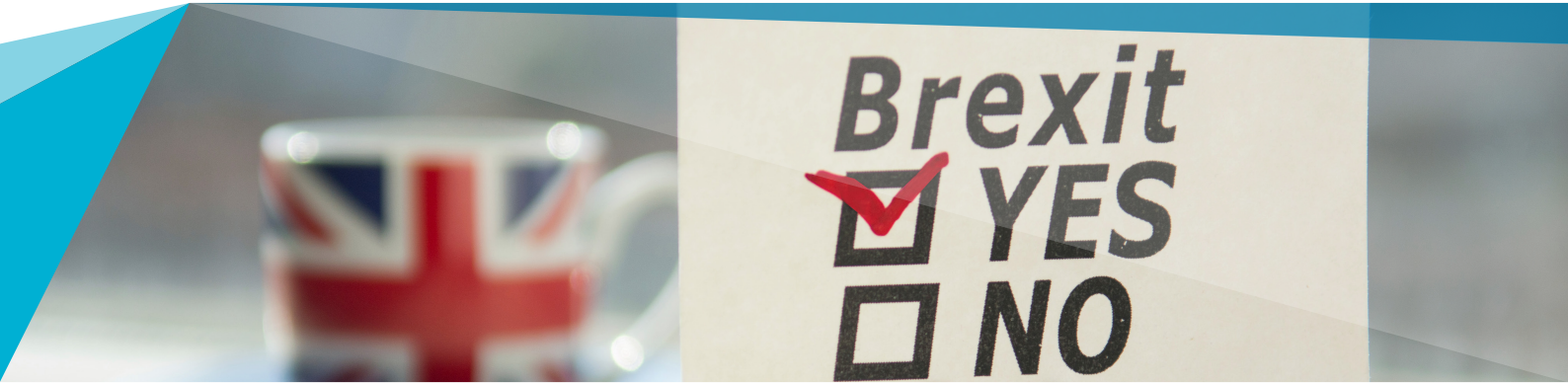


BREXIT AND THE UK FOOD AND BEVERAGE INDUSTRY



The UK's vote to leave the European Union (EU) on 23 June 2016 could have far-reaching impacts for the UK food and beverage industry. According to the UK trade body the Food and Drink Federation, 71% of its members wanted to remain part of the EU, identifying access to the single market, access to raw materials, and the free movement of labour among key considerations¹. The two-year negotiation period on the terms of an exit has brought with it a high level of uncertainty, which has forced many companies to review their investment plans and UK operations.

WHAT ARE THE POTENTIAL RISK IMPLICATIONS OF BREXIT?

Any change to the current way of working may impact several areas, most notably:

Trade: The EU is the UK's largest market for exports of food and non-alcoholic drinks. The ability to trade unimpeded by tariffs and with the minimum of administration is essential to the competitiveness of the industry.

Higher input costs: Since the UK food industry is a large exporter to Europe, a lower exchange rate will be beneficial in the short-term. However, this will also mean that dollar-denominated raw materials will be much more expensive, as will imports – and the UK is one of the biggest import markets in Europe.

Supply chain: At present, products move freely across the border between the UK and other EU member states and no tariffs apply. Supply chains will be affected if tariffs are imposed, with possible supply chain disruptions.

EU food legislation: All current and in-draft regulations, whether on food safety, labelling, or health and safety, will apply to UK business until an EU exit. Product standards will still need to be observed by UK companies in order to avoid problems when trading with the EU. However, uncertainty could lead to errors and non-compliance.

Access to labour: With more than a quarter of its workforce coming from Eastern Europe², the UK food and beverage industry forecasts it will need more than 130,000 new skilled workers by 2024. Workers from EU member states will continue to provide the workers to close the skills gap; however, any restriction on freedom of movement could result in a restricted labour pool leading to additional costs and a brake on innovation.

PREPARING FOR A NEW RISK LANDSCAPE

To prepare for the changing risk profile and the implications of impending challenges, companies should begin to plan for the future by:

- **Understanding the potential impact on your insurance programme:** The right of insurers and brokers to passport (that is, to carry out business in other countries from a single country licence) into the European Economic Area (EEA) could be restricted following the transition period. Keep abreast of any changes with your insurer and its operating situation.
- **Reviewing business interruption values:** Review business interruption values to determine if the changes to your risk profile still reflect values declared. Neglecting to address this could compromise coverage.

- **Understanding your supply chain:** Re-evaluate the potential profit exposures and mitigation actions to help reduce the impact of a possible disruption in the supply chain. Any change to existing arrangements could involve higher costs and longer lead times.
- **Reviewing logistics agreements:** Review logistics and distribution agreements, particularly where they are heavily EU-integrated, to determine how the situation will affect your customers and suppliers.

Engage early with your insurance and risk adviser to understand your exposures in relation to the changing risk landscape and possible transition outcomes. Marsh will continue to work with the food and beverage industry and insurers to further understand what Brexit will mean, and will continue to provide updates as the details unfold.

¹ Food and Drink Federation, 'FDF members overwhelmingly endorse UK remaining in EU', available at <https://www.fdf.org.uk/news.aspx?article=7481>, accessed on 19 September 2016.

² Food and Drink Federation, 'FDF Convention 2016: FDF Director General's speech', available at <http://www.fdf.org.uk/news.aspx?article=7565>, accessed on 19 September 2016.



The information contained herein is based on sources we believe reliable and should be understood to be general risk management and insurance information only. The information is not intended to be taken as advice with respect to any individual situation and cannot be relied upon as such.

Marsh Ltd is authorised and regulated by the Financial Conduct Authority.

Copyright © 2016 Marsh Ltd All rights reserved

GRAPHICS NO. 16-0982b