

Date : 29 April 2020
To : House of Commons Environment, Food and Rural Affairs
Committee
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COVID-19 AND FOOD SUPPLY INQUIRY: NFUS RESPONSE

Summary

- The impact of COVID-19 on the food and drink supply chain has been acute. The immediate loss of the foodservice sector has created particular challenges for some agricultural sectors, whereas shifted consumer habits at retail have impacted upon others.
- NFU Scotland (NFUS) welcomes the Committee's inquiry. This submission identifies the key impacts for each agricultural commodity arising from altered supply chain dynamics within current operating environment, and short, medium and long-term challenges for the agricultural commodities.

Dairy

1. The social distancing and lockdown measures have had significant impacts on the dairy sector. There has been significant disruption of the normal cycle of supply and demand in the UK due to the closure of schools, fast food chains, cafes, restaurants etc, which has resulted in the collapse of the out of home foodservice sector. Export markets have also been severely damaged.

2. 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 led to an increase of raw milk which does not have an established home.
3. 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.
4. The additional surplus milk and lack of available balancing capacity has driven down the value of the surplus milk (‘spot milk’). The sharp increase in the production of ingredients has also put downward pressure on the values of some ingredients. These phenomena are being seen across all global dairy markets, and so whilst the domestic experience is not unique, the aforementioned factors have led to lower farmgate prices for dairy farmers.
5. As a result of the above, in the first few 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.

6. 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.

Livestock

7. The immediate economic rebalancing in response to the COVID-19 outbreak has majorly impacted the beef sector. The almost total shutdown of the foodservice sector has seen consumer demand increase at food retail but collapse in the hospitality sector, which has in turn altered purchasing behaviour.
8. QMS reported a surge in retail sales of minced and diced beef in March. However there has been a switch in demand away from steaks towards mince which could result in a significant loss in the overall value of a beef carcass.¹
9. The sudden increase in demand for mince was followed by reports on increased amounts of Polish beef in some UK supermarkets, which caused frustration from Scottish beef producers who were already receiving a low price for finished cattle.
10. Deadweight Scottish steer prices have been presenting notably poor returns for cattle producers for some time now. While there was optimism of a recovery in February 2020 this has been hit by the COVID-19 outbreak, with deadweight prices falling from 349.7 p/kg (4 April 2020) to 338.9 p/kg (18 April 2020) for an R4L steer, compared to 356.4 p/kg for the same week last year.²

¹ Market Report – April 2020, QMS, <https://www.qmscotland.co.uk/sites/default/files/market-report-apr-2020.pdf>

² Average Scottish Deadweight Steer Price, Market Prices and Graphs, QMS, <https://www.qmscotland.co.uk/market/graphs/prices>

11. NFUS has been calling for increased spending on promotion of steaks and roasting joints from QMS and AHDB through the ring-fenced fund (RFF) which has received a recent increase in funding.³ Any additional support for this from UK Government and Devolved Administrations would be welcomed by Scottish beef producers.

12. On sheep there was a significant hit to the Scottish prime sheep price in the immediate days following the announcement of 'lockdown' measures. QMS figures report a drop from 284 p/kg (14 March 2020) to 175 p/kg (28 March 2020), however farmgate prices have partially recovered from this to 217 p/kg (18 April 2020).⁴

13. The UK is historically the largest exporter of sheep meat in the northern hemisphere, with the vast majority of export going to the European continent. COVID-19 control measures across Europe had distributed the market for sheep meat, with the closure of open-air food markets in France causing significant concern around the mid-term opportunities for British exports.

14. NFUS has called on retailers to be creative in how they address the carcass balance challenges thrown up by the changes in consumer behaviour, including promoting certain cuts.⁵

Combinable Crops

³ Levy Boards Extend Collaborative Work, QMS, <https://www.qmscotland.co.uk/news/levy-boards-extend-collaborative-work>

⁴ Weekly Average Scottish Prime Sheep Price, Market Prices and Graphs, QMS, <https://www.qmscotland.co.uk/market/graphs/prices>

⁵ Supermarkets Urged to Play Their Part in Ensuring Home Produce Finds a Route to Market, NFUS, 8 April 2020, <https://www.nfus.org.uk/news/news/supermarkets-urged-to-play-their-part-in-ensuring-home-produce-finds-a-route-to-market>

15. The global impact of COVID-19 on the road fuel industry has been a glut of stored fuel. Road fuel produced in the UK and Europe contains a proportion of bioethanol or biodiesel, produced from cereals and oilseeds. So, the market for that grain is likely to be reduced. The majority of Scotland's oilseed rape crop is exported to Europe to make biodiesel and some Scottish wheat, grown mostly in the south of the country, is sent to bioethanol plants in England.
16. In addition, a major influence on UK barley prices is the US maize market where large tonnages of that grain are processed for bioethanol. The potential impacts are therefore logistical with a lack of sufficient storage space throughout the supply chain and prices to growers below the cost of production.
17. Many of the Scottish distilleries have either reduced or stopped production due to the Scottish Government view that only essential activities should continue. 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.
18. 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.
19. 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.

20. 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.
21. 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.

Specialist Crops

22. The specialist crop sectors include horticulture (ornamentals, fruit, vegetables, mushrooms and tea) and potatoes. The impacts have been different across those sectors.
23. For ornamentals the immediate impact was 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. Coffee shop income also stopped. The key Easter weekend trade was completely lost. Some growers have been able to conduct a limited amount of sales by home delivery but 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.
24. Growers of ornamentals have reported problems accessing the aid package introduced by the UK Government 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.

25. Most of the Scottish daffodil crop, worth over £10 million was lost due to the Scottish Government's decision that picking the crops was not an essential activity whether or not social distancing could be maintained. With much of the crop destined for export the concern now is that some customers, having found alternatives this year will stick with them in the future.
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 lock-down 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 others 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 and 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. Therefore, the industry still desperately needs access to workers from the EU as well as from the countries allowed to participate in the Government's Seasonal Workers Scheme pilot scheme. The industry needs Government to recognise that requirement and allow workers to enter the country in time to be trained and ready to work. Clarity is needed on what health protection precautions will be required during the movement of these workers.

29. With the end of the Brexit transition period still scheduled for the end of 2020 growers are looking for assurances that the Scheme will be made permanent from 2021 onwards and expanded to the 70,000 plus workers that the industry needs each year.
30. Social distancing rules have presented a significant challenge. The biggest issues have been accommodation and transportation with most workers being accommodated on site in shared accommodation and often needing to be transported to the fields. Other issues have been associated with planting of some vegetable crops which involves a team of workers on a vehicle simultaneously doing the planting. New guidance on this has been slow coming but is expected in the week commencing 27 April.
31. The potato industry also employs migrant workers but to a lesser degree than fruit and vegetables. In common with fruit and vegetables it faces problems in adapting to meet social distancing requirements in post-harvest operations such as the grading of potatoes. Growers would normally be nearer than two metres from one another. On some farms numbers on the grading lines have been reduced, meaning slowed operation. On others, physical barriers are or may be used.
32. The potato sector in Scotland has not yet encountered transport problems but any shortages of availability at harvest time would have serious implications.

Pigs

33. The pig market has adapted quite well, helped by the reopening of the Chinese market for pork meat. These exports have kept demand high and prices stable. There have been impacts caused by streamlining of supply chains limiting the range of cuts in demand and a particular impact on Scottish pork with retailers switching to British labelled products for simplicity. This could have longer term impacts if those retailers decide not to switch back to Scottish labelled product.

34. NFUS members have noted some impact on the availability of PPE for staff working with pigs. 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.

Poultry

35. 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.

36. 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.

General and concluding remarks

Have the measures announced by the Government to mitigate the disruptions to the food supply chain caused by the pandemic been proportionate, effective and timely?

37. 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.

38. However, it is important to highlight that due to the devolved nature of decision-making for agriculture there have been numerous examples where the UK Government and the Scottish Government have taken differing approaches to the application of guidance. What has been particularly problematic is the publication of UK Government guidance on social distancing, applicable in England only but which is badged as 'UK' guidance. NFUS has received many queries from confused members about the applicability of such guidance in Scotland. These discrepancies must be understood, as it has led to a lack of consistency in approaches by the devolved administrations and therefore created challenges for Scottish agricultural businesses that are not clear whether they can undertake processes in a manner similar to competitor businesses elsewhere in the UK.
39. It is generally felt that government(s) understand the risks facing the agricultural sectors and that it is possible for industry to highlight these risks to governments. However, NFUS notes that across the board the actions taken by government to mitigate disruption have in some cases come too late to have impact for primary producers suffering difficulties due to altered supply chain dynamics.
40. Using dairy to illustrate this point, it is undoubtable that the UK Government's relaxation on drivers hours regulations and competition law were the correct actions to take to ease blockages and imbalances in the supply chain. However, the latter action was only taken following significant dumping of milk in the UK. NFUS suggests that for dairy, and indeed across the other agricultural commodities, there has been a lack of understanding and therefore willingness to respond immediately to changes in demand which have upset the extremely fine balance in the supply chain.
41. A potential forthcoming risk in relation to this point is for the horticulture sector, where there are likely to be significant ramifications arising from labour shortages. The UK Government's support for encouraging as much domestic resource to assist the upcoming harvest is vital and welcomed by industry; however domestic resource is highly unlikely to meet the scale of labour requirements at the peak of the season. There remain significant concerns that without access to an overseas workforce there will be significant wastage of crop that cannot be picked.

42. In mid-March, NFUS requested that UK Government consider assisting the sector by underwriting the cost of planted crops that are wasted due to a lack of labour capacity. A decision was not taken at the time, meaning that crops are now in the ground that could go to waste at the peak of the season in June/July. This example underlines the inherent risks attached to the timeliness of decision-making.

What further impacts could the current pandemic have on the food supply chain, or individual elements of it, in the short to medium-term and what steps do industry, consumers and the Government need to take to mitigate them?

43. The impact that the current pandemic and the eventual approach to phasing out of lockdown measures will have on markets and therefore the food supply chain is extremely unpredictable. NFUS believes that there is an important place for promotion now and into the medium and longer-term which can assist with issues created by shifting demand. Whether agricultural produce is destined for a predominantly retail or a food-service market it is important that the consumer is better informed to support domestic production. NFUS is working closely with the levy bodies to encourage promotion.

44. In terms of forthcoming market impacts, what is perhaps easier to predict is the aforementioned impact on the supply of fruit and vegetables if there are significant shortages of workers to assist with the upcoming harvest. With other countries in the EU also experiencing significant shortages of workers, there will be an impact on the amount of imported fruit and vegetables to the UK.

45. The impact of reduced distilling and brewing capacity is also likely to have a significant impact for the cereals sector, particularly if logistical issues relating to a lack of storage capacity and/or haulage persevere. It is possible that there will be a significant amount of spoilage for grain that can't be moved off-farm, and as mentioned elsewhere in this submission, major market impacts if there is an oversupply post-harvest. Such impacts will very likely impact upon growers' confidence to plant crop next year which will lead to longer-term capacity issues for the sector.

46. Across the board, the supply chain issues created by the current pandemic have highlighted a chronic lack of processing capacity across the UK. 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.
47. 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.
48. 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.

How effectively has the Government worked with businesses and NGOs to share information on disruptions to the supply chain and other problems, and to develop and implement solutions? How effectively have these actions been communicated to the public?

49. As alluded to in response to the previous question, engagement from government with businesses throughout the food supply chain on the unlocking strategy will be essential in order to minimise further disruption as the country phases towards the 'new normal'.

50. Industry collaboration is vital and NFUS asks the Committee to query what role there is for governments in facilitating further industry collaboration.

51. Finally, NFUS wishes to put on record that the current pandemic has underlined a pre-existing complaint of NFUS with the tendency of Defra and the UK Government to defer to NFU England and Wales as the communicator of UK-wide farming issues. Whilst NFUS and the UK farming unions collaborate and work extremely closely together, it is vital that specific sector and market issues are understood and therefore that all farming unions of the UK are given space to feed into critical government workstreams. Whilst agriculture is devolved in Scotland, Scottish farmers produce for a UK-wide supply chain and therefore it is important that devolved interests are accounted for. Not to do so can create issues within the supply chain.