wsta

speaking for the wine and spirit trade

Planning for a No Deal EU Exit:

The wine and spirit industry's response

July 2019

wsta

speaking for the wine and spirit trade

About the WSTA

This report has been produced by the Wine and Spirit Trade Association (WSTA), which represents over 300 companies producing, importing, exporting, transporting and selling wines and spirits in the United Kingdom.

WSTA members range from major retailers to brand owners, wholesalers to fine wine and spirits specialists, logistics companies, bottlers, distillers, wineries and vineyards. We campaign for a vibrant and sustainable wine and spirit industry, helping to build a future in which alcohol is produced, sold and enjoyed responsibly.

We speak for the wine and spirit trade. Learn more at **www.wsta.co.uk**

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Contents

Foreword

Ensuring that UK wine and spirit businesses are prepared for and that Government understands the consequences for those businesses of exiting the European Union is the most important and prolific piece of work the WSTA has undertaken on behalf of its 330 members. As a global industry, EU Exit and the uncertainty it brings poses a significant risk to those members. Yet the businesses the WSTA represents have tackled this challenge head on, so that the industry - worth £49 billion to the UK economy - continues to thrive in a post-Brexit world.

The UK is the world's largest exporter of spirits and the second largest importer of wine. The nature of the UK's future relationship with the EU has been clouded with uncertainty since 2016, and for industries heavily reliant on global trade, this lack of clarity has resulted in business uncertainty over the most appropriate future business model. It should not come as a surprise therefore that Brexit has hindered investment. However, we are a resilient industry, and most wine and spirit businesses have made sure they are ready and able to adapt. The WSTA is confident that the UK will remain as the global hub for wine and spirits and UK businesses will continue to succeed whatever the outcome.

This report is based on responses from around 10 per cent of the WSTA's membership, with responses from businesses of all sizes, representing importers, exporters, freight forwarders, brand owners, bottling companies, fine wine traders, wine and spirit specialists, distillers and English wine producers. While its recommendations aim to show how best Government can work with industry to deliver practical solutions, it also highlights the severity of the challenges UK wine and spirit businesses face in the event of a No Deal EU Exit.

In line with other business sectors, the UK wine and spirit industry's firm preference is for a negotiated EU Exit, yet the WSTA must continue to prepare its members for a No Deal Exit scenario. Over the past year, Government has significantly increased the quantity and quality of its engagement which has helped us in achieving this goal. This said there is always room for not just more but better engagement with industry and it is imperative that further clarity and certainty is needed in advance of the Exit date. This report outlines ways in which we believe that can be achieved. Furthermore, the section, *'Beyond Brexit: an ambitious agenda for the wine and spirit industry'* outlines how we believe the industry can look forward and prosper once the UK has left the EU.

The WSTA has four key priorities in helping to deliver an EU Exit which works for its members:

- Keeping the UK open for business as the global hub for the wine and spirit industry;
- Championing exports of Great British gin and English Sparkling Wine all over the world;
- Ensuring UK consumers can continue to responsibly enjoy a wide variety of wine and spirit products; and
- Creating a regulatory environment which allows the UK wine and spirit industry to thrive in a post-EU setting.

I am delighted to launch this report working in close partnership with the WSTA's members, and especially thank them for their assistance in the WSTA's EU Exit work over the past three years. Their collaboration on this project underlines the importance of delivering a future relationship with the EU - and rest of the world - which keeps the UK at the heart of a global wine and spirit industry.

Rebekah Kendrick
Head of Brexit & EU Affairs


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Executive Summary

The following report has been compiled based on 28 written member responses to a survey of all WSTA member companies between April and May 2019. The survey was sent out after the UK Government had agreed to an extension of Article 50 to 31 October 2019. Where indicated, this report also includes further supporting information received from members. The WSTA has also included its experiences as a trade association representing the industry and the preparations and activity it has undertaken throughout the EU Exit process.

A No Deal EU Exit in October is the worst-case scenario

- Businesses will be increasing stock levels for Christmas and New Year, meaning warehousing space will be even more limited than it was in March 2019.
- Businesses are reluctant to invest in No Deal planning, as the investment and time allocated to prepare for March 2019 was ultimately not required.
- The biggest industry concern is being prevented from moving goods on and around 31 October 2019.
- How EMCS works around the EU Exit date remains a major concern for the industry, particularly for goods sent from the EU to the UK.

There must be clarity and certainty - sooner rather than later

- Estimates of the cost of contingency planning for individual businesses and related stock-building range from zero to £5 million.
- Businesses have invested in contingency plans due to a lack of clarity and certainty on exiting the EU. Expenditure on contingency planning has diverted cash away from investment opportunities for growth.
- Many businesses have said they need a clearer indication of when the UK is leaving the EU and on what terms, before they reignite their contingency planning.

The industry is prepared and will continue to be a Great British success story

- Businesses very much welcome the Government's flexibility and action to mitigate the impact of No Deal EU Exit, especially on VI-1s, tariffs and labelling.
- An overwhelming majority of businesses have put in place contingency plans.
- Most businesses have said they will undertake vital preparations the closer it gets to the EU Exit date.

Summary of Recommendations

Clarity and certainty	• A clear plan and timetable must be published by Government now to give businesses clarity and certainty in their EU Exit planning. • The Government should do all it can to prevent the UK from leaving the EU without a deal on 31 October 2019. • It is imperative that all necessary legislation is passed before the UK leaves the EU. • It is essential that Government works closely with counterparts in EU member states to ensure that systems are consistent and compatible on both sides of the border.
Communication	• Greater stakeholder engagement is needed to ensure businesses are well informed and aware of requirements. • The Secretary of State for Environment, Food and Rural Affairs should commit to a wine and spirit industry round table to discuss the impact of EU Exit on the wine and spirit industry. • The Government should continue to work closely with the wine and spirit industry to ensure the UK operates under a good regulatory environment for business which protects safety and quality while fostering innovation. • A clear distinction should be made to businesses between the essential actions they must take to prepare for a No Deal EU Exit and measures that are recommended. • It is imperative that the Government delivers coherent and clear messaging in the lead up to the Exit date.

Movement of goods	• The Government must ensure goods are able to move as freely as possible across the border between the UK and EU – especially between Northern Ireland and the Republic of Ireland. • Government should seek to retain access to the EU EMCS system through a negotiated agreement with the EU. • Clarification must be provided on the Excise Movement and Control System (EMCS) and how those movements will work in the weeks surrounding the date of EU Exit, especially in a No Deal scenario. • EMCS and customs guidance should be published to give UK and EU based businesses confidence that they will be able to move goods into and out of the UK around the EU Exit date. • Businesses need to be provided with further information about Transitional Simplified Procedures (TSP) and how it will operate in the event of a No Deal EU Exit.
Trade continuity	• Government should seek to provide advice for EU-based businesses which export to the UK and circulate that advice to UK based importing businesses. • While the WSTA welcomes the Government's proposal to suspend tariffs for wine following day one of a No Deal Exit, alternative arrangements (i.e. FTAs or removal of all wine tariffs) must be in place after the 12-month tariff suspension period. • Key FTAs for the wine and spirit industry - including Canada, South Africa and Japan - must be rolled over in the event of No Deal.
People	• Future controls on the movement of people must ensure continued access to a skilled workforce. • The £30,000 minimum salary threshold for EU workers post-EU Exit should be re-examined to support the mutually reliant wine and spirit, and UK hospitality sectors

Regulatory barriers

- An exemption period of at least 9 months for VI-1 import certification requirements to the UK should be confirmed in secondary legislation as soon as possible.
- Government should also seek to negotiate a similar VI-1 exemption period for goods dispatched to the EU.
- Government should work closely with industry to develop a new post-Brexit import certificate so that VI-1 forms are not a future requirement at the end of the exemption period. This would be best developed through a joint Defra and wine industry working group and no measures regarding VI-1s should be implemented without industry collaboration to ensure mechanisms are workable and achievable.
- The Government's agreement to a transition period for labelling is a hugely welcome step and the 21 month period should be upheld to ensure businesses do not lose 7 months of planning time due to the extension of Article 50 from March to October.
- The Government must seek confirmation of equivalence from the EU over organic labelling well in advance of the EU Exit date.
- The WSTA recommends a transition period of at least 12 months is put in place exempting all wood packaging materials entering the UK, in the event of a No Deal EU Exit, from requiring ISPM15 stamps.
- The Government should work with the EU to ensure there is agreement to waive ISPM15 requirements for wood packaging materials entering the EU from the UK in the immediate months following a No Deal EU Exit.
- The UK Government needs to ensure it works with the EU, following EU Exit, to develop mutual recognition of all wood packaging material requirements.

Trade growth	• The World Wine Trade Group (WWTG) has proved itself to be a successful trade facilitation group which the UK should join immediately on leaving the EU. • It is crucial that support for overseas trade promotion of English wine and British gin continues and is increased further. • Generic promotional support within the UK, EU and target third countries should be developed to promote tourism and the sector. This should be delivered through "Distilleries are GREAT" and "Vineyards are GREAT" campaigns. • UK products like English wine and British gin should be served in all UK embassies and on trade missions overseas as a matter of course. • The Government should seek to ensure the UK remains an attractive place to do business post-Brexit and attract inward investment by cutting both wine and spirit duty at the next Budget. • A campaign within the EU, to show that Britain is open for business, should be developed to help improve EU business confidence in the UK as a key market.
Making contingency planning easier	• Government should seek to deliver relief on guarantees for businesses preparing for EU Exit by increasing stock above usual levels. • The Government should seek to introduce postponed VAT accounting regardless of the EU Exit outcome. • A Government hub providing free training and advice should be developed. • Additional Government support should be provided for smaller companies which do not have the capacity to stockpile around the EU Exit date. • The UK Government should provide additional advice and support for SMEs exporting to EU27 markets post-EU Exit to source a suitable EU importer address.

Chapter 1:
Preparations for 29 March 2019

Based on the written survey responses received from members, almost 80% of wine and spirit businesses had plans in place for a No Deal Exit. Of these companies, 85% are still investing staff time and financial resources on continued preparations for a No Deal Exit because of the continued lack of clarity on the future trading relationship with the EU.

The WSTA has worked hard since the referendum to prepare our members for all potential EU Exit outcomes. However, the main advice to members in the year leading up to 29 March 2019 was that the industry should plan for a No Deal EU Exit scenario. The WSTA's central planning assumption was that there was a significant and steadily increasing risk of leaving without a deal in the lead up to 29 March 2019, and therefore its main advice to members was to increase stock in the first 6 months of 2019 to avoid potential disruption of a No Deal EU Exit.

Key findings

- Businesses set up internal EU taskforces, undertook impact assessments and developed plans for mitigating the risks of a No Deal EU Exit on 29 March 2019.
- Businesses took action in the lead up to 29 March 2019 by bringing forward sales, extending credit terms, hedging currency and discussing cash flow implications of EU Exit with their suppliers.
- Government advice published in the run up to 29 March 2019 was said to be too sporadic and difficult to find.
- Many businesses stockpiled in advance of 29 March 2019, for some this meant having to invest in additional warehousing.
- Some smaller businesses which did not perceive EU Exit to be a threat did not plan at all.
- In the week leading up to 29 March while a No Deal EU Exit remained on the table movements were disrupted between the UK and EU, in part because of advice given in some EU member states to their exporters not to load goods.
- Practical steps were taken by many - but not all - businesses by registering for a UK Economic Operator Registration and Identification (EORI) number and Transitional Simplified Procedures (TSP).
- Barely any companies applied for Authorised Economic Operator (AEO) status in advance of 29 March 2019. Systems for doing so remain lengthy and cumbersome. This is unnecessary when many alcohol traders are already regulated to a standard close to AEO.
- Training on third country customs procedures has been sought by several businesses. Most other companies have appointed or liaised with a customs agent.

- Loss of access to the EU Excise Movement and Control System (EMCS) in the event of a No Deal EU Exit is an extra challenge for the wine and spirit industry and businesses – transporters especially – will require significant resources to manage additional administration.
- The introduction of VI-1 forms are a concern for the wine industry which will increase costs and be a major administrative burden for wine businesses – especially those importing wine into the UK from the EU.
- Most businesses did not change their labels in advance of 29 March 2019 and the Government's decision to provide a transitional period for labelling on the UK market was hugely welcomed by the industry. However, concerns remain for products being exported to the EU market, especially for those without an EU importer address.
- Many wine and spirit businesses increased their level of communication with suppliers and customers throughout the supply chain in the lead up to 29 March 2019.
- The Government's commitment to implement a temporary zero tariff rate for wine and spirits for the first 12 months following EU Exit was very much welcomed by member businesses and relieved pressure from their contingency plans and related cash flow.
- No WSTA members have relocated their business from the UK to the EU, however some have included the suggestion in their potential actions in a worst case scenario.
- Some businesses have invested in EU bases to account for potential future labelling changes.
- Businesses which hire EU nationals have advised and supported those employees based on Government advice.

Internal strategy planning

WSTA members were advised to set up internal planning groups to prepare for the potential impact of a No Deal Exit. The WSTA also held a series of regular seminars to give member businesses the opportunity to continually assess their Brexit strategy and offered members one-to-one meetings to discuss individual business needs and concerns. The WSTA has prepared a wealth of EU Exit contingency advice for its members, including an EU Exit contingency planning guide, EU exporter checklist, risk map, policy paper on the road ahead for the industry, VI-1 guidance and labelling guidance.

Many member businesses reported they had heeded this advice, and established internal EU Exit taskforce groups which met regularly and engaged all relevant teams within their businesses, including staff from logistics, legal, buying, design and senior leadership teams. Some businesses also reviewed EU Exit at a Board level. One business took one step further and set up a logistics taskforce for similar businesses to theirs to discuss the specific challenges for their sub-sector. Activity undertaken by those groups included impact analysis of short and long-term business risks, research into the impact of No Deal, assessing information published by the Government, and setting up strategy plans for No Deal in terms of marketing and business growth, cost analysis, competitor analysis, opportunities and threats.

> **“WSTA briefings were very useful, and an anchor for us in the troubled seas of legislation.”**

Many businesses also assessed the impact of contingency plans required for the transition period alongside No Deal planning. The impact the lack of clarity over the outcome has had, on the time and investment required to prepare for all scenarios as opposed to just one, should not be underestimated. Many businesses reported that they had held off acting on proposals until more clarity on the EU Exit outcome was communicated. Searching for the correct information online and on the gov.uk website was also cited to be time-consuming and many businesses said they were reliant on WSTA briefings for condensing the often duplicated, extensive and overwhelming amount of advice disseminated by Government.

Recommendation(s):

- Government must publish a clear plan and timetable to give businesses clarity and certainty in their EU Exit planning.
- A clear distinction should be made to businesses between the essential actions they must take to prepare for a No Deal EU Exit, and measures that are recommended.

A few respondents to the consultation from member businesses reported that they did not undertake much, if any, planning for EU Exit. This included a PR agency, an ex-cellars EU exporter, a business whose trade is mostly outside the EU, and one company which highlighted they did not view a No Deal Exit to be a “credible possibility” until very close to the deadline as the “consequences would be so serious and disruptive”.

“We based our preparations on the guidance of the WSTA. Whilst we didn’t increase stock by a blanket 20%, we increased our stockholding of top selling wines by approximately 60,000 cases to cover us for any disruption to shipping at the end of March.”

Increasing stock

In advance of a No Deal Exit on 29 March, the WSTA advised that if possible their starting point should be to consider holding around 20% more stock in the first six months of 2019, bearing in mind the fact that this would impact businesses cashflow, be dependent on warehousing space and increase guarantees.

Many WSTA members reported increasing their stock, with the responses received ranging between holding enough stock for two weeks to six months, with two weeks for one large company equating to around 300,000 cases. Others took a different approach, for example increasing stockholding of top-selling/main brand SKUs or critical lines. It was noted that pressure was increased on supply chains due to last-minute requests from customers to hold additional stock. There was also some variation in stock-building depending on origin - with products from the EU taking priority - and companies producing goods in the UK stockpiled dry goods such as glass bottles and bulk liquids. Customers in the UK and EU were encouraged to increase stock, with businesses sending additional stock to EU distributers ahead of 29 March. Increasing stock not only ties up cash in terms of cost of additional stock but also increases the cost of movement guarantees and premises guarantees to industry. One company claims it extended its credit terms for its customers to encourage and help them to increase stock. This of course has resulted in businesses investing time and money into often bespoke warehousing, leading one to member suggest that stock increases put “extreme pressure on production, procurement, planning, capacity”.

Recommendation(s):

- Government should seek to deliver relief on guarantees by reassessing the level of risk posed by duty suspended movements between revenue traders for those businesses preparing for EU Exit that have increased stock above usual levels.
- Additional Government support should be provided for smaller companies which do not have the capacity to stockpile around the EU Exit date.

Movement of goods

Despite efforts on both sides of the English Channel and Irish Sea, a No Deal Exit would likely cause major disruption at the border in the short term, and so WSTA members were advised to take a cautious approach in planning how to move goods in such a scenario. In addition to increasing stock, businesses were advised to avoid moving goods around the EU Exit date. It is important to note that most wines, spirits and peripherals associated with the production of those products have relatively long shelf lives, with the exception perhaps of some ingredients such as botanicals used in the production of gin and dairy products for items like cream liqueurs. For fine wines there is a risk that prolonged exposure in a temperature-unregulated environment might damage the product and so those businesses explored alternative vehicles, such as those with refrigeration.

Several businesses suggested that they halted or modified shipments around 29 March, by changing routes, bringing forward planned orders, and putting plans in place to change to ex-works movements for goods moving from the EU to UK. Around the EU Exit date, some freight forwarders had taken the decision to not collect products from EU countries around one week before the Exit date due to uncertainties, most notably on technical information on EMCS movements and the impact on goods in transit in a No Deal scenario. Businesses were particularly concerned in cases where goods were not scheduled to arrive at their destination until after the 29 March, where the movement (whether physical or electronic) had begun prior to that date. One company also stated they looked into the trade lanes of their customers.

Other than avoiding moving goods around the EU Exit date, businesses prepared for potential disruption by following Government advice by applying for a UK Economic Operator Registration and Identification (EORI) number and Transitional Simplified Procedures (TSP). Many businesses were unclear of the benefits of TSP, however the WSTA advised that since it is relatively simple to apply for and free, businesses should do so. TSP was deemed especially important for those who do not already utilise duty deferment and payment guarantees. Some companies also took the decision to apply for Authorised Economic Operator (AEO) status – something that the WSTA has floated as a suggestion regularly at meetings and in written advice. However, while several businesses have completed applying for AEO status, the benefits remain unclear, and the cost and effort required to apply has put several businesses off from doing so. In addition, some businesses felt that it would only be beneficial if all actors throughout the full supply chain had AEO status, something out with their control. The WSTA is concerned that AEO might be required in a post-EU Exit UK, and that there will be a bottleneck of applications as a result.

Recommendation(s):

- Businesses need to be provided with further information about TSP and how it will operate in the event of a No Deal EU Exit. This should be delivered in plenty of time before the EU Exit date to allow businesses not currently signed up to TSP to apply well before the UK leaves the EU in order to avoid a bottleneck of applications.

As customs issues, such as making import and export declarations and working out correct commodity codes, are often part of much wider complex procedures which many businesses (especially those that currently only trade within the EU) have never needed to engage with before, some businesses have sought to acquire training for staff members. One member fed back that they applied for Government funding in order to train staff, however they received a 'limited response'. This lack of communication was echoed by another member who stated they spent 'hours waiting to speak' with a representative. Several member companies, both in the responses and in face-to-face meetings, have indicated that rather than train their staff on customs procedures they instead appointed customs agents.

Recommendation(s):

- A Government hub providing free training and advice should be developed to help smaller businesses get to grips with new customs requirements.

Moving goods post-EU Exit is an additional challenge for the wine and spirit industry, not least because alcohol currently moves freely around the EU under duty suspense via the Excise Movement and Control System (EMCS). Post-EU Exit in a No Deal scenario, businesses moving goods from the EU to the UK will be required to move goods to the EU border under the current EU EMCS system, close that movement in the EU, submit a customs export declaration or initiate a transit process at the border, submit a customs import declaration at the UK border, and then re-enter the goods into the UK EMCS system in the UK. To prepare for this scenario, one major freight forwarder stated they transposed current movements between the UK and EU taking place under EMCS into the same process they use for third country movements. From this study they concluded that the additional resources required, such as staffing, facilities, IT requirements and more, would be significant.

Recommendation(s):

- Clarification must be provided, sooner rather than later, on EMCS movements and how they will work in the weeks surrounding the date of EU Exit, especially in a No Deal scenario.
- Government should seek to retain access to the EU EMCS system through a negotiated agreement with the EU, either as part of an FTA or a standalone agreement in place for day one of a No Deal Exit.

EMCS movements in practice

Figures 1 and 2 aim to illustrate the volume of additional work (and therefore investment) which businesses will be required to undertake because of an EU Exit - specifically the additional steps required for moving goods under EMCS from the EU to the UK post-EU Exit. There are many more stages required to make customs declarations, but these diagrams aim to simply highlight the additional barriers resulting from losing access to the EU EMCS system alone.

Figure 1 – EMCS movements in the EU

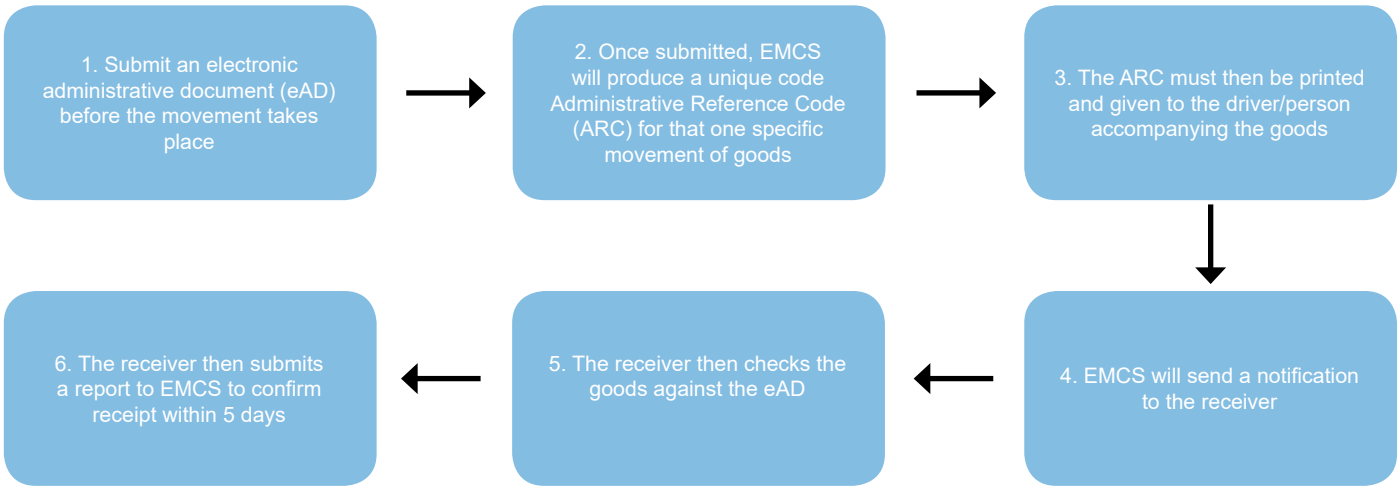
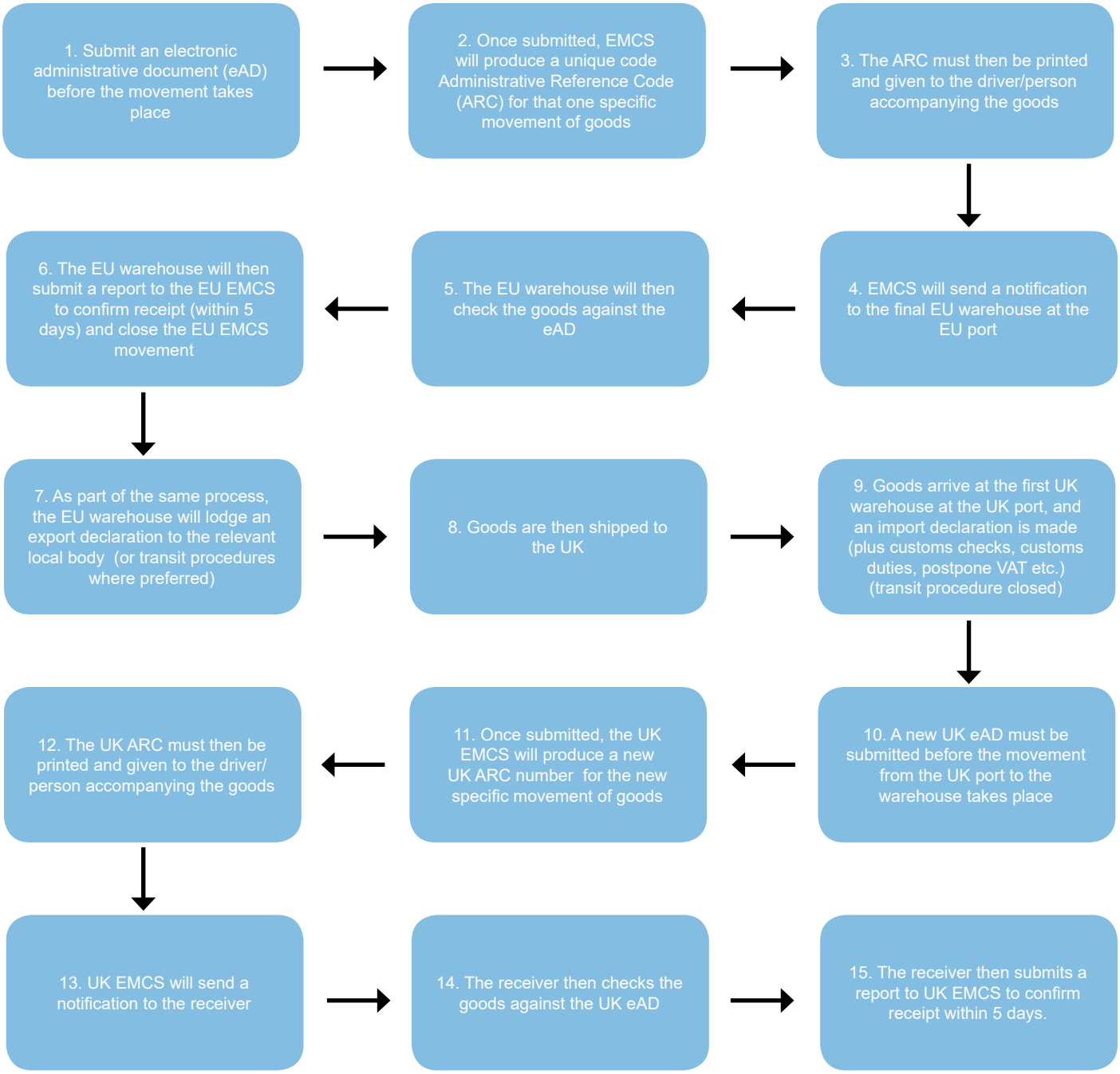


Figure 2 – example of an EMCS movement from an EU27 country to the UK via a port, if the UK leaves the EU in a No Deal Exit



Wine documentation (VI-1s)

Most wine imported into the EU from third countries is required to be accompanied by an import certificate known as a VI-1. This is a paper document which requires an analysis of the wine from an approved laboratory (encompassing technical information such as dry matter and three types of acidity) and the form needs to be completed by the business exporting the wine and the signed off by the relevant competent authority. Some countries with preferential agreements are exempt from providing a VI-1 or have alternative arrangements, for example Australian wine can be accompanied by a simplified version of the form, and US wine can be accompanied by a simplified US wine document. However, as EU legislation is rolled over through the Withdrawal Act, in a No Deal EU Exit - without confirmation that there will be a transition period for VI-1s - a full VI-1 form would be required to accompany wine between the UK and EU, and vice versa.

As VI-1s are not currently required, their introduction would cost both UK and EU businesses time and money. The WSTA estimates that the introduction of new forms and laboratory test demands could cost the industry up to £70 million, with each laboratory analysis costing around £330, with the paper form costing around £20 to stamp, and an estimated 500,000 VI-1 forms required. Wine leaving the UK for the EU will also have to complete a VI-1 form - meaning an estimated 150,000 forms which will put a strain on wine exports, the UK's 5th most valuable food and drink export. One wine business carried out an impact assessment which concluded that the introduction of VI-1s would increase administrative time by 55 hours, and the delivery time would increase from 23 days to potentially 37 days. Their estimated administrative cost for VI-1s for movements to Ireland alone is over £20,000 - a cost which may make those movements no longer viable.

The WSTA believes that introducing VI-1 requirements would be detrimental for all businesses importing wine from the EU, especially those which import wine from smaller producers which would be unlikely to engage in the significant additional cost and bureaucracy with producing a VI-1. This would have a major impact on the diversity of the wine market in the UK and would especially impact smaller independent wine merchants.

An additional challenge exists for the secondary market. Fine and investment grade wine has mostly been produced, bottled and boxed many years ago, and this is part of its USP. The ability to produce an original form is severely limited and obtaining the laboratory analysis required is impossible without opening a bottle of what is usually an expensive wine, devaluing it entirely. One business in the fine wine industry stated that while they appreciated the 9-month VI-1 form exemption period, introducing VI-1 requirements in the long term could bring the fine wine industry "to a halt" and "[threatens] the UK position as the global hub for wine". The WSTA therefore believes special consideration should be given to the fine wine industry regarding future VI-1 requirements.

The WSTA has been working closely with Government to ensure this has minimal impact on the wine and spirit industry and very much recognises and welcomes the high level of engagement from the Department for Environment, Food and Rural Affairs (Defra) to mitigate the impact of VI-1 requirements. The WSTA has called for a transition period for VI-1s for wines entering the UK market for at least 9 months following a No Deal Exit. In addition, the WSTA believes this time should be used to work with Government to develop a new regime for wine import documentation, and work with the EU to do the same, to ensure a full VI-1 is never required.

Recommendation(s):

- An exemption period of at least 9 months for VI-1 requirements to the UK should be confirmed.
- Government should also seek a similar VI-1 exemption period in the EU.
- Government should work closely with industry to ensure VI-1 forms are not a future requirement following the end of the VI-1 exemption period and instead develop a new wine documentation regime. This should be developed through a joint Defra and wine industry working group and no measures regarding VI-1s should be implemented without industry collaboration to ensure mechanisms are workable and achievable.

“

Many fine wines will have left the producer decades ago, meaning getting certificates of analysis etc is virtually impossible. The same wines cross backwards and forwards between the UK and EU on multiple occasions. We sell more (French) wine sourced in the secondary market (from all over the world) back to France, than they buy from us!

Implementation of VI-1 requirements to the letter would likely kill the fine wine trade as it currently exists. This is an industry where the UK enjoys a genuine competitive advantage globally.

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Wood packaging materials (WPM)

While the UK remains a member of the EU, goods are free to move between EU countries in wood packaging without checks, however WPM imported into the EU from third countries must be heat treated to ensure there are no wood-borne diseases. In a No Deal Exit scenario, when the UK leaves the EU, checks will need to take place on WPM coming from the EU, and UK WPM will be checked in the EU. Here, WPM will require an ISPM15 stamp to confirm they have been treated. The challenge with this for the wine and spirit industry is that wood pallets are (as in many industries) relied on for the movement of goods. The WSTA is working with Government to ensure a proportionate and risk-based solution is found.

For the wine and spirit industry a further challenge exists for wine packaged in wooden boxes. For the fine wine trade, wine boxes are often sealed, with the value being in the fact that the product is untampered with. It is not possible to heat-treat the wood without opening the box or damaging the wine inside. Older wines without some form of grandfathering clause, in this instance, would not be able to move across borders in their original wood packaging if requirements were rolled over verbatim. Even if the wine can be removed from the boxes, the treatment is still an additional unnecessary expense for UK wine businesses.

Some UK wine and spirit businesses bring in casks from the EU. Currently these do not need to be heat-treated. In a No Deal Exit, barrels imported from France for example would need to meet ISPM15 requirements when imported into the UK. This will act as an additional barrier to trade and could affect the supply chain of UK-based businesses.

Recommendation(s):

- The WSTA recommends a transition period of at least 12 months is put in place exempting all wood packaging materials entering the UK in the event of a No Deal EU Exit from requiring ISPM15 stamps.
- The Government should work with the EU to ensure there is agreement to waive ISPM15 requirements for wood packaging materials in the immediate months following a No Deal EU Exit.
- The UK Government should work with the EU following EU Exit to develop mutual recognition of all wood packaging material requirements.

“Certainly, many of our EU-based suppliers do not have ISPM15 stamped pallets and they, like we, are concerned about a shortage of supply, particularly in a no-deal Brexit.”

Labelling

There are numerous labelling issues surrounding a No Deal Exit. Leaving the EU would roll over legislation requiring products imported from outside the legislative area to be labelled with the relevant address of an importer based within. In a No Deal Exit, this would mean wine or spirits exported from the UK to the EU would require an EU importer address, and EU wine imported into the UK would need a UK importer address (with some small differences between spirit labelling which is governed by food labelling laws, and wine labelling which is covered by the EU wine regulations 1308/2013). For goods coming from the EU, the Government has agreed to a transition period until December 2020 for labels on the UK market – something the WSTA fully welcomes as suggested in its response to the November 2018 Defra consultation, 'Food labelling: amending laws'. Members have expressed that this action has relieved some of the pressure of a No Deal Exit.

Recommendation(s):

- The Government's agreement to a transition period for labelling is a hugely welcome step and the 21 month period should be upheld to ensure businesses do not lose 7 months of planning time due to the extension of Article 50 from March to October.

The WSTA produced a labelling guide for its members to take into consideration any changes which will be required in order to remain compliant on both UK and EU27 markets after 29 March. As part of this advice to members, it was recommended that businesses ensure their products are or can be made compliant if being physically placed on EU27 markets after 29 March i.e. ensuring products include an EU importer address, or for wine an EU27 bottler, vendor or producer address. Other labelling concerns included organic certification, however at the moment there is little businesses can do to mitigate this other than removing the organic label from products – which is often the product's USP.

Recommendation(s):

- The Government must seek recognition of equivalence from the EU on organic labelling well in advance of the EU Exit date.

With these recommendations in mind, member businesses have prepared for a range of scenarios to ensure their products are either already compliant, or to assess their ability to manage the cost of changing them nearer the EU Exit date. There are several difficulties to consider which have meant many businesses have not changed their labels straight away, especially as additional investment would be required which could eventually be wasted.

Changing the label outright would mean re-designing, printing and labelling products which is costly. The long shelf life of wine and spirits means unlike other food and drink products labels can be printed and applied months or even years in advance of the final sale for consumption. When previous labelling changes were introduced, the Government agreed with industry that two years should be allowed for all products to become up to date. This of course also becomes more complicated the more SKUs a business has. However, while we recognise the Government has agreed to a transition period for the UK market up to December 2020, there is still the issue of products placed on the EU market, meaning that over-stickering is something businesses have to consider – one company stating it has prepared this up to the point of printing. Over-stickering is costly and time-consuming (as it must be done by hand).

After the transition period, products destined for both EU27 and UK markets will be required to include an EU address and a UK address on the label.[1] This means businesses in EU27 countries would need to find a suitable UK address to use on their labels, and vice versa. Some smaller EU based wineries and distilleries may see this as an additional barrier to exporting to the UK, potentially impacting the diversity of wine portfolios in independent wine shops. In addition, this would act as a barrier to trade for UK exporters to the EU. As many UK exporters to the EU do not have an EU address which can be used on the label, some businesses have therefore needed to either set up a registered EU business address (an additional expense) or seek approval from an EU distributor willing to use its address on the label (again, with an attached cost).

Recommendation(s):

- While the WSTA recognises that the UK does not have any power to change the law in the EU in the event of a No Deal scenario regarding EU labelling requirements, it is essential that the UK Government provides additional advice and support for SMEs exporting to EU27 markets post-EU Exit to source a suitable EU importer address.

[1] For spirits, this can be an importer address or responsible Food Business Operator (FBO). For wine, this can be the address of an importer, bottler, producer or vendor.

Communication

The WSTA developed a range of new channels for communicating EU Exit information to its members. Due to the wealth of information which was circulated by the Government in the lead up to 29 March 2019, the WSTA condensed messages and tailored advice to ensure members only received information relevant to their businesses. The WSTA also developed a range of EU Exit seminars and workshops to deliver expert advice on technical issues.

During the lead up to 29 March, many wine and spirit businesses ramped up their communications with suppliers and customers to consider the potential changes a No Deal Exit might bring. This included inquiring about whether their suppliers and freight forwarders had made any contingency plans or were aware of changes to stock and movement requirements, checking cost estimates to take into account currency fluctuations as a result of EU Exit, keeping them informed, ensuring post-EU Exit customs, excise and documentation requirements were understood, and having regular discussions “to minimise doubt and avoid them doing business elsewhere”.

The WSTA has welcomed the considerable increase in the quality of Government engagement over the last year and the steps taken by officials to take as pragmatic an approach as possible when interpreting inherited EU law which would apply in a No Deal Exit, notably allowing a transition period in the UK for labels and indicating that there may be a nine-month transition period for VI-1 wine documentation for products entering the UK. We trust this consultative approach will continue throughout the negotiations at the same level as before the weeks leading up to 29 March and will be amplified during the process of agreeing the Future Economic Partnership.

Other preparations the WSTA has taken on behalf of its members includes: engaging closely with other partner trade associations, supporting counterparts at PAN-European trade associations members in advising their members in how to prepare for EU Exit, and advising members to write to their MP outlining the difficulties of a No Deal EU Exit to their business.

Recommendation(s):

- The Secretary of State for Environment, Food and Rural Affairs should commit to a wine and spirit industry round table to discuss the impact of EU Exit on the wine and spirit industry.
- Government should seek to provide advice for EU based businesses which export to the UK, and circulate that advice to UK based importing businesses in order to support their engagement to ensure their supply chain is prepared for a No Deal EU Exit.
- It is essential that Government works closely with counterparts in EU member states to ensure new systems are consistent on both sides of the border.

“We kept all our foreign trading partners fully informed regarding possible repercussions for their businesses. We advanced 3 months stock into the market and kept it in bespoke warehouses. We also hedged currency for six months to avoid major currency fluctuations.”

Tariffs and quotas

While the EU tariff schedule lodged with the World Trade Organisation includes an MFN tariff rate of zero for spirits, the rates for wine are currently set at around 7-10p per bottle of still wine, and 21p for a bottle of sparkling. The WSTA has made clear is opposition to the introduction of tariffs against wine imports from the EU and from third countries who may have previously benefited from preferential trading arrangements under EU FTAs to which the UK is no longer a party. The introduction of such tariffs would also present difficulties to the UK wine bottling businesses which import wine in bulk, bottle the wine in the UK and export the finished product to the EU and presently pay no extra tariffs upon export from the UK. With the imposition of new tariffs on finished bottled wine, many companies who choose to bottle and reexport their wines within the single market may choose to relocate those bottling facilities to the EU market, resulting in the loss of jobs and investment in the UK.

The WSTA and its members very much welcomed the commitment from the Government to confirm that in a No Deal Exit scenario, tariffs for wine would be suspended. It is however important to ensure that following the 12-month tariff suspension period, alternative arrangements must be in place to ensure wine tariffs are suspended until Free Trade Agreements (FTAs) can be concluded with all wine importing counties or, failing that, simply removing tariffs on wine for good.

The WSTA also welcomed the commitment to not impose tariffs on wine imports in a No Deal Exit, especially in relation to Tariff Rate Quotas which are of importance to the wine industry e.g. South Africa. Again, this has relieved some of the concerns of business.

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The UK Government granted flexibility around labelling, and confirmed that tariffs would not apply on wines or the vast majority of spirits and dry goods in the UK, and this helped to relieve some pressure. The loss of international Free Trade Agreements remains a significant concern for exports.

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It is important to note that while there is a zero-tariff rate in the event of a No Deal EU exit for products entering the UK, businesses exporting to the EU will be required to pay a Common Customs Tariff (CCT). Currently, for products entering the EU from third countries without preferential arrangements in place, businesses pay a CCT at a bulk rate (lower than the bottled rate) when the goods enter the EU. As noted above, no further CCT is payable and so goods can be bottled and move between EU countries without having to pay the higher CCT rate. In any EU Exit scenario, when the UK is a third country, businesses would not pay UK customs duty if the goods are entered for Inward Processing Relief (IPR) meaning the goods are not yet in free circulation while in the UK. The goods can then move under IPR to another EU member state where businesses would be liable for CCT on release into free circulation.

The Union Customs Code (UCC) suggests that businesses could ask to pay the bulk rate given the history of the goods within an IPR regime, in short meaning that businesses bottling goods in the UK and re-exporting them to the EU would be able to pay a lower bulk CCT rate, as they do now. What is not clear is whether the revenue authorities in the receiving EU member state would agree to that conclusion, depending on the extent to which the IPR regime in the UK is recognised under the UCC. Under the Withdrawal Agreement and a subsequent Free Trade Agreement, the WSTA deems it more likely that there would be a high degree of alignment meaning businesses would be able to pay CCT at the bulk rate. In the event of a No Deal EU Exit, this would be unlikely, meaning additional costs for businesses exporting goods to the EU.

Recommendation(s):

- Alternative arrangements (i.e. FTAs or removal of all wine tariffs) must be in place after the 12-month tariff suspension period.

Free Trade Agreements (FTAs)

In preparing for No Deal, the UK Department for International Trade has a significant task in achieving continued access to a group of 40 or so Free Trade Agreements, as well as additional regulatory agreements that facilitate trade. These agreements, signed under our membership of the EU, guarantee preferential access to other markets for UK exports and continue a necessary flow of imports that support UK jobs and the wider economy.

In undertaking this mammoth task, DIT have had some significant successes, including signing the FTA continuity agreement with Chile, as well as confirming continuation of important regulatory agreements on wines and spirits, with countries such as the US and Australia. However, it is clear that there remains significant uncertainty in relation to a number of important agreements, including FTAs with countries like Canada, South Africa, and Japan, which guarantee UK wine and spirit exporters significant additional market access opportunities when compared with trading on WTO terms. The WSTA has been working with members to try to prepare them for this situation and highlighting the increased risks that might apply to any changes in these trading relationships, which may have significant impact, particularly on SMEs who might be unable to undertake export contingency plans to any impactful level.

Recommendation(s):

- Key FTAs for the wine and spirit industry including Canada, South Africa and Japan must be rolled over in the event of a No Deal EU Exit.
- The World Wine Trade Group (WWTG) has proved itself to be a successful trade facilitation group which the UK should join immediately on leaving the EU.

Business relocation

With the prospect of EU Exit it has been suggested that many businesses require access to the EU market and are heavily reliant on the current ease of movement of goods between the EU and UK for their highly integrated supply chains, there is a risk that these businesses may relocate. While important to point out that this is something businesses have at least considered, most of the WSTA's member businesses have made it clear that while it has been included in their contingency planning scenarios, it is a highly unlikely outcome for the moment. There are however concerns that the perceived risk of this by consumers and suppliers has impacted their business in some cases due to a lack of confidence and clarity.

There is however evidence that those businesses which are able and have the necessary cashflow required, that additional EU-based businesses have been set up to account for regulatory and labelling changes, changes to the movement of goods, and to allow them to remain engaged and involved in the EU if they are selling their products on that market. Some member businesses which have attempted this have suggested the Republic of Ireland is their preferred destination due to the fact there is not a language barrier which can add significant cost. Other businesses have chosen other EU countries due to the lack of information on the border situation between the Republic of Ireland and Northern Ireland and the rest of the UK.

Establishing a legal entity in the EU is obviously a significant additional investment for businesses which could better be directed into the UK. It also requires additional advice such as from tax advisors. On the other hand, some businesses have suggested that they have changed or at least considered changing suppliers to those based in the UK to avoid disruption within their supply chains.

Recommendation(s):

- The Government should seek to ensure the UK remains an attractive place to do business in post-EU Exit and attract inward investment by cutting wine and spirit duty signalling that the Government recognises the importance of the UK as a hub for the global wine and spirit industry and a world class spirits producer.
- To ensure supply chains are minimally affected by EU Exit, the Government must ensure goods are able to move as freely as possible across the border between the UK and EU – especially between Northern Ireland and the Republic of Ireland.

People

The wine and spirit industry is reliant on global trade and the talent within the UK industry reflects that. Many WSTA member businesses are heavily reliant on non-UK citizens, and the hospitality industry is especially reliant on EU workers. The WSTA therefore welcomed the removal of the application fee for settled status.

Many businesses which hire EU staff have advised and supported those staff on settled status arrangements, and larger companies have suggested they ran information sessions about the application process holding regular staff briefings and circulating UK citizenship application guidance.

Recommendation(s):

- Any future controls on the movement of people must ensure continued access to a skilled workforce: winemakers, pickers and the hospitality sector. The WSTA welcomed the extension of the Youth Mobility Scheme.
- The £30,000 minimum salary threshold for EU workers post-EU Exit should be re-examined to support the mutually reliant wine and spirit, and UK hospitality sectors.

Cashflow and financial implications

The wine and spirit industry already experienced the impact of EU Exit on business through sterling devaluation following the referendum result. It has been anticipated by the OBR that a No Deal Exit would result in the pound devaluing further due to uncertainty.[2] The report also notes that any benefit of sterling depreciation for exports would be offset by new export barriers to the EU. In addition, while the WSTA welcomed the spirits duty freeze, wine duty was increased in February which was an additional hindrance to businesses trying to prepare for a No Deal Exit at the end of the next month.

There are a range of issues which could impact cashflow in addition to currency fluctuations, such as stock-building, transport and warehousing, increasing guarantees, new software for changing customs and excise requirements, training, banking covenants, longstanding contracts, and grants and funding. VAT has also been a concern but the Government's proposed introduction of postponed accounting for import VAT on goods brought into the UK in a No Deal Exit was welcome.

In order to mitigate these potential impacts, businesses have suggested that they have brought sales forward, extended credit terms, hedged currency, and discussed currency fluctuations with suppliers. However one member stated, "as a business this is difficult for us, and indeed I'm sure all, to throw money at a situation in which we do not know the outcome and indeed what the full requirements of us may be."

The WSTA has not received any evidence from member businesses that any costs have been passed onto consumers, however it has been suggested that this may have to occur in a No Deal scenario. One member did however suggest that they did alter the timing of their promotions.

Recommendation(s):

- The wine and spirit industry welcomed the Government's initiative to postpone VAT accounting in the event of a No Deal EU Exit. The Government should seek to introduce this measure regardless of the EU Exit outcome. .

[2] OBR, July 2019, Fiscal risks report, https://obr.uk/docs/dlm_uploads/Fiscalrisksreport2019.pdf

“The main impact of this was cost and the impact on cashflow of essentially shipping and carrying twice the normal level of inventory in Q1, historically the slowest trading period of the year. The three main cost areas were the stock itself, additional freight charges and additional warehousing space.”

“The additional stock and changes to shipping schedules affected our cashflow considerably although in some cases, suppliers were willing to extend credit periods due to the unique circumstances.”

Chapter 2:

The impact of contingency planning in the lead up to 29 March 2019

Businesses have already been affected by EU Exit despite the UK not having yet left. Much of this is through contingency planning and, as illustrated in Chapter 1, a majority of businesses have planned for all outcomes, especially a No Deal Exit. While it is difficult for businesses to determine the exact cost of EU Exit contingency planning (including stock-building and measures such as consultancy contracts, travel, and management), of the businesses which were able to provide figures, estimates ranged from zero to £5 million.

Key findings

- The main impact of contingency planning was stock-building and its implications on cash flow. Costs included the stock itself plus warehousing, transport and taxes.
- Some businesses indicated they hedged currency.
- EU Exit planning also impacted staff time, and staff resources from all levels of seniority were diverted to plan for a No Deal EU Exit.
- The cost implications of planning for customs and excise changes for some companies – especially freight forwarders and logistics companies – was significant.
- Imports were impacted by signals from the European Commission that goods should not be moved in the lead up to 29 March 2019.

Additional stock

For most companies the primary cost attributed to No Deal Exit plans has been stock-building, which includes not only the money tied in to the products themselves, but also warehousing, storage and transportation, and the customs, excise and financial guarantees required due to additional imports into the UK. Stock-building estimates range from zero to £5m, considerably affecting businesses' cashflow. The wine and spirit industry is more fortunate than some in the food sector in that most wine and spirit products have long shelf lives and can be stored for long periods of time.

In some cases companies effectively doubled their usual levels of inventory, with one company noting how out of the ordinary this was with Q1 usually being a comparatively slow trading period. This has resulted in a number of members noticing an increased cost of products due to needing to purchase stock regardless of the exchange rate and increased demand due to the industry stock-building. One company stated that their purchasing cost increased by 10% as a result of being "forced to purchase from alternative suppliers at a higher price". There is also a knock-on impact to consumers, with promotional offers being moved to different dates than usual in the calendar, impacting forecasting for the next year. The impact of change in production capacity in Q1 and the resulting disruption to business status quo should not be underestimated.

An increase in stock means additional costs in terms of logistics, transportation and storage costs resulting in potential cashflow issues at what is usually a quiet period for the wine and spirit industry. Businesses have stockpiled products throughout their supply chain, including both wet and dry goods in both the UK and EU markets. One business estimated they increased their warehouse by an additional 900 pallets. The cost of increasing storage depends on the business but estimates range for additional storage plus transport from £4,600 to £90,000. A couple of companies have suggested that as they were required to outsource their additional storage their warehousing costs increased - one of those companies stated this increased by 60%.

The cost associated with moving the goods also affected cashflow considerably for some businesses, which was amplified by changes to shipping schedules.

Recommendation(s):

- Leaving without a deal on 31 October 2019 would be detrimental to the wine and spirit industry, as there is limited capacity to increase stock levels and cash flow will be additionally strained due to the run up to Christmas and New Year. The WSTA has been clear that leaving without a deal is not the industry's preferred outcome, however if the UK must leave without the deal, the Government should seek to ensure it is at a later date where industry is given sufficient lead time to plan effectively.

“Our storage is outsourced so the cost of our warehouse has increased [by] 60%. We were also forced to purchase from alternative suppliers at a higher price as our regular suppliers were out of stock resulting in a 10% increase in our product purchasing cost.”

Cashflow

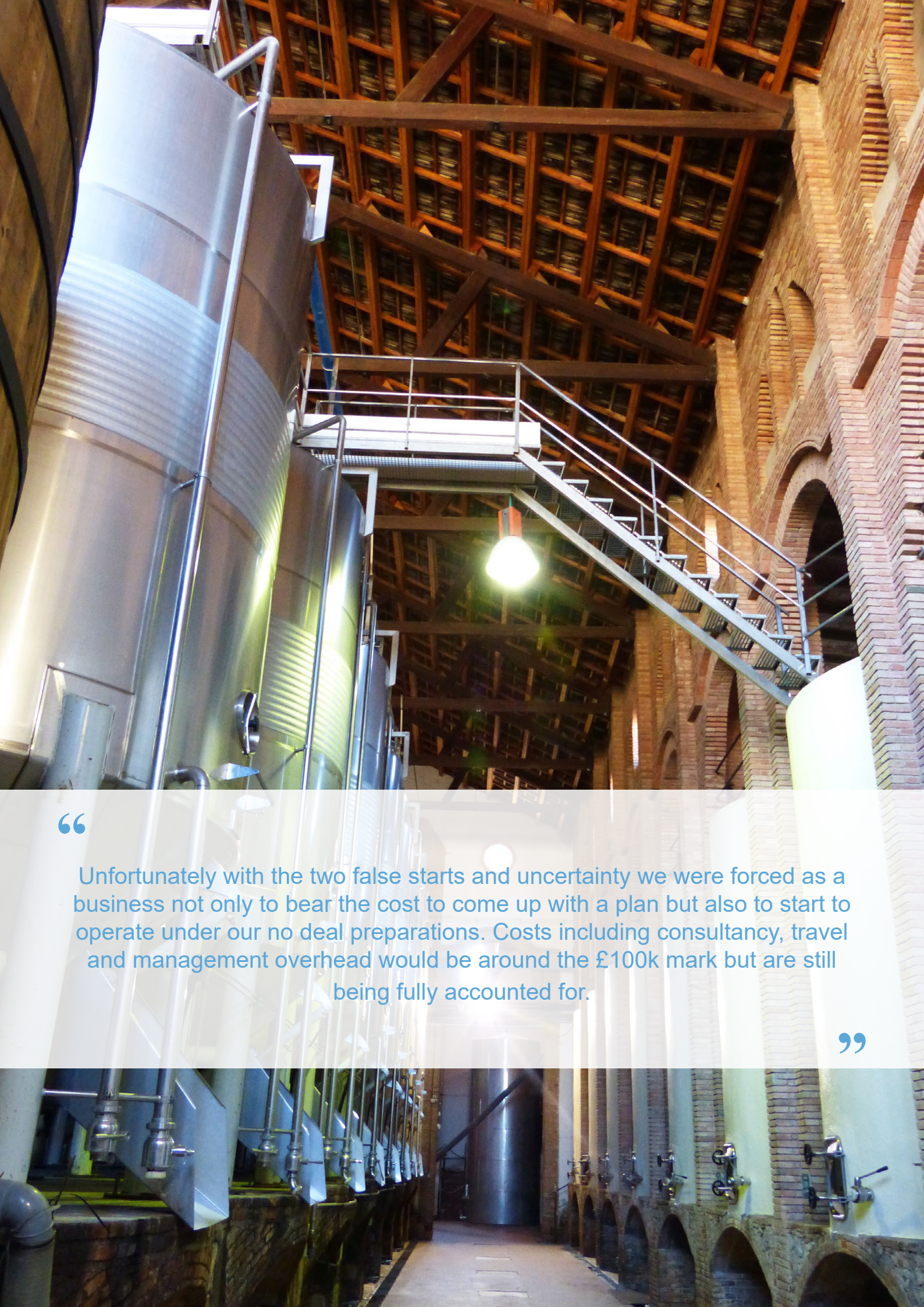
Cashflow is obviously a major issue for businesses when it comes to planning for a No Deal Exit and while many businesses have said they are unable to share exact numbers, stock-building implications on cashflow have been evident. The holding of additional stock escalates costs not only through increased transport and storage space, but also through additional customs, excise and other tax implications. There is evidence of businesses having issues with cashflow and working capital, as one respondent highlighted that they were impacted by delayed payment from some of their distributers.

A number of companies said the financial impact had been minimised as a result of suppliers being willing to extend credit periods due to the unique circumstances of EU Exit. For example, one business stated they received extended credit terms for additional stock of £300,000. If this is the case one can only assume some businesses are dealing with the impact of extending credit terms for their customers which would in turn affect their cashflow.

Other measures which have impacted on cashflow include currency hedging, liquidity, and company investment on non-essential expenditure.

Recommendation(s):

- The Government should continue to work closely with the wine and spirit industry to ensure the UK operates under a good regulatory environment for business which protects safety and quality, while fostering innovation.
- Support for overseas trade promotion of English wine and British gin should be continued and increased.
- Generic promotional support within the UK, EU and target third countries should be developed to promote tourism and sectoral promotion. This should be delivered through “Distilleries are GREAT” and “Vineyards are GREAT” campaigns.
- UK products like English wine and British gin should be served in all UK embassies and on trade missions overseas.



“Unfortunately with the two false starts and uncertainty we were forced as a business not only to bear the cost to come up with a plan but also to start to operate under our no deal preparations. Costs including consultancy, travel and management overhead would be around the £100k mark but are still being fully accounted for.”

Time and people

Perhaps the most difficult element to calculate is the amount of time and staff resource which has been diverted by businesses to planning for EU Exit, particularly a No Deal Exit. Most of the businesses the WSTA has spoken to have suggested re-allocation of administrative costs has been significant and, in some cases, the main impact. Many businesses highlighted that time was diverted to plan for EU Exit by senior management teams, employees, business partners, boards and advisors for activities such as conducting impact analysis, researching alternatives, putting contingency plans in place, researching associated risks such as customs processes, and examining opportunity costs. One company noted that over 100 hours were dedicated to contingency planning and some businesses spent money on professional advice, such as legal and consultancy fees. Others hired new staff or moved them to be on secondment.

As one business noted, the "considerable and unnecessary" staff time and resources put into contingency planning were exacerbated by the fact that "the 106 Government papers did not address the questions that other EU Governments had told their companies to ask". As noted above, the WSTA did its best to condense this information to apply to the wine and spirit industry, however there could have been a simpler, more coordinated effort to disseminate this information to businesses.

> **"Opportunity cost of the time spent on EU Exit solutions is considerable."**

Decrease in business activity

Overall, the lack of clarity and uncertainty leading up to 29 March 2019 made the business environment more challenging for the wine and spirit industry, especially for those dealing with EU partners. One respondent stated that while they are unable to provide an exact figure, "there has been a definite downturn in consignments over the last 6-8 months".

Recommendation(s):

- A campaign within the EU to show that Britain is open for business should be developed to help improve EU business confidence.

Customs and excise planning

Of the companies which had spent money on customs and excise planning, one company stated they had applied for AEO; the process for doing so cost £7,500. Several businesses have indicated that they invested in staff training (the cost for which was noted to be around £520).

It was however pointed out that some businesses, especially those which undertake the movement of goods across borders, such as freight forwarders, will be affected by the longer-term impact of IT costs as a result of new customs clearance solutions. One business stated that due to the anticipated increase in work as a result of EU Exit, they had replaced most of their computer systems. In addition, many businesses have very recently invested in major IT changes in moving their customs systems from the old 'CHIEF' system to the new, Union Customs Code (UCC) compliant Customs Declaration Service (CDS). Implementing further expensive IT systems so soon after moving to CDS to deal with post-EU Exit requirements will have further financial implications, however there are perhaps opportunities to build on CDS and early initiatives to simplify the excise regime to provide a seamless system of control audit and accountability.

Regardless of how well businesses planned for changes in customs and excise around 29 March, many businesses were impacted by the fact that many producers based in the EU were advised that they should mitigate risk by simply not trading goods around the EU Exit date. This was partly due to the fact EMCS movements started after a certain date would need to be closed by paper, and there were no formal plans from HMRC to process electronic Administrative Documents (eADs). In the week leading up to 29 March, the WSTA was made aware of at least one major freight forwarder which halted movements between the UK and EU in that week, and one business which was required to provide underwritten assurances to their customers in the UK to guarantee supply.

Recommendation(s):

- EMCS and customs guidance should be published to give UK and EU based businesses confidence that they will be able to move goods into and out of the UK around the EU Exit date.

“

It's the huge uncertainty that causes distress to our producers abroad and makes managing our business more challenging. Prior to the original EU Exit date of 29/03, we became aware that the EU was advising some producers to cease shipping goods on the basis that there was no obvious plan by the UK government regarding the electronic processing of EADs – This issue had the potential to cause significant issues.

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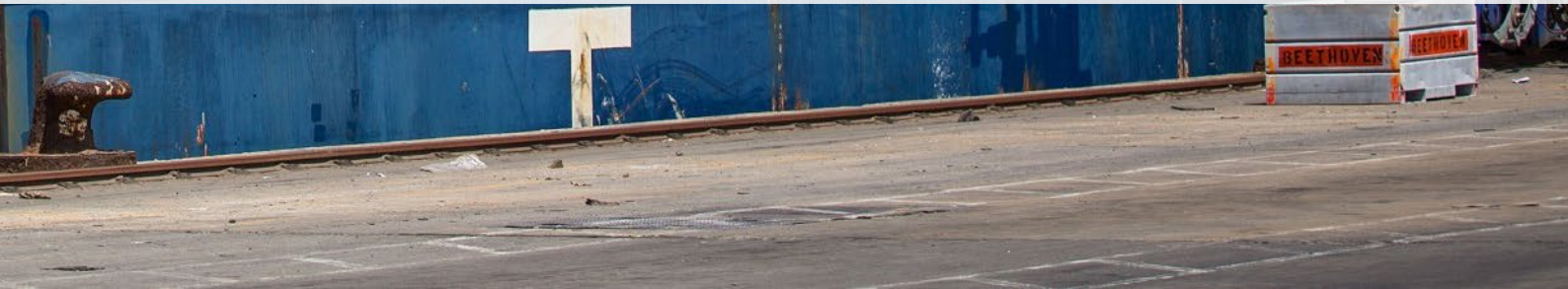
“The other factor is a known reduction in traffic where customers were holding off to see what would happen, although the exact figure will not be known until year end there has been a definite downturn in consignments over the last 6-8 months which will have a definite effect on our bottom line for the year.”



Chapter 3:
Preparing for October 2019

Most UK wine and spirit businesses have been clear that they are prepared for and able to manage a No Deal EU Exit scenario, however it must be recognised that some factors are outside of their control and will have a damaging effect. This Chapter sets out key findings to Government to assist in their communications in the lead up to 31 October 2019 and highlights where changes may need to be made compared to planning for a No Deal Exit in March.

Key findings

- Businesses are taking different approaches to managing stock in the lead up to 31 October 2019, with many suggesting they will run down stock built up from March.
- Most have suggested that stock-building in the lead up to October 2019 will be significantly more challenging due to the Christmas period and subsequent limited warehousing space, working capital and the feasibility of extended credit terms and bank covenants.
- Many businesses have said they will not be taking any action in the lead up to 31 October 2019 until there is a clearer indication on when the UK will be leaving, and on what terms. This is an additional concern for businesses which require a longer lead time for moving goods.
- The general feeling from members is that they are more reluctant to plan for a No Deal Exit on 31 October 2019 due to fatigue, however generally it seems that members will nevertheless re-activate their contingency plans if they must.
- Many businesses said they will repeat their preparations from the first time round and the experience gained could lessen the burden in preparing again – for example those which have already applied for a UK EORI number or TSP will not need to repeat the exercise.
- There are some businesses which will be using the months leading up to October to enhance their preparations.

Altering stock levels

Due to the fact many businesses undertook stock-building in the UK and EU in anticipation of 29 March 2019, businesses have taken various approaches to what they will do with this excess stock in advance of the new EU Exit date of 31 October 2019, such as:

- Kept stock at the same level as March, with an intention of increasing closer to October;
- Running down stock levels from stock-building through standard sales activity;
- Slowly continuing to build stock above usual levels;
- Rebuilding stocks following a few months after 29 March; and
- Nothing.

Most respondents stated they would reassess the political situation in the months leading up to 31 October 2019 to determine whether they would build up stock again. For many members this has been cited as being due to the proximity to Christmas and New Year, especially as this period is where some wine and spirit businesses generate more than 70% of their annual turnover.

As businesses generally build stock around that time, increasing stock overall, on top of already busy pre-Christmas warehouse levels, would put additional pressure on warehouse space and cash flow. Without investment in additional storage, many businesses will be unable to increase stock above usual Christmas levels. One business stated that due to the cost and added complexity of increasing stock during this period, they would repeat the process in the run-up to 29 March but on a smaller scale for key products only.

Fortunately, due to the Government's commitment to allow a transition period, businesses do not need to worry about stock-building from a labelling perspective for products destined for the UK market.

We have no idea what will happen, so it is impossible to make any further contingency plans. If anything, we are now relying heavily on the increased likelihood that there will be a managed EU Exit, and therefore a transition period.

Reviewing position… and hoping for the best

Most businesses stated that they had deprioritised their No Deal planning and will review their position closer to the 31 October 2019 deadline in the hope there will be a clearer guidance from Government. At a WSTA meeting, one member stated they felt "burnt from the first-time round" and were therefore reluctant to take any further action in planning for a No Deal Exit in October because the time and investment they made in the lead up to March which was eventually unrequired. Due to this, the WSTA believes convincing businesses to prepare again for a No Deal EU Exit will be a major challenge for Government in its next phase of No Deal planning. It is therefore imperative that Government provides enough certainty and clarity in plenty of time to ensure businesses can be confident in their investment in mitigation plans.

One business stated it is "impossible" to plan for 31 October 2019 without knowing what will happen on the Exit date and that if there is a No Deal EU Exit, they would likely not be prepared as a result. Another suggested in their written response that "even with a year, it would not be possible for [them] to prepare for the disruption of a No Deal Exit" and that a deal enabling continued movement of goods is imperative if the UK is to leave the EU.

"When we feel we have to we will repeat our preparations again. Given our lead times, we need to proceed with these preparations from June. It is an uninspiring prospect."

Repeating the March dry run

In a No Deal EU Exit on 31 October 2019, it is highly likely many businesses will repeat their preparations from the first time round. One benefit of the lead up to 29 March 2019 deadline was that it acted as a "dry run", and the learnings from the experience of preparing for the deadline may mean businesses are better prepared for a No Deal Exit on 31 October 2019, lessening the impact it may have on the industry. This is especially true for those businesses which applied for an UK EORI number and TSP, both of which will still be valid in the run up to October, and many businesses have already undergone additional training for their staff on new import and export procedures.

However, how much a No Deal EU Exit affects the industry is highly conditional on how the Government proceeds with its EU Exit planning, and whether it manages to ensure all necessary legislation is passed on time. The WSTA recommends a high level of stakeholder engagement to achieve this, in addition to making sure businesses are well informed and aware of the requirements of them. Here, timing is key, especially while businesses are keeping issues like applying for AEO under review. Opportunities to plan effectively will decrease the closer it gets to the EU Exit date.

Recommendation(s):

- It is imperative that all necessary legislation is passed before the UK leaves the EU, regardless of the outcome.
- A high level of stakeholder engagement is required to ensure businesses are well informed and aware of requirements.

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Supply chain constraints will exist for all FMCG during the period up to 31st October, impacting our ability to procure, manufacture and ship our brands. However, provided UK Government continues to work with stakeholders in the coming weeks to conclude all necessary legislative and practical arrangements, our assessment is the UK may be better prepared for a hard EU Exit and as a result, will be less susceptible to severe impacts then.

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Other measures

Other than waiting for new information from Government and managing stock levels, some businesses have or will be taking further measures in the lead up to October. During the interim, one business stated that staff on secondment for EU Exit planning activity have been released, while another is taking the opposite approach and is aiming to secure additional resources to account for increased administration needs. These differing approaches illustrate the importance of coherent and clear Government messaging. Many WSTA members have expressed their desire to be compliant in a pre and post-Brexit world, but have received conflicting or insufficient advice in order to do so in the lead up to March 2019.

Do nothing

Three respondents said they would not be planning for a No Deal EU Exit in October 2019. However, one of these stated that their contingency plans are already in place from March 2019, and the other stated that as their business is ex-cellars, they would not be making plans "at this time". The other stated that due to costs already incurred, they would not be making any other plans until the Exit date is more certain.

Recommendation(s):

- As businesses are not confident that planning a second time round for a No Deal EU Exit will be required due to the costs they have already incurred, it is imperative that the Government delivers coherent and clear messaging in the lead up to the Exit date.

"

Whilst we had a plan it was only enough for business continuity. We plan to use the extra time to fine tune our operations and technology to meet this change with an optimised solution.

"

Beyond Brexit:
An ambitious agenda for the wine and spirit industry

The UK is at the very centre of the international wine and spirit trade. Wine and spirits are the biggest food and drink export, not least thanks to the boom in gin production and the unique and historic significance of the UK as a trading hub for the world.[3] Globally we maintain this status through wine and spirit education and innovation, a well-maintained bonded warehouse system, language, time zone, stocks of fine wines and spirits, and expertise in storage and logistics. As a result, the sector's value to the UK economy and employment is significant. Yet, it is often underestimated – or even overlooked.

This report highlights that the risks of EU Exit are well understood. But Brexit provides us with a chance to be ambitious about the future; to exploit opportunities and deliver a vision for the industry, removing prescriptive regulatory burdens to not only maintain but thrive as the world-leader in wine and spirits. The opposite page sets out eight ambitious steps the Government can take to maximise the success of the UK wine and spirit industry in a post-EU Exit world.

Spirits

- British gin exports are now worth over **£600 million** – the **fastest growing** food and drink export.
- The spirits industry:
  - Generates **£30.1bn in economic activity**
  - Pays **£9.2bn in taxes**
  - And **employs 194,000 people**
- **55% of UK adults drink spirits**, the equivalent of 28m people.

Wine

- Over **99% of wine consumed in the UK is imported** – 55% from EU countries and 45% from the rest of the world
- The wine industry:
  - Generates **£18.9bn in economic activity**
  - Pays **£7.8 billion in taxes**
  - And **employs 190,000 people**
- It is the **UK's most popular alcoholic drink** – 64% of UK adults drink wine.

[3] FDF, 2018, Exports Snapshot, https://www.fdf.org.uk/exports-2018-q4.aspx

Eight ways to maximise the success of the wine and spirit industry post EU Exit

1. Zero tariffs on all wine and spirits

2. Mutual recognition of standards.

3. Maintaining and enhancing the UK's reputation as a world class wine and spirits producer.

4. Paperless customs, excise and certification procedures compatible with global practices to allow for streamlined movement of goods.

5. Greater use of customs and excise warehousing to extend the ability to store and move products in both customs and excise suspense.

6. A commitment from Government to work towards removing any friction to trade wherever it exists.

7. DIT to promote the fact that the UK is the global hub for wine and spirits to show we are open for business to the world.

8. A reduction in wine and spirit duties.

wsta

speaking for the wine and spirit trade

The WSTA represents over 300 companies producing, importing, exporting, transporting and selling wines and spirits in the United Kingdom.

We campaign for a vibrant and sustainable wine and spirit industry, helping to build a future in which alcohol is produced, sold and enjoyed responsibly.

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