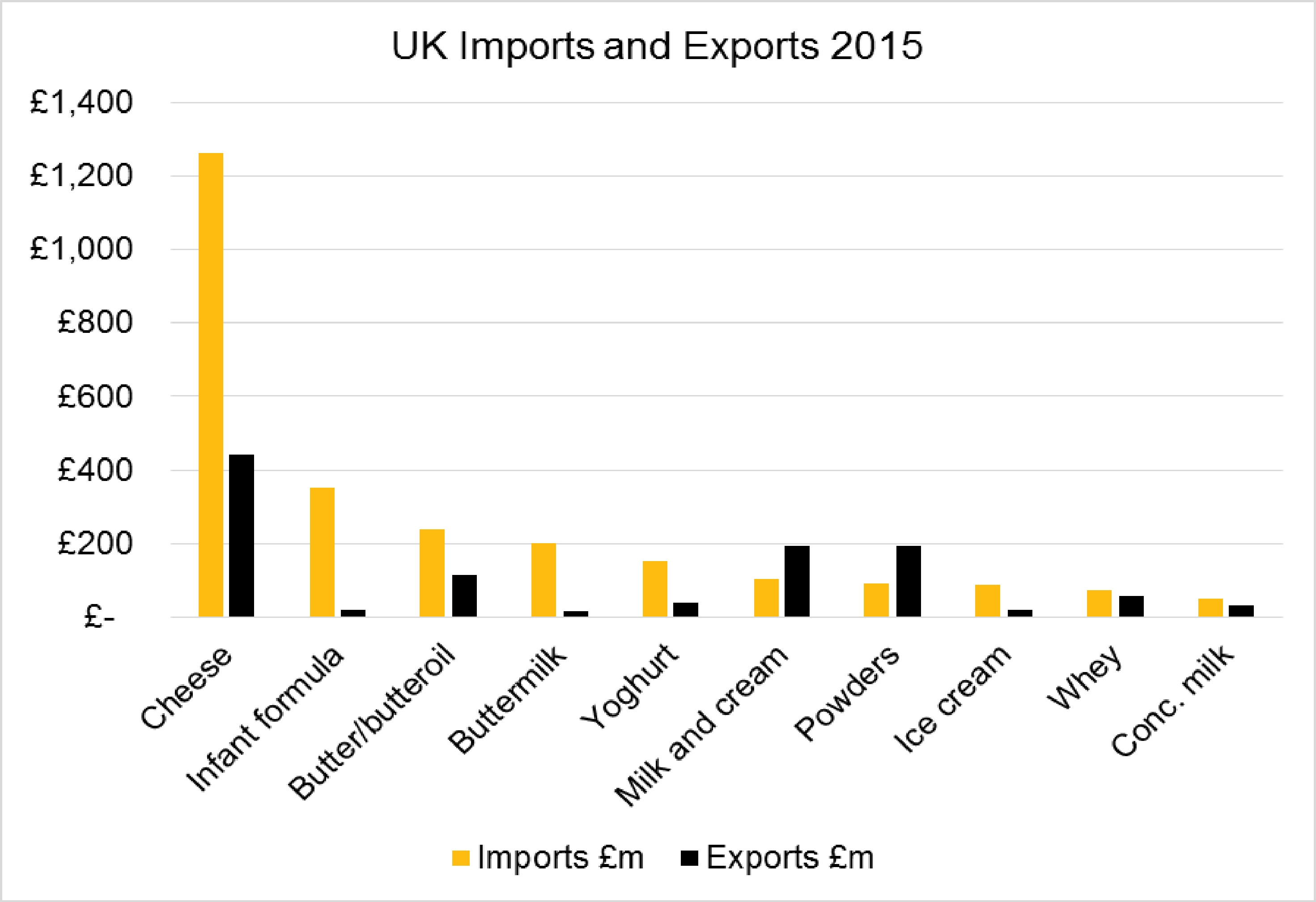
Brexit – potential implications for dairy trade



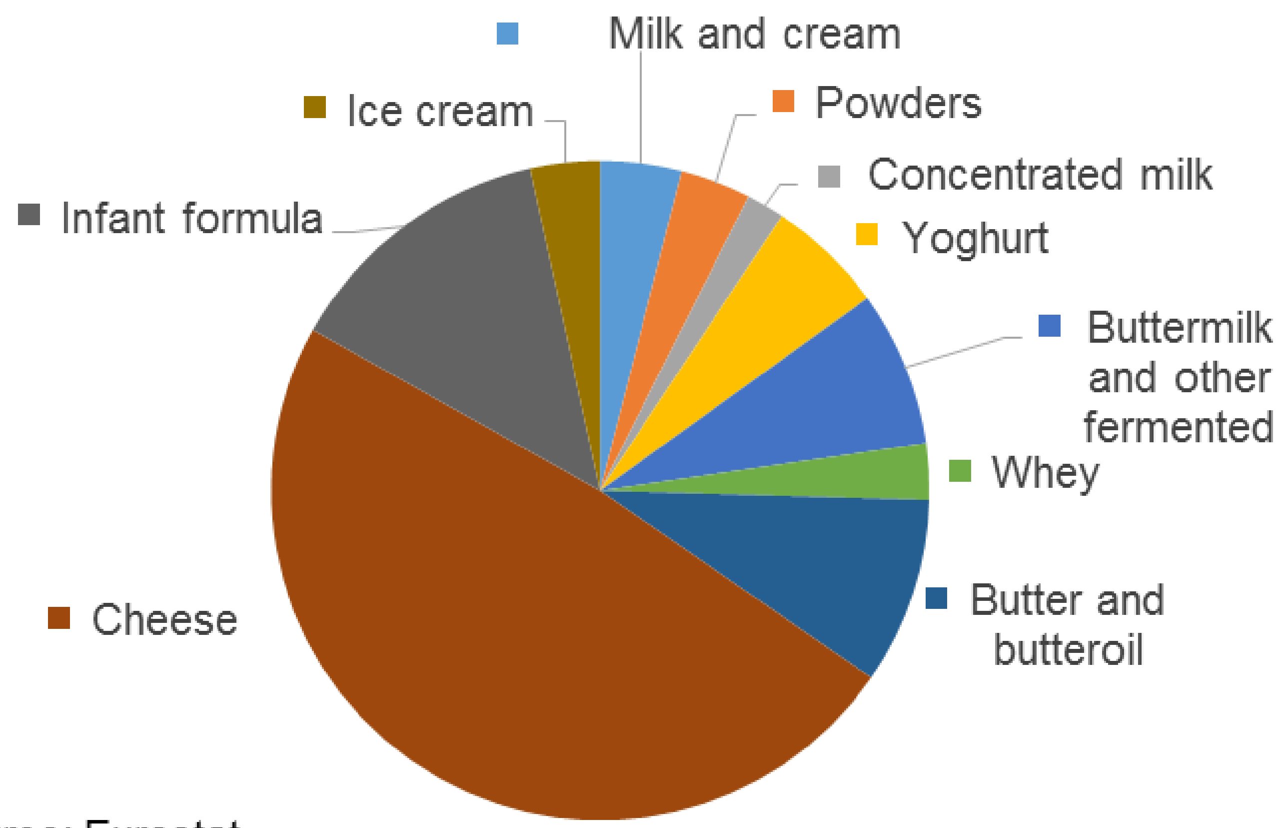




UK imports v exports

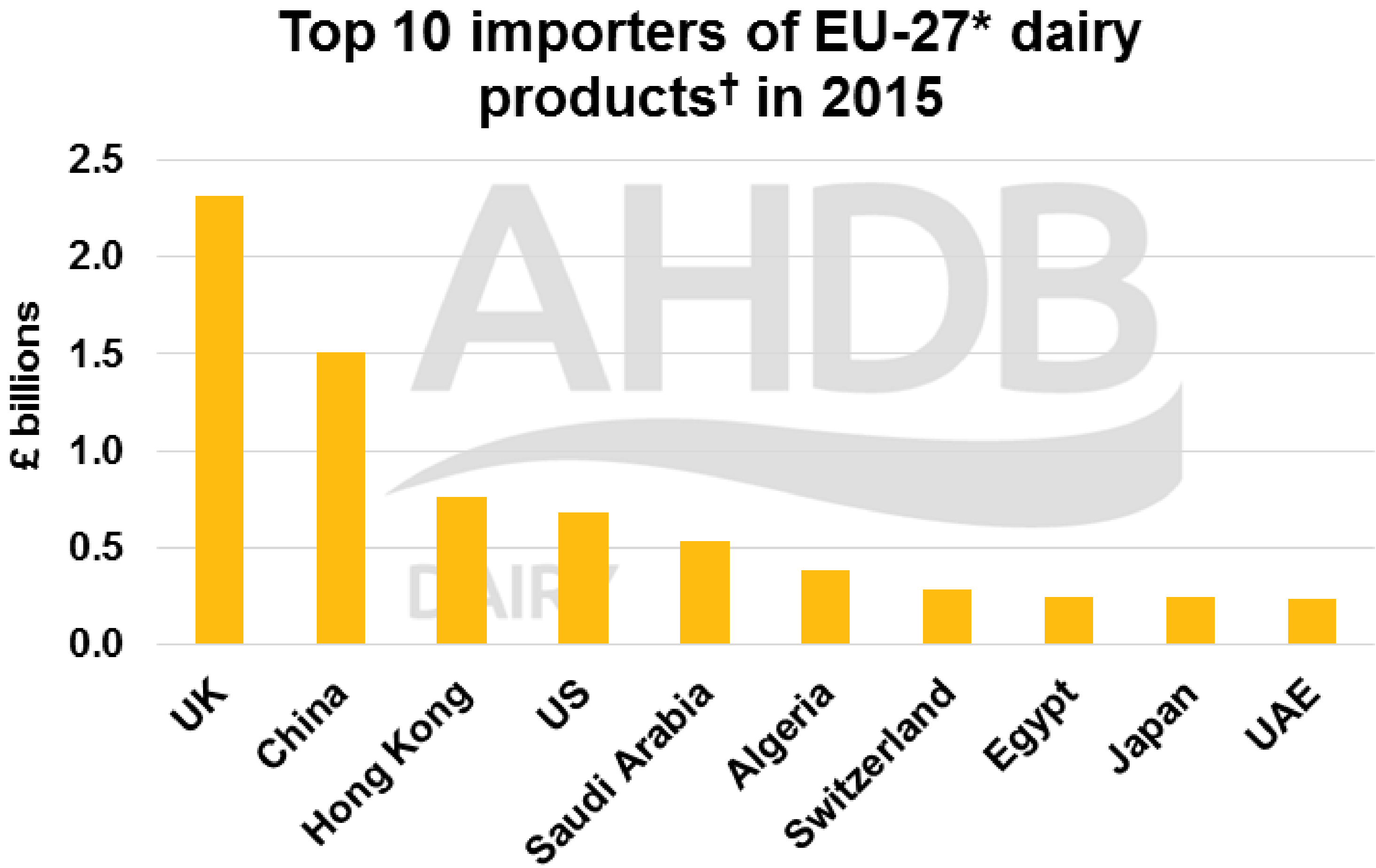


UK imports from EU-27 by product



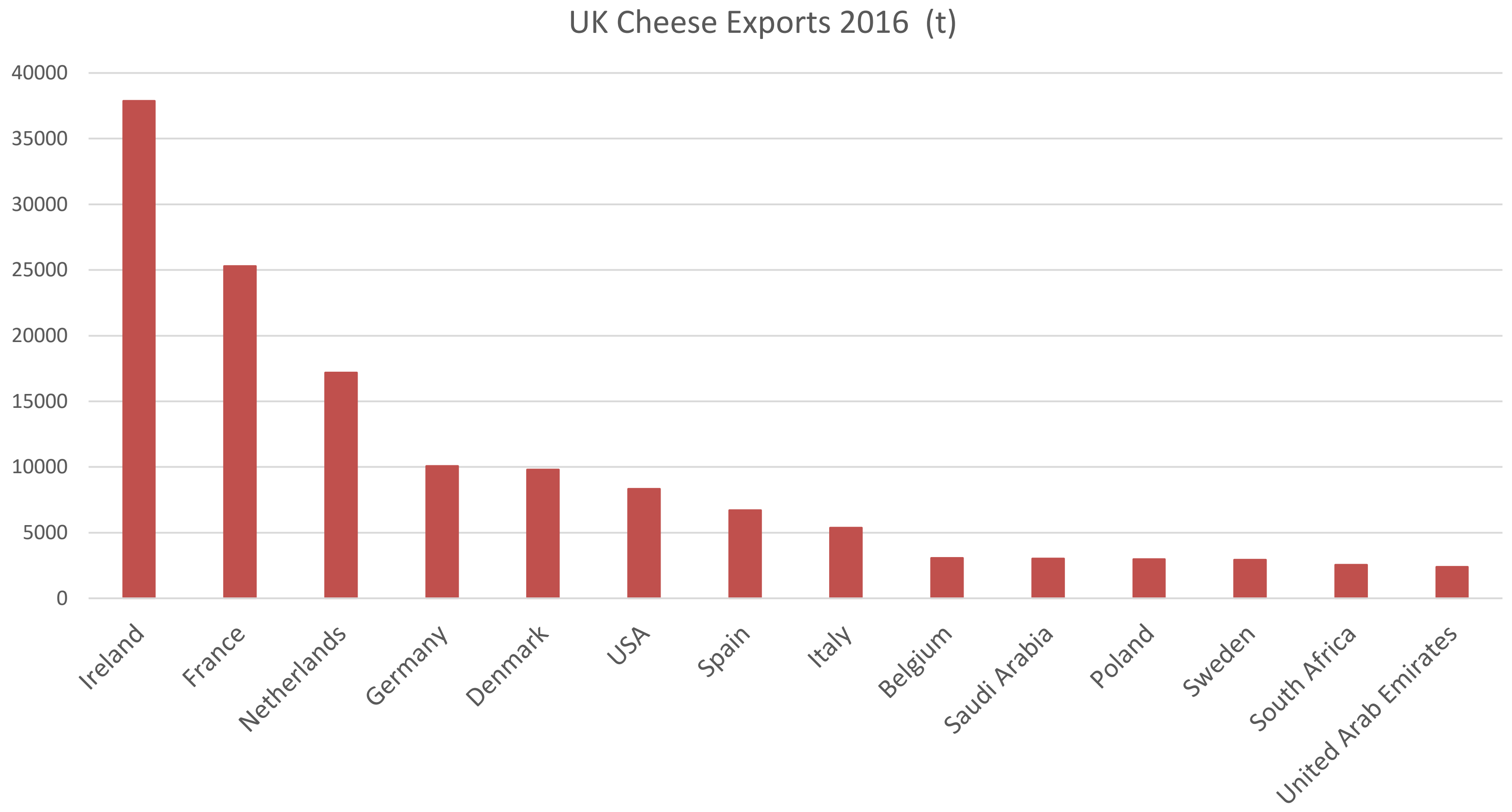
Source: Eurostat

UK biggest importer from EU27



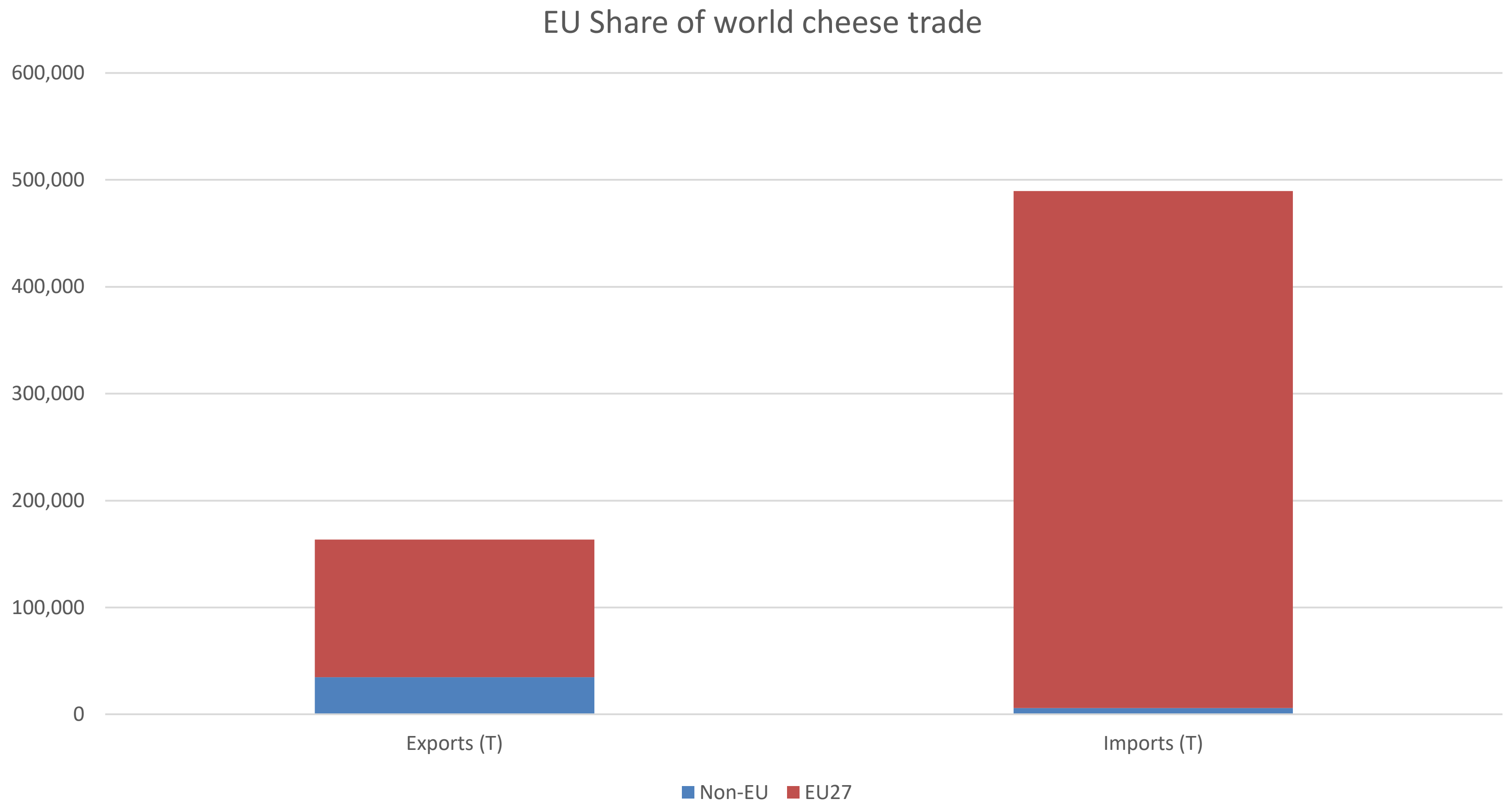
Source: Eurostat

UK Cheese exports by destination (2016)



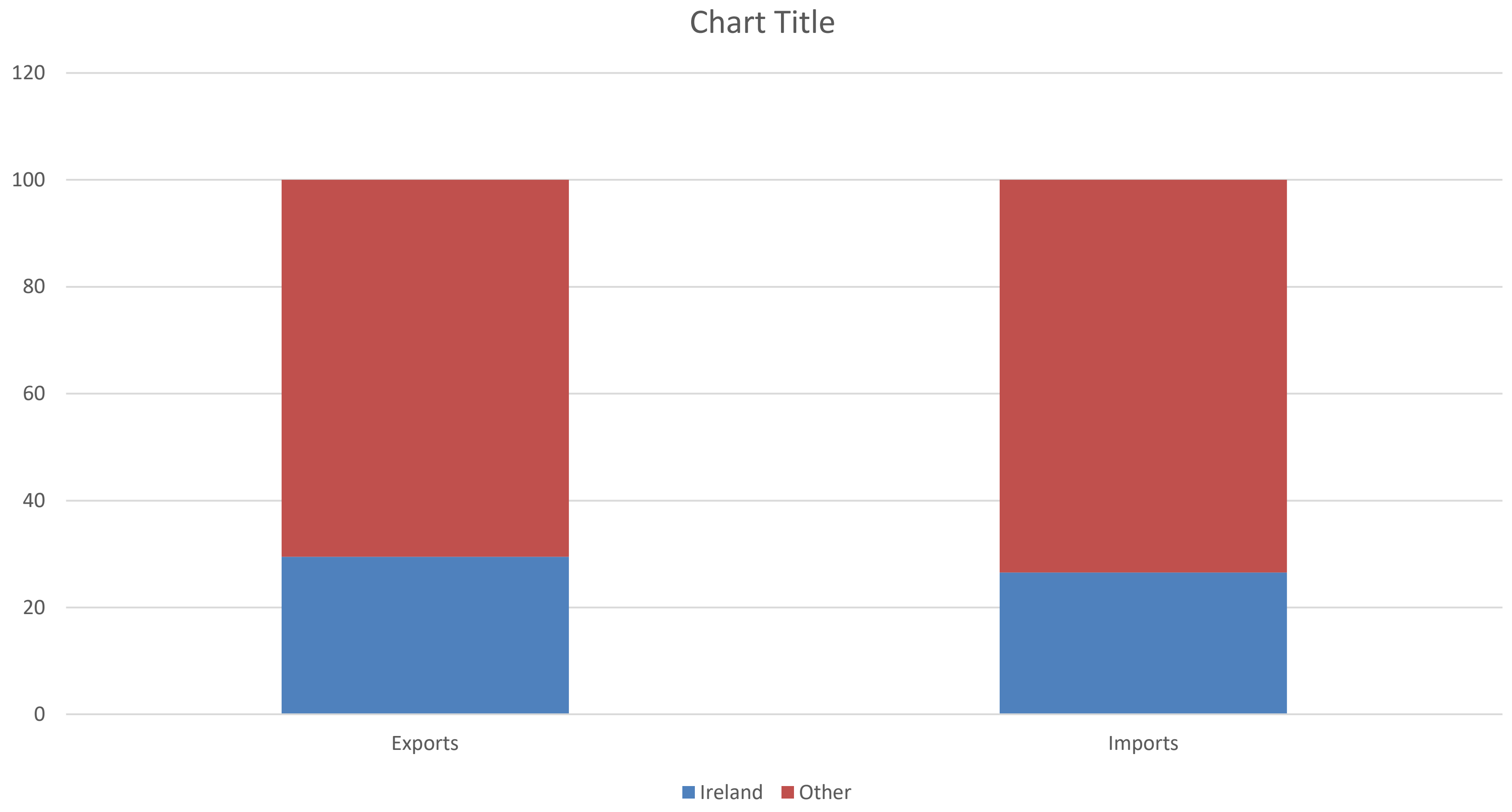
Source: Comtrade

The importance of the EU for UK cheese trade



Source: Comtrade

The importance of Ireland within the EU for UK Cheese trade



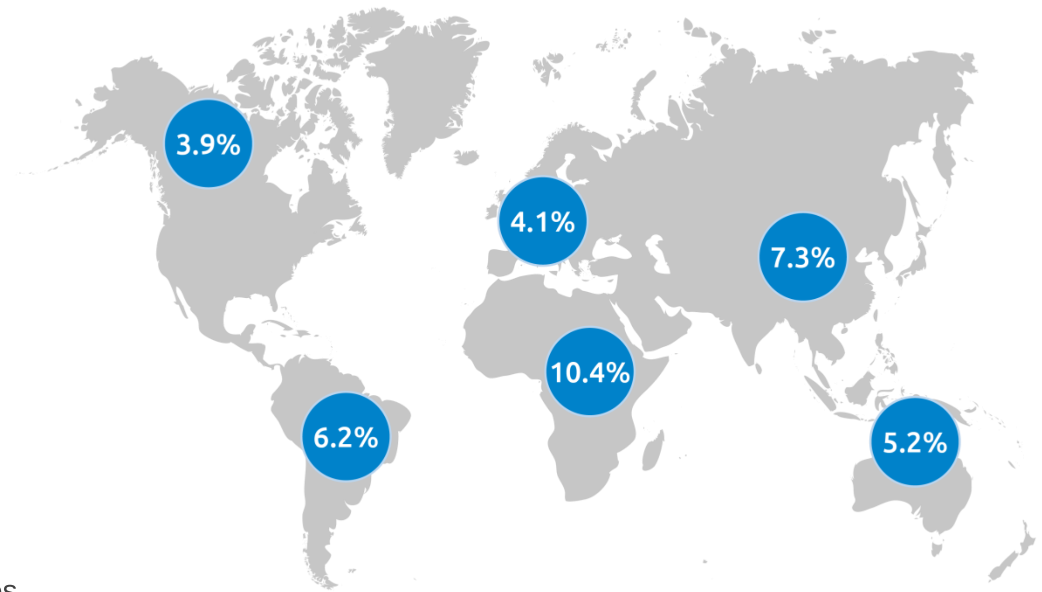
Source: Comtrade

Tariff free access critical

CodeA	Product	Effective rate (2015 prices)
0201300	Fresh/chilled **beef**, boneless	65%
02031955	Fresh/chilled **pork**, boneless	43%
02042290	Fresh/chilled **sheep meat**, bone in excluding short forequarters…	51%
04051019	Natural **butter**, fat content <=85% in packs >1kg	63%
04069021	Cheddar **cheese** (not grated or for processing)	42%
07019090	Fresh/chilled **potatoes**, excluding new, seed and potatoes for manufacture of starch	11.5%
07061000	Fresh/chilled **carrots and turnips**	13.6%
10019900	**Wheat** (excluding seed and durum wheat)	53%

But non-tariff barriers could be as big an issue!

Grocery market growth forecast for Asia, Africa & Middle East 2015-20



Grocery retail sales

CAGR 2015-20

Source: IGC Research, growth calculated at nominal rates

GROWTH IN GLOBAL MIDDLE CLASSES	2009 No of people (m)	2009 Global Share (%)	2030 No of people (m)	2030 Global share (%)	Middle class growth trend
North America	338	18%	322	7%	
Europe	664	36%	680	14%	
Central and South America	181	10%	313	6%	
Asia-Pacific	525	28%	3228	66%	
Sub-Saharan Africa	32	2%	107	2%	
Middle East and North Africa	105	6%	234	5%	
World	1845	100%	4884	100%	

Source: The World Bank, Kharas and Gertz, 2010

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Key industry asks

- Access to raw materials at competitive prices, from whatever source
- Continued access to labour and skills
- The freest possible terms of trade, inside and outside the EU
- A level playing field in terms of regulation
- The investment needed to innovate
- Continued reputation for safety, quality and value for money