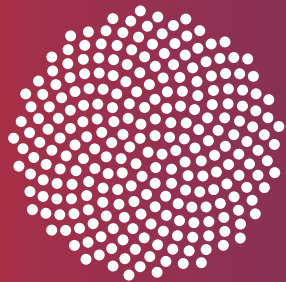




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# Brexit: the challenge for Prepared Consumer Foods





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# Introduction

## Ireland's food sector is facing an unprecedented challenge following the UK vote to leave the EU in June 2016. Since the outcome of the referendum, agri-food has seen exports to the UK drop in 2016 by €570 million at the cost of 5,700 jobs.

Discussions on the impact of Brexit on Irish agri-food have focussed largely on the primary sectors but considered attention must also be given to value-added products. The Prepared Consumer Foods (PCF) sector faces additional challenges given factors such as its reliance on imports and exports with the UK, complex and interwoven supply chain arrangements, the threat of regulatory divergence and potential changes to workforce availability.

The phase one joint agreement includes important commitments on how to avoid a hard border on the island of Ireland. These now need to be fully captured in robust legal form which must inform the talks on a transition deal and, crucially, on the future EU-UK relationship. Avoiding a hard border will involve not only a comprehensive deal on customs, but also on wider regulatory alignment. Northern Ireland will need to stay close to the single market if we are to avoid checks at the border.

This document provides the background to the impact of Brexit on the Irish PCF sector and the measures we believe Government must take to mitigate the associated risks.

The gross output of the PCF sector is €4.5bn, €2bn of which is sold domestically while €2.5bn is exported to other markets. The UK is a very important market for the PCF sector, it accounts for 65% of exports.

In 2016, exports to the UK fell by 9% to €1.6bn. The decrease was due to weaker sterling creating additional competitive pressures. This resulted in a decline in value for most categories of food and drink.

### 2016 food and drink exports to the UK

- Total exports from Ireland to the UK €4.1 billion, including:
  - PCF exports valued at €1.6 billion.
  - Beef exports valued at €1.1 billion.
  - Dairy exports valued at €840 million.

The future value of food exports from Ireland to the UK, and that of the PCF sector will be determined not just by the

changed relationship between our two currencies, but most particularly by the new trading relationship that will exist between the UK and EU.

We must consider how that new relationship will impact on such issues such as the supply chain, contracts, finance and funding, workforces, technology, regulation, tax, access to markets, and operating structures. No food company in Ireland is unaffected by Brexit.

Government must take decisive action now to assist a sector which is of vital strategic importance to the Irish economy and society. While pursuing clear domestic policy objectives to back Irish food businesses, it should also continue to engage with the European Commission to seek specific flexibility in State aid rules due to Brexit constituting a serious disturbance to the Irish economy.

The €5m capital investment to fund research and innovation in the PCF sector announced in Budget 2018 is welcome but a mere foundation. Secure, multiannual funding is essential to allow project planning and create confidence.

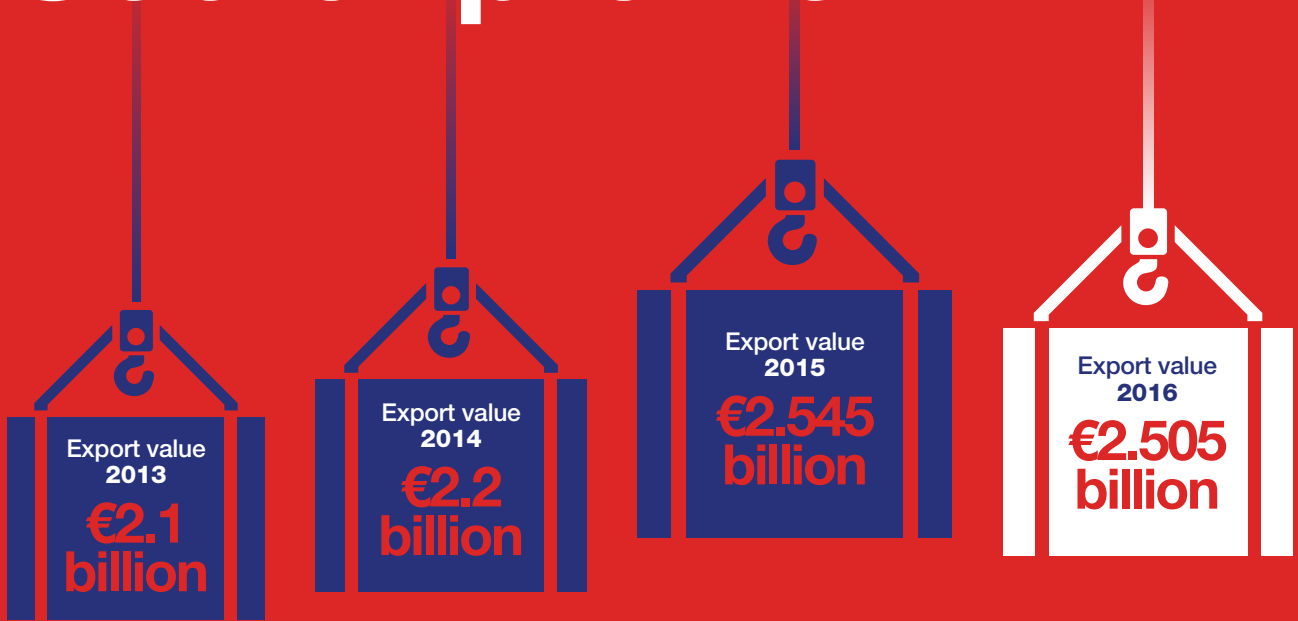
Food Drink Ireland and its PCF Council will continue to engage with Government and beyond to ensure the sector's voice is heard and concerns addressed.

**Kevin McPartlan**  
Director of Prepared  
Consumer Foods,  
Food Drink Ireland



*The Prepared Consumer Food sector produces value-added food and beverages which sell domestically or internationally to grocery or convenience retail, foodservice or other food companies. The sector includes prepared consumer foods, ingredients, value-added seafood, value-added horticulture and non-alcoholic beverages.*

# Sector profile



**500**  
manufacturing units

Total direct employment  
**20,600**



Sold domestically  
**€2bn**



Export value in 2016  
**€2.5bn**

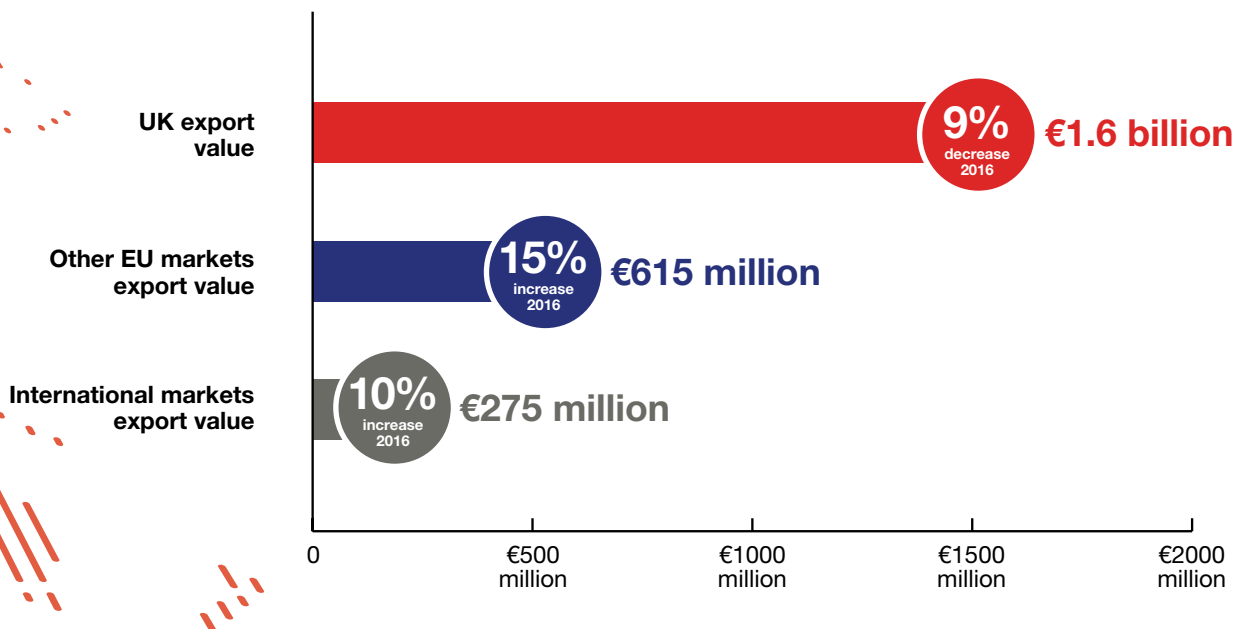
Sources: CSO figures and Bord Bia 'Export Performance & Prospects Irish Food, Drink & Horticulture 2016-2017/ 2014.

# Feedback from PCF survey

A recently completed survey of PCF companies in Ireland found that there was significant concern with respect to the following key issues:

- 01 Difficulty in sustaining existing low margin/loss making business in UK market.
- 02 Potential negative impact of a further weakening of Sterling and possible tariffs.
- 03 Supply chain cost increases (administrative and transport) as a result of a UK exit from the customs union .
- 04 Uncertainty leading to unwillingness to invest in innovation and plant and equipment.

## Distribution of Prepared Consumer Food Exports 2016



Bord Bia 'Export Performance & Prospects Irish Food, Drink & Horticulture 2016-2017



# Sterling weakness and the PCF sector

The post-Brexit trading relationship between the UK and EU will be enormously important for the PCF sector in Ireland both in terms of exports and our domestic market. While that relationship remains unclear, one major challenge has already had a significant impact on the Irish food and drink sector – the weakness in sterling.

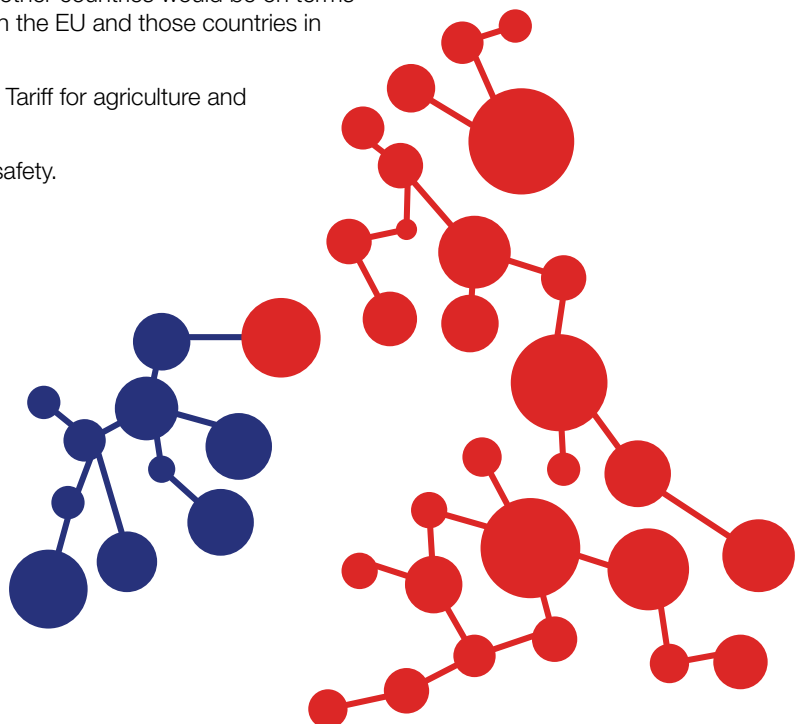
The change in relative currency values goes far beyond normal cyclical fluctuation. The relationship between sterling and the euro has changed fundamentally, causing substantial change to the economic and business environment in Ireland, the UK and the EU.



# Access to UK market

**The retention of free access to, and maintenance of, the value of the UK market, is of critical importance. The economic interests of both the EU and the UK would be best served by the UK remaining in a customs union with the EU. This will require a comprehensive Free Trade Agreement (FTA) between the EU and UK.**

- The UK needs to fully honour the far-reaching phase one joint agreement, which recognises that the unique circumstances on the island of Ireland require unique solutions to protect the Good Friday Agreement and support continued North-South and East -West trade and business. A soft border with Northern Ireland post Brexit is essential for this to be achieved.
- An ambitious and balanced agreement that prioritises continued tariff and barrier free trade between Ireland and the UK enabling long term growth, investment and stability.
- Recognition of the special case of the island of Ireland, ensuring that highly integrated supply chains can continue to operate with free movement of goods and services.
- Protection of value of the UK market. Lower cost imports, which do not meet the standards required of the food sector within the EU, must be precluded through (inter alia):
  - agreement that any FTAs the UK reaches with other countries would be on terms no more favourable than those agreed between the EU and those countries in respect of agriculture and food products.
  - continued application of the Common External Tariff for agriculture and food imports to and from the UK.
  - maintenance of equivalent standards on food safety.



# Regulatory alignment

**A final deal that delivers a close future relationship must be a shared goal. This must include regulatory alignment across all key sectors, of the all island economy, including Prepared Consumer Foods, and close cooperation into the future.**

In the absence of agreed solutions, full regulatory alignment is to be maintained with the rules of the internal market and the customs union that supports the all island economy and so protect the Good Friday Agreement. Future EU-UK regulatory alignment is vital to avoiding a major disruption to trade and supply chains.

EU food safety legislation underpins consumer confidence and is recognised globally for its high standards in food safety. It is critical, therefore, that these standards are retained by the UK after its departure from the Union.

Any divergence from the EU food safety regime could constitute a reduction in protection of UK consumers and could therefore open the UK up to inferior, lower cost imports.

Furthermore, any regulatory divergence could require Irish PCF companies to satisfy differing standards. This may well necessitate additional research and development which will serve to increase the costs and complexity of doing business.

It is essential that, post-Brexit, the UK is held to the same food safety standards as EU member states.

## Supply chain

The PCF sector operates seamlessly across the UK and Ireland; North-South and East-West.

The sector therefore relies on free and easy movement of products and people across the jurisdictions, examples include:

- the ability of raw materials to cross borders for processing - sometimes many times.
- the export and import of finished products.
- common marketing activations across Britain and Ireland.
- companies operating seamlessly across both jurisdictions.
- staff being unhindered on whichever side of the border they work.



# Policy priorities

## Ireland's PCF sector needs meaningful support from Government as it deals with the current and future impact of Brexit. Specifically:

- The fact that Brexit constitutes a serious disturbance to the Irish economy is undeniable. Government must continue to engage with the European Commission to seek specific flexibility in State aid rules so that exceptional assistance to the food industry is lawful and begin to offer that assistance.
- This should be targeted at supporting innovation, market diversification, upskilling and capital expenditure in equipment and machinery in the PCF sector. The resources required will be in the region of 5% of the value of current annual export sales to the UK by Irish indigenous firms, or about €80 million per year for three years. This would be funded from both Government and EU sources.
- Sustainable financing measures for working capital and longer-term investment such as the Brexit Loan Scheme have been announced or are under consideration by Government. They must be made available to PCF companies with terms and conditions appropriate to the sector.
- Additional funding must be provided for market diversification and product innovation measures through relevant State agencies. The €5m capital investment to fund research and innovation in the PCF sector announced in Budget 2018 is welcome but a mere foundation. Secure, multiannual funding is essential to allow project planning and create confidence.
- Trade support measures including export trade financing and export credit guarantees to support the continued development of international export markets must be offered.
- The status quo must be maintained during the transition period. There can be no reversion to high WTO MFN tariffs on EU and UK imports of food, drink, and agricultural products in the period between the UK leaving the EU and a new agreement being finalised, as this could permanently damage trade and livelihoods in the most affected sectors.
- A deal on an extended transition period is an urgent requirement. This would reduce some of the pressure of Brexit for PCF companies. The transition period should entail a continuation of the 'status quo' with the UK remaining in the existing customs union and single market. It must be of sufficient duration to allow businesses to fully adapt.

# Key asks



**Free and unfettered access to the UK market for Irish business.**

**An agreement that takes account of the special case of the all-island economy;**

building from the far reaching phase one agreement.



**Transitional agreements of sufficient length for businesses to plan and prepare for any new free trade agreement**

may be required to bridge the gap between the completion of the UK two-year exit process and until the future EU-UK agreement enters into force.



**Any arrangements to deal with the NI/ROI border should ensure strict adherence to EU regulations and EU customs duties for all products, in particular from third countries.**





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