



# Resilience of Fresh Fruit and Vegetables supply chains in the face of Brexit.

## POLICY BRIEF

### KEY FINDINGS OF SUPPLY CHAIN RISKS ASSOCIATED WITH BREXIT

In 2017, 54% of vegetables and 16% of fruits consumed in the UK were domestically produced. Meanwhile, 38% of vegetables and 32% of fruits were imported from the EU27 (ONS, 2018). The remainder was imported from other parts of the world and represented 8% of vegetables and 52% of fruits. These figures reflect the degree to which the availability of fruits and vegetables in the UK relies on imports, a situation that has been steadily rising. In addition, sanitary and quality inspections, and most of the packaging is now carried out or sourced in the EU. In our discussions with leading practitioners in the food sector they identified five common possible risk impacts associated with Brexit:

#### Just-in-time supply logistics

Modifications in the regulation that facilitate the complex logistics might affect the specific timings in which the supply chains work. This could lead to port delays, that eventually would result in reduced shelf-life, augmentation in food waste, increase in the cost of goods and reduced FFV availability

#### EU labour is vital to the UK food industry in agriculture, processing and manufacturing

Regulatory changes affecting the free movement of labour could signify shortages and increasing costs of labour. In some supply chains such as soft fruit EU migrants account for 80-90% of the labour.

#### Exchange rate fluctuations:

Prolonged trade negotiations and political uncertainty around Brexit has led to a weakening forex. Any currency drop can result in significant cost increases.

#### Imposition of MFN tariffs (WTO) on FFV in the event of a “no deal” Brexit, as well as on the enabling services and products:

After Brexit all current EU “arrivals” will transfer to “imports” and that means it is likely products will be subject to “third party” tariffs which will probably lead to increased cost of goods. Even in the case of successful implementation of the deal stalled in Parliament would lead to border delays because of “sanitary and phytosanitary” checks once the UK leaves the Single Market.

#### The EU27 are an important source for a range of enabling services

Including; packaging components, food testing services, agrochemicals and young plant supplies

## Introduction

This policy brief sheds light on the UK's dependence on just-in-time supply chains from overseas for its supply of fresh fruits and vegetables. Identifying the potential risks to food supply from Brexit requires fine-grained analysis of where the UK sources its food. This type of analysis has so far been relatively absent in the public debates on the impacts of Brexit. Our aim in this policy brief is therefore to identify some of the risks to the UK food system from Brexit and potential strategies for mitigating these risks. Using the fresh fruit and vegetables (FFV) sector as our case study, we draw attention to the plausible impacts on the security of FFV supply to the UK.

## Background

Historically the UK has been one of the world's most food-secure countries. Currently, the British food is worth £113.2 billion to the domestic economy, employs some 3.95 million people and it is the single largest manufacturing sector, significantly larger than automotives. However, food availability is strongly linked to frictionless trade and close integration with the EU27 and non-EU sources, which benefit from preferential access to the Single Market. On the one hand, UK's food exports are worth £22 billion to the UK economy, £13.2 billion, or 60% of these exports, go to the EU. Furthermore, we import £46.2 billion worth of food into the UK, £32.34 billion, or 70% of this total, of which comes from the EU. The largest single food import category to the UK is FFV, with a combined total of £6.2 billion (Defra, 2018).

With advances in supply chain logistics and technology, FFV is defined by just-in-time supply chains, with UK retailers receiving orders within 24 hours from EU suppliers, packed and ready to sell in supermarkets. As a result, high levels of seasonality and perishability of FFV mean that any delays to this (currently frictionless) trade would result in product spoilage and associated increases in waste, reduced shelf-life and subsequent rises in the cost of goods, and an erosion of grocery retail profit margins.

## Resilience Strategies

To prepare for, and respond effectively to, the key risks outlined on the cover of this brief, firms are implementing a range of resilience strategies:

- REDUCING THE PROBABILITY OF PORT DELAYS BY UTILISING FAST TRACK AUTHORISED ECONOMIC OPERATOR (AEO) STATUS
- FORWARD BUYING LOGISTICS CAPACITY
- REDUCING RELIANCE ON EU IMPORTS BY AUGMENTED SOURCING FROM BRITISH GROWERS AND ALTERNATIVE, NON-EU SOURCES EG SOUTH AFRICA
- MOVE PROCESSING AND PACKAGING OF GOODS TO THE UK TO AVOID FINISHED GOODS TARIFFS (THIS REQUIRES LABOUR)
- CURRENCY HEDGING
- ADAPTING RETAIL CUSTOMER COMMUNICATIONS (PR) AND PROMOTIONS TO PRIORITISE BRITISH PRODUCE
- WORKING HARD TO RETAIN EU UNSKILLED AND SKILLED MIGRANT EMPLOYEES
- UPGRADING IT SYSTEMS TO MANAGE NEW IMPORT REGULATIONS TO RECORD EU TRADE ACCURATELY AND ORIGIN DECLARED FOR CUSTOMERS PURPOSES.

However, the above measures will require planning and new investment from businesses in a sector where SMEs are key. Increasing the domestic supply of FFV will need changes in land use, coupled with increases in migrant labour, although neither option offers an immediate solution. Sourcing more FFV supplies from non-EU countries will demand setting up of free trade arrangements, quality assurance checks, new transport arrangements due to long lead times if shipped or increasing costs if air-freighted. There are likely to be trade-offs here regarding environmental sustainability including water related risks and greenhouse gas emissions. It is clear from our analysis there will be pressure on maintaining UK FFV supply availability, price levels and profit margins.

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