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PFMA Priorities For Post-Brexit Trade Negotiations

SUMMARY



PFMA represents more than 90 percent of the UK pet food manufacturing sector, mainly SMEs.



Our members have at their core the production to high welfare standards of safe, nutritious, high quality foods and treats for the nation's pets – cats, dogs, small animals, birds, fish and wild animals.



Our members rely heavily on UK agricultural production and 'just in time' supply chains to maintain sustainability and competitiveness. Any re-engineering of these supply chains will be resource-intensive, disruptive and add costs.



Safety and high animal welfare standards must remain as strong as ever, to protect human and animal health and to satisfy our customers, not only in the UK but globally.



PFMA favours maintaining regulatory alignment with the EU. Our members will in any case be required to meet all EU regulatory requirements in order to continue to trade in this largest of markets. We see no advantage in immediate regulatory divergence.



Government support and trade facilitation would business in developing new markets, especially the small business which make up most of our sector.



The UK Pet Food Market (including Wild Bird food) was worth ca. £3 billion in 2019 (1.4 tonnes).

INTRODUCTION

In March 2017 PFMA published a Brexit Manifesto setting out our two-stage requirements for the process of managing the UK's exit from the EU, including our specific priorities.

As the UK prepares to leave the EU Single Market and Customs Union in the second stage of the process, this paper sets out our vision of the opportunities and challenges ahead for our sector. Our ambition is to seek opportunities to maintain and grow existing and new markets for our members, who are widely distributed across Great Britain and Northern Ireland. Together they make a small but significant contribution to the UK's economy, its sustainability and competitiveness, and above all the wellbeing of people and their pets.

The UK Market (including Wild Bird food) was worth £2.968 billion in 2019 and has grown in line with inflation.

According to HMRC data in 2018 the UK exported £323 million worth of pet food across the world (ex. EU), this represents a trade surplus of £173 million. In addition, £610 million was exported to the EU although more is imported from the EU leaving a deficit of £249 million with the EU.

The most important (non-EU) export markets for the UK pet food industry are Australia, Norway, China, Russia, Japan, USA, Columbia, Saudi Arabia, South Korea and Malaysia. Given the size of human populations and relative immaturity of pet populations (likely to increase as the middle classes continue to grow in these markets) China and Russia are likely to be increasingly important markets.

According to data provided by PFMA members, in 2019 the proportion of ingredients sourced in the UK accounted for approximately 60% of the total (for animal by-products), in 2015/16 this figure was as high as 80%, demonstrating how important imports are to the industry. PFMA members also report significant imports of other raw materials such as fish oils and cereals (depending on the category this ranges from 40-75% of ingredients imported into the UK in 2019).

The challenges to PFMA members seeking to anticipate the shape of future trade patterns have increased significantly with the outbreak of the global pandemic Coronavirus (COVID-19). Disruption to markets caused by lockdowns to travel and trade also has to be factored in to negotiations.

OUR FUTURE PLACE IN WORLD TRADE

We face the most major recalibration of UK trade and related policies in more than half a century. This most ambitious venture presents particular challenges to manufacturing sectors such as ours that are grounded in long-term policy planning and dependent on agricultural production.

However agile and innovative we may wish to be, factories and production lines are less mobile than office space and services and require specific skills to operate. The UK's break from the EU has already impacted our sector and will inevitably be disruptive in the coming months.

In setting out our preferences for future trading arrangements, many challenges and impacts need to be taken into consideration. In broad terms, we see the future of trading relationships as follows:

1. Europe



Europe is and will remain our nearest neighbour and probably the most important trading partner and market for our sector. **PFMA would favour maintaining regulatory alignment with the EU. Our members will in any case be required to meet all regulatory requirements of the EU in order to continue to trade in this largest of markets and we see no advantage in immediate regulatory divergence.**

2. Rest of the World



The Government is entering into trade negotiations with other major markets. For businesses, it is not necessary to have a Free Trade Agreement (FTA) in place in order to trade, but information and introductions are essential. **Government support and trade facilitation would be a benefit to business, especially small businesses which make up most of our sector. Pending full cooperation under FTAs with other major partners, completing the rollover of existing EU trade agreements should be a priority.**

WHAT WE NEED TO SUCCEED

Market access: PFMA members import raw materials, as well as importing and exporting finished product. All this will be significantly impacted by changes to trade relations. Some of our members have manufacturing plants in Northern Ireland and wish to retain free access to the Republic of Ireland. We need:



Clarity on the future functioning of cross-border arrangements to and within the island of Ireland. This is a high priority and essential to our industry, noting in particular the all-island nature of the economy and predominance of small businesses.



Avoidance of barriers to trade, both tariff and non-tariff. In a highly competitive industry, any on-costs as a result of increased bureaucracy and delays to shipments are potentially damaging.



Strong assistance from relevant Government Departments to support industry in accessing new markets, e.g. through organising trade missions or providing training on new rules and systems.



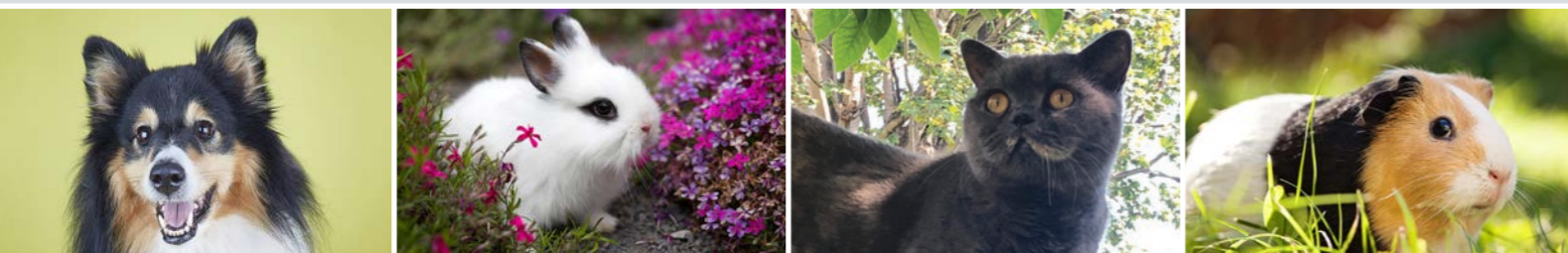
Workforce: Access to people and skills is as important as access to materials and markets. We need:



A clear message that the UK continues to welcome workers from EU Member States and will continue to do so beyond 2020. This should accompany any pronouncements about opening borders to workers from other parts of the world. We must maintain flexibility to employ the best qualified people, whatever their origin, as part of the competitive edge that will maintain our success in domestic and international markets.



Resolution to the question of overseas vets remaining in the UK. This is urgent. Approximately 85% of official state vets carrying out official controls in approved meat establishments are from EU countries and up to 30% of all vets come from the EU. Without their continued presence, the safety and welfare standards which underpin our industry are under serious threat.



PROTECTION OF OUR VALUES

In 2018, as part of our preparations for the 'Brave New World' outside the EU, we published the PFMA Pet Food Vision, which focuses on 4 core pillars underpinning our work:



These are the core values at the centre of everything we do and which we shall seek to safeguard as the UK moves into the second phase of withdrawal from the EU.



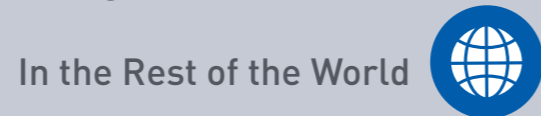
ADDITIONAL BACKGROUND AND INFORMATION

New trade relationships: Challenges to future success.



In Europe

Our sector still faces a number of uncertainties and a much shorter transition period than anticipated as the UK negotiates with the EU about the nature of the relationship beyond 2020. Nearly thirty years of steady and increasing integration within the EU Single Market, including its structures, standards and systems, are about to be undone. Many of our members have no experience of trading on world markets, and despite months of preparations, trading with the EU as a third country from 1 January 2021 will inevitably present challenges to our sector. **Tariffs on trade would be unwelcome, but less problematic than the non-tariff barriers which will be particularly onerous for our sector.**¹ A system which has relied for decades on frictionless trade and 'just-in-time' supply chains with our near neighbours in this high volume/low margin time-sensitive product sector will struggle to adjust and maintain its competitiveness with the EU27.



In the Rest of the World

Negotiating Free Trade Agreements (FTAs) has a history of being a complex and lengthy process. The UK pet food sector is innovative, robust, well-regarded and ambitious to break into new markets. Members have shown significant interest in, for example, trade missions to China and some have been successful in developing global exports for speciality products. They have pointed out that it is not necessary to have a FTA in place in order to trade. **PFMA would like to see, alongside the process of negotiation, a strategic effort to support UK businesses to break into new markets.** Local business knowledge and familiarity with the customs and regulatory systems of the countries to which our members seek to export is essential. **Support should come from Government departments, and British Embassies which have an understanding of the country and markets where they are situated.** Finding commercial expertise to match this service may be difficult and expensive.

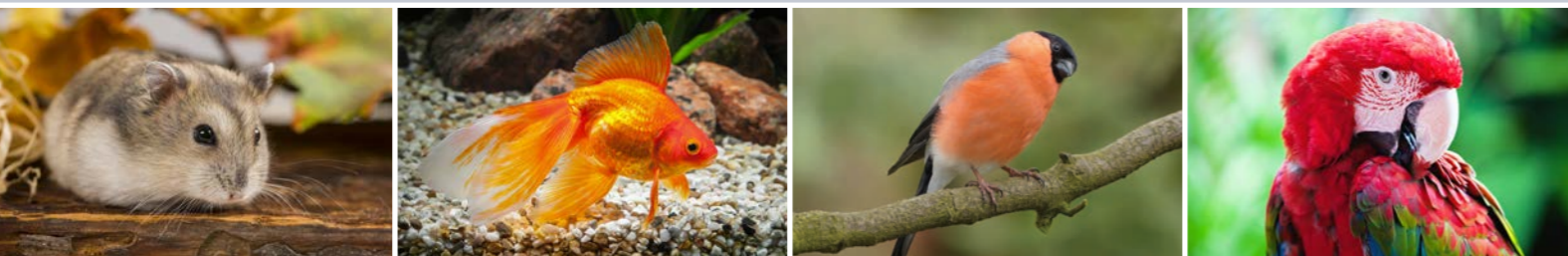
Protecting our values

Safety, Sustainability and Regulatory Standards:



In the UK we have some of the highest animal health and product safety standards in the world. This is underpinned by stringent legislation on what raw materials we can use and how pet food is manufactured. It also relies on supervision by official vets and meat hygiene inspectors, as well as safeguards to handle any disease outbreaks. **We must ensure these standards and high animal welfare² remain as strong as ever, not only to protect human and animal health, but also to satisfy our UK customers and ensure UK pet food remains highly regarded when we trade globally.**

PFMA members source up to 80% of their raw materials from the UK. We want this to continue. We contribute to the value and sustainability of the agri-food sector by utilising parts of the animal carcass and agricultural co-products which are not used in the human food chain. **Breaks in any part of this chain could impact the viability of the system with consequences beyond individual sectors.** These relationships need to be taken into consideration during the negotiations.



¹ For the pet food sector, the impact of non-tariff barriers is likely to be more critical. These include the requirement for Export Health Certificates (signed by official vets), the requirement to prove the origin of the raw material used in pet food, the need for veterinary inspection at the border. All of these will take time, add cost, and require sufficient numbers of qualified vets.

² This is a cost to UK farmers who must not be undermined by importing products from markets which operate under lower welfare standards. To protect our strong feed safety and animal welfare standards, the Government must resist opening our domestic market to imports which do not have equivalent standards.

