

## COVID-19 & the Food Supply System

Second Expert Panel Meeting 28<sup>th</sup> July 11am to 12.30pm

### Meeting Notes

**In attendance:** Tim Brigstocke, Victoria Bywater, Steve Guilbert, Ruth Huxley, Andrew Kuyk, Matt Loble, Aoife Martin, Sue Pritchard, Emma Tranter (notes), Tim Wilkinson, Michael Winter Chair), a representative of the fishing industry, a representative of the livestock auctioneer sector, a representative of LEAF, a representative of the savoury food processing industry, a representative of the Food Standards Agency, a representative of the milling industry, a representative from the finance sector, a representative from a meat trade association and 5 further panel members

**Apologies** were received from Julia Aglionby, two representatives from the dairy industry, V Hird, and Dr Rachel Ward (IFST)

#### 1. Welcome

MW welcomed everyone to the meeting and thanked them for their time.

If any Expert Panel members would like to write a short piece or personal commentary for the project bulletin or website, that would be most welcome.

#### 2. Food System Impacts of COVID: Dairy Products paper

##### 2.1 Implications of COVID for the Dairy Supply Chain and Questions for the Panel

MW asked if we were pushing in the right direction, and if any panel members could see any major omissions or errors.

A representative from a meat trade association referred to Milk Your Moments and said he could introduce the project team to the person running this campaign at AHDB. He also mentioned abattoirs and meat processing as dried off cows are a key part of the dairy industry, as they then become meat. In the week ending 20/07/19, the average price per kilo for a culled cow was 231.6p. This year in the same week the price is 260.9p (12.7% increase). When lockdown came in, the price of cull cows was down, then it started seriously rising. This indicates that farmers have taken less productive cows out of the system and put them into the market to become meat.

**Action: Panel member to send AHDB Milk Your Moments contact to MW and graph work regarding the cull cow prices.**

**Action: MW to follow up the above.**

##### Question 1 – data about discarded milk and waste

**Tim Brigstocke** said that it was incredibly difficult to get official figures as if milk is poured away, it is not recorded. A short survey that was conducted between 6<sup>th</sup> and 20<sup>th</sup> April suggested that there was one million litres of milk discarded, and this more or less tied in with AHDB and Dairy UK estimates. However, producers quickly found alternative uses for milk, so the waste stopped. There was literally a month of chaos and then it settled down.

**Andrew Kuyk** agreed with the above. They were very aware of the immediate impact largely due to the food service sector being shut down overnight. But a problem unique to the dairy sector is that cows need to be milked at least twice a day every day. There was significant short-term disruption as some milk was simply not collected from farms. Due to limited holding capacity and spoilage issues, in the very short term, some people were left with no option but to discard. AK also raised the issue that discarding milk is not only wasteful, but that there was a reputational impact, especially when there were spaces on supermarket shelves. Regarding the cull cow situation, some people who were already in precarious situations maybe brought forward some decisions about either leaving dairying or deciding which cows to keep – short-term compression effect. Hopefully now the industry is in a better place. It will be difficult to quantify exactly what happened, but there are ongoing inquiries: EFRA inquiry and a Defra consultation on terms of competition within the supply chain which will look at issues around contracts and how enforceable they are. We must not forget that this was a crisis without precedent and, irrespective of contracts, if the lorry does not arrive to collect your milk, or a customer goes bust overnight, any legal remedy does not actually help with your present situation. There is no pause button with milk production – you have to deal with the situation in real time and with all the livestock welfare implications. There is a limit to what you can do to guard against this unique dramatic shock from one day to the next. But it is a tribute to the whole industry that the wheels were put back on quickly following the initial cataclysmic shock. This speaks for the resilience, cooperation and collaboration within the industry. How we can build this in for the future will be interesting.

MW asked if we knew why milk was not collected. Was this due to contracts being cancelled, or that lorry drivers did not want to go out due to illness, or fear of illness? **AK** – combination of all of the above. **TB** – all of the above with the addition of chaos and uncertainty. Another panel member commented that they were not able to get lorry drivers.

A representative of the finance sector wanted to endorse the point about the localised impact on milk producers and certain supply chains. In addition to the various factors already mentioned above, we were also approaching the ‘spring peak’. If it wasn’t for the unusually dry circumstances and the way that close relationships between farmers and processors worked in other supply chains, there was a lot of mitigation put in place and the problem didn’t spread and, in fact, turned around quite quickly. There were press comments – e.g. Muller asking farmers to ease production rather than stop production, to manage future problems. There was a lot of work done behind the scenes. It turned out to be much less of a problem for those chains and farmers than the news headlines first grabbed.

**AK** – the point about the weather is a good one. The spring peak could have compounded the problem, but this year, the drought killed the grass growth and the hot weather meant demand for cream and ice-cream went up, so the two things helped each other and we got away with it more lightly than we might have done.

A representative of the finance sector said we shouldn’t underestimate importance of how strong some supply chains were and how transactional others were.

**Action: MW to follow up the difference in supply chains, and the factors that were relevant in this, with the representative from the finance sector.**

#### Question 2 - Changes in consumption: eating at home

There are some striking data in terms of sales increases. Is the shift to home-baking is here to stay? What are the best data sources for these consumer trends?

A representative from LEAF – Judith Batchelar spoke at a recent LEAF surgery and she said that now people are reducing the amount of home-baking and moving into the 'healthy space', because they've put on too much weight! In addition, the National Food Strategy launches on 29<sup>th</sup> July and its focus is on obesity.

A representative from the FSA – we need to make a differentiation between home-baking and home or scratch cooking. However, this situation is still moving and hasn't yet stabilised. The shift to home-baking will halt as people get bored or become interested in other things. Maybe there will be a half-residual continuation of scratch cooking and half going back to hospitality.

**Action: FSA to send MW some suggestions of data sources to refer to regarding the above question.**

Sue Pritchard comment in chat: Agree with FSA representative - think that it may be too early to conclude direction of 'consumer trends'. These will also depend on the conditions created to consolidate positive changes (obesity strategy NFS), or nudge away from negative ones.

A representative of the milling industry – whilst the home-baking trend is moving downwards, it's got a long way to move before it's down year on year. Flour sales in Q2 were up 80% YOY. You can see a decline from this level, but still be up by quite a long way. You need to be clear what you're measuring against. Members who are packing retail flour are still extremely busy. When you look at what members are buying and selling, there is an increase in everything, but in % terms, bread flour has seen the biggest increase.

A representative of the finance sector – some customers are looking at investing in machinery to be able to sell in retail rather than just deliver in bulk to wholesale or food service outlets. Food processors are homing in on the focus on food and obesity. The answer to part of the above question is to ask what's happening with out-of-home eating. Data suggests that this is coming back incredibly slowly. Food processors can't see how food service can break even at 60% throughput, as the margins aren't there. And anyway, current sales are not even anywhere near this level (60%). Consumer confidence about eating out of home and the workplace environment (eating at lunchtime) are nowhere near previous levels. Amongst the representative's customers, the emphasis on home cooking is starting to look like a permanent trend.

FSA representative – agrees that you need to look at home cooking alongside out-of-home eating. The obesity drive could be a more fundamental long-term change, and we need to understand how this will play out in home cooking and out-of-home eating. We also need to understand some external contexts – home eating may be driven by the fact that people are working from home, so is an external factor which may change, perhaps when children go back to school. It is important to not just look at what someone says they're going to do, but also look at the factors that are driving their behaviour.

FSA representative comment in chat: And even if people do go back to the office, the number of days in the office needs to be understood.

Meat trade association representative – 70 members are catering butchers. They are saying there's been a slow return in terms of independent pubs, hotels and restaurants. People are eating out, but social distancing has reduced the cover numbers they can do. In terms of chains, there is a staged return to opening. UK Hospitality anticipate the earliest we will see a real return to normal will be the 2<sup>nd</sup> quarter of 2021. This is based on more people having more confidence to eat out, and they

will also know how much they will have to spend (discretionary expenditure). On the other hand, sales of sausage and bacon gone through the roof – cooked breakfasts during lockdown.

**SP** comment in chat: Important to acknowledge the longevity of this crisis - David Nabarro last night talking about 18 months before any vaccine might begin to be available; and this being a 5 year recalibration of global economy.

### Question 3 - consumer behaviour change: shift to online ordering

If you buy food online, do you buy different things?

**Victoria Bywater** – this point is very much driven by the online retailers. When you type, for example milk, into an online shopping search engine, you're offered an array of choices. These are based on previous selections, but also what the retailer wants you to try. This may well be a milk-replacement product.

FSA representative comment in chat: Amazon Fresh expanding.

**Ruth Huxley** – her retail business didn't go online, but switched to home delivery only shortly after lockdown. Consumer trends went completely to basic essentials. When people think at home what they want to buy, they think of e.g. milk, cheese, butter. They don't think of artisan products – they're not inspired by what they see in front of them in a physical shop. There was a massive rise in, for example, block cheddar and pre-pack cheddar, but a complete drop in artisan cheeses. People revert to buying what they know rather than being inspired by a beautiful counter in front of them. Even people who are shopping in store are now shopping with a purpose - they are going shopping with a list, are not browsing, and are getting in and out as fast as they can.

FSA representative comment in chat: Does that apply for the long term? That limitation of what is bought?

LEAF representative – are people looking for sustainable choices? There seems to be some evidence (Waitrose) that when people are shopping online they are focusing on environmental aspects and are being nudged in that direction. There are some important nods in the right directions of ethical sourcing.

**AK** made a point regarding smaller cheese producers and artisan products. Some members who are smaller cheesemakers are very enterprising and went to direct marketing with quite a lot of success, but we are now at an interesting point. Online shopping was an enforced switch for some people - how permanent will this be? Supermarkets will have this data and will analyse it closely as it is hugely significant in competitive terms. They will need to make some important strategic decisions. It is generally accepted that retailers make a smaller margin on food delivery due to the cost of picking, packing, vans and drivers. Retailers have seen that this is an important means of presence in the market, but if it alters the normal balance, it poses some really interesting questions, particularly in larger supermarkets who have a lot of fixed costs (space and people). 'Grab and go' – people are going shopping with a list and a purpose. How long will this persist, and will people go back to previous methods? Major retailers are commissioning a lot of work around this to anticipate what will happen in order to make investment decisions – opening new stores, rationalising, greater accent on deliveries. This is commercially extremely significant for food retailers.

FSA representative – the whole sector potentially shifting. There is currently a shift from big to small stores which may or may not be long-term. How will this play into online sales? If people do more online shopping, will this be one big shop from a single retailer? We also shouldn't underestimate

businesses like Amazon, who are stepping into this market. Their business model is different - they operate in a different way and really know how to do online. By stepping in, or accelerating their plans, seeing new entrants come in is another factor to look at rather than just focussing on how the current players are operating.

Milling industry representative – it is important to distinguish between producers and retailers in an online space. The route to market is via online retailers, including Amazon. We can also look at the restaurant sector, who have been building a greater online presence. Traditional sit-down restaurants have been experimenting with delivery of either ready-to-eat food, or food that needs just a little bit of titivating in-home. Restaurant capacity will be limited to 60% due to social distancing and they need to think of other ways to capture the market. This crisis has brought innovation to sectors that wouldn't have previously moved in this direction.

Finance sector representative – we need to be mindful that the food chain is about the consumer and their confidence. There are currently 9 million people on furlough who may or may not have jobs once the scheme ends. There is also the question of a possible recession. Milk is the most convenient food, and has been for decades, so it's often challenged with price. Online food retail only represented 7% of market up to lockdown because it wasn't viable – the cost of delivery was estimated at £25 a drop that was not covered. David Hughes' in his blog, Supermarkets in your Pocket, quoted Lenin – sometimes it takes decades to move weeks, and then it takes weeks to move decades. In the first few weeks of lockdown, internet shopping doubled. Some retailers say that the density of deliveries means that they are now more viable, however there is some scepticism about this. There has also been a noticeable change in what people are buying. Those distant from consumer – mainly farms and processor - have started to sell direct to the consumer. When new businesses are thinking about selling a product, it used to be to sell it locally, then expand to the region then nationally, then internationally. Now, once they've sold it locally, they end up with an internet placing and sell internationally. This has become more evident throughout Covid-19. They need to work out how to deliver and how to get products quickly to consumers. This includes dairy products. On another point, whilst sustainability is a really important topic, amongst retailers it is all about price and market share, and how they manage price reductions going forward.

LEAF representative – it is a big fear that sustainability is not being considered strongly enough by some, particularly the large processing structure, and there will be big challenges going forward.

Meat trade association representative – in addition to retailers like Amazon, shopping channels, e.g. QVC, have got into selling food in large quantities – bakery lines, pies, fresh meat. They do this in two ways – they either have programme slots where the manufacturer promotes their product on screen, or they have them as drop down YouTube videos on their websites. In terms of catering butcher members – many moved to online selling very quickly. Within 2 weeks of lockdown, the most common question the trade association asked was who was the best supplier of cold boxes and cold packs. At least two of the catering butchers were taking orders outside of the UK and also selling to Europe.

**SP** comment in chat: short diverse local supply chains seem to be a clear upward trend through direct B2C platforms - and this is probably a good thing, which could be enormously supported by more investment in resilient and adaptable local supply chains.

#### Question 4: Government responses - competition rules being relaxed and the hardship fund

**TB** – the relaxation of competition law probably came too late. By that time, much of the excess milk had found a home. But it was useful. The dairy response fund was equally appreciated, but most of

the worst affected farmers weren't eligible for the scheme. RADB did a Twitter survey WC 6<sup>th</sup> July which had over 50 responses and more than 80% said they couldn't apply or weren't eligible to apply, 9.4% said they had applied, and 7.5% said they were going to apply. There's the additional problem of the non-bovine sector which is not covered at all in the hardship fund. In summary, it was good stuff, but it was proposed too late and it didn't really pick up those that were most affected.

MW wondered why this might be. Was it because the government wanted to make a gesture but keep the costs down? Was it rushed and they didn't consult enough with the industry to get the terms right? **TB** said yes, the scheme was rushed. It was well-intentioned, but they didn't see through some of the implications.

Finance sector representative – in terms of competition ruling, quite a few major players in the food chain have said this is the tip of iceberg and it'll come back to challenge the food chains later, as there are fewer players in the food chains. 'Scale', 'domination' come into play. What is competition, what is unfair competition, and what is the right answer? In terms of the £10k per farm, looking at the cash flows of the individual farms, for those that needed it, £10k was a drop in the ocean. There weren't really that many that needed it and a lot more have applied for it. It's something that has addressed some of the points, but not properly.

**Action: MW to follow up with finance sector representative on competition rules issue.**

There was a discussion about the government hardship fund<sup>1</sup>.

**Action: Panel member to point MW to someone in Defra who was more deeply involved in dairy discussions about the hardship fund for additional feedback.**

#### Question 5 – industry responses

Were there any insights as to why Muller created so many additional jobs?

Finance sector representative – this links to the wider debate about home delivery and click and collect, and doorstep purchase and consumption. The additional jobs were to beef up of that part of their business, like the retailers did around the doubling of internet sales. It's delivery-driven, and home delivery-driven rather than anything else.

The Milk your Moments campaign has been previously mentioned and appears to have been successful. A panel member who sent their apologies for this meeting, would be in a good position to talk about this campaign.

**Action: MW to follow up with panel member re. Milk your Moments campaign.**

#### Question 6: farmer impacts, including AHDB analysis

**Action: MW to follow up with panel member.**

#### Question 7: milk vending machines

There are quite a few examples of vending machine milk sales doing well.

**Action: MW to follow up milk vending machine sales directly with the companies involved to find out if they consider it to be a long-term trend, or not.**

---

<sup>1</sup> It was noted that the EFRA committee are enquiring into the issue.

## 2.2 Case Studies

### 2.2.1 Costa Coffee

MW asked if anyone had a contact in Costa in order to get some information about sales figures, milk consumption, etc., which is not on their website.

Finance sector representative said that Costa is one of their companies, but they have new owners (Coca Cola). They are a tough retailer to lift the lid on - is there a similar peer that could shed light on a similar case that we could use instead of Costa?

LEAF representative said that she had no Costa links, but McDonalds could be an alternative case study.

FSA representative comment in chat: Pret?

SP comment in chat: What about a brand like Coffee #1 which is an interesting balance between 'local' and now pretty widespread.

Milling industry representative comment in chat: or perhaps Greggs?

**Action: LEAF representative to provide McDonalds contact details to MW.**

Meat trade association representative said that there are quite a few Costa people on LinkedIn, and that could be a way in.

### 2.2.2 Yarg Cheese

Thoughts on the implications for artisanal cheese. There have already been comments about people being less adventurous with their shopping habits. Yarg responded in part by pre-packaging as the cheese counters were closing. Will Yarg see pre-packaging as a permanent shift as the counter reopen?

FSA representative – this goes back to consumer behaviour again. The consumer's initial reaction is to stick to the basics. As we come out of it, and people realise that they won't be able to go out as much for e.g. birthday celebrations, and also get more into scratch cooking, does the cheeseboard at home come back into play as part of home dining? We should be asking questions about consumer behaviour to drive this and see where Yarg might ultimately go, and how they are going to track what was their target audience: Where have they gone? How many of them have stopped eating out? Have they just stopped eating cheese?

**RH** – Cornish Blue was well-documented as having been worried about throwing away a lot of cheese. There were a number of different experiences with cheese suppliers from Saputo, who own Davidstowe creamery, to tiny one-man bands making at home. They all did different things. Saputo focused on pre-pack for the supermarket and those with open deli counters couldn't get any block cheese from them. They also focused on butter and streamlined their operation. RH is only now able to get the supply back in, and they are making an exception for this. Others shut down completely. They got frightened about being left with even more stock and shut down production, but haven't restarted. We are now in the position where we risk having a shortage of cheese in store as the artisans haven't produced in time, weren't ready for unlocking. The same applies for some breweries. The Cornish Food Store is restricted to selling local produce, so is dependent on the local supply chain. Regarding suppliers selling direct. That did happen, but a lot of them are not au fait with how pricing works in the supply chain. This could lead to a lot of problems down the line where they may have sold at below the price they should have done in order to shift that product in a

hurry. Their consumers may expect to be able to buy that product at that price when they want to sell through retailers and wholesalers, and producers may not have allowed enough margin in the supply chain. This has also happened in other industries – fishing and meat. MW commented that it was a story of adaptation with imperfect preparation which can have lasting impacts in terms of consumer expectation and in terms of the pricing structure of those businesses.

**SP** comment in chat: On cheese; we have lovely cases from Hafod Farm Dairy and Caws Cenarth on our Road to Renewal pages.

### 2.2.3 Shepherd's Purse

Those who were brave enough to adapt and maintain production may have done OK because some of the other didn't – the market was smaller in terms of what's available.

**RH** agreed and said that looking to the future, will all the supermarket deli counters reopen? They could be another casualty of this.

There was a discussion regarding farm shops. Is there a question about consumer psychology – you go to a supermarket with a list and want to get in and out quickly, but if you go to a specialist local food place, perhaps you're slightly more relaxed?

**RH** agreed and said that, in addition, places in Cornwall are blessed with the staycation market - holidaymakers wanting to get out and sample local produce. Farm shops have the appeal of being somewhere you can go to buy groceries and also pick up a few nice bits and pieces at the same time. This, however, makes life even tougher for holiday sector – people on holiday are buying from farm shops in order to treat themselves in their holiday accommodation rather than going out to eat in restaurants and cafes.

FSA representative comment in chat: Holidaymakers? In self-catering accommodation

**AK** said that it was a mixed picture. Some people have done quite well. Regarding people not knowing the true value or true price. There was a mixed motive here - not only to find a route to market, but also to dispose of stock that would otherwise have gone to waste. Although the market has recovered volumes, Covid-19 has taken the value out of the market. Profitability has gone down. Volumes have been sustained, but value has been lost because some of the premiums that were there for e.g. restaurant quality have gone and where you're selling the rest, if you're not charging what you would have charged to get that margin, there is a loss of value. However, the situation is a game of two halves – we're talking about premium and high-end products, but food banks have been busier than ever during this crisis and 9 million people are currently on furlough. If we end up with 3-4 million unemployed by the end of the year, if various other economic things go badly wrong, if we have a bumpy EU exit, if we have some international trade wars and various other things, people's disposable incomes and the pressures on lower income families will be quite severe. Retailers, particularly the big retailers, will see a lot of downward pressure on prices to remain competitive and to give consumers choice at all price points. It's a complex position and we're not seeing what might have been a normal evolution. There will be people who will be happy to spend more on food as an alternative to going out, but there will be people for whom it's a struggle to keep the family fed. It will also be interesting to see how the obesity agenda plays into this. There is a strong correlation between low income and poor health outcomes and a lot of that is diet-related. Some foods that contribute to this are cheaper and sometimes salt, fat and sugar are used as substitutes for higher value ingredients. There's a complex set of issues evolving. In the past it's been the market that has led this, but now we're getting interventions – policy interventions, direct

intervention of shifts as a result of the disease that no-one's controlling, but they're happening. The normal market response is not a pure market response. It would be a great time for an economist to see if we can detect new mechanisms, patterns and the ability to predict where things might go. At the moment we are merely bemused observers. Case studies might be misleading as they look at little bits which may tell a good or bad story. But can we extrapolate from these to draw some lessons to see what's going to happen from a bigger picture. Artisan cheeses don't move the most amount of milk – it's the commodity block products and coffee shops that do. Getting the volume right is only half the battle, you need to keep the value associated with that volume.

**SP** comment in chat: food as an affordable psychological treat is an important dimension to all this. But also worth exploring the relationship with food insecurity and poverty; and the extent to which the whole food value of simple dairy is being used, along with other simple staples, to manage this.

**SP** comment in chat: Agreeing with Andrew very much here.

**SP** comment in chat: Anecdote: in our local Facebook groups, a well-known nutritionist has been encouraging people who are struggling, to buy more milk and yoghurt as all round healthy components of a balanced diets

MW asked again if anyone had any contacts in the retail and processing sectors we could contact to help us understand how these things are thought about. LEAF representative suggested we contact Bill Clarke at Trewithen Dairies.

### **2.3 Scenario gazing**

This has been broadly covered in previous discussion.

MW asked if there were any other final points and comments.

Savoury food processor representative had a comment regarding deli counters. This is a big business for them. For Morrisons it is aligned with their strategy around Market Street and their vertical integration. Waitrose have kept the deli counters live. The big question is, will the other retailers come back as they once were? Outside of Covid, one of the considerations is the profitability of deli for the retailers. It has become apparent that it is not as profitable as the rest of the retail. We need to watch this space to see what the big retailers do about this, and then see what it will then mean to suppliers in terms of formatting and presenting products to sell in that space. It's still being worked through at the moment, and is still quite sensitive as it's a premium space within a retailer, but the internal view of suppliers at the moment is that it will change. This isn't just about Covid, it's what Covid has brought them to realise – it has accelerated trends that were already there. MW said that it's all about trying to second guess what's going to happen with consumers – will they want to go to deli counters, will they have enough money to do so?

LEAF representative – one of the big challenges is that when the price goes down, the price to farmers goes down, but when goes up, this is not reflected in the price to farmers. Also, regarding interest rates – if these go up, it will have a huge impact. Income from milk is not being reflected, as people are being asked to report on the milk price of milk that is sold, not what is not sold.

MW thanked everyone for their time. He asked anyone who would like to do so to send through a piece for the bulletin.

### **3. AOB**

The next meeting will be held on Thursday 17<sup>th</sup> September at 15.00