Economic Environment

Beverage companies in the wake of Brexit

The full effect of the UK’s departure will be difficult to predict. One of the most notable short-term implications has been the marked devaluation of the British pound, while the need to negotiate trade agreements – and the uncertainty that this creates for everyone – looms in the longer term.

This will have critical implications for the beverage sector, given the UK’s role as both a major importer e.g. wine and a major supplier e.g. scotch. Beverage companies are rightfully concerned and are actively developing contingency plans. Strategic alternatives include sourcing, M&A, shifting geography for production/value-add, pipeline loading, hedging and shifting market focus.

Specifics
1. The existing trade agreements will remain in place for a period of two years starting when the UK triggers Article 50 of the Lisbon Treaty.
2. In the media there is some speculation that Article 50 may never be triggered and that a new referendum will be called or that Scotland, Northern Ireland and Gibraltar will somehow stay in the EU.
3. Many scenarios are possible, but at least for the next two years the UK will still be part of the EU.
4. Many trading partners have been willing to make considerable concessions to the EU in order to get access to the over 500 million common market inhabitants. While the UK with 65 million inhabitants is also an attractive partner, the EU clearly has more bargaining power.
5. When looking at current trade flows between the EU and UK, both economies would, on balance, benefit from the absence of trade barriers. However, the future final outcome of negotiations is highly uncertain.

Wine

The prospect of the largest wine-importing country leaving its free trade agreement with the largest wine-producing region will have obvious impact on trade flows in the long term. The marked devaluation of the British pound will begin to drive some of those changes almost immediately for example French wine prices increased by up to 8% in the UK putting a serious dent in the wine-lover’s purchasing power.

The EU - France, Italy and Spain - supplied 60% of British wine imports in 2015 and assuming the soft British pound reduces demand for imports, those wines will need to find new markets. EU suppliers are expected to redouble their efforts in other markets such as the US and China, impacting on domestic suppliers, as well as other foreign competitors.
Conclusion
Companies will react to the currency movements by considering strategic alternatives. Over the long term trade between the UK and EU deterioration is likely.

Sources: Rabobank, rfi, Wine Intelligence