

COVID-19 & the Food Supply System

Fifth Expert Panel Meeting 19th November 2020 11am

Meeting Notes

In attendance: Tim Brigstocke, Victoria Bywater, Steve Guilbert, Ruth Huxley, Andrew Kuyk, Matt Loble, Sue Pritchard, Emma Tranter (notes), Rachel Ward, Tim Wilkinson, Michael Winter (Chair), a representative from the fishing industry, a representative from a meat trade association, a representative of the savoury food processing industry, a representative from the finance sector and 6 other panel members

Apologies were received from Jack Ward (CEO British Growers), a representative of the livestock auctioneer sector, a representative from the FSA and 1 other panel member

1. Introductions and up-date on Business Survey

MW welcomed everyone to the meeting and went through the housekeeping requirements.

There was a discussion about the proposed business survey that had been discussed at the previous meeting. Distribution of the survey was put on hold due to the announcement of a further lockdown in England. The current plan is to send out a short version of the survey at the start of next week, with a view to sending out the full survey in the New Year.

A panel member pointed out that there are a lot of surveys going round at the moment and we might get a better response in the New Year.

Two panel members concurred that, with the run up to Christmas and Brexit preparations, now might not be the ideal time and it might be better to wait until the New Year.

No-one disagreed with this view.

2. Flour Paper

SG introduced the flour paper and welcomed comments and input during the discussion.

SG asked if the paper had correctly outlined what happened in the first lockdown and the weeks running up to it, particularly in relation to ideas re. home-baking boom, increase in retail demand for flour, packing issues, direct sales, etc.

A panel member (PM1) said that the paper was more or less there. There was a boom in home-baking with an estimation that demand (although unfulfilled) rose by 5 or 10 times the normal level of purchasing. Milling lines were flat out which increased output by 80-90% but this still wasn't sufficient to meet demand. It was impossible to go from a standing start to meeting this level of demand.

PM1 said that it appeared to be real demand, not just people stocking up. There was more home-baking and it persisted for quite a long time. There was lots of soft data: website enquiries about baking methods and recipes, which suggested that people, including novice bakers, were actually engaging in baking. Some of this is likely to persist for a while, especially while people are limited in what they can do with their leisure time. There may be a real increase in demand of 10 to 15% in retail flour in the longer term.

However, overall demand for flour was flat. Retail demand was up, as was demand from food manufacturers and bakers, but the loss of the out of home sector was considerable e.g. pizza places, KFC, Nandos, etc., were all closed. Millers, as opposed to bakers, tend to supply a diverse range of businesses, some of which would have done well, others who would have done nothing, so the impact hasn't been cataclysmic. The main impact has been knowing if your customers are still in business.

SG asked if there was there a drop-off after the initial rise in retail demand.

PM1 said that demand did tail off, but this needs to be looked at in the context of demand not being met in the first part of lockdown. Demand has since stabilised at a lower level than the peak but remains higher than in the equivalent period last year: Q2 and Q3 both saw increases YoY. In an effort to meet demand, nabim directed consumers to places who could sell bigger bags, non-traditional outlets. This seemed to work in helping people get the flour they wanted, and in keeping the general public on side too.

SG said that nabim were quick off the mark in establishing a map of flour availability.

A representative from the finance sector (PM2) said that flour was the business area where he received the most questions and he applauded what nabim had done. People were asking for their own sake rather than for a client. The issues were around supply of machines to bag flour and packaging materials rather than the product itself. One of the biggest questions going forward is whether this demand will continue, and whether millers should be looking to invest in bagging machines and packaging.

MW asked if many millers have decided to invest in small bagging machinery.

PM1 said that some have. In addition, one retailer has invested in a packing line.

PM2 said that many millers have also thought about how they sell direct to the consumer.

PM1 said that it became apparent that when somebody really wants something, the price doesn't matter too much. Buying something over the internet and paying for shipping means that the purchase price is quite high compared to the cost of the base product.

A panel member asked if there was any fraud during this period. Locally, people were buying 16kg bags of flour and then selling it on in smaller quantities. There was plenty of room for food safety, food fraud and weight declaration problems.

PM1 said that some concerns had been expressed about this, but they didn't come to anything as it was on a relatively small scale. In addition, some retailers packaged flour in in-store bakeries for onward sale. Whilst it is true that the labelling wasn't always up to scratch, on balance, these were emergency, short-term measures, and they worked for the timescale concerned.

PM2 concurred that this did happen, and whilst most people were OK about it, BB's points about food safety, labelling, etc. are valid and could have had other connotations in other products.

MW asked if there was there was evidence of people stockpiling in order to sell on.

PM1 said there was some evidence of this on eBay. Some millers were concerned about reputational issues where this was happening and contacted the online forums to take the product down. This was also a prompt for some millers to start their own online sales.

PM2 said that the above highlights issues of how the supply chain changed and the issues raised by increased demand.

MW asked what the implications of these changes were for the bottom line. How do margins for smaller bags compare to margins for bigger bags?

PM1 said that it depends on the contract with the retailer. The gross margin is probably higher for retail products, but there are increased production costs. Overall, millers have been glad to have a greater diversity of customers, so retail demand is a good thing. And they are also happy with the idea that if people are more into home-baking and understanding what goes into it, they might have a better appreciation of high-quality, ready-made products and the expertise of bakers. Pre-Covid, nabim had planned a programme to raise the profile of the industry. One result of not having products on the shelves was essentially free publicity for flour industry.

RW comment in chat: We saw locally that bakeries pivoting to sell flour directly to consumers. Was this commonplace? And are they continuing to do this?

PM1 said that nabim actively encouraged local bakers to sell flour as a way of encouraging people to come to their shops.

SG asked if there were any other issues that emerged as a result of the first lockdown. Were there issues with the supply of a certain kind of milling PPE?

PM1 said that this had been an issue, but it applied across the board for any business that needed PPE. Masks are needed for mill maintenance and many were diverted into either consumer purchasing or the healthcare sector. As a result, businesses are now holding bigger stocks than they might previously have done.

A representative of the savoury food processing industry (PM3) comment in chat: The PPE issue has now settled however prices have more than doubled especially around masks.

SG asked if there were any other significant issues. Labour market issues?

PM1 said that within the businesses, the staff were committed. They thought they were doing the right thing in coming to work, and they enjoyed and took pride being the centre of attention as key workers. Businesses quickly put in measures to keep cohorts separate, to minimise movement between sites, and were generally supportive of their staff. A total of about 2500 people are involved in milling in the UK, from back office staff, to cleaners, to drivers, etc. This number of people was relatively easy to manage, and businesses with smaller numbers of people, tend to look after them, as the impact of absenteeism on small workforces is more quickly felt.

SG asked if it was possible to identify how the impact might have varied depending on geography, scale of operation, etc.

PM1 said that in the first lockdown nabim ran a daily survey of members to measure pressure points and response. Smaller businesses were under more pressure more often because one person would have 3 or 4 different jobs, whereas larger businesses had more specialised roles, so could manage that workload better. But the types of issues were generally the same.

MW asked about the supply of fortificants. PM1 said that this was an early-stage concern when the problems were in China, as many of these products originate there. Suppliers did secure enough product to see them through to when availability improved.

MW asked about the potential impact of this year's poor harvest and the feeling in the industry at the moment.

PM1 said that there will be a big increase in use of imported wheat through to the next harvest, as is the norm when the UK can't supply the required wheat. This year's particular challenge is the UK's final departure from the EU in 6 weeks and uncertainty about the terms of this and what the UK's tariff regime might be. It could be that there is a quite a high import tariff on wheat from EU countries. As a consequence, the whole supply chain has been distorted by early season imports as people try to increase their stock, just in case. There is plenty of storage capacity, but it's expensive: there are cash flow issues, costs associated with transportation to and from storage, etc., all of which adds extra costs into supply chain. That cost is now committed whatever the outcome of the EU discussions.

PM2 said that he had been involved in a few of the funding aspects of the above and there have been discussions with the end users of the product. The range of these discussions has been fairly variable. Some people have been understanding, others less so.

PM1 confirmed that nobody is enthusiastic about these additional costs going back into the chain. He estimated that what's happened has put the costs of this part of grain supply up by 15%, which is larger than the margins in some cases.

PM2 said that whatever the reasons behind it (Covid or Brexit), the point about making sure there is a resilient supply chain for the 68 million UK residents is the thing that has brought everyone back to square one.

MW asked if there had been any increase in flour prices.

RW said (in chat) that bread prices have increased.

PM3 comment in chat: Flour pricing has seen a steady increase since August and we have not seen any relaxing in the pricing to date.

PM1 said that retail pricing is not the best guide: millers and suppliers have no control over this, and when you look at the way retail pricing works, it's on price points – something might go from £1 to £1.50 because that's how the retailer manages their prices. There is however a general upwards trend, but also an increase in underlying costs. In summary, the costs of flour milling are up YoY, but the retail pricing isn't the best guide to look at this.

PM3 commented on inflation. Where models are on tracker and there are commodity increases, like flour, this is passed through to the retailers, who are absorbing this. Where things are not on trackers, it is the processors who are absorbing costs.

PM2 said that where processors are using a number of ingredients e.g. flour, milk powder, it's not certain that these increases are evident at consumer level.

RW comment in chat: Agree with PM1 – it's hard to separate general inflation from specific food category price rises as the final on shelf pricing is up to the retailer.

RH comment in chat: Sorry for late comment on flour: One of our bread suppliers put their prices up in Sept, some by as much as 40%, due to increased flour prices, while our other supplier has left them unchanged, I feel this relates to how well they managed their business prior to, and during, lockdown as much as commodity prices.

3. Discussion on Impacts of current COVID lockdown

A representative of a meat trade association (PM4) has been speaking to some catering butchers. In Lockdown 2, pubs and restaurants who did reasonably well with takeaways in Lockdown 1 are now struggling. This is mainly due to McDonalds, Subway and KFC being allowed to open, and making big use of Deliveroo and Just Eat to deliver their products. There is significant TV advertising around these brands.

A report in Harpers, the trade magazine for the drinks industry, suggest that as many as 75% of the UK's independent pubs could close by the end 2021 simply through a lack of customers.

PM4 said that another butcher had expressed concern upon driving past a branch of Costa and seeing that the queue was out of the drive through and back onto road. In the future, will we have a generation who can not only no longer cook, but also not make tea or coffee..?

Panel member comment in chat: I'm surprised that there haven't been more mobile sandwich vans in the suburbs.

Loneliness is a big issue, and home baking has spawned a lot of online forums, and so on, as a means of breaking down barriers of loneliness.

PM2 said that we were time hungry and box schemes, such as Gousto, have huge marketing power. There are pushes for home delivery but there is an equal and opposite effect on those who are not on that level.

PM4 said that both Gousto and Eat Fresh moved to catering butchers as their suppliers as they struggled with supply during Lockdown 1.

PM1 said that one of the less commented aspects is that Covid has brought forward restructuring that would have happened anyway at a much quicker rate. Some people who were thinking of closing up in a few years are getting out now. This is happening across the country. The speeding up that we've seen in relation to online business also applies to structural change in the physical space.

PM2 said that the point about businesses who may be facing succession issues, or rent increase issues, is valid across all sectors, and it is real.

RW said that questions around resilience are also relevant in the context of Brexit. She has received many questions regarding the TV advert campaign about transition and needing to be ready. Businesses making niche products, such as vegan, gluten-free, desserts, cakes, snack alternatives, etc., have suddenly realised that the export part of their business (about 30%) will be lost overnight as they can't see their way through that barrier. They haven't noticed in time due to being a small business. One small business in London which supplies 6 EU nations can't see herself surviving if she can't find solution. She has only just realised now, and there could be something of an iceberg for SMEs. Some may not be able to get hold of imported ingredients, but it could also be more of a problem for export products.

AK said that composite products need export health certificates for each ingredient, which requires official certification (at a cost) and the logistics of organising this will be difficult.

PM2 said that the point about exports is crucial, particularly if we end up in a scenario where there are significant tariffs.

SP comment in chat: On our tradeunwrapped.uk website there is today (I think, if uploaded) stories from Northern Ireland, and the impact of this on cross border flows.

PM4 comment in chat: Out of Home Food and Drink. As countries enter a second wave of lockdowns, Kantar's latest report "Out-of-home food and drinks landscape. COVID-19 impact and the road to recovery" reveals the impact the first wave had around the world. Significantly lower out-of-home (OOH) food and drinks purchasing are costing the sector millions of dollars in lost revenue. Reduced consumer confidence and restrictions on social contact have created an environment where the food service industry is reliant on in-home delivery services to keep it going. Covering 11 markets (UK, France, Spain, Portugal, Brazil, Mexico, China, Indonesia, Vietnam, Thailand and South Korea), the data and insights in this paper will support brands and retailers by helping to understand how this sector could perform over the coming months and where the growth opportunities are. To navigate the report you will need to click the arrow on the right hand of the page. The main title pages have a box called: <https://kantar.turtl.co/story/covid-19-impact-in-out-of-home-food-and-drinks-c/>

4. Packaging Paper

Many issues, angles and debates have emerged whilst looking at packaging.

One noticeable packaging issue was regarding eggs, with eggs in supermarkets in plastic packaging, not pulp. This was due to increase in demand for eggs due to the boom in home-baking which, in turn, led to an increase in demand for pulp. Were there any other packaging issues in other sectors?

PM2 said that when issues came to the fore, a number of customers were seeking funding to source packaging. It emerged that a huge amount of packaging (materials used either within business, between sites, storage between processes, PPE, etc.) comes out of Europe. From a food safety point of view, companies were really worried about any form of unintended shortcut as it could have affected ability to retain licence. Some customers ended up buying shiploads, literally, due to delays at ports. This wasn't great from a cash flow point of view. There was a contradiction between what

Food Standards were saying and what government departments were saying. Processing was probably the thing PM2 dealt with most across all sectors. This increased awareness about how much material is used, and then wasted. Costs increased materially – one customer reported that their packaging costs has increased by 60x, which is massive for something that is usually a hidden cost.

RW comment in chat: most plastic recyclate for beverages industry comes from mainland Europe, France/Benelux.

PM1's observation was that lots of packaging is pre-printed. And where there was an increase in demand, businesses didn't necessarily have the right packaging available for the right product at the right time. This sudden change in the pattern of demand was a particular challenge. This was one of the reasons behind the reduction in product range in supermarkets – people concentrated on products they knew they could get packaging for.

AK said that he thought there were two different issues. The first is the format. If you normally supply both retail and out of home, you'd have pre-ordered your normal volume of retail packs. The second issue is that the packaging would be pre-printed with ingredient lists, and if you had to substitute an ingredient due to sourcing issues, your packaging would be illegal. This is more than just a technical point, but an allergen risk, etc. There are many complexities and genuine Health and Safety concerns that aren't obvious outside the industry.

PM3 comment in chat: We have seen very little movement in card prices during this year. Film prices tend to be linked more closely with crude oil prices so again prices and supply have not been a problem. In terms of the supply, our suppliers of card appear to be at or close to peak capacity.

PM2 – some customers decided not supply particular SCU. Consumers thought it was food that was the shortage, rather than the actual reason: a safety aspect due to packaging labelling.

PM1 said that packaging availability would still have been a problem even if all packaging had been sourced in the UK. It's also important to note that for some businesses it turned out OK. Some packaging suppliers saw decline in other parts of their market, so they had capacity to supply what people needed. The fact that the packaging supply chain extends across the EU wasn't an issue during Covid, but it might be one after Brexit.

RW comment in chat: likewise, all CO2 gas comes from outside UK which is used in humane animal slaughter as well as in compressed gas and gas flushing - so suggest considering gas and adhesive as critical packaging materials in supply resilience as well as the obvious types of materials e.g. card, PE, PET etc.

There are also challenges around the minor packaging ingredients, for example adhesives and packaging gases. These little things become big things when you can't complete the whole packaging piece. Are the adhesives being used food safe? Are people using substitutes?

SG said that emerged early on in the process that food packaging could potentially pose a transmission risk. Then people came out to say the risk was low, but the story kept rumbling.

PM1 said that the tradition in retail is to follow the money. Customers want packaged goods, not unpackaged goods. Whatever the reality, people were more comfortable with packaged goods, in hygiene terms, rather than unwrapped goods.

A panel member said that they worked with a refillery business. There was an increased sensitivity about sustainability and an increase in sales in refillery businesses as people were conscious to do right for environment. People were less worried about the transmission risk of packaging, and more concerned about doing the right thing for the environment.

PM3 comment in chat: This is evidenced in the major supermarkets as most have closed the Deli counters which sold un-wrapped fresh chilled products. Only 2 now operate with a deli counter offering in store.

SG confirmed that his research had shown almost conflicting positions: yes, there is an increased concern and desire for packaging due to perceived risk of transmission. But also an increasing awareness of sustainability and the environment. Both seem to be pulling mostly in the same direction.

RW said that supermarkets didn't resist people bringing own bags. There is also an issue re. shelf life and practicality in the supply chain with wrapped products. Deli counters were closed for hygiene reasons, but also for complexity reasons. They appear to have become unsustainable, possibly even in the long term.

Re. sustainability concerns, BYO cups to coffee counters was another issue – there has been an argument about protecting the workers in those stations vs the sustainability needs and consumer preference for using their own cup. It depends on whose shoes you stand in. If you stand in the consumer's shoes, they want to use their own cup because they know it's clean and it's reducing waste, but in the retailer's shoes, they want to protect their workers from touching or using something that someone else has touched. There were conflicting points of view in sector. Several brands took a position that they wouldn't accept other people's cups. And several would only accept other people's cups... There was no swing one way or the other. The overriding issue was more practical and concerned shelf life, preventing waste and continuation of supply rather than being driven one way or the other by sustainability concerns.

AK said that it was not just consumer preference vs worker safety. There is also a legal liability aspect.

Regarding whether what we've seen is a blip, or to what extent it might lead to longer term changes in behaviour and attitude, AK said that the short answer was that no-one knows at the moment. But building on what PM1 said, some of this will have brought forward changes that were in the pipeline. Regarding the closure of deli counters, Sainsburys have announced that they will not reopen their deli counters. This may have been in the pipeline for a while due to the relative cost of servicing them vs the profitability, but Sainsburys could be exploiting Covid as opportunity to do something they were planning to do anyway.

PM1 said that, in summary, the long term is going to be closer than it used to be.

5. Close

MW thanked everyone for their contribution.

There will be no meeting in December meeting and the dates for the meetings in 2021 will follow shortly.