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Agri-food Sector – Impact of Brexit

After 43 years as a member of the EU, the United Kingdom has voted to leave. Whilst many believed this would not happen, the reality of Brexit is here. The short term impact of the Brexit vote has already seen the depreciation of sterling, however the medium term and longer term impacts are yet to be seen.

The agri-producer and wider food and beverage sector are a significant contributor to the health of the Northern Ireland (NI) economy, contributing to employment and export growth. The following impacts of Brexit will need to be considered by our local agri-food companies.

Strategic ambition

It is clear that board's will need to immediately anticipate and assess how the Brexit vote could impact their business. Clearly some will be more exposed than others, especially in the short term, with currency movements creating an opportunity for exporters to price competitively whilst those dependent upon imports from the EU facing potentially higher costs. Businesses with low margins could see their profits eroded and where possible should be seeking to mitigate that risk through exploring alternate sourcing from suppliers and/or currency hedging. Economists are predicting that there will be an overall slowdown on the UK economy with confidence and potential higher consumer prices driving inflation and dampening growth the potential impacts of reduced consumer prospects through 2017. The shape of the new trading relationship with the EU, which might not be clear for a period of time, will then have a secondary impact on the wider economy. Given the level of trading the NI agri-food businesses have with the EU, especially with the Republic of Ireland, the quicker uncertainty can be dispelled, the more confident board's will be in making longer term investment decisions regarding capacity, skills and M&A. Certainly in the short term, UK agri-food assets are looking more attractive for foreign investors so we would anticipate some opportunistic M&A activity.

NI has set its 2020 target of a £7bn agri-food industry, so it will be interesting to see how Brexit impacts the speed of growth. Key parts of the food market are constrained in relation to how far their product can travel so international markets are not an option. Higher cost of imports, certainly in the short term, could require further penetration into the Great Britan market, which remains key for NI producers. European funding to the agri-food producers has been a vital component of farmer's income. Farmers in NI have been facing an extremely tough financial period and the post Brexit discussions on future support to the sector will be vital to the supply chain for our industry. The importance of the agri-food sector to our local economy means that these decisions will have long term impacts.

People and talent

A significant element of the NI agri-food sector has been dependent upon labour sourced from the EU. Post Brexit there is some uncertainty in relation to the position of current workers and in respect of how local businesses might secure the necessary skills in the future. Immigration from the EU has helped improve the skill base of our local companies and helped ensure that our companies can operate cost effectively. The planned growth in the local sector will require more talent. NI companies with operations in the EU will also have seen their relative salary costs increase due to the depreciation of sterling.

Regulatory compliance

The agri-food sector is a highly regulated sector and some of those regulations have helped ensure that NI produce has a high level of assurance on a global basis. Perceived onerous levels of regulation from the EU were an important factor in the Brexit vote process. The regulatory environment will no doubt experience some changes, therefore it is important that businesses look at what ones are currently critical to their future operation.

The NI agri-food scetor need to be involved and help influence the future regulatory environment such that they can remain competitive on a global scale.

Financing growth

Post Brexit interest rates have been cut for the first time since 2009 to 0.25% and there remains the proposed prospect of near 0% interest rates should growth slow further. It is likely that there could be additional stimulus to the economy in the Autumn statement from a new Chancellor, especially to help deal with the lower relative productivity of the UK economy – this is a particular issue in NI. The low interest investment and impending corporation tax stimulus should be an incentive for future investment albeit that this will need to be set in the context of a more certain economic picture and access to markets.

Grant Thornton as a key advisor to clients in the agri-food sector are well placed to help owners anticipate and assess the impacts on their businesses. Our teams will be keenly observing the outworking of Brexit and helping our clients navigate through the changes. The sector in Northern Ireland has shown its resilience over the years and we would expect this to continue into the future.

Contact

If you would like to discuss an impact assessment or if you would like further information, please contact us.

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