Brussels, 3rd August 2017

Impact of Brexit on the European fruit and vegetable industry

Introduction and structure of this paper:

The European fruit and vegetable industry is severely concerned about the impact, the ongoing Brexit negotiations could have on its intra-EU trade flows. Trade relations from EU mainland to the U.K. have been well established since many years and benefitted from smooth and seamless trade thanks to Single Market provisions. The trade between EU-27 and the U.K. significantly contributes to the economic stability and growth of the EU, as the EU is a significant net-exporter to the U.K with a trade flow of 3.1 mio. T worth € 4 billion with a high dependence of the U.K. of fresh produce supply from EU mainland. According to a recent Rabobank assessment on the impact of the Brexit on Food and Agribusiness in Europe, fruit and vegetable, next to animal protein, will be most affected by the potential changes Brexit may have.[1] As the industry is still absorbing the effects of the Russian embargo and the loss of a market of more than 2 million T, experiencing new constraints on trade flows would be detrimental and could lead to additional price pressure given market sensitivity of the fresh produce sector.

This paper does understand itself as a first collection of challenges, which need to be taken into account, when discussing the post-divorce trading conditions. This first inventory shall help to illustrate the multiple challenges the sector may face, once the divorce is concluded. It does not aim on completeness. Freshfel is eager to amend the paper in the upcoming months with potential solutions, to support the Task's Force work, to negotiate the most favourable outcome for all stakeholders. With that regard, the paper is structured in the following way:

- The European fruit and vegetable industry – A significant contributor to EU economic growth
- The fruit and vegetable trade between EU-27 and U.K. – Current status and economic weight
- Identified challenges and potential economic impact
- General aspects and conclusion
- Annexes with statistical data

The European fruit and vegetable industry – A significant contributor to EU economic growth

Freshfel Europe is the European umbrella organization for the fruit and vegetable industry, representing more than 200 members from the whole supply chain, among them producers, wholesalers, exporters, importers and logistic operators. The European fresh produce industry generates annually business of more than 75 million Tonnes of fresh fruit and vegetables, worth € 200 billion, which are often highly perishable. While most of the fresh produce is consumed locally, an estimated 30 million Tonnes are destined to the intra-European market. 5.3 million Tonnes are exported to third country markets. The fruit and vegetable

[1] RaboResearch, Smit Harry: "Weighing up Future Food Security in the U.K. – The impact of the Brexit on Food & Agribusiness in Europe and beyond", March 2017

Rue de Trèves 49-51, bte 8 - 1040 Brussels - Belgium Tel: +32 (0)2 777 15 80 Fax: +32 (0)2 777 15 81
e-mail: info@freshfel.org - www.freshfel.org - www.freshquality.org - www.freshcongress.com - www.enjoyfresh.eu

industry essentially contributes to the productivity of the agri-food sector, up to 20% the total agricultural output value. It is estimated, that up to 3.5 million employees are active in one of the segments across the supply chain, being either in production and post-harvest production activities or within the wholesale, trade, distribution logistics and retail channels. The European fruit and vegetable industry is a strongly fragmented market, characterized by operators which are bundled in cooperatives or small and medium sized companies and offers a highly diversified range of products with very unique treatment, transport and storage requirements. This is also reflected within their marketing and trading behaviour, and need to be taken into account, to fully understand the impact of the Brexit negotiations on the fruit and vegetable industry.

Fruit and vegetable trade between EU-27 and U.K. – The current status and economic weight

Fruit and vegetable trade between EU-mainland and the U.K. is an important cornerstone within the intra-European fresh produce trade, building on the advantages gained by the single market. The trade-relationship among both is asymmetric, with the EU-27 being a net-supplier and the U.K. being a net-recipient, given their limitation in production capacity and geographic location. In the internal ranking, U.K. is the 3rd largest destination of EU-27 fresh fruit and vegetables. The U.K. itself produces c.a. 2.2 million T of which 1.8 million T are vegetables and only 450.000 T are fruit. Therefore, the U.K. is dependent on additional supply form external partners. In total, it imports 5.6 million T of fruit and vegetables of which 55%, roundabout 3.1 million T originate from the EU-27 member states. The value of this intra EU trade is worth € 3.6 billion and represents roughly 10% of intra EU fresh produce trade.

The range of supply from EU-27 member states are highly diversified. Within the Top-10 commodities range among other tomatoes (480.000 T), onions (230.000T), sweet peppers (175.000 T), cucumber (135.000 T), cauliflower (124.000 T), apple (245.000 T), pears (130.000 T), soft citrus (164.000T), oranges (125.000 T) and bananas (110.000 T). In total, EU-27 supplies 28 different categories of vegetables and 33 different categories of fruit. The trade is dominated by 5 main supplier's to the U.K, with Spain representing 45%, the Netherlands 22%, France 7%, Germany and Ireland about 6% of EU-27 shipments. All member states except Luxembourg have established trading relationships with the U.K., diverging in size, scale and own production capacity. Other U.K. direct imports originate among other from Latin-American countries (1.265.000 T), South Africa (360.000 T), North Africa (210.000 T) and Central America (220.000), often being transhipped via other EU member states.

To complete the picture, U.K.'s trade to the EU amounted on average around 345.000 T, but fell in 2016 back to 310.000 T. Most of U.K.'s fresh produce is destined to Ireland (101.000T), France (90.000 T) and the Netherlands (30.000 T). The biggest commodity shipped by the U.K. to the EU-27 is re-export of bananas (64.000 T) as well as other exotic fruits. The re-export to Ireland is particularly relevant for this member state. Brexit, given the insulation of Ireland and new border control could lead to logistic hurdles, delays in supply and added costs, which might result in higher prices for Irish consumers. While similar to EU exports, the range of products exported to the EU is highly diverse with 33 different fruit and 28 different vegetable varieties, but marginal in the scope.

Identified challenges and potential economic impact

Clarification of new import tariff regimes & potential quota requirements at the earliest

Fruit and vegetable shipments to the U.K. currently did not face any tariff or quota restriction. While acknowledging, that there might be a certain tariff & quota regime in place after the divorce, it is essential to define the new tariff regime at the earliest, to give operators calculation certainty after the 29th of March 2019 and to take potential cost increase into account.

Second, swift clarification is needed with regard to the WTO membership of both, EU and U.K., the continuance of free trade agreements and the conditions agreed, as well as on the re-calculation of existing tariff rate quotas and their surveillance.

Border procedures and customs operations

A very particular characteristic of fruit and vegetable trade is the perishability of the product, which differs it from other agricultural products. Trade flows are dependent on fast border procedures and customs clearance. As the U.K. market has been integrated into the regulatory framework of the Single Market, operations where running smoothly. On a yearly basis, 3.1 mio. T of fresh fruit and vegetables are moved into U.K. through ca. 130.000 containers of highly perishable product. The sector therefore is particularly concerned about:

1. **The capacity of the ports to absorb new border control procedures:**

There is currently no complete data on average daily arrivals of fruit and vegetable consignments at U.K. port of entry, therefore Freshfel can only estimate the scope of impact by giving a simple example: Only Spain alone is annually sending 55.000 containers to the port of Dover, with close to 6000 containers per peak seasonal months in December/January. So far no controls were conducted at point of entry and products were passing smoothly without delay. The sector is particularly worried about the consequences of newly introduced official control procedures and customs clearance, as they will challenge the transport conditions and shelf life of the product Given the logistical constraints and a presumed lack of capacity and preparedness in the ports itself, fruit and vegetables might only arrived delayed and with minor quality at the customer. Border control impacts might challenge the management of tight requirements for perishable product from the customer in the U.K. in terms of timing and delivery expectations at both sides of the channel.

2. **Logistical constraints**

The port of Dover as well as the port of Rotterdam and the Eurostar-connection starting from Calais are very critical bottlenecks of EU-U.K. fruit and vegetable trade. Dover and other channel harbours is a very narrow transit port with a lack of parking and storage facilities. With newly introduced border controls, including identity check, consignment check and customs clearance, as well as potential backlogs, the sector is strongly worried on the potential delays and waiting times, which could be harmful to the quality of the product.

Rue de Trèves 49-51, bte 8 - 1040 Brussels - Belgium Tel: +32 (0)2 777 15 80 Fax: +32 (0)2 777 15 81
e-mail: info@freshfel.org - www.freshfel.org - www.freshquality.org - www.freshcongress.com - www.enjoyfresh.eu

3. Provisions from Unions Customs Code 952/2013

The Union's Customs Code is governing a harmonized framework of customs operations within the EU-28. Together with the effort to integrate all customs procedures into a Single Window system, the digital integration of all member states systems has been progressing. This trade facilitating development should be continued also after the divorce. Integrated and interacting digital customs service are essential to maintain an undisrupted trade flow. The transmission of electronic organic certificates via "Traces" has only been introduced recently and will be soon followed by the electronic transmission of phytosanitary certificates. In addition, the U.K. provides of its own system, currently integrated into the Single Window framework. It is currently to be doubted, that "Peach" will be able to absorb all incoming plant products currently governed via Traces and the Single Window framework. Furthermore, the digitalization has strongly improved the monitoring and risk analysis of trade with plant products.

Second, the UCC introduced the system of Authorized Economic Operators (AEO), which allows after certain steps of application and auditing, preferential customs treatment with essential time savings. An elimination of this system will also lead to further delays within the border and customs operations

4. Transhipment procedures

The existing framework of rules has so far facilitated transhipments between U.K. and the Netherlands, as the current rules do allow customs clearance at point of entry and free circulation within the Single Market. New transhipments rules including storage, warehouse facilities and other operations will need to be defined as soon as U.K. will become a third country trading partner. Maintaining with that regard, the competitiveness of EU mainland as logistical hub, is from outmost importance. Also the potential loss of competiveness, in case U.K. is introducing a more attractive logistical environment than Europe, has to be taken into account.

5. The scope of official controls and plant health requirements

Fruit and vegetable trade is governed within the single market and with regard to imports by EU Plant Health Regulation 2000/29. With U.K. becoming a third country partner, the scope of new rules and SPS requirements should be defined by the earliest, to allow swift adjustment to new trading conditions.

Certification and administrative challenges

At present, fruit and vegetable consignments only need to be accompanied by one transport certificate, the Bill of Lading or the CMR for road transport. Assuming, that U.K. after the divorce becomes a third country partner, certification requirements would increase drastically, and might include certificates of origins, quality and the phytosanitary certificates. The issuances of phytosanitary certificates usually comes at costs up to € 50, - created by the National Plant Protection Office of the sending country. Fruit and vegetable trade to U.K. often comes in mixed consignments, as one buyer may order different commodities fitting in one container. One container therefore must not necessarily consist of one variety or product, but could be a mix of several products. The introduction of phytosanitary certificates and certificates of origin could therefore mean an increase of costs, as they need to be issued by product as well as time constraints, as document checks need to be performed at border controls. If an average consignment is comprised by around 10 different product categories, based on an annual average of 130.000 containers, this would result in additional cost up to € 65 mio. These additional cost could severely influence the competitiveness of a market, which is already affected by currency fluctuation and governed by tight margins.

To stay with the example of 6000 containers from Spain arriving in peak times monthly at the port of Dover, this would mean in practice, that each of the container might need up to 20 different phytosanitary certificates given the mixed consignments as well as certification of origins for each of the product, which need to be checked and might further delay border procedures. Implication of such trading practices can be e.g. observed on fruit and vegetable trade from EU to Norway, which requires a bulk of certification documents, which is significantly delaying the process.

The existing simplification scheme for marketing standard will be challenged by the divorce. If the current system of marketing standards, including the recognition of the EU approved traders to facilitate recognition of compliance with marketing standards, will not be maintained after the divorce, this could lead to another certification burden.

Maintaining the competitiveness of EU-27 fruit and vegetable industry for imports

On a broader scale, the fresh fruit and vegetable industry is further concerned on the regulatory divergence this divorce will create. The U.K. so far is a well-integrated member into the EU regulatory framework and the sector has been benefitting with regard to harmonized rules and common standards on:

- Pesticides and MRL usage governed by 1107/2009,
- European Plant Health Regulation 2000/29
- General Food Law 178/2000,
- Food hygiene 852/2004, 853/2004, 854/2004
- Trade with organic fruits 834/2007

Given the strong need and lack of self-sufficiency, the sector fears that the U.K. will move towards a liberalisation of the above mentioned requirements, to attract further imports from including non-EU countries. Changes within the MRL's for certain products could distort currently established trade flows to EU-27 mainland, which is operating with stricter rules compared to other third country suppliers. The same applies also for potential liberalisation on phytosanitary measures, potentially taken by the U.K. side after the divorce.

Second, EU funded promotion campaigns have been contributing to the sectors sales success at the U.K. market. Currently in 2016, one of the biggest multi-stakeholder programs for organics, governed by the U.K. and Denmark has been approved by the Commission and will run at least until 2019. The financing, management and eligibility of the U.K. to participate at these EU-led projects after the divorce needs to be reviewed. The U.K becoming a third country, new budget lines will need to be provided in the EU annual work programme on promotion for third country to target the market-line removed from the single market.

A similar situation arises in the field of research and innovation. The U.K. is one of the biggest recipients of Horizon 2020 funds with more than 8.458 participants receiving € 3.3 million of grants. The fruit and vegetable sector is benefitting from research projects such as "Raditom", which is investigating the preservation of tomato flavour or the "EUFRUIT" project, which include 12 countries focussing on coordination and information sharing of competitiveness increasing research. These have only been two out of many examples, where the U.K. is involved in multi-stakeholder research. Most of these projects are funded until 2020, beyond the scheduled date of the divorce. Phasing-out or staying-in rules will need to be discussed in the margins of the divorce, as R&I are significant contributors to the sectors competitiveness.

General aspects and conclusion

The fear of the industry at both sides of the Channel is, that fresh produce with all it specifications and complex requirements will be lost at the bottom of priorities given the limited time for negotiations and exchange.

While acknowledging the complexity and sensitivity which is coming with the British leave, a minimum conditions must be:

- To make the timetable of changes, negotiated points and deadlines available, to give businesses the possibility to adapt and prepare in time

With regard to the upcoming changes, the fresh produce industry will be largely impacted by the U.K.s leave. Therefore it is from outmost importance, that negotiations to do not impact negatively the market access conditions to the U.K. and diminish the competitiveness of the EU-27 exporters. It is recommended in that context to set up:

- A transitional period, ideally until the conclusion of a new free trade agreement

Protecting the supply of the EU fresh produce to the U.K. is an important commitment to jobs and growth in the EU economy. The vigorous fruit and vegetable industry is contributing more than 20% of value to the overall positive performance of EU agriculture. Any variation such as in price could further affect the economic stability of the sector.

Freshfel will observe the ongoing negotiations carefully and remains available for exchange with the negotiators at any time.

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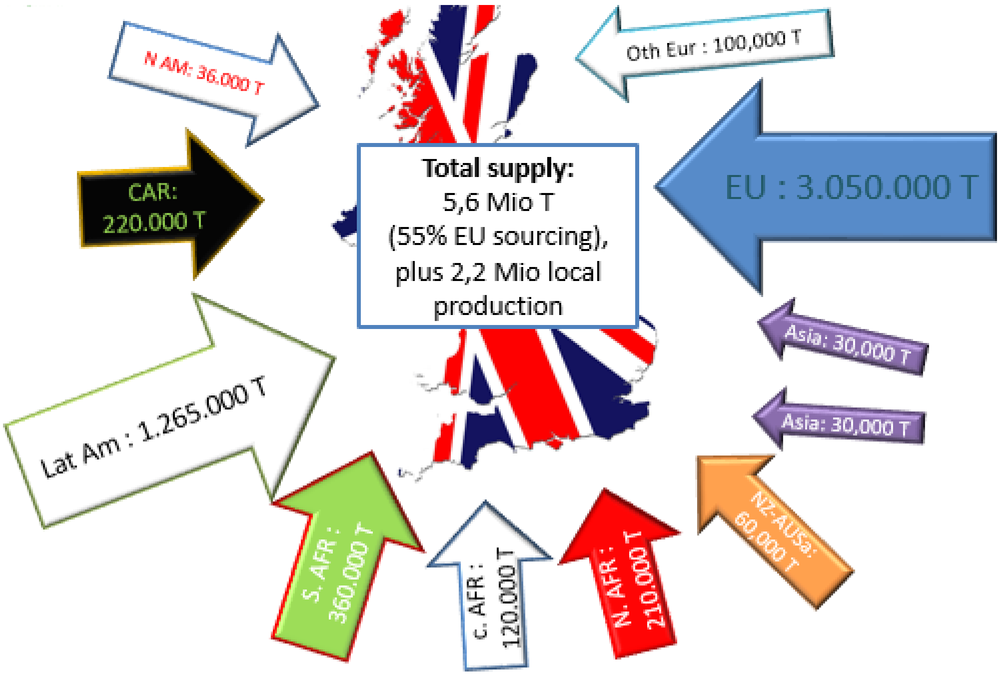
Rue de Trèves 49-51, bte 8 - 1040 Brussels - Belgium Tel: +32 (0)2 777 15 80 Fax: +32 (0)2 777 15 81
e-mail: info@freshfel.org - www.freshfel.org - www.freshquality.org - www.freshcongress.com - www.enjoyfresh.eu

Annex

I. The U.K's global fruit and vegetable imports:



II. EU-27 fruit and vegetable exports to U.K (Volume in T/ Value in €, 2016)

Partner EU	Volume
Total	**3,206,420.5**
Spain	1,495,123.5
Netherlands	703,796.5
France	215,912.0
Germany	208,244.8
Ireland	188,994.9
Italy	131,277.0
Belgium	88,924.4
Poland	68,858.4
Greece	46,004.3
Portugal	45,105.3
Cyprus	3,135.6
Austria	2,858.6
Hungary	2,486.7
Denmark	1,673.2
Lithuania	1,454.4
Sweden	576.9
Romania	467.2
Slovenia	444.1
Croatia	269.1
Czech Republic	252.5
Bulgaria	249.3
Malta	129.3
Slovakia	97.6
Estonia	43.9
Latvia	38.0
Finland	3.0

Partner EU	Value
Total	**3,928,620,658**
Spain	1,766,261,370
Netherlands	873,882,158
Germany	317,224,076
France	262,131,372
Ireland	197,159,495
Italy	185,145,811
Poland	102,035,350
Belgium	100,285,773
Greece	55,004,929
Portugal	53,252,350
Austria	3,346,839
Cyprus	2,590,094
Denmark	1,906,825
Romania	1,858,853
Hungary	1,772,113
Sweden	1,296,291
Lithuania	1,159,037
Bulgaria	657,561
Slovenia	646,521
Slovakia	328,068
Croatia	212,091
Czech Republic	158,584
Malta	145,638
Latvia	63,513
Estonia	58,576
Finland	37,370

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III. U.K. exports to EU members states (volume in T/value in €, 2016)

Partner U.K.	Volume
Total	**310,204**
Ireland	100,828
France	89,876
Netherlands	29,770
Germany	21,858
Slovakia	11,057
Belgium	8,745
Spain	7,298
Sweden	7,094
Italy	6,530
Lithuania	6,487
Czech Republic	6,334
Poland	6,132
Greece	2,301
Finland	2,156
Denmark	1,274
Hungary	645
Slovenia	591
Romania	462
Portugal	337
Latvia	102
Austria	90
Croatia	70
Bulgaria	69
Malta	54
Cyprus	19
Estonia	19
Luxembourg	8

Partner U.K.	Value
Total	**318,853,887**
Ireland	140,810,490
France	67,828,017
Netherlands	33,009,169
Germany	19,093,260
Slovakia	8,110,361
Spain	7,824,670
Belgium	6,736,805
Sweden	6,640,841
Poland	6,409,036
Czech Republic	6,280,628
Italy	5,530,386
Denmark	4,007,052
Finland	1,644,799
Greece	1,565,563
Lithuania	1,189,663
Hungary	432,046
Portugal	424,492
Romania	336,385
Slovenia	302,704
Austria	198,407
Malta	126,515
Latvia	108,588
Cyprus	70,087
Bulgaria	62,327
Croatia	61,998
Estonia	43,935
Luxembourg	5,663

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