



The UK Retail and Food Industry and Life After Brexit – Where to Next?

The UK's vote to leave the European Union (EU) could have far-reaching impacts for the UK retail industry. While recent data has shown that the impact of the UK's decision to leave the EU to the UK retail industry has been more moderate than expected¹, it has come at a time when many retailers are trading on slim profits and declining sales as they get to know the new breed of consumer.

What are the Challenges and Opportunities Ahead?

Any change to our relationship with the EU has the potential to undo some of the efficiencies gained from the “four freedoms”² (that is, the freedom of movement of goods, the freedom of movement of workers, the freedom to provide services, and the free movement of capital) and create a new set of challenges in the longer-term.

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. Changes to EU or other tariff arrangements obviously have the potential to re-shape industries and supply chains.

Imports: A complete departure from the EU could lead to imports from the EU being more expensive and delivery times extended. The scale of increase would vary from product to product, but over time customs duties could come down.

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 that much more expensive, as will imports — and the UK is one of the biggest import markets in Europe.

Supply chain: Currently, 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. Much has been written regarding the impact this will have on time sensitive products and the need for greater product contingency planning.

Labour costs: Although Brexit will not eliminate migration to the UK, it is possible that finding workers from abroad for unskilled manual posts (such as in distribution and logistics) may become more difficult. With EU migrants the major source of labour for retailers, any restriction on freedom of movement could result in a restricted labour pool, which would in turn increase the cost of labour.

Standards: The UK will not be completely free of EU regulation because any products sold to EU countries will have to conform to its product standards, and general policies will have to be observed by UK companies in order to avoid problems when trading with the EU.

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, uncertainty could lead to errors and non-compliance. US imports are the subject of significant debate, especially regarding the impact on consumer health.

Preparing for a Changing Risk Landscape

The UK's decision to leave the EU could cause key aspects of an insurance buyer's business or planned transactions to change, resulting in a possible material change to the buyer's risk profile. Retailers should consider a risk analysis in order to:

Understand 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.

1 Reuters, 'UK retailers see best sales in six months as Brexit slump fades - CBI', available at <http://uk.reuters.com/article/uk-britain-economy/idUKKCN1100Z8>, accessed on 19 September 2016.

2 European Policy Centre, 'The Four Freedoms', available at <http://www.europeanpolicy.org/en/european-policies/single-market.html>, accessed on 19 September 2016.

Review business interruption values:

Review business interruption values to determine if the changes to your risk profile still reflect the 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 from a possible disruption in the supply chain. Any change to existing arrangements could involve higher costs and longer lead times.

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 retail industry and insurers to further understand what Brexit will mean, and will issue supplementary guidance as the situation evolves.

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