nabim

Factors to consider in planning for "no deal" Brexit on 31 October 2019

The Government has urged businesses to make full preparations for the UK to leave the EU without a transition agreement on 31 October. This note looks at the potential implications and outlines steps that members should consider in order to be prepared.

Background

The working assumptions behind this note are that (a) the EU will apply its Most Favoured Nation (MFN) tariffs to goods originating in the UK; (b) the UK will continue with the approach to tariffs set out in its plans laid out in March 2019 – i.e no import tariffs on wheat, flour, gluten, or bakery products *from any origin.*

General key steps for importers and exporters:

- Get an EORI number (for importers and exporters) https://www.gov.uk/guidance/get-a-uk-eori-number-to-trade-within-the-eu
- Check your commodity/tariff codes (for importers and exporters) https://www.gov.uk/trade-tariff
- If eligible, register for Transitional Simplified Procedures (for importers from the EU using ro-ro or the channel tunnel) https://www.gov.uk/guidance/register-for-simplified-import-procedures-if-the-uk-leaves-the-eu-without-a-deal
- Check processes for imports of high-risk goods (for importers)
- Decide if you will use a customs agent (for importers and exporters) https://www.gov.uk/guidance/declaring-your-goods-at-customs-if-the-uk-leaves-the-eu-with-no-deal
- Know what certificates your products need (for exporters)
- Check your product labelling (for importers and exporters) https://www.gov.uk/guidance/food-labelling-changes-after-brexit; https://www.gov.uk/guidance/trading-and-labelling-organic-food-if-theres-no-brexit-deal

nabim is a participant in the consortium which has built the Brexit Food Hub, a repository of information and guidance with many links to government advice notes https://brexitfoodhub.co.uk/

Exports

The UK is a net exporter of flour, with around 250,000 tonnes sold in other EU countries and 70,000 tonnes imported in 2018. In a no deal scenario, the tariff on flour exports will be €172 per tonne.

nabim has been exploring ways to mitigate these tariffs. Where flour is exported in order to manufacture goods re-imported into the UK – as happens for some businesses in the Republic of Ireland – this trade should be able to continue provided businesses in the EU take advantage of **Inward Processing Relief** provisions. This would enable them to avoid the tariff on flour. Businesses need to be in touch with the revenue authorities in the member state concerned to set this up **now**.

If the baked goods are to remain in the EU, there is a mechanism which could off-set a large proportion of the tariff, known as **Outward Processing Relief (OPR)**. This requires that wheat is exported from the EU to the UK, milled into flour and then sent back to the EU. In these circumstances, provided the same wheat is used to make the flour, the tariff will only apply to the *value added* by the milling process. This is a complicated administrative process, and will add cost, but may well be a mechanism for maintaining a competitive position in the Republic of Ireland as the applicable tariff should be much less than €172 per tonne. Once again, it requires engagement with Irish revenue authorities which would have to approve any scheme. **nabim** is in contact with the Irish Bakers' Associations and we are hoping to fix a joint meeting with Irish revenue in the next few weeks to clarify the interpretation of the rules and detailed procedures.

OPR schemes can also in theory be used for secondary processed products such as bread, but the process requires a great degree of traceability. Members with an interest in exploring this are invited to contact the **nabim** secretariat to talk through the practicalities.

If your business is considering the use of OPR for trade with the EU, you will need either to establish an EU domiciled business or appoint an EU domiciled agent to manage the process. You will also need to consider whether a grist change is required in order to meet the requirement that wheat used must have been in free circulation within the EU.

Supply and Demand

It should be remembered that a proportion of flour, estimated at 250,000 tonnes, is exported to the EU in the form of bread, biscuits, cake, mixes etc. In the event of a "no deal" exit, these goods will also be subject to a tariff, which might mean that exports are reduced. It is worth considering whether your business has any particular exposure to this risk.

In contrast, there are also substantial imports of flour-based goods – in greater volume than exports. Should manufacturers choose to source goods more locally, there is a potential for increased flour demand. However, unlike exports, unless government policy changes there will be no incentive for change associated with tariffs. Therefore, there is unlikely to be an immediate shift here.

In relation to grain, because there would be a tariff of at least €12 applying to exports to the EU from 31 October, it seems quite likely that there will be some distortion of normal market behaviour as growers and shippers seek to avoid tariffs on exports, especially if there is a large UK crop. Tariffs on animal products could also lead to changes in demand for grain use in animal feed and have an impact on wheatfeed values.

There will be much speculation on the appropriate exchange rate, and it seems certain that Sterling valuation will be "volatile" in the run up to 31 October and beyond. This could offer trading opportunities, but currency market behaviour so far suggests it is likely to inflate UK costs and prices in Sterling terms.

Imports

Provided that the government does not change its approach, there should be no difficulties in accessing grain. Even if it decided to apply tariffs as presently, the impact should be limited to EU wheat supplies. Hopefully there would be sufficient warning of any change to allow for a preparatory increase in stock.

Similarly, supplies of vital wheat gluten and other “minor” ingredients should also still be available, although there may be some disruption to logistics in the event of no deal. This will have implications for stock holding.

If it is decided to maintain zero tariffs on processed products in the long run, there would be a risk of increased competition from other origins. Turkey is a significant flour exporter, and it might be that businesses in India see an opportunity to supply “authentic” chappati flours and atta to some parts of the market. The risk of this in the short term seems limited, but not negligible.

nabim activity

nabim will continue to keep members briefed through regular conference calls, the next one is planned for Friday 30th August. We will also remain closely engaged with DEFRA and other departments both directly and through several advisory groups. Since the new government has been installed, we have written to Ministers requesting that they take steps to off-set electricity costs in order to help the industry manage the impact of no deal, and we shall be looking for other opportunities to make the case for helpful government action.

As mentioned above, we shall continue to work closely with colleagues in the Republic of Ireland in order to retain as much potential as possible to supply that market – benefitting both millers and our customers.

We welcome questions, concerns or observations from members – please don’t hesitate to contact the **nabim** staff.

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