

Date : 11 May 2020
To : Economy, Energy and Fair Work Committee
From : Clare Slipper
Direct dial : 0131 472 4000
E-mail address : clare.slipper@nfus.org.uk

COVID-19 – IMPACT ON SCOTLAND’S BUSINESSES, WORKERS AND THE ECONOMY – NFU SCOTLAND SUPPLEMENTARY EVIDENCE

- Like all sectors of the economy, each sector of Scottish agriculture has or will be impacted by COVID-19 and the restrictions imposed by the virus outbreak. These impacts have been numerous and immediately felt in some sectors: whereas for others the impacts may be felt in the medium to longer term. This evidence paper supplements the initial evidence provided by NFU Scotland (NFUS) to the Economy, Energy and Fair Work Committee on 2 April. This evidence outlines the key issues across the agricultural commodities.
- NFUS is regularly updating an FAQ section on its website¹ which sets out tailored information for the agricultural sector on the virus, restrictions and guidance from the UK and Scottish governments. NFUS welcomes the various support packages that have been announced by both the Scottish and UK governments and is encouraging members whose businesses have been impacted by the virus to investigate what support is available to them.

¹ <https://www.nfus.org.uk/coronavirus/coronavirusqa.aspx>

Agricultural commodity issues

1. Food production and distribution is classed by Scottish Government as one of the 13 'Critical National Infrastructure' sectors of the Scottish economy and NFUS has welcomed the early clarification from both the UK and Scottish governments relating to the essential continued production of the agricultural industry. This early clarity has allowed the vast majority of NFUS members to continue producing with confidence, albeit in adherence to strict guidance and altered processes relating to social distancing.
2. However, the rapid restructuring of the supply chain due to the loss of the foodservice sector and export has created acute issues for some agricultural commodities – namely dairy and beef. For others, price impacts are anticipated in the longer term – particularly in the arable sector, where the impact of reduced distilling and brewing capacity is yet to be realised for primary producers. These cumulative impacts across the agricultural commodities during the response phase have served to highlight the fragility and interdependence of food production and consumption. NFUS believes that these issues are highly relevant to the Committee's consideration of the economic impact of Covid-19.
3. NFUS is closely monitoring the situation across the livestock (beef and sheep), dairy, pigs, poultry, cereals, horticulture and ornamentals sectors and has produced action plans for each, which identify both industry and government-led initiatives to ensure each sector can ensure enduring viability through the response, reset, restart and recovery phases as identified by Scottish Government. NFUS has presented this work to Scottish Government as part of its engagement on the government's document *A Framework for Decision Making* and is working closely with the enterprise agencies on these recovery plans. This submission provides an overview of the situation for the agricultural commodities and measures which will support these sectors to stay in profitable production.

Dairy

4. Lockdown measures have had significant impacts on the dairy sector with major disruption of the normal cycle of supply and demand in the UK due to the collapse of the out of home foodservice sector. Export markets have also been severely

damaged. Demand within the retail sector for dairy products has been volatile. The initial uplift in retail sales within the first week of the lockdown dropped very quickly to around 5% above pre-Covid-19 levels. This was not enough to make up losses from foodservice. As a result, the industry has experienced the following issues:

- Finished stocks that were made for the foodservice sector struggled for a customer or market.
 - A surplus of raw milk that was earmarked for processing into products destined for the foodservice and the disrupted retail sector had to be processed into longer life ingredient type products (e.g. milk powders, bulk butter, etc).
 - Limited room in UK balancing capacity lead to an increase of raw milk which does not have an established home.
5. As this happened during the “spring flush” period the industry faced a problem that there would not be enough available balancing capacity in the UK to process the additional milk surplus. Indeed, capacity was further damaged by rising staff absenteeism, disruption to inputs (packaging, etc) and the impact of any factory breakdowns.
 6. As a result of the above, in the first few of weeks of Covid-19 measures there were serious oversupply issues for dairy and some farmers were asked to dispose of milk that couldn’t be collected or designated for a processing facility. Due to downward price pressures, many individual dairy farm businesses are facing significant financial consequences. NFUS is aware of cases where farmers have been unable to pay feed companies and having to sell cows as a result.
 7. In the long term, NFUS is concerned that even a relatively short crisis could have a sustained impact on the dairy sector due to the loss of value of the sector. Should this happen, there will be long-term viability issues for many farmers and processors.

8. The UK Government's relaxation on competition law² will ensure that blockages and imbalances in the supply chain can be addressed. However, NFUS is concerned that this action – whilst welcome – came too late to avoid significant dumping of milk in the UK.

9. For this reason, NFUS supports calls for a targeted rescue package for farmers who have been adversely impacted by a falling milk price to be introduced by the Scottish Government. NFUS also calls on the UK Government to engage with the EU Commission to introduce market support measures, such as Private Storage Aid.

10. Looking longer term, it is NFUS' clear view that the current situation only serves to underline the important role that mandatory written contracts between dairy processors and producers could play in instilling fairness and transparency. Having advocated for many years for the introduction of mandatory contracts in the dairy sector, NFUS is pleased to learn that it is the intention of the UK and devolved governments to introduce a consultation on contracts in the near future. NFUS will engage wholeheartedly in this process.

11. Across the board, the supply chain issues created by the current pandemic have highlighted a chronic lack of processing capacity across the UK. This is a particular issue for dairy but is clearly apparent for other agricultural commodities too. Lack of processing capacity has inflicted further damage on already fragile sectors operating in just-in-time processes. A long-term legacy from the current pandemic must be industry and government collaboration on upscaling the processing capacity of the UK so that the agricultural, food and drink sectors can be more versatile and adaptive to future challenges. Further investment in processing will allow value to be added to the primary produce that farmers provide – with the potential to upscale the market impact of high-value Scottish produce both domestically and in new export markets.

² <https://www.gov.uk/government/news/dairy-industry-to-join-together-to-manage-milk-supply>

Livestock

12. The impact of Covid-19 on the beef sector has been a result of overnight cessation of the hospitality market, which was a significant destination for higher value cuts. This along with an apparent shift at retail to mince and diced beef has compounded the loss in carcase value. With the beef price already at a sustained low before Covid-19, the impact has in NFUS' view exacerbated the significant financial challenge already faced by those farmers who sell finished cattle.
13. NFUS is highly concerned about the impacts of the Irish Wage Subsidy Scheme³ which is significantly subsidising the wages of Irish abattoir workers and therefore acting as a cost-saving for Irish abattoirs. This is having a knock-on for the Irish beef price, with the potential to pull the Scottish beef price down further. NFUS believes that it is as a result of this scheme that some retailers are sourcing Irish beef at a cheaper price and foregoing Scottish or UK product.
14. With the support of NFUS, QMS, AHDB and HCC (Meat Promotion Wales) have launched a £1.2m promotional campaign⁴ to promote high-value beef cuts which is extremely welcome. NFUS welcomes any further support which governments can provide for promotional activity.
15. NFUS believes there is much work to be done to reconnect consumers with UK product and supports calls for the UK Government to compel retailers to differentiate and account for products sold by country of origin and that these meet stated sourcing commitments. That Retail Stock Keeping Units (SKUs) clearly differentiate product origin so consumer can support to elect to buy Scottish and UK beef online is particularly relevant given the increase in online shopping.

3

https://www.citizensinformation.ie/en/employment/unemployment_and_redundancy/covid19_temporary_wage_subsidy_scheme.html

⁴ <https://www.qmscotland.co.uk/news/levy-boards-pitch-beef-campaign-aid-carcase-balance>

16. As the sector considers recovery from Covid-19 NFUS believes there is an important opportunity for new legislation that would enhance country of origin labelling. At present there is no legal requirement to provide the origin of beef in processed products like a steak pie or sausages. NFUS would support steps to enhance requirements for origin labelling of beef in processed food.

17. NFUS also believes greater flexibility on public procurement is vital. At present European law doesn't allow public bodies to stipulate origin on public procurement contracts. NFUS believes this area of law does not have public support and as such would welcome any flexibility which allows public bodies in Scotland and the UK to choose to source Scottish and UK produce in the recovery phase.

Combinable Crops

18. Many of the Scottish distilleries have either reduced or stopped production due to the application of social distancing guidance and essential work. As a result, the supply chain is becoming overburdened by what is left of the 2019 crop, waiting either to go direct to distillers or to maltings to be processed into distilling malt. Should the reduction in malting and distilling activity continue for much longer it will not be possible to clear backlogs prior to the start of the Scottish harvest.

19. Traditionally Scottish barley is moved almost immediately to maltsters, co-operatives or merchants who have better facilities to store and dry grain. With Scottish grain cut at moistures too high to store correct drying is vital or the crop will spoil or become unsuitable for maltings. Barley also needs to be cleared from farm stores either to make space for wheat, which is harvested later or for cattle being brought indoors for the winter.

20. Another immediate impact has been a reduction in the volume of malting and distillery co-products used for animal feed in Scotland's livestock sector.

21. There is a looming transport issue caused by hauliers' loss of demand for non-food businesses such as moving aggregate for the construction industry. The Road Haulage Association has reported an increasing number of hauliers choosing to furlough workers and giving Statutory Off Road Notifications (SORN) to the DVLA. By taking these actions they reduce labour costs and can obtain road license refunds for the vehicles mothballed.
22. The grain trade is beginning to report delays as a result. An additional concern is that a heightened demand for haulage when restrictions on economic activity begin to ease could coincide with peak harvest demand. This would exacerbate the logistic issues already described.
23. As Scottish Government considers the approach to 'unlocking' some lockdown measures, NFUS believes that the Committee and Scottish Government should consider distilleries and breweries as priority businesses that can effectively implement safe social distancing whilst remaining in production. It is vital that these activities are considered as an extension of the food supply chain; otherwise, should restricted distilling or brewing capacity continue into the longer-term, the cropping sectors will face significant market pressures. There will also be a significant capacity issue for whisky production should such a situation come to pass – an undesirable outcome for a flagship and high-value Scottish industry.

Specialist Crops

24. Growers of non-edible ornamentals have felt an immediate impact with the closure of garden centres which cut off sales not just of plants and plant associated goods but also those of other goods stocked in many outlets. Some growers have been able to conduct a limited amount of sales by home delivery, and NFUS has welcomed the encouragement of the Scottish Government for garden centres to continue with online orders. However, across the industry, sales will have been a tiny fraction of normal. Associated with centre closures is the write-offs of stock, plants that will not be saleable later in the season. The value of stock at risk runs to many millions of pounds.

25. Growers of ornamentals have reported problems accessing the UK Government's Coronavirus Business Interruption Loan Scheme as they are subject to the EU state aid rules that apply to agriculture. The limits on aid set out in those rules mean that only a small fraction of the losses and costs they have incurred can be assisted. NFUS believes there is a case for a targeted package of financial aid to assist those businesses that have incurred significant losses.
26. For fruit and vegetable growers the main concern remains access to sufficient workers to harvest their crops. The industry employs approximately 10,000 migrant workers each year but the lockdown in the UK and in the countries of origin of the workers took place when only a small proportion of those workers had arrived. The picking season for strawberries is now underway and other crops will become ready for harvest between now and the summer. Of particular concern is the loss of returning workers who in many cases act as supervisors and trainers for new staff.
27. Growers, with the help of NFUS and others⁵ have mounted a significant recruiting drive which has resulted in many thousands of enquiries from prospective workers. Some of those who made enquiry are now working successfully but the strike rate has been low with as many as 90 per cent not responding to initial replies from employers. Information on workers who have been employed is anecdotal but loss rates do appear to be significant. Reasons have included the finding work or the end of furloughing.
28. Growers do not have nearly enough workers to cover themselves for the peak periods. Further into May there will be circa. 3,000 workers required, increasing to c. 5,750 in June and peaking in July (c. 6,200) – eventually dropping down from August (c. 5,000) onwards⁶. It is feared that many of the UK workers who are being employed will be called back off furlough just when they are most needed.

⁵ <https://www.nfus.org.uk/coronavirus/employment-opportunities-on-farms.aspx>

⁶

https://www.sruc.ac.uk/downloads/file/3834/farm_workers_in_scottish_agriculture_case_studies_in_the_international_seasonal_migrant_labour_market

29. Put simply, the high volume of workers during the seasonal peak are vital if the industry is to continue supply of fresh soft fruit and vegetables to the domestic population. Whilst the seasonal horticulture sector occupies just 0.6% of Scotland's agricultural land use, it is responsible for over 10% of agricultural output⁷ - it is therefore a high value sector which, whilst unsupported by agricultural support schemes, is an important contributor to Scotland's agricultural output.
30. Therefore, the industry still desperately needs access to workers from the EU as well as from the countries allowed to participate in the UK Government's Seasonal Workers pilot scheme where it is safe and permissible for these workers to travel to the UK. NFUS is engaging with both the UK and Scottish Governments as well as consulates to ensure that where it is possible for workers to enter the country to undertake work their passage to the UK is facilitated without friction and as safely as possible for the worker and the host farms; and that the workers arrive in the UK in time to be trained and ready to work.
31. NFUS has received various representations from MPs and MSPs who are concerned about the ability for horticultural work to continue with safe social distancing at the forefront. This is an issue which is rightly a high priority for growers, and NFUS has welcomed⁸ the publication of new guidance from Scottish Government on 1 May which sets out specific measures regarding the transport and accommodation of workers, alongside a range of other issues. NFUS is ensuring that this guidance is shared and understood amongst its networks.
32. With the end of the Brexit transition period still scheduled for the end of 2020 growers are looking for assurances that the Seasonal Agricultural Workers Scheme Pilot will be made permanent from 2021 onwards and expanded to the 70,000 workers that the UK horticultural industry needs each year.

⁷ <https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2019/06/agriculture-facts-figures-2019/documents/agriculture-facts-figures-2019/agriculture-facts-figures-2019/govscot%3Adocument/agriculture-facts-figures-2019.pdf>

⁸ <https://www.nfus.org.uk/news/blog/horticultural-committee-chairman-james-porters-blog-1-may-2020>

Pigs and poultry

33. NFUS members have noted some impact on the availability of PPE for staff working with pigs and poultry. PPE is always needed to protect workers working within potentially hazardous environments, but stock has become hard to come by due to a redirection of these materials to the front-line health workers. PPE for use in the pigs and poultry sectors has now been added to a Scottish Government-specified list of essential uses which NFUS hopes will ease pressures on supplies for the sector.

34. The egg sector has been hit hard by the collapse of the food service sector. Although sales are high through retailers the industry relies heavily on the food service sector as a market for class B and smaller eggs that the retail sector do not want. Whilst some that have traditionally sold large trays of eggs into the catering sector they have adapted and found additional retail outlets, such as through veg box deliveries or local shops. Their efforts however have been limited by difficulties in obtaining the correct type of packaging materials to sell them as prepacked eggs, rather than on trays. There remains large volumes of class B and small eggs with no market.

Concluding remarks

35. This submission has sought to identify the myriad challenges that Covid-19 has presented to the various agricultural commodities in retaining production. It is clear that the resetting and restarting phases of the economic recovery from Covid-19 will continue to present challenges for food production, processing and distribution, as markets and supply chains adapt to survive and thrive, and agricultural support is realigned in light of tighter financial constraints and amended policy goals.

36. As governments consider the approach to 'unlocking the lockdown', it is important to highlight that a phased approach to unlocking will mean constant readjustment for the supply chain and therefore management from governments in communicating with all links of the chain. A phased approach could provide as much instability if there is a lack of forward-planning in terms of logistics (haulage, storage) and supply and demand dynamics for all parts supply chain from primary producer through to point of purchase. So that industry is enabled to be proactive rather than reactive, engagement and intelligence between governments and industry about the unlocking strategy must be facilitated.
37. NFUS' primary goal within the longer-term economic recovery is to secure a profitable and sustainable agricultural industry that acts as a cornerstone to economic, environmental and social benefits: producing high quality food and products that its customers want; seeking growth in new export markets; lead in the delivery of climate ambitions and a flourishing environment; driving sustainable rural development, helping rural communities thrive and prosper; and contributing to key objectives on animal health and welfare as well as promoting human health and well-being.
38. NFU Scotland acknowledges calls for a 'green recovery' from Covid-19. Climate change remains a critically important issue for Scottish agriculture, and as a major land use in Scotland, it is clear agriculture has a role to play. Scottish farmers and crofters remain committed to producing high quality food in environmentally and climate-friendly manner.
39. Not only is engagement from government with businesses throughout the food supply chain on the unlocking strategy essential to minimise further disruption, but industry collaboration is also vital. NFUS asks the Committee to query what role there is for governments in facilitating further industry collaboration. This question has also been echoed in the NFUS submission to the House of Commons Environment, Food and Rural Affairs Committee inquiry on the Covid-19 impacts on food supply.

40. The current pandemic has created myriad challenges for agriculture and food supply which will take significant effort to overcome. NFUS feels it is vital to highlight the future relationship negotiations with the EU as a further factor which could upset the equilibrium of the supply chain as much, if not more, as the current pandemic or other variables such as unforeseen weather events. With all sectors of the agricultural industry already fragile, NFUS believes it is legitimate to query how the planned date of departure at the end of 2020 will compound existing problems. NFUS asks the Committee to query UK Government on where the capacity within government is to deliver an orderly exit on 31 December 2020 in terms of government's engagement with industry.