Brexit likely to inflate UK food prices

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The UK is a food importing country. Its isolation from the internal EU market after the Brexit is likely to increase its costs of sourcing food products, while it also increases the costs of the technology needed to produce food.

In 2015, the National Farmers Union (NFU) warned that the UK might need to import over half of its food within a generation (The Guardian, Feb 2015). It claimed that currently 60 percent of foods consumed in Britain are grown in the UK, as compared to 80 percent in the mid-1980s. This decrease is a combination of a growing population and stalling farm productivity.

Over time, Britain's decision to leave the European Union will most likely result in higher costs of trading. As such it will impact trade flows and prices of food and agricultural products, both within and outside the UK. Additionally, non-UK based F&A companies might decide to postpone investments in the UK until there is a clearer picture of how trade will settle following a transition period. Some companies might even cancel investments or relocate UK assets to a location within the European Union. If anything, independence from Europe means no longer enjoying the benefits of having access to an abundantly supplied food market with opportunities to sell to a 500 million consumer market. Historically, the UK had a global empire (the Commonwealth) that supported its cheap food policy. Today, the world market is not such a reliable low-cost sourcing partner anymore.

In the longer term, the UK also risks higher costs, and later availability, of new agricultural production technology. The EU stamp of approval no longer suffices in the UK. Suppliers will have to invest in getting a stamp of approval for the UK market, too. It may well be that technology providers choose to not apply for a UK registration or certification especially in the early stages.

On the other hand, less regulation from Brussels might also have its advantages. However, British exporters will still have to conform to EU regulations when they trade with the continent. And consumer prices? Let's hope for Britons they won't head towards Norwegian or Swiss levels!

Too many variables make it tough to make hard predictions

Over the past few months, dozens of studies have been published about what would happen if there's a Brexit, but in all fairness, nobody knows exactly what is going to happen now that Britain has voted to turn its back on Europe. There are just too many variables and unknowns. What level of import duties and/or quotas to expect for what type of product, for example, or when this will be implemented? Will investments be delayed, cancelled or relocated? Will farmers lose out on CAP subsidies? Redirection of good flows can cause prices to go up or down, which will also cause follow-on effects.

Potential implications for a selection of Food & Agriculture sectors

Animal proteins

The UK is well known for its bacon imports with only 55% self-sufficiency. In the short term we do not expect a dramatic drop in trade, though prices may go up if new border measures increase costs.

Beverages

Brewers:

The UK is a major producer of malting barley and has a well-installed malting industry. Malting barley production varies annually with the size of the harvest, but generally the UK is a small net exporter of malt. Therefore, we expect the impact of a Brexit on the beer industry to be minimal. Other cost items such as packaging will see a limited impact, because most of the packaging manufacturing takes place in the UK.

Spirits:

For Scotch whiskey, potential trade barriers would deteriorate the position of the Scotch versus whiskies from Ireland on the EU internal market, putting them in the same position as the US and Japan.

Consumer Foods

A Brexit could potentially impact sales volumes and profitability of companies active in consumer foods, food service, food retail and wholesale in Britain, as well as on the continent. Changes in currency rates could have a major impact on flows of consumer products. A well-known impact is that of private label production. In times of a weak currency, British food retailers reduce their buying of private label products from producers whose facilities are based on the continent. Companies that produce for the European Union might decide to postpone, cancel or redirect investments for new or extra production capacity to regions within the EU instead of the UK. On the other hand, some new capacity might also be planned for the UK to limit the impact from EU regulation.

Dairy

The UK is a net importer of dairy products, even though it is the third-largest milk producer in the EU. Its main dairy import requirement is cheese, particularly Cheddar, although it takes a wide variety of soft cheeses too. The main contributors to these UK imports are Ireland and France. Another important dairy import for the UK is butter—again Ireland provides the bulk of this. The Brexit could provide significant challenges for Ireland (and a lesser extent France) given their level of exposure to the UK market. Given the volume of import required, it is likely that trade would still continue. Clearly it would be done under different agreements and on a country-by-country basis. The UK may use something like quotas.

Farm Inputs

Seeds, crop protection products, fertilisers and machinery are not subject to the CAP. As such, the fact that after a Brexit the UK will no longer be part of the CAP, isn't likely to change anything for farm inputs. However, a weaker pound will mean higher prices for imported products. Most farm inputs in the UK are imported.

In the longer run, the fact that the UK is no longer part of the EU market will increase the costs of selling farm inputs products in the UK market. For example, files to get a registration for crop protection products will have to be filed separately for the UK market—with all the related costs of building research files to illustrate the safety and efficacy of a product. Some inputs may simply not become available in the UK market as the costs are prohibitively high in relation to the potential sales in the UK, especially in the case of new innovative technology for which a market is not yet established. These costs occur in many farm inputs sectors where intellectual property rights, safety and efficacy play a key role in the performance of a product.

Horticulture

Exporters of fruit & vegetables and flowers to the UK could be impacted as a result of bureaucracy/documentation at the border and a potential devaluation of the British pound following the Brexit. However, many exporters have been used to significant currency swings in the past and as such this is not something new to them.

Imprint

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Banking for Food