



House of Commons  
Business, Energy and Industrial  
Strategy Committee

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# The impact of Brexit on the processed food and drink sector

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**Seventh Report of Session 2017–19**

*Report, together with formal minutes  
relating to the report*

*Ordered by the House of Commons  
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## Business, Energy and Industrial Strategy Committee

The Business, Energy and Industrial Strategy Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Energy and Industrial Strategy.

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## Summary

This Report is intended to inform public and parliamentary debate and to influence the Government's objectives as it begins phase 2 of the negotiations on leaving the European Union.

The processed food and drink sector is the largest manufacturing sector in the UK and contributes £28.8 billion to the economy. Exports were worth £22 billion in 2017 and they continue to grow. The sector directly employs 400,000 people throughout the country, a third of whom are EU nationals. It is characterised by just-in-time delivery of products with short shelf lives and is heavily integrated with supply chains spread across the UK and the EU for sourcing raw materials, processing goods and selling them. Many manufacturers have factories in both the UK and the rest of the EU.

The success of the UK processed food and drink sector has been so far highly dependent on participation in the Single Market and Customs Union: free movement of goods and people have tipped the UK export balance towards an over reliance on the EU as a trading partner with 60 per cent of UK exports going to EU markets. 50 per cent of total UK food and drink exports go to five countries, four of which are EU member states.

It is crucial that the sector is able to remain competitive when we leave the European Union as failure to do so would not only impact businesses and workers but also consumers at the till point and the choice available to them in shopping aisles all year round.

The sector would undeniably suffer from reverting to WTO tariffs in the event of a 'no deal' scenario. The EU's Most Favoured Nation tariffs under WTO rules would be disastrous for UK exports and must be avoided at all cost. It is unrealistic to expect that the sector will stop relying on the EU as its main export destination at least in the short term. Consequently, the negotiation of a free trade agreement with the EU should be the number one priority for the Government. Should the UK lower or remove its tariffs on imports in the future, the consequences for British farming could be extremely damaging and the positive impact on prices for goods to households is likely to be very limited.

UK competitiveness would also be adversely affected by any additional delays and bureaucracy encountered at the UK-EU border, given the prevalence of cross-border just-in-time supply chains in the sector. The Government should seek to secure as few additional impediments to trade between the UK and the EU as can be negotiated. Frictions at the border between Ireland and the UK are of particular concern as the sector is highly integrated across the two countries. A credible solution to avoiding a hard border must be found as soon as possible.

The EU regulatory regime in food and drink is also highly integrated, and the UK is a full member of the European Food Safety Authority (EFSA). EU food regulation is associated with high safety and quality standards and already allows divergence. The majority of the evidence was in favour of remaining aligned with EU regulation as it is favourable to exports amongst other things but some opportunities from divergence

were identified in a few sectors. Nevertheless, all were unanimous in rejecting any ‘race to the bottom’ as UK consumers would not tolerate any lowering of standards. Most stakeholders also supported the UK continuing its membership of EFSA after Brexit.

The UK food and drink sector could stand to benefit from substantial growth opportunities beyond the European Union in the coming years. However, the sector does not see this as achievable without replicating all existing EU trade deals with third countries and negotiating preferential agreements with other countries that include mutual recognition. The Government’s priority in terms of opportunities for trade beyond the EU after Brexit should be to secure the roll-over of existing and forthcoming trade agreements. Moreover, the opportunities are both relatively slight and distinctly uncertain, when set against the benefits to the consumer of free access to the current range of products facilitated by conformity with agreed standards.

The Government should also seek a deal on immigration that enables the sector to access the full range of skills it requires and ensure that the arrangements for intracompany transfers and posted workers are flexible, rapid and unbureaucratic. The processed food and drink sector and the hospitality sector rely heavily on EU labour at both unskilled and highly-skilled levels for meeting its existing skills gap. Although it is possible to meet some of this demand with UK nationals eventually, it will take time and will require a robust skills strategy. In the meantime, the sector needs to be able to access EU labour seamlessly.

On research and development, the sector benefits greatly from access to EU labour, funding and facilities. The Government should seek to maintain the UK’s membership of collaborative EU R&D programmes, and secure UK participation in future programmes.

Overall, we conclude that more than anything UK businesses need clarity and certainty about the future of our relationship with the EU. The Government is almost out of time to negotiate an orderly trade system after the transition that will provide businesses with the certainty they need to invest and innovate.

# 1 Introduction

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## The processed food and drink sector

1. The processed food and drink sector is the largest manufacturing sector in the UK with approximately 400,000 workers,<sup>1</sup> a third of whom are EU nationals.<sup>2</sup> SMEs account for 96 per cent of food and drink manufacturing businesses (a third of whom are manufacturers of bakery products), 27 per cent of employment and 19 per cent of turnover.<sup>3</sup> The sector contributes £28.8 billion to the economy in gross value added (with £6.7 billion from beverages)<sup>4</sup> and is growing, including in the aftermath of the EU referendum: from 2007 to 2017 food and drink exports have grown by 93 per cent, with an average annual growth rate of seven per cent.<sup>5</sup> According to the Food and Drink Federation, there is still further potential to grow as the UK is currently “under-exporting”.<sup>6</sup>
2. UK food and drink exports were worth £22 billion in 2017, 60 per cent of which were to the EU. Ireland, France, the United States, the Netherlands and Germany are the UK’s top five food and drink export markets, contributing to 50 per cent of total UK food and drink exports. Half of the UK’s top 20 export markets were non-EU countries and identified as key priorities for future trade agreements.<sup>7</sup>
3. The sector is characterised by just-in-time delivery of products with short shelf lives and is heavily integrated with supply chains spread across the UK and the EU for sourcing raw materials, processing goods and selling them. Many manufacturers have factories in both the UK and the rest of the EU.<sup>8</sup>
4. The sector is also heavily integrated with the EU from a regulatory standpoint, although this varies depending on products and some divergence already exists.<sup>9</sup> The sector also has an important R&D presence in the UK.<sup>10</sup>
5. The UK produces 61 per cent of its food usage<sup>11</sup> and is particularly reliant on imports for fruits and vegetables and meat. Only for beverages do exports exceed imports.<sup>12</sup> 30 per cent of UK food imports come from the EU<sup>13</sup> and the UK’s trade deficit is worth £24 billion.<sup>14</sup> UK consumers are used to a menu of choice, year-round availability and price

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- 1 Department for Environment, Food and Rural Affairs, [Food Statistics in your pocket 2017: Food Chain](#), 14 November 2017, accessed 17 March 2018
  - 2 Food and Drink Federation, [Stats at a glance - Our sector in pictures](#), accessed 6 March 2018
  - 3 Department for Environment, Food and Rural Affairs, [Food Statistics in your pocket 2017: Food Chain](#), 14 November 2017, accessed 17 March 2018
  - 4 Same as above
  - 5 Food and Drink Federation, [Exports snapshot 2017](#), p1
  - 6 [Q35](#) [Ian Wright]
  - 7 Food and Drink Federation, [Exports snapshot 2017](#), p1
  - 8 [Q4](#) [Andrew Kuyk]; Food and Drink Federation [BRF0010](#), para 5; Defra [BRF0008](#), para 15
  - 9 [Q46](#) [Ian Wright]
  - 10 Food and Drink Federation, [A New UK-EU relationship, Priorities for the food and drink manufacturing sector](#), July 2016, p6; Unilever [BRF0019](#), para 2&6; [Council for Responsible Nutrition UK BRF0016](#), para 22; Tate & Lyle Sugars [BRF0012](#), para 23; Defra [BRF0008](#), para 31
  - 11 Tim Lang, Erik Millstone, Terry Marsden, [A food Brexit: time to get real](#), Science Policy Research Unit, July 2017, p25
  - 12 Department for Environment, Food and Rural Affairs, [Food Statistics in your pocket 2017: Global and UK supply](#), 14 November 2017, accessed 17 March 2018
  - 13 Department for Environment, Food and Rural Affairs, [Food Statistics in your pocket 2017: Summary](#), 14 November 2017, accessed 17 March 2018
  - 14 Food and Drink Federation, [Exports snapshot 2017](#), p1

points that are currently achieved partly via this reliance on imports from the EU and elsewhere, especially for those products that are not produced currently in the UK or not available all year round.

## Our inquiry

6. This is the fourth in a series of reports we are publishing on the impact of leaving the European Union on specific sectors of the economy.<sup>15</sup> This report contains our assessment of the consequences for the processed food and drink sector of different outcomes of the negotiations and seeks to establish what type of withdrawal agreement would most benefit the sector and, consequently, the UK's broader economic interests. We aim to inform public debate and influence the Government's negotiating approach and priorities.

7. As part of this inquiry we received 18 submissions of written evidence from businesses and other stakeholders. We took evidence in public from some of them. We have received information from companies in confidence, which we do not publish but has nonetheless helped inform our conclusions. During a visit to Brussels we held private meetings with the UK Permanent Representation to the European Union and with FoodDrink Europe. We are very grateful to all those who have contributed to our inquiry.

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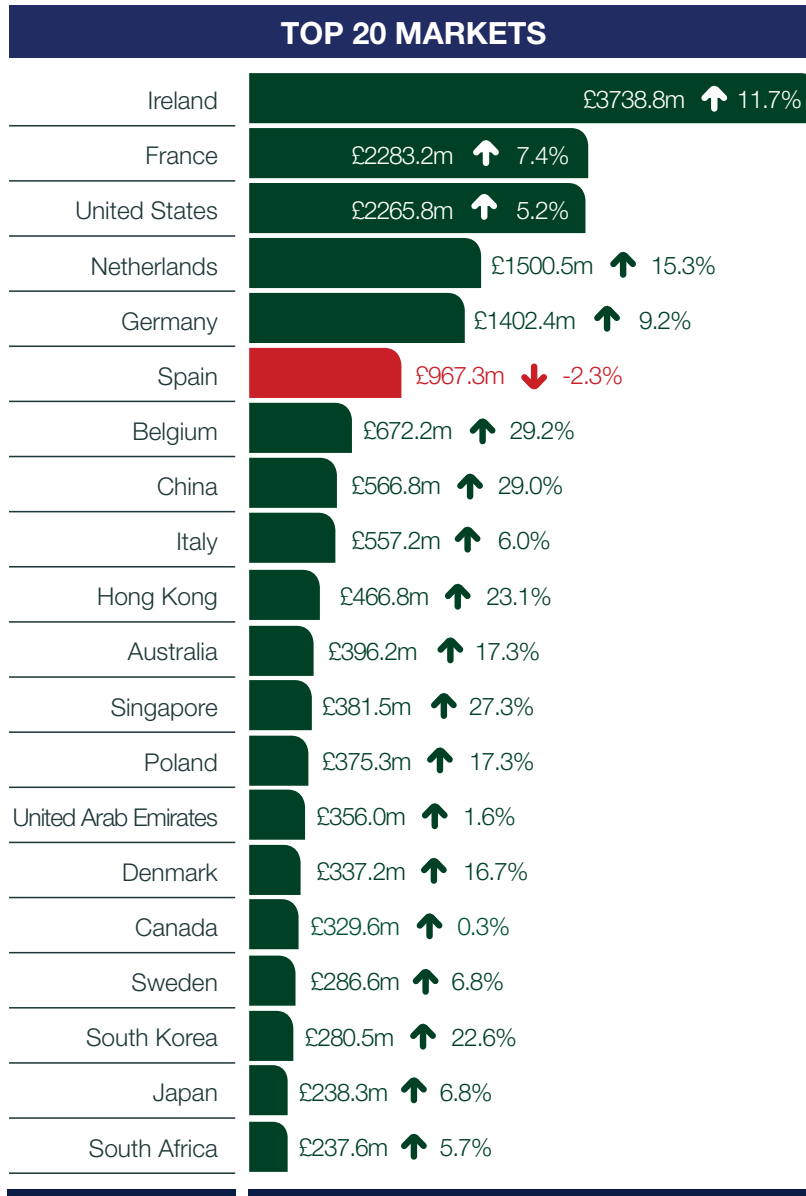
15 The Committee published its [Second Report of Session 2017–19, Leaving the EU: implications for the civil nuclear sector](#), HC 378, on 13 December 2017; its [Fifth Report of Session 2017–19, The impact of Brexit on the automotive sector](#), HC 379, on 1 March 2018; and its [Sixth Report of Session 2017–19, The impact of Brexit on the aerospace sector](#), on 19 March 2018. A report on the pharmaceuticals sector will be published in due time.



## 2 Impact of tariff barriers

### The impact of ‘no deal’

Figure 1. Food and Drink Federation, [Exports snapshot 2017, p1](#)



8. The UK currently exports the majority (60.2 per cent) of the food and drink it produces to the EU: seven out of the ten top export markets for the UK are EU countries (Ireland, France, the Netherlands, Germany, Spain, Belgium and Italy).<sup>16</sup> Half of the UK’s top 20 markets are EU countries but the other half are non-EU countries with the United States, China and Hong Kong leading the way.<sup>17</sup>

16 Food and Drink Federation, [Exports snapshot 2017, p1](#)

17 Same as above

9. Because of our membership of the Single Market and Customs Union, goods can be exported to European markets without tariffs and with minimal non-tariff barriers.<sup>18</sup> The Prime Minister has expressed the Government's intention to leave the Single Market and Customs Union when we leave the EU.<sup>19</sup> The extent and conditions of our future access to the Single Market will be determined during the negotiations. Were the UK to agree a free trade agreement with the EU, it could mean keeping the status quo as far as possible. But were it to fail to do so, it could result in a significant increase in tariffs and customs checks at the border between the UK and the EU.<sup>20</sup>

10. It is in the interests of the EU and UK that a preferential free trade agreement<sup>21</sup> is negotiated in time before March 2019 or before the end of the transitional period. However, concerns have been expressed about the Government's and the EU's ability to negotiate a deal within the amount of time remaining.<sup>22</sup> In the absence of a free trade agreement with the EU, trade between the UK and EU would automatically revert to World Trade Organisation rules ('WTO rules') and the UK would be free to set its own tariffs.<sup>23</sup> The impact of reverting to WTO rules would vary depending on the product and would mostly have consequences for UK food and non-alcoholic drinks as there are no WTO tariffs for spirits (see Box 1).<sup>24</sup>

**Box 1: The EU's Most Favoured Nation tariffs on processed food and drink**

The average Most Favoured Nation tariff on imports to the EU for:

- animal products is 16 per cent, with peaks at 104 percent;
- dairy products is 35 per cent, with peaks at 96 per cent;
- sugars and confectionery is 24 per cent with peaks at 127 per cent;
- beverages and tobacco is 20 per cent with peaks at 152 per cent.

Source: World Trade Organisation, [World Tariff Profiles 2017](#), European Union profile, Part A.2 Tariffs and imports by product groups, p82

11. The Government's EU Exit Analysis Cross Whitehall Briefing<sup>25</sup> has made it clear that processed food and drink would be one of the most severely impacted sectors under a 'no deal' scenario. In this scenario, the EU's WTO Most Favoured Nation average tariffs for food and drink would apply. They are significantly higher than for other goods, especially for agricultural products, with peaks of more than 100 per cent on some products. The

18 House of Commons Library, [Brexit: trade aspects](#), Number 7694, 9 October 2017

19 Prime Minister's Office, ['The government's negotiating objectives for exiting the EU: PM speech'](#), 17 January 2017

20 House of Commons Library, [Brexit: trade aspects](#), Appendix - Free trade agreements, Number 7694, 9 October 2017

21 Under WTO rules, the principle of non-discrimination requires WTO members not to treat any member less advantageously than any other: if one country is granted favourable treatment, the same must be done for all the others. The only exception is free trade areas and customs unions. For this reason, trade agreements are sometimes called preferential trade agreements or free trade agreements as they are an agreement between two or more countries to give each other preferential treatment. (House of Commons Library, [Brexit: trade aspects](#), Number 7694, 9 October 2017)

22 Council for Responsible Nutrition [BRF0016](#), para 25; [Q8](#) [Ian Wright]

23 House of Commons Library, [Brexit: trade aspects](#), Number 7694, 9 October 2017

24 [Q86](#) [Dan Mobley]

25 Exiting the European Union Committee, [EU Exit Analysis: Cross Whitehall Briefing](#), 8 March 2018

Government’s analysis predicts a decrease in the sector’s output (gross value added) of over eight per cent under WTO rules as a result of additional trade barriers and the sector’s share of trade with the EU.<sup>26</sup>

12. As a result, an overwhelming majority of witnesses argued that a no deal scenario would not be an “acceptable outcome” for the sector<sup>27</sup> and “could pose a real threat to UK food and drink and the trade in our sector’s products”.<sup>28</sup> We heard that

A favourable trading environment means a tariff-free trade agreement with the EU27, or, if there are tariffs, avoiding a ‘cliff edge’ scenario and minimising any additional costs associated with these.<sup>29</sup>

13. The Food and Drink Federation (‘FDF’) told us that the impact of no deal on the sector would be “pretty catastrophic”<sup>30</sup> and that

Anybody who thinks that a disorderly exit is anything other than very, very bad for the UK, and in particular for UK shoppers, is wrong.<sup>31</sup>

14. The FDF said that the availability and choice of products and the profitability of businesses would be impacted.<sup>32</sup> Likewise, many witnesses warned that “a move to WTO tariffs [...] would lead to a substantial increase in costs for our business”.<sup>33</sup> Although the largest manufacturers were confident they could absorb these “unwelcome” costs, they expressed strong concerns about the knock-on impact on their suppliers.<sup>34</sup> For instance, Diageo told us that

It will not add cost to the price that you pay for Baileys if you go to a pub. As I said, our concern is not directly for Diageo, but for the supply chain. Those are the people who will be affected, because there may be tariffs on the dairy inputs moving across the border, and there will be administration delays that we, as a large company, can swallow, but smaller suppliers may find more difficult.<sup>35</sup>

15. According to the Institute for Fiscal Studies, UK consumers would also be negatively affected at the price point because a large proportion of the food that is consumed is imported:

Currently around 30 per cent of the value of food purchased by households in the UK is imported, and the major source of food imports is the EU. In comparison, only 17 per cent of overall consumer spending is on imported goods. This means that changes in the costs of imports—for example, through changes to tariffs or movements in exchange rates—are likely to have a particularly big impact on food prices.<sup>36</sup>

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26 Same as above, p19

27 Scottish Whisky Association [BRF0018](#), para 1.2

28 Food and Drink Federation [BRF0010](#), para 8

29 Unilever [BRF0019](#), para 4

30 [Q13](#) [Ian Wright]

31 Same as above

32 Same as above

33 Unilever [BRF0019](#), para 8

34 [Q67](#) & [Q72](#) [Dan Mobley]

35 [Q76](#) [Dan Mobley]

36 Institute for Fiscal Studies, [‘How might Brexit affect food prices?’](#), 27 July 2017

16. Witnesses also argued that higher tariffs could mean an increase of sale prices to consumers both as a result of more expensive imports and less competitive exports.<sup>37</sup>

### Abolishing tariffs on all imports

17. Some witnesses were more optimistic and told us that if no free trade agreement was agreed, exiting the EU could be a unique opportunity to abolish tariffs on EU and non-EU imports to facilitate trade.<sup>38</sup> For Tim Martin, the Chief Executive of Wetherspoons, this would also lead to lower food prices for UK consumers.<sup>39</sup> However, the Institute for Fiscal Studies stated that the impact of liberalising UK tariff barriers on prices faced by consumers at the till would be minimal. They argued that because import prices only affect a small proportion of the price that households pay for goods, any reduction in import prices through lowering of tariffs would only have a limited impact (provided that businesses pass savings onto sales prices):

Of every £100 spent by UK households, only £26 is affected, directly or indirectly, by the import prices of goods on which tariffs are charged (reflecting the dominant role of services in the UK economy).` `[...] Simple arithmetic suggests therefore that even cutting all tariffs to zero could only reduce prices overall by 1.2 per cent at most. That assumes the full 4.6 per cent tariff rate, that firms fully pass through the costs of existing tariffs to households, and that tariff rates are fully reflected in the prices charged by UK and EU firms. These are strong assumptions and, in practice, the impact of tariff cuts on retail prices is likely to be less than this.<sup>40</sup>

18. The Government has argued that the future of the UK's trade balance may lie with non-EU countries:

As the European Commission's own 'Trade for All Strategy' suggests, 90 per cent of global economic growth in the next 2 decades will come from outside the` `EU, so it is likely that a greater proportion of UK trade will continue to be with non-EU` `countries<sup>41</sup>

19. However, as highlighted by the Environment, Food and Rural Affairs Committee, this could make products manufactured in the UK uncompetitive, when set against cheaper products produced at sometimes lower standards in other countries.<sup>42</sup> The National Farmers' Union has expressed strong concerns about the impact of deregulating import tariffs:

British farming would be severely damaged as cheaper imports are allowed in while British exports remain subject to high tariffs abroad.<sup>43</sup>

37 Scottish Whisky Association [BRF0018](#), para 7–8; Food and Drink Federation [BRF0010](#), para 7&44; PAGB [BRF0006](#), para 1.2; ALMR [BRF0003](#), p2;

38 [Q84](#) [Tim Martin]; Tate & Lyle [BRF0012](#), para 19

39 [Qq85&90](#)

40 Institute for Fiscal Studies, [Little scope for post-Brexit tariff reductions to cut consumer prices significantly](#), 20 March 2018

41 Department for International Trade, [Preparing for our future UK trade policy](#), 9 October 2017

42 Environment, Food and Rural Affairs Committee, [Third Report of Session 2017–19 - Brexit: Trade in Food](#), HC 348, para 50–57

43 '[National Farmers' Union criticises economists' positive vision of global tariff-free trade after Brexit](#)', Eastern Daily Press, 23 August 2017

Another representative from NFU said

Anyone who makes these trade deals will need to think: What are the consequences of making the average plate of food 10p cheaper a day? We have high standards, but we need to face up to the fact that British agriculture is not the most competitive in the world. We are comparative minnows in terms of economies of scale, and we will be competing with countries in Africa and South America where the national living wage either does not exist or is very low. The really worrying thing is that by bringing cheaper food from abroad, we will be exporting our environmental concerns to countries that are less concerned about the environment or animal welfare than we are.<sup>44</sup>

20. In this respect, we welcome the Government's commitment in its evidence to us not to water down the UK's high standards for animal welfare, food safety, and food traceability.<sup>45</sup> It may also lead to an increased reliance on imports from non-EU countries. This could make it challenging to rely on just-in-time deliveries at a reasonable cost. The resulting increased transport emissions may not be compatible with the objectives of the Climate Change Act 2008 or our commitments under the Paris Agreement. In the course of this inquiry, we have not heard any arguments in favour of imposing high tariffs or in support of a protectionist approach to trade.

**21. Should the UK continue to export the majority of its products to the EU, a no deal scenario with WTO tariffs would have a seismic impact on the sector's performance and the competitiveness of exports, especially for some of the UK's top ten processed products, such as chocolate, cheese, beef, pork and soft drinks. A no deal scenario would be unviable and unacceptable to the sector as, at least in the short term, the EU is the UK's main trading partner. It would also have serious repercussions for importers of UK products in the EU and the rest of the world.**

**22. We welcome the Government's intention to negotiate a new trading partnership with the EU as early as possible. *Striking a free trade agreement with the EU should be the number one priority in order to protect the UK processed food and drink sector's competitiveness in the short term.***

**23. The current UK trade deficit in food and drink means that imports will continue to play a crucial role at least in the short term. We agree that leaving the EU creates new opportunities to import more low-price products from non-EU countries. However, the impact of removing external tariffs on imports could be extremely severe for British farming and have a limited impact on prices for consumers. *The Government will have to carefully balance the impact that non-EU imports could have on the competitiveness of UK businesses and the cost of timely deliveries with the merits of continuing to rely primarily on EU imports.***

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44 Same as above

45 Defra [BRF0008](#), para 18

### 3 Non-tariff barriers

24. In its Cross Whitehall Briefing, the Government has estimated that non-tariff barriers could have a disastrous impact on the food and drink sector by increasing costs by approximately 17 per cent in tariff equivalent.<sup>46</sup> The evidence we received was likewise unanimous in arguing that any additional non-tariff barriers would be extremely costly and detrimental to just-in-time deliveries, customers' experience of year-round choice, businesses' costs and operations.<sup>47</sup>

25. The Prime Minister said in her Florence speech on 22 September 2017 that the Government wanted “the freest and most frictionless trade possible in goods and services between the UK and the EU”.<sup>48</sup> Michel Barnier, the EU's chief negotiator, has already established that the UK's access to the Customs Union could not exceed that of a member state of the Customs Union.<sup>49</sup> A compromise will have to be found but it is likely to mean more friction at the border than currently enjoyed, as recently acknowledged by the Prime Minister.<sup>50</sup> The Draft Agreement<sup>51</sup> between the EU and the UK on 19 March 2018 provides welcome clarity on customs arrangements during the transition period but leaves great uncertainty regarding customs checks beyond December 2020.

#### Increased delays at border points

26. Because of efficiencies developed over decades, food and drink products are often processed in several EU countries and sent back and forth between the UK and EU partners several times before they reach consumers—especially at the border between the UK and Ireland.<sup>52</sup> The cost of adding even fifteen minutes of delays at key border points could run into millions of pounds for the biggest manufacturers<sup>53</sup> and would be most consequential for SME suppliers.<sup>54</sup> For instance, Diageo told us that a 15-minute wait for each truck at the border between Ireland and the UK would cost £1.3 million per year to Diageo alone<sup>55</sup>—potentially more for suppliers.

27. From a logistical point of view, many doubts were raised by stakeholders about the capacity at UK border points to handle the additional volume of trade needed to be checked once we leave the Customs Union.<sup>56</sup> Companies like Ferrero UK and Diageo transport their products across supply chains using thousands of trucks, adding to traffic at the

46 Exiting the European Union Committee, [EU Exit Analysis: Cross Whitehall Briefing](#), 8 March 2018, p9

47 [Council for Responsible Nutrition UK BRF0016](#), para 11; Ferrero UK [BRF0015](#), para 17–18; Wine and Spirit Trade Association [BRF0011](#), para 1.4; ALMR [BRF0003](#)

48 Prime Minister's speech, [A new era of co-operation and partnership between the UK and the EU](#), Florence, 22 September 2017

49 European Commission, [Speech by Michel Barnier at the European Economic and Social Committee](#), Brussels, 6 July 2017

50 Prime Minister's Office, [PM speech on our future economic partnership with the European Union](#), 2 March 2018, accessed 17 March 2018

51 Department for Exiting the European Union, [Draft Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community](#), 19 March 2018

52 [Q12](#) [Andrew Kuyk]; [Q67](#) [Dan Mobley]; Environment, Food and Rural Affairs Committee, [Third Report of Session 2017–19 - Brexit: Trade in Food](#), HC 348, 18 February 2018, para 112; Tim Lang, Erik Millstone, Terry Marsden, [A food Brexit: time to get real](#), Science Policy Research Unit, July 2017, p56

53 Based on confidential evidence from UK businesses seen by the Committee

54 [Q67](#) [Dan Mobley]

55 [Q72](#)

56 Written evidence from Port of Dover to Public Accounts Committee [BAC0001](#); PAGB [BRF0006](#), para 2.1



UK's border points.<sup>57</sup> This could make it more challenging to import fresh products,<sup>58</sup> “possibly having a disproportionate impact on [Food and Drink Sector] producers whose production and product lives are exceptionally time sensitive.”<sup>59</sup> For instance, Diageo uses dairy on both sides of the border:

Baileys is manufactured in plants on both sides of the border. The dairy that we use in Baileys is sourced both sides of the border. We buy 11 per cent of Ireland's cream output to make Baileys. We could manage a hard border, of course—we are a large company—but it would be very unwelcome. We move about 18,000 trucks a year over that border, so even small hold-ups to process those truck movements would be really unwelcome.<sup>60</sup>

This could in turn have an impact on the availability of products all year round to consumers.<sup>61</sup>

### Other non-tariff barriers

28. Some stakeholders stressed the need to negotiate new and preferential Rules of Origin with the EU in order to mitigate the impact of leaving the Customs Union on their sector.<sup>62</sup> Others warned manufacturers and retailers may have to factor in the additional cost of increasing stock levels, depending on the availability of transport and warehousing.<sup>63</sup> The Food and Drink Federation was concerned that technology could not replace the range of sanitary and veterinary checks required at the EU's external border for non-EU countries and feared this would lead to food waste if delays at the border increased significantly.<sup>64</sup> Divergence from EU labelling standards was also cited as an unwelcome non-tariff barrier.<sup>65</sup>

29. The Government has set out its two negotiating positions regarding future customs arrangements:

- “A highly streamlined customs arrangement between the UK and the EU, streamlining and simplifying requirements, leaving as few additional requirements on EU trade as possible.”
- “A new customs partnership with the EU, aligning our approach to the customs border in a way that removes the need for a UK-EU customs border.”<sup>66</sup>

30. The majority of witnesses asked for maintaining the status quo as much as possible and asked that the Government provide them with clarity on what “frictionless trade” means as soon as possible. Several witnesses made the point that uncertainty was already having a negative impact on businesses and needed to be remedied immediately.<sup>67</sup> For instance the Association of Licensed Multiple Retailers (‘ALMR’) described the impact of uncertainty on their members as follows:

57 Ferrero UK [BRF0015](#), para 17–18

58 PAGB [BRF0006](#), para 2.2

59 GMB [BRF0014](#) para 12

60 [Q67](#) [Dan Mobley]

61 Food and Drink Federation [BRF0010](#), para 7

62 Confederation of Paper Industries [BRF0002](#), para 9; Tate & Lyle Sugars [BRF0012](#), para 20; Food and Drink Federation [BRF0010](#)

63 Wine and Spirit Trade Association [BRF0011](#), para 2.1

64 Food and Drink Federation [BRF0010](#), para 11

65 British Beer and Pub Association [BRF0009](#), para 7

66 HM Government, [Future customs arrangements - A future partnership paper](#), 15 August 2017, para 4

67 [Qq2&4&8](#) [Andrew Kuyk]; [Qq6&18&26](#) [Kate Nicholls]; [Qq10&50](#) [Ian Wright]

We have examples where investment decisions have been paused for particularly large capex and roll-out of new restaurants, pubs and hotels, because they really look to take a two-year planning cycle. That is tied up not just with Brexit, but with uncertainty to do with the UK economy and the FX issues that have arisen as a result of Brexit, so you cannot disentangle it. Some of the issues to do with consumer confidence and UK economic growth will also impact on foreign investment decisions. A large proportion of our eating-and-drinking-out market is foreign investment backed.<sup>68</sup>

## Northern Ireland

31. The Draft Withdrawal Agreement provided little further information regarding the future of the common regulatory area between Ireland and the UK. Everything still remains to be agreed.<sup>69</sup> Witnesses were particularly concerned about non-tariff barriers at the border between Ireland and Northern Ireland as the UK processed food and drink sector is heavily integrated with Ireland. The lack of tariff and non-tariff barriers within the Single Market has allowed for production to be optimised to the extent that some products are processed in one country, then moved to another for final packaging and then potentially sold in another.<sup>70</sup> For example, Nestlé told us:

Our company is Nestlé UK and Ireland. We treat it as one economic region, even though they are obviously two very separate countries. All the products we sell in Ireland—it may not be absolutely all, but very largely—are either manufactured in the UK or are imported into the UK and then sent by Nestlé UK into Ireland. That border, if you like, is extremely important. The fact that we can move things freely between the UK and Ireland in a frictionless way without tariffs is fundamental to our business model and our business in Ireland. We would absolutely have concerns and real issues if that frictionless border changed or if we started to see tariffs between the Republic of Ireland and the UK. It is an east-west border as well as a north-south border.<sup>71</sup>

32. Diageo painted a similar picture:

Ireland is one of biggest priorities in the negotiation. We run the island as one business, and we manufacture our products on both sides of the border in a seamless supply chain.<sup>72</sup>

33. Ferrero UK said that “80 per cent of the output from [their] tic tac factory in Cork, Ireland, is exported to the mainland of Europe through the UK” and therefore needed to be able to continue unimpeded.<sup>73</sup>

In the words of the Food and Drink Federation: “Ireland is an integrated economy, so for economic purposes the border is meaningless”.<sup>74</sup>

68 [Q6](#) [Kate Nicholls]

69 Department for Exiting the European Union, [Draft Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community](#), 19 March 2018

70 [Q12](#) [Andrew Kuyk]; [Q67](#) [Dan Mobley]; Environment, Food and Rural Affairs Committee, [Third Report of Session 2017–19 - Brexit: Trade in Food](#), HC 348, 18 February 2018, para 112; Tim Lang, Erik Millstone, Terry Marsden, [A food Brexit: time to get real](#), Science Policy Research Unit, July 2017, p56

71 [Q66](#) [Ian Rayson]

72 [Q66](#) [Dan Mobley]

73 Ferrero UK [BRF0015](#), para 20

74 [Q40](#) [Ian Wright]



34. Diageo made it clear that although it could absorb the unwelcome additional cost arising from additional non-tariff (and tariff) barriers at the Irish border, its suppliers probably could not.<sup>75</sup> All witnesses who mentioned Ireland were hopeful that a solution could be found to avoid a hard border and keep trade as frictionless as possible.<sup>76</sup> The Food and Drink Federation said that they were worried that “nobody has yet offered a practical or technological solution that actually appears to work.”<sup>77</sup> Diageo stressed that even technological solutions such as the one used at the American and Canadian border were not entirely frictionless and still involved delays and additional costs.<sup>78</sup> The Northern Ireland Affairs Committee searched for an example of a frictionless border between countries and found none.<sup>79</sup> However, as Tim Martin pointed out, even within the Customs Union, trade is never entirely frictionless:

It is not really frictionless now for the beer, wine and spirit trade, because when we take products over to southern Ireland, to the Republic, we have to put our beer in some sort of bonded warehouse, reclaim the duty from the UK and then head over to the Republic and go through phase 2—paying that duty.<sup>80</sup>

35. The Government said in their evidence to us that they were committed “to find a solution that avoids any infrastructure at the Irish border, including in relation to Sanitary and Phytosanitary (SPS measures).”<sup>81</sup> The Prime Minister has also reiterated that the Government would not accept a hard border between Northern Ireland and Ireland but that the UK, Ireland and the European Commission still needed to work together on finding a solution.<sup>82</sup>

**36. We did not hear any evidence suggesting that moving away from the current customs arrangements could be beneficial to UK manufacturers or consumers as it would inevitably incur some additional checks, delays and costs. If a solution that is as frictionless as possible is not agreed in time for after the transition, even a few additional non-tariff barriers could prove very challenging at UK border points and have a serious impact on small and medium suppliers, especially between Ireland and Northern Ireland. It will also affect the type and price of products available all year round to consumers.**

**37. We welcome the fact that the Government managed to negotiate preserving the status quo during the transition period but the sector needs certainty beyond that point. We urge the Government to end the uncertainty regarding future customs arrangements by negotiating a new partnership with the EU as soon as possible. In order to minimise potential increases in food costs, it should prioritise securing as few additional border requirements as can be negotiated.**

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75 [Q67](#) [Dan Mobley]

76 Unilever [BRF0019](#); Ferrero UK [BRF0015](#); Wine and Spirit Trade Association [BRF0011](#); Food and Drink Federation [BRF0010](#); British Beer and Pub Association [BRF0009](#); USDAW [BRF0007](#); PAGB [BRF0006](#); British Specialist Nutrition Association [BRF0004](#)

77 [Q40](#) [Ian Wright]

78 [Qq69–70](#) [Dan Mobley]

79 Northern Ireland Affairs Committee, [Second Report of Session 2017–19 - The land border between Northern Ireland and Ireland](#), HC 329, 16 March 2018

80 [Q70](#) [Tim Martin]

81 Defra [BRF0008](#) para 16

82 Prime Minister’s Office, [PM speech on our future economic partnership with the European Union](#), 2 March 2018, accessed 14 March 2018

***38. The Government will have to put considerable resources into increasing customs capacity at UK border points and should put forward proposals on the type of support it will provide for SME and large suppliers in transitioning towards a new customs model.***

***39. In order to support trading communities on both sides of the border, the Government should prioritise developing proposals that provide businesses with clarity regarding future customs arrangements at the border between Ireland and the UK.***

## 4 Regulatory alignment

### The risks of increased regulatory divergence

40. A great deal of food and drink regulation is currently set at EU level. A majority of stakeholders stressed that the EU's impact on regulation had been positive for the food and drink sector, through geographical indicators, high food safety standards, harmonised food labelling,<sup>83</sup> and already allowed some divergence.<sup>84</sup> The Food and Drink Federation said

I wouldn't say that there is any massive regulatory or other restriction that the EU places on us. [...] The idea that the EU is a warren of red tape and regulation that restricts our ability to do stuff is simply not true.<sup>85</sup>

41. Witnesses across the board asked for continued membership or strong mutual recognition of EU regulatory bodies and for the UK to retain maximum influence on future EU standards.<sup>86</sup> They also pressed the Government to avoid a regulatory cliff-edge<sup>87</sup> and warned that it was imperative for mutual recognition of standards to continue:

Without an assurance that consistent regulation and mutual recognition will continue, or at least confirmation of this being taken into account in the phased process of implementation, there would be a considerable impact on the business, including future financial implications.<sup>88</sup>

Unilever added that “Any future potential dual regulation across the EU and the UK would lead to a cost burden and risk making the UK less competitive.”<sup>89</sup> The manufacturers of alcoholic drinks we heard from wanted to keep the EU geographical indicators system and EU rules on category definitions to protect key UK products like Scotch or Baileys.<sup>90</sup>

42. Increasing divergence would add to non-tariff barriers according to our witnesses,<sup>91</sup> who see regulatory convergence as a “guarantee of consistency”.<sup>92</sup> Convergence minimises costs and administrative burdens for businesses, especially regarding exports.<sup>93</sup> Stakeholders warned that diverging further might mean having to create separate products for the UK and the EU market—which would be possible for an sector used to adapting quickly to different national markets, but would create unwelcome additional costs.<sup>94</sup> It would also mean potentially labelling products differently, which would not be welcomed by the manufacturers where previously they were able to sell the same products across the UK and the EU.<sup>95</sup> For instance, Ferrero UK told us:

83 Scottish Whisky Association [BRF0018](#); Unilever [BRF0019](#), para 21; Council for Responsible Nutrition UK [BRF0016](#); GMB [BRF0014](#), para 5; Wine and Spirit Trade Association [BRF0011](#), para 3.1–3.2;

84 [Q46](#) [Ian Wright]

85 [Q36](#) [Ian Wright]

86 Unilever [BRF0019](#), para 5; GMB [BRF0014](#), para 19

87 Unilever [BRF0019](#), para 21; Ferrero UK [BRF0015](#), para 32; Food and Drink Federation [BRF0010](#), para 46;

88 Unilever [BRF0019](#), para 22

89 Unilever [BRF0019](#), para 24

90 Scottish Whisky Association [BRF0018](#); [Q55](#) [Dan Mobley]

91 Scottish Whisky Association [BRF0018](#); Council for Responsible Nutrition UK [BRF0016](#)

92 Ferrero UK [BRF0015](#), para 13; Unilever [BRF0019](#), para 21

93 Unilever [BRF0019](#), para 21; [Q43](#) [Ian Wright]

94 [Q56](#) [Ian Rayson]

95 Ferrero UK [BRF0015](#), para 15

Were UK and EU labelling law to diverge such that future labelling schemes were not compatible, i.e. we had to have different products on sale in each country, the task of repackaging products from one market to the other could increase costs by as much as 10 per cent and reduce the number of different products on the market.<sup>96</sup>

43. Witnesses also stressed that if it led to a lessening of standards, divergence would not be tolerated by UK consumers, who are extremely discerning of the quality of food and drink products and expect high standards of animal welfare and food safety.<sup>97</sup> In the words of the ALMR:

We forget the consumer at our peril. Whether we could, should or would diverge, the consumer will probably not let us diverge. Our consumers are very well informed when they eat out. A lot of them know the provenance of the food they are eating and do not want to go to any lesser standards.<sup>98</sup>

Witnesses associated EU regulation with high product quality and safety standards<sup>99</sup> whilst the UK is renowned for high environmental and welfare standards.<sup>100</sup> UK customers have shown that they would not tolerate lowering any of these standards, as made clear by the chlorinated chicken controversy. Insistence on maintaining our high standards may have an impact on our ability to secure advantageous trade deals with third countries.

44. *We agree with the sector that overall the UK should stay as close as possible to EU regulations after we leave the EU. This would facilitate exports to the EU market and build on consumer trust for EU-branded products. Key EU regulations like geographical indicators must be preserved to maintain the competitiveness of flagship UK products and to allow UK consumers confidence in what they buy (eg. Cheddar cheese).*

## Opportunities from divergence

45. If done well, some future divergence could generate opportunities for improving existing regulation in a way that benefits UK consumers and businesses. This should be done only when and where this creates a real benefit to the UK or consumers as argued by one witness.<sup>101</sup> The Prime Minister has been clear on the fact that the UK would not engage in a “race to the bottom in the standards and protections we set.”<sup>102</sup>

46. The Wine and Spirit Trade Association highlighted opportunities for divergence on EU food law, product definitions to boost British exports, and restrictions on imported wine in order to liberalise imports from non-EU countries.<sup>103</sup> The Scottish Whisky Association told us that EU excise duty should be abandoned and duty-free arrangements between the EU and the UK should be reintroduced.<sup>104</sup> However, along with Diageo, they

96 Ferrero UK [BRF0015](#), para 15

97 Unilever [BRF0019](#), para 5; Food and Drink Federation [BRF0010](#), para 3&20; Defra [BRF0008](#), para 18

98 [Q48](#) [Kate Nicholls]

99 [Q44](#) [Ian Wright]; [Q48](#) [Kate Nicholls]; Council for Responsible Nutrition UK [BRF0016](#), para 12; GMB [BRF0014](#), para 5; Wine and Spirit Trade Association [BRF0011](#), para 3.1–3.2

100 Rich Energy [BRF0013](#); Food and Drink Federation [BRF0010](#), para 37; British Beer and Pub Association [BRF0009](#), para 9; Defra [BRF0008](#), para 4

101 Unilever [BRF0019](#), para 24

102 Prime Minister’s Office, [PM speech on our future economic partnership with the European Union](#), 2 March 2018, accessed 16 March 2018

103 Wine and Spirit Trade Association [BRF0011](#), para 3.3&3.6

104 Scottish Whisky Association [BRF0018](#)

stressed that domestic tax policies were also a constraint on their competitiveness and needed to be reviewed.<sup>105</sup> Diageo told us divergence should be considered on a case-by-case basis and done only where EU regulation was unreasonable.<sup>106</sup>

47. Moreover, although further divergence could be advantageous for UK businesses selling mostly or solely to the UK market, it could come at a cost for businesses that export to the EU market. UK businesses would still have to abide by EU rules in order to export but the UK will have lost the ability to influence those standards.

**48. We conclude that large manufacturers are already used to dealing with different regulations for different national markets and could probably adapt if they were given enough time and certainty to do so. Nevertheless, this is not something that all of them will welcome and *it should only be done where it presents a clear advantage for British businesses and British consumers.***

**49. We recognise that there are opportunities to diverge once we leave the EU that would make some UK products more competitive, although these gains need to be balanced against any consequent reduction in access to EU markets. We welcome the Prime Minister's assurances against any race to the bottom in standards. Our biggest concern is the impact on the 96 per cent of food and drink SMEs for whom having to deal with another set of regulations will be burdensome and costly. They will need Government support and time to adapt. *As a result, we recommend that the Government seeks to secure mutual recognition of standards as soon as possible to provide these businesses with the necessary certainty.***

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105 Scottish Whisky Association [BRF0018](#); Business, Energy and Industrial Strategy Committee, [Letter from Diageo on Leaving the EU: implications for processed food and drink sector](#), 19 December 2017

106 [Q55](#)

## 5 Transitional arrangements

50. The majority of stakeholders we heard from were in favour of a transition period as a means to avoid any regulatory and tariff cliff-edge. We therefore welcome the publication of the Draft Withdrawal Agreement on 19 March 2018 which established the terms of the 21-month long transition period following March 2019.<sup>107</sup> The Agreement does not include any explicit provision for the transition period to be extended beyond 31 Dec 2020.

51. However, the length of this period will disappoint many of the stakeholders we heard from, as most of them wanted the transition to last for as long as possible (over two years) and for it to be as simple as possible so that businesses do not face adapting to several sets of regulations.<sup>108</sup> In the words of Unilever:

To minimise the disruption and impact this could have across all stakeholders, we request that the transition should be made as simple as possible (one step rather than two) if a transitional phase is put in place.<sup>109</sup>

52. Most witnesses, including the Government, were in favour of maintaining the status quo during the transition period<sup>110</sup> and will therefore welcome the Draft Withdrawal Agreement which maintains the status quo for the movement of goods and people. Witnesses had been adamant in asking for the terms of the transition to be announced as quickly as possible to provide businesses with the certainty they need.<sup>111</sup>

Crucially, this process of transition cannot begin until there is certainty about the end goal of the whole transition process. The transition period should have a clearly defined start and end point and the duration provided should not be decided arbitrarily.<sup>112</sup>

53. Some witnesses had stressed that the Government was running out of time to let businesses know what the terms of the transition would be and how long it would last without having a detrimental impact on investment and innovation.<sup>113</sup> Now that these terms have been announced, some concerns remain about the brevity of the proposed transition period. Sector bodies like the Food and Drink Federation are already asking for the end date of the transition to be flexible and adjusted depending on how fast the sector adapts to the systems to be put in place after the transition.<sup>114</sup>

107 Department for Exiting the European Union, [Draft Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community](#), 19 March 2018. It was [adopted](#) by the European Council on 23 March 2018.

108 Scotch Whiskey Association [BRF0018](#); Council for Responsible Nutrition UK [BRF0016](#), para 31–33; Ferrero UK [BRF0015](#), para 31–33; GMB [BRF0014](#), para 4; Wine and Spirit Trade Association [BRF0011](#), para 2.1; Food and Drink Federation [BRF0010](#), para 3; PAGB [BRF0006](#), para 7.1; Unite the Union [BRF0005](#); British Specialist Nutrition Association [BRF0004](#); ALMR [BRF0003](#); Confederation of Paper Industries [BRF0002](#); [Textile Services Association BRF0001](#)

109 Unilever [BRF0019](#), para 3

110 Scotch Whiskey Association [BRF0018](#); Wine and Spirit Trade Association [BRF0011](#), para 7.1; British Beer & Pub Association [BRF0009](#), para 26; Defra [BRF0008](#)

111 Unilever [BRF0019](#), para 10; Scotch Whiskey Association [BRF0018](#); Wine and Spirit Trade Association [BRF0011](#), para 6.2

112 Food and Drink Federation [BRF0010](#), para 44–45

113 [Qq8&32](#) [Ian Wright & Kate Nicholls]; [Q4](#) [Andrew Kuyk]

114 Food and Drink Federation, [Food and Drink Federation response to David Davis/Michel Barnier Press Conference](#), 19 March 2018

**54. The transition period that was recently negotiated with the EU is significantly shorter than what the sector had hoped for. This may prove challenging for businesses that may struggle to find the time and have the necessary expertise to familiarise themselves and adjust to the system in place after we leave the EU.**

## 6 Trade opportunities post-Brexit

### Replicating existing EU trade deals

55. No one we took evidence from argued that the UK could avoid relying at least partially on imports as it does not have the capacity to produce domestically some of the products UK customers have grown used to all year round. 94 per cent of UK exports and 97 per cent of UK imports of food and non-alcoholic drink are to and from the EU or with countries that the EU has negotiated or is in the process of negotiating a trade agreement with.<sup>115</sup>

56. This has led many stakeholders to stress that it would be in both the EU's and the UK's interest to negotiate a trade deal as soon as possible and for the UK to replicate as many existing EU trade deals as possible, as they represent 10 per cent of all UK food and drink exports.<sup>116</sup> The Food and Drink Federation identified Korea, Canada, South Africa, Mexico and Norway as key priorities for replicating existing EU trade deals as they are the top 5 five non-EU export destinations for UK exports through an EU trade deal.<sup>117</sup>

### Opportunities for new trade deals

57. Many witnesses suggested that negotiating these new agreements would be an opportunity to improve existing export processes and tariffs<sup>118</sup> but stressed that any new agreement should achieve mutual recognition at the very least.<sup>119</sup> Witnesses also warned against lowering existing product standards as a result of negotiating new deals with non-EU countries.<sup>120</sup>

58. Although all witnesses welcomed the Government's intention to negotiate new free trade agreements, some feared that it is already running out of time to do so before March 2019.<sup>121</sup> UK businesses argued for certainty on future trade terms now in order to make long-term investment decisions.

59. Exiting the EU could be a unique opportunity to diversify the UK's balance of trade towards new partnerships with non-EU countries and decrease the cost of some imports by agreeing mutually-binding reduction or removal of tariffs on certain goods.<sup>122</sup> The Government pointed out that it is predicted that 90 per cent of global economic growth in the next two decades is going to be created outside of the EU.<sup>123</sup> The Food and Drink Federation told us the UK was "massively" under-exporting, representing an opportunity

115 Food and Drink Federation, [A New UK-EU relationship, Priorities for the food and drink manufacturing sector](#), July 2016, p4

116 Food and Drink Federation, [Exports snapshot 2017](#), p4; Scottish Whisky Association [BRF0018](#); Ferrero UK [BRF0015](#), para 28; Wine and Spirit Trade Association [BRF0011](#); Food and Drink Federation [BRF0010](#), para 10; [British Beer and Pub Association BRF0009](#); PAGB [BRF0006, para 6.1](#); Confederation of Paper Industries [BRF0002](#), para 13; [International Trade Committee, First Report of Session 2017–19 - Continuing application of EU trade agreements after Brexit](#), HC 520, 7 March 2018

117 Food and Drink Federation, [Exports snapshot 2017](#), p4

118 Council for Responsible Nutrition UK [BRF0016](#), para 26–30; Tate & Lyle Sugars [BRF0012](#), para 26–28

119 Wine and Spirit Trade Association [BRF0011](#)

120 GMB [BRF0014](#) para 11; Food and Drink Federation [BRF0010](#), para 37; Unite the Union [BRF0005](#)

121 Council for Responsible Nutrition UK [BRF0016](#), para 25

122 Food and Drink Federation [BRF0010](#), para 34–35; USDAW [BRF0007](#); ALMR [BRF0003](#)

123 Department for International Trade, [Policy paper -Trade White Paper: Preparing for our future UK trade policy - government response](#), 5 January 2018



to do much better in terms of exports to both non-EU and EU countries.<sup>124</sup> The Government's Food and Drink Action Plan was designed to increase UK exports and has the potential to deliver significant outcomes.<sup>125</sup> Nevertheless, some witnesses suggested that the Government pursue these new opportunities whilst maintaining the same level of trade with the EU, rather than substituting it.<sup>126</sup>

**60. We welcome the Government's Food & Drink Action Plan and any other initiatives to boost UK food and drink exports. *We believe this cannot be done without seeking a free-trade agreement with the EU as a priority given the sector's current reliance on the EU as an export destination. The Government should also prioritise the roll-over of existing EU trade agreements to the UK and then focus on establishing new free trade agreements with third countries.***

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124 [Q35](#) [Ian Wright]

125 Defra & DIT, [UK food and drink: international action plan 2016 to 2020](#), 18 October 2016

126 Wine and Spirit Trade Association [BRF0011](#)

## 7 Skills

### Critical reliance on migrant work

61. Access to EU nationals is crucial to the processed food and drink sector on four grounds: hospitality (which is the second largest employer of EU nationals with 1 in 8 employees an EU national);<sup>127</sup> R&D (where EU nationals are crucial in filling the skills gap for STEM roles);<sup>128</sup> veterinary checks;<sup>129</sup> and manufacturing (where a third of the workforce—or 117,000 people—are EU nationals and 19 per cent of EU workers are in highly skilled roles).<sup>130</sup> According to the Migration Advisory Committee, 24.3 per cent of the sector's workforce was made up of EEA migrants<sup>131</sup> in 2016 as opposed to just 2.6 per cent in 2004.<sup>132</sup>

62. A recent report from the Migration Advisory Committee found that:

The sector currently has a very large percentage of migrant workers, particularly NMS migrants<sup>133</sup> [...]. EU migrant labour is primarily employed in lower-skilled factory-based roles. Access to flexible migrant labour has been critical to growth of this sector.<sup>134</sup>

The majority of occupations in the processed food and drink sector were low-skilled in 2014–2016 (see Figure 3.7 below).<sup>135</sup> The same report also showed that whilst more than 50 per cent of 'EU 13+ migrants' (i.e. migrants from Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, Iceland, Liechtenstein, Norway and Switzerland) occupied high/medium roles in the sector, 'NMS migrants' (i.e. migrants from new member states: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Romania, Slovakia, Slovenia) overwhelmingly occupied low-skilled jobs (see Figure 3.8 below).<sup>136</sup>

127 ALMR [BRF0003](#)

128 Unilever [BRF0019](#); Food and Drink Federation, [Breaking the chain - Key workforce considerations for the UK food and drink supply chain as we leave the EU](#)

129 See Environment. Food and Rural Affairs Committee, [Third Report of Session 2017–19 - Brexit: Trade in Food](#), HC 348 and not part of the focus of this inquiry.

130 Food and Drink Federation, [Stats at a glance](#), accessed 18 March 2018; Food and Drink Federation [BRF0010](#), para 28

131 EEA stands for the European Economic Area and includes EU countries, Iceland, Norway and Liechtenstein. It is an agreement that allows these countries to be part of the EU Single Market. Switzerland is not part of the EEA but has access to the Single Market via a separate agreement.

132 Migration Advisory Committee, [EEA workers in the UK labour market: annexes](#), 27 March 2018, p48

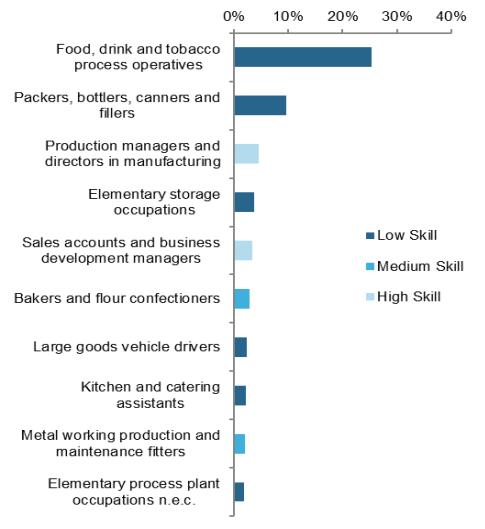
133 'NMS migrants' are migrants from new member states ('NMS'), i.e. countries that joined the EU after 2004: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Romania, Slovakia, Slovenia.

134 Migration Advisory Committee, [EEA workers in the UK labour market: annexes](#), 27 March 2018, p48

135 Migration Advisory Committee, [EEA workers in the UK labour market: annexes](#), 27 March 2018, p50

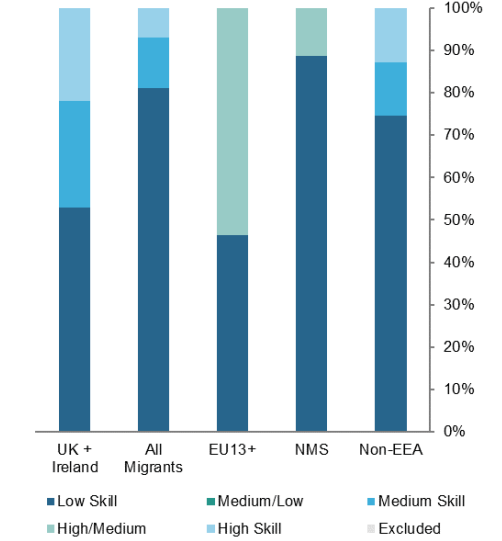
136 Same as above

**Figure 3.7 Top 10 Occupations in the Sector by Share**



Source: 3-year APS (2014-2016)

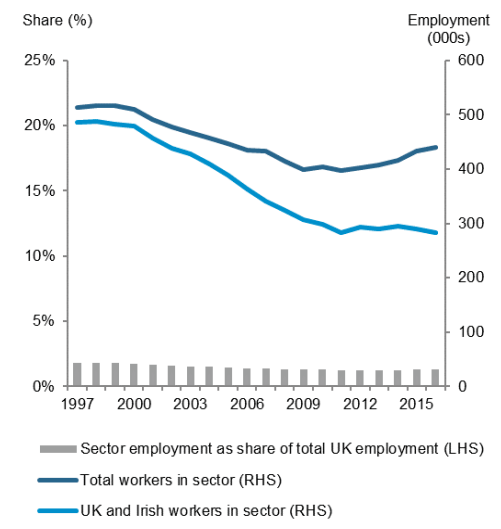
**Figure 3.8 Occupation Skill level by Migrant Groups**



Source: 3-year APS (2014-2016)

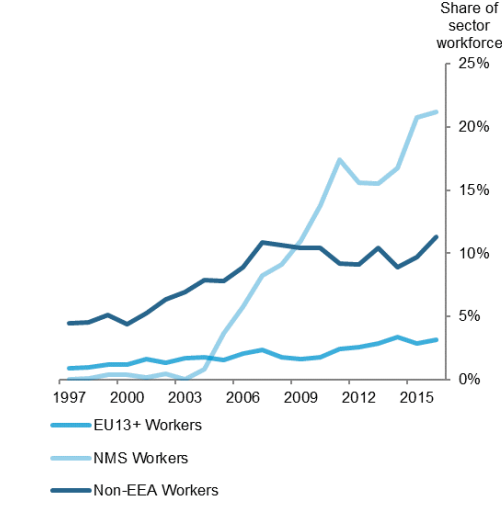
63. New Member State migrants have constituted the biggest share of the sector’s migrant workforce since 2009 (see Figure 3.2 below)<sup>137</sup> whilst the proportion of UK and Irish workers in the sector has been declining steadily since 2000 (see Figure 3.1 below).<sup>138</sup>

**Figure 3.1 Sector Employment**



Source: Workforce jobs (WFJ), Labour Force Survey (LFS) and Annual Population Survey (APS)

**Figure 3.2 Migrant Share of Employment**



Source: WFJ, with weighted LFS/APS shares

137 Migration Advisory Committee, [EEA workers in the UK labour market: annexes](#), 27 March 2018, p49

138 Same as above

## Access to continual movement

64. The sector’s substantial reliance on EU (and EEA and Swiss) workers, especially New Member State workers, explains some of the concerns expressed by the witnesses and raises concerns for the capacity of businesses to cope with different migratory rules. According to the ALMR, the hospitality sector—which “is atypical in that it employs relatively large numbers of non-UK labour”—faces potential labour shortages as a result of ending freedom of movement.<sup>139</sup>

We are the third-largest private sector employer in the country. We employ 10 per cent of the UK workforce. It is not a question of skills shortages or simply relying on foreign workers; we face a labour shortage issue.<sup>140</sup>

65. The Food and Drink Federation argued that a restrictive migration system post-transition would cause “significant disruption” and that the referendum had already started to have a negative impact on the sector’s workforce:

Almost half (47 per cent) of businesses surveyed said EU nationals were considering leaving the UK due to uncertainty surrounding their future, and over a third (36 per cent) said their business would no longer be viable if they did not have access to EU workers.<sup>141</sup>

66. All witnesses asked for continued access to EU labour after the transition and said the sector could not cope without a sensible visa system allowing continual movement:

We will certainly survive, of course. I do not think the risks are of that scale, but it would have to be a visa system that allowed that continual movement. It would certainly cause us problems and issues if we could not bring in the right skilled people at the right time, and we are dependent on the EU for that.<sup>142</sup>

It would depend on what the visa system was, but if we were to go to a system modelled on the current tiers and visas for non-EU workers then no, we could not cope.<sup>143</sup>

## Meeting the sector’s skills gap

67. The sector already struggles to recruit enough people to fill its current skills gap and could struggle even further without EU migrants if a solution is not found for its future skills gap as 30,000 food and drink workers a year retire or leave the UK.<sup>144</sup> Across the UK, the sector will need 140,000 new skilled workers by 2024.<sup>145</sup> For instance, the Food and Drink Federation told us:

139 [Q2](#) [Kate Nicholls]

140 [Q49](#) [Kate Nicholls]

141 Food and Drink Federation [BRF0010](#), para 30

142 [Q54](#) [Ian Rayson]

143 [Q50](#) [Kate Nicholls]

144 [Q12](#) [Andrew Kuyk]; [Q49](#) [Ian Wright]; [Q52](#) [Ian Rayson]

145 Food and Drink Federation [BRF0010](#), para 31

I have a member who has a factory in the north of England. He runs three shifts, six days a week. His shifts have about 35 to 40 people working on them. He is now always four or five people short; he simply cannot attract labour in the way that he has been able to.<sup>146</sup>

68. Some of our witnesses were confident that in time, they would be able to meet their recruitment needs with UK nationals and were already striving to do so.<sup>147</sup> However, it will take time as explained by the ALMR:

For us, it is about a timescale in which to recruit more UK workers, but there will have to be either a larger pool of unemployed UK workers from which to draw or people shifting from retail jobs into hospitality jobs. I have no doubt that that will happen over time as automation progresses in areas that can be automated. [...] [B]ut that will take time when we are in a low-unemployment economy.<sup>148</sup>

Large manufacturers were concerned for their suppliers who may not be able to absorb the costs associated with work visas or have capacity to deal with the added bureaucracy. As a result, they may struggle to access the skill sets they need.<sup>149</sup>

69. In the short term, they were keen to make sure that their current EU employees would be able to remain in the UK.<sup>150</sup> Although witnesses welcomed reassurances in the provisional joint agreement<sup>151</sup> regarding the status of the current EU workforce,<sup>152</sup> they stressed that the problem was not “completely solved”.<sup>153</sup>

**70. The processed food and drink sector is heavily reliant on EU (and EEA and Swiss) workers, especially workers from New Member States, for low-skilled and high/medium occupations. The proportion of UK and Irish workers in the sector’s workforce has steadily declined since 2000. Staff shortages are already a problem in the food and drink sector and the sector’s skills gap is predicted to worsen as its ageing workforce retires.**

**71. *In the short term, the Government should ensure that once we leave the EU the sector can continue to have immediate access to the skills it needs. A visa system will add costs and bureaucracy to a sector dominated by SMEs who lack the resources and expertise to deal with a new immigration system. The sector needs support as soon as possible to adapt.***

**72. *The Government must also continue to work with the sector to meet its skills gap and ensure the sector is an attractive destination to UK nationals for a career.***

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146 [Q49](#) [Ian Wright]

147 [Q51](#) [Dan Mobley]; [Q53](#) [Tim Martin]; [Q54](#) [Dan Mobley]; Food and Drink Federation [BRF0010](#), para 31

148 [Q49](#) [Kate Nicholls]

149 [Q51](#) [Dan Mobley]

150 [Q52](#) [Ian Rayson]

151 Department for Exiting the European Union, [Joint report on progress during phase 1 of negotiations under Article 50 TEU on the UK’s orderly withdrawal from the EU](#), 8 December 2017

152 [Q51](#) [Dan Mobley]; [Q52](#) [Ian Rayson]

153 [Q3](#) [Ian Wright]

## 8 Research and Development

73. The UK hosts world-class food and drink R&D institutions, some of which employ a lot of EU nationals and use EU R&D facilities and expertise. Stakeholders said it was imperative that they keep access to EU labour and facilities.<sup>154</sup>

74. Food and drink R&D in the UK relies on a mix of EU funding and UK funding, both public and private. Those stakeholders that participated in EU-wide projects said they wished to continue to have access to these projects and the associated funding. Failing that, they wanted Government to match this funding.<sup>155</sup> The Government has committed to do so for all funding awarded before we exit the European Union and stressed that a lot of R&D into food and drink had been undertaken without EU funding.<sup>156</sup>

75. We welcome the assurances in the Draft Withdrawal Agreement that the UK would be able to remain a member of EU agencies during the transition period, albeit with no participation in decision-making which is a very significant limitation.<sup>157</sup> There is still uncertainty regarding the future interactions of the Food Safety Agency with the European Food Safety Authority (EFSA) and the participation of the UK in the EFSA after the transition.<sup>158</sup> Stakeholders were unsure whether R&D projects currently being submitted for approval to the UK Food Safety Agency would continue beyond March 2019.<sup>159</sup> They asked that the UK remain a member of the EFSA after the transition in order to be able to influence its decisions.<sup>160</sup> Unlike some other EU agencies, the founding statute of the EFSA does allow for participation of third countries - but where they have adopted and apply EU rules. There are also cooperation agreements e.g. with Australia, Canada, Japan, NZ, US which might serve as a model, but they explicitly do not create binding legal obligations.<sup>161</sup>

**76. We welcome the Government's commitment to match funding for all EU-funded R&D projects awarded before we leave the EU. *The Government should now clarify the level of access to EU nationals and EU facilities that will be available to the food and drink R&D sector after the transition.***

**77. We welcome the Prime Minister's aim to retain some form of membership with some EU agencies. *We would welcome clarity on the type of associated membership that the EU would allow for the UK in the European Food Safety Authority and its future interactions with the Food Safety Agency.***

**78. *The Government should seek to maintain UK's membership of collaborative EU R&D projects, while clarifying approval processes and the role of the Food Safety Agency beyond March 2019.***

154 Unilever [BRF0019](#), para 2&6; Wine and Spirit Trade Association [BRF0011](#), para 5.1–5.4; Confederation of Paper Industries [BRF0002](#)

155 Unilever [BRF0019](#), para 9; Council for Responsible Nutrition UK [BRF0016](#), para 22–24; Rich Energy [BRF0013](#); Wine and Spirit Trade Association [BRF0011](#), para 5.1–5.4

156 Defra [BRF0008](#), para 28&31; [British Specialist Nutrition Association BRF0004](#), para 5.1

157 Department for Exiting the European Union, [Draft Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community](#), 19 March 2018

158 PAGB [BRF0006](#), para 5.1

159 Unilever [BRF0019](#), para 23

160 PAGB [BRF0006](#), para 5.1

161 House of Commons Library, [EU Agencies and Post-Brexit Options](#), CBP7957

## 9 Conclusion

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79. Brexit will bring considerable challenges and change to the UK processed food and drink sector after decades of building supply chains across Europe and enjoying tariff-free trade and free movement of goods to the EU. The sector needs certainty regarding the terms of our future relationship with the EU after the transition period in order to adapt.

80. Defaulting to WTO tariffs would not be an acceptable outcome for the sector and would seriously jeopardize the competitiveness of UK exports and risk increasing prices for consumers. Negotiating a free trade deal with the EU is the biggest priority for this sector. The Government should also seek to replicate all existing EU trade deals with third countries as they constitute our biggest export destinations.

81. Ensuring that movement of goods remains substantially unhindered is another imperative for an sector that is characterised by just-in-time delivery and short shelf-life. This is particularly true for the businesses that operate across the UK and Ireland border, where a solution to the hard border problem is yet to be articulated and agreed.

82. There will be trade opportunities arising from leaving the EU and in the long term, the UK's trade balance may benefit from diversifying and relying less on the EU as a trading partner. However, the opportunities are both relatively slight and distinctly uncertain, when set against the benefits to the consumer of free access to the current range of products facilitated by conformity with agreed standards. Therefore, at least in the short term, remaining aligned to EU regulation and an influence in EU agencies is key to protecting the competitiveness of UK exports. There are areas in which the UK may benefit from diverging but consumers will not tolerate it leading to lower standards.

83. The sector is already dealing with a skills gap which is predicted to worsen in the next few years. It will find it very challenging, at least in the short term, to replace the substantial number of EU nationals within its workforce. It is essential for manufacturing, hospitality and R&D that they keep the ability to bring in the skills they need.

84. More than anything, UK businesses need clarity and certainty about the future of our relationship with the EU. The Government is almost out of time to negotiate an orderly trade system after the transition that will provide businesses with the certainty they need to invest and innovate.



## Conclusions and recommendations

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### Impact of tariff barriers

1. Should the UK continue to export the majority of its products to the EU, a no deal scenario with WTO tariffs would have a seismic impact on the sector's performance and the competitiveness of exports, especially for some of the UK's top ten processed products, such as chocolate, cheese, beef, pork and soft drinks. A no deal scenario would be unviable and unacceptable to the sector as, at least in the short term, the EU is the UK's main trading partner. It would also have serious repercussions for importers of UK products in the EU and the rest of the world. (Paragraph 21)
2. We welcome the Government's intention to negotiate a new trading partnership with the EU as early as possible. *Striking a free trade agreement with the EU should be the number one priority in order to protect the UK processed food and drink sector's competitiveness in the short term.* (Paragraph 22)
3. The current UK trade deficit in food and drink means that imports will continue to play a crucial role at least in the short term. We agree that leaving the EU creates new opportunities to import more low-price products from non-EU countries. However, the impact of removing external tariffs on imports could be extremely severe for British farming and have a limited impact on prices for consumers. However, the impact of removing external tariffs on imports could be extremely severe for British farming and have a limited impact on prices for consumers. *The Government will have to carefully balance the impact that non-EU imports could have on the competitiveness of UK businesses and the cost of timely deliveries with the merits of continuing to rely primarily on EU imports.* (Paragraph 23)

### Non-tariff barriers

4. We did not hear any evidence suggesting that moving away from the current customs arrangements could be beneficial to UK manufacturers or consumers as it would inevitably incur some additional checks, delays and costs. If a solution that is as frictionless as possible is not agreed in time for after the transition, even a few additional non-tariff barriers could prove very challenging at UK border points and have a serious impact on small and medium suppliers, especially between Ireland and Northern Ireland. It will also affect the type and price of products available all year round to consumers. (Paragraph 36)
5. We welcome the fact that the Government managed to negotiate preserving the status quo during the transition period but the sector needs certainty beyond that point. *We urge the Government to end the uncertainty regarding future customs arrangements by negotiating a new partnership with the EU as soon as possible. In order to minimise potential increases in food costs, it should prioritise securing as few additional border requirements as can be negotiated.* (Paragraph 37)



6. *The Government will have to put considerable resources into increasing customs capacity at UK border points and should put forward proposals on the type of support it will provide for SME and large suppliers in transitioning towards a new customs model. (Paragraph 38)*
7. *In order to support trading communities on both sides of the border, the Government should prioritise developing proposals that provide businesses with clarity regarding future customs arrangements at the border between Ireland and the UK. (Paragraph 39)*

### Regulatory alignment

8. *We agree with the sector that overall the UK should stay as close as possible to EU regulations after we leave the EU. This would facilitate exports to the EU market and build on consumer trust for EU-branded products. Key EU regulations like geographical indicators must be preserved to maintain the competitiveness of flagship UK products and to allow UK consumers confidence in what they buy (eg. Cheddar cheese). (Paragraph 44)*
9. *We conclude that large manufacturers are already used to dealing with different regulations for different national markets and could probably adapt if they were given enough time and certainty to do so. Nevertheless, this is not something that all of them will welcome and it should only be done where it presents a clear advantage for British businesses and British consumers. (Paragraph 48)*
10. *We recognise that there are opportunities to diverge once we leave the EU that would make some UK products more competitive, although these gains need to be balanced against any consequent reduction in access to EU markets. We welcome the Prime Minister's assurances against any race to the bottom in standards. Our biggest concern is the impact on the 96 per cent of food and drink SMEs for whom having to deal with another set of regulations will be burdensome and costly. They will need Government support and time to adapt. As a result, we recommend that the Government seeks to secure mutual recognition of standards as soon as possible to provide these businesses with the necessary certainty. (Paragraph 49)*

### Transitional arrangements

11. *The transition period that was recently negotiated with the EU is significantly shorter than what the sector had hoped for. This may prove challenging for businesses that may struggle to find the time and have the necessary expertise to familiarise themselves and adjust to the system in place after we leave the EU. (Paragraph 54)*

### Trade opportunities post-Brexit

12. *We welcome the Government's Food & Drink Action Plan and any other initiatives to boost UK food and drink exports. We believe this cannot be done without seeking a free-trade agreement with the EU as a priority given the sector's current reliance on the EU as an export destination. The Government should also prioritise the roll-over of existing EU trade agreements to the UK and then focus on establishing new free trade agreements with third countries. (Paragraph 60)*

## Skills

13. The processed food and drink sector is heavily reliant on EU (and EEA and Swiss) workers, especially workers from New Member States, for low-skilled and high/medium occupations. The proportion of UK and Irish workers in the sector's workforce has steadily declined since 2000. Staff shortages are already a problem in the food and drink sector and the sector's skills gap is predicted to worsen as its ageing workforce retires. (Paragraph 70)
14. *In the short term, the Government should ensure that once we leave the EU the sector can continue to have immediate access to the skills it needs. A visa system will add costs and bureaucracy to a sector dominated by SMEs who lack the resources and expertise to deal with a new immigration system. The sector needs support as soon as possible to adapt.* (Paragraph 71)
15. *The Government must also continue to work with the sector to meet its skills gap and ensure the sector is an attractive destination to UK nationals for a career.* (Paragraph 72)

## Research and Development

16. We welcome the Government's commitment to match funding for all EU-funded R&D projects awarded before we leave the EU. *The Government should now clarify the level of access to EU nationals and EU facilities that will be available to the food and drink R&D sector after the transition.* (Paragraph 76)
17. We welcome the Prime Minister's aim to retain some form of membership with some EU agencies. *We would welcome clarity on the type of associated membership that the EU would allow for the UK in the European Food Safety Authority and its future interactions with the Food Safety Agency.* (Paragraph 77)
18. *The Government should seek to maintain UK's membership of collaborative EU R&D projects, while clarifying approval processes and the role of the Food Safety Agency beyond March 2019.* (Paragraph 78)

# Formal Minutes

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**Tuesday 17 April 2018**

Members present:

Rachel Reeves, in the Chair

Vernon Coaker	Albert Owen
Drew Hendry	Mark Pawsey
Stephen Kerr	Antoinette Sandbach
Peter Kyle	Anna Turley
Ian Liddell-Grainger	

Draft Report (*The impact of Brexit on the processed food and drink sector*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 84 read and agreed to.

Summary agreed to.

*Resolved*, That the Report be the Seventh Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 24 April at 9.45 am

## Witnesses

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The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

### Wednesday 13 December 2017

*Question number*

**Andrew Kuyk**, Director General, Provision Trade Federation; **Kate Nicholls**, Chief Executive Officer, Association of Licensed Multiple Retailers; and **Ian Wright**, Director General, Food and Drink Federation

[Q1–50](#)

**Tim Martin**, Chairman, JD Wetherspoon; **Dan Mobley**, Corporate Relations Director, Diageo; and **Ian Rayson**, Corporate Affairs Director, Nestlé

[Q51–90](#)

## Published written evidence

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The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

BRF numbers are generated by the evidence processing system and so may not be complete.

- 1 ALMR ([BRF0003](#))
- 2 British Beer and Pub Association ([BRF0009](#))
- 3 British Specialist Nutrition Association ([BRF0004](#))
- 4 Confederation of Paper Industries ([BRF0002](#))
- 5 Council for Responsible Nutrition UK ([BRF0016](#))
- 6 Defra ([BRF0008](#))
- 7 Ferrero UK ([BRF0015](#))
- 8 Food and Drink Federation ([BRF0010](#))
- 9 GMB ([BRF0014](#))
- 10 PAGB ([BRF0006](#))
- 11 Rich Energy ([BRF0013](#))
- 12 Scotch Whisky Association ([BRF0018](#))
- 13 Tate & Lyle Sugars ([BRF0012](#))
- 14 Textile Services Association ([BRF0001](#))
- 15 Unilever ([BRF0019](#))
- 16 Unite the Union ([BRF0005](#))
- 17 Usdaw ([BRF0007](#))
- 18 Wine and Spirit Trade Association ([BRF0011](#))

## List of Reports from the Committee during the current Parliament

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All publications from the Committee are available on the [publications page](#) of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

### Session 2017–19

First Report	A framework for modern employment	HC 352
Second Report	Leaving the EU: implications for the civil nuclear sector	HC 378
Third Report	The safety of Electrical Goods in the UK	HC 503
Fourth Report	Pre-legislative scrutiny of the draft Domestic Gas and Electricity (Tariff Cap) Bill	HC 517
Fifth Report	The impact of Brexit on the automotive sector	HC 379
Sixth Report	The impact of Brexit on the aerospace sector	HC 380
First Special Report	Industrial Strategy: First Review: Government Response to the Committee's Second Report of Session 2016–17	HC 337
Second Special Report	Corporate governance: Government Response to the Committee's Third Report of Session 2016–17	HC 338
Third Special Report	Apprenticeships: Government Response to the Second Joint Report of Session 2016–17	HC 450
Fourth Special Report	Leaving the EU: negotiation priorities for energy and climate change policy: Government Response to the Committee's Fourth Report of Session 2016–17	HC 550
Fifth Special Report	Pre-legislative scrutiny of the draft Domestic Gas and Electricity (Tariff Cap) Bill: Government Response to the Committee's Fourth Report	HC 865
Sixth Special Report	Leaving the EU: implications for the civil nuclear sector: Government response to the Committee's Second Report	HC 881