

Customer update 19/10/20: Planning for the end of transition 2020

Throughout this year, we have been working hard to support our customers and mitigate the impact of Covid-19, which has had a devastating impact on the hospitality sector in the UK.

At the same time, we are very much aware of the approaching deadline when the transition period ends on 31st December, marking the UK's exit from the EU's Single Market and Customs Union when subject to agreement, many legal aspects of Britain's membership cease to apply.

Whilst no trade deal has been agreed as we write this update, at Bidfood we are confident that we are well-versed in our preparations for Brexit. Our plans have to-date been based on the scenario of a no-deal exit from the EU, and whilst we hope negotiations do not result in no trade deal, it remains a strong possibility as things stand.

In the meantime, we believe it is essential to protect our customers by having robust and comprehensive plans in place. Bidfood has a strong and experienced Brexit team in place, led by key representatives from our Senior Leadership Team (our Board) who have reconvened in recent months to revisit our plans, and reassess and mitigate risks should a non-deal scenario arise.

What advice have we received from Government?

Government guidance suggests that among the risks associated with a no-deal exit, there could be a reduction in vehicle flow along the main shipping routes between Dover and Calais, and that this could have a knock-on effect on other transport routes. They have estimated worst-case scenarios of:

- 45-65% of normal flow rates for first three months
- 50-70% of normal flow rates for the next three to six months
- A further period of approximately six months before a return to normal flow rates.

This would be compounded by the impact of World Trade Organisation (WTO) tariffs that would come into effect if the UK left the EU without a trade deal. Revised WTO tariffs were issued by the Government earlier this year.

Our advice from government is that in the event of no trade deal, they will take a pragmatic approach to imports, and that goods will still pass through the ports, although it's likely that we could see delays of up to several days, which would naturally affect shorter-life products.

There also remains concern on the approach that the EU will take with vehicles returning back to the EU (particularly into Calais), many of which carry goods on their return trip, although the infrastructure to manage this has advanced significantly over recent months.

The government has advised us that they do not expect food shortages should this situation occur, but believe that businesses could expect some reduction in choice.

What steps have we taken to support our customers?

At Bidfood, we do not operate a significant export business, however, our planning does need to take into account that third party transport operators who bring goods into the UK also use the same vehicles to take goods back to Europe.

We have therefore taken the potential for delays, and our assessment of supply chain readiness, into consideration within our risk assessment and contingency planning.

To ensure that we are in a strong position to protect our customers from any disruption that does arise through the end of the transition period, and the UK's exit from the EU, we have taken a number of key steps to identify and mitigate any risks to (i) product availability and (ii) arising from changes to duty and tariffs:

Product availability

- **Engagement with our suppliers:** At Bidfood, we do not directly import most products, as these are delivered to our depots by suppliers on 'Delivered Duty Paid' terms. We have therefore engaged with our suppliers to understand their contingency plans in detail, and to provide them with guidance and advice on best practice that can help inform their own EU Exit Planning. We will continue working closely with suppliers as we near the deadline for exiting the EU to ensure that they are in a strong position to maintain availability, particularly if no trade agreement is in place at that point.
- **Managing our own imports:** At Bidfood we do manage our own imports for some frozen commodity products from our own VMI (vendor managed inventory) warehouse in Belgium. To ensure that we are fully prepared for the new procedures and paperwork that will be required to import these lines going forwards, we have had detailed conversations with both EU and UK Customs and have completed trials of documentation, which we will do again.
- **Assessing availability risks:** We have also worked closely with suppliers of those core range products that are sourced from EU countries, to identify where we believe there any potential availability risks (assessing risk on a simple red/amber/green basis) and put in place appropriate plans. Approximately 30% of our core range is supplied from the EU (around 2,500 products), and from the information we have collated from suppliers about risk levels and their contingency plans we have rated 49 products as potentially high risk, 350 as medium risk, and all others as having a low risk of availability issues.
- **Contingency plans:** We are now in the process of assessing any additional mitigation plans required for EU sourced products that are high and medium risk, as well as products that are low risk, but considered key or critical products (for example key ingredients on menus). These plans take into account a number of factors, including: the critical nature of a product to customers (e.g. key ingredients vs flavour variants), volumes required (pre and post Covid-19), suppliers' own Brexit contingency plans, rate of sale, shelf-life, the importance of products to sectors which have a 'duty of care' (for example education, healthcare and prisons), as well as stock holding, availability of alternatives, seasonality and route to market etc.

Duty/tariffs:

- We have also assessed the impact of World Trade Organisation tariffs on customers, should the UK exit with no trade agreement in place. Please note that this analysis has focussed on EU-sourced, finished products, and therefore only provides indicative information. This is because at this stage, we are not able to fully assess the impact of tariffs across all our suppliers of all the ingredients contained within the products that we source from them.
- From identifying what we believe to be the appropriate commodity code for products, we are able to attribute the associated WTO tariff, and therefore calculate the % increase in cost per case. This does not take into account inflation or fluctuations in exchange rates which will vary over time, and which we will continue to monitor.
- This information is meant as a guide to customers- as Bidfood are not the actual importer or products in most cases, our analysis of expected changes to cost per case is based on our own assessment of the relevant commodity costs and tariffs.
- As a next step, we are in the process of assessing whether there will be any duty impact from changes in WTO tariffs for products that are sourced from the rest of the world (i.e. outside of EU and UK), however this is a more complex analysis which will be available in due course.

For information about the products that you buy from Bidfood, please contact your Account Manager who will be able to share with you the report detailing any risks (red, amber or green) we have identified on your top 50 lines. This report will show the volumes that you buy, country of origin and the risk rating of any product that are sourced from the EU as well as details of the contingency actions that we plan to implement for products 'at risk'. The report also shows changes in cost per case where we believe there will be an impact to prices caused by increases in tariffs/duty.

We'll be ensuring that we keep you informed and advised every step of the way, making sure that we continue to deliver the highest levels of service excellence as we approach 31st December, and this new and challenging phase of change, whatever shape it might take.

In the meantime, if you have any further queries, please don't hesitate to contact your Account Manager.

Jim Gouldie
Supply Chain Director

