



UK FOOD AND DRINK

BUILDING A PATH TO RECOVERY



EXECUTIVE SUMMARY

COVID-19 has highlighted the economic, social and employment value of the UK food and drink manufacturing industry.

Dave Lewis, CEO Tesco, said recently “*I think what this crisis has shown is the importance of food retail. I think in the past, perhaps, a little bit we may have taken that for granted. So, I hope that as a nation, we’ll think carefully about food, food strategy and distribution.*”

The food and drink manufacturing industry adds value directly, and provides employment indirectly, to other industries such as farming, transport and logistics, cold stores, packaging, catering, food service, retail etc. These elements are co-dependent. It is a vital sector for all parts of the UK (esp. Northern Ireland, Scotland and Wales). We call this the ‘*eating ecosystem*’.

We encourage Government to view the ‘*eating ecosystem*’ as an entity.

We are recovering from the biggest supply chain challenge since WW2. We must try to keep prices to consumers low to help them through recession. Good affordability is a vital part of the balanced scorecard of health, economy, employment and environment.

This can be assisted by expanding our exports (to help with Global Britain), substituting for imports (to increase our domestic food security and resilience), automating and up-skilling.

To achieve this, our challenges are twofold, short-term and long-term.

In the short-term, we must try to protect capacity (e.g. farming, food and drink manufacturing and foodservice) and protect sustainability and resilience. The alternative will outsource more of our national food supply to others. We must not be under supported compared to other countries.

In the long-term, a clear strategy to improve the sector-specific balance of trade will bring fiscal, health and environment benefits. According to the BBC, the UK’s ability to feed itself has declined by 23 per cent from 65 per cent in 1988 to 50 per cent in 2017. More importantly, the fragility of the global ‘*eating ecosystem*’ has been highlighted, and declining robustness trends, driven by increasing volatility, must be rebalanced to improve security.

This paper sets out a joint overview of Government and industry actions to build a ‘path to recovery’.

INTRODUCTION

The UK's vital food and drink industry, from farm to fork, contributes £460 billion to the national economy. It directly employs more than 4 million people across the four nations, with value addition greater than £120 billion. The four nation differences are very significant (e.g. UK imports 50 per cent; Northern Ireland exports 80 per cent).

COVID-19 has challenged the UK 'eating ecosystem' in a once in a generation way. In March 2020, the highest ever retail sales were delivered; output was achieved with significant absenteeism. In addition, every factory was radically re-engineered to comply with 'social distancing' policy. Workplace practices have been changed beyond recognition. Stock Keeping Unit (SKU) count has been dramatically streamlined.

Consumer behaviour has changed.

The hospitality and food service sectors are both a major customer and a vital "shop window" for showcasing UK food and drink to domestic consumers/visitors from across the world, as well as selling services and produce into export markets. The foodservice and hospitality part of the 'eating ecosystem' (some 50 million UK meals out of UK total of 192 million meals) is 'haemorrhaging' viability. That is having obvious "knock-on" consequences for business across the rest of the food and drink chain, including manufacturing and processing.

Government has taken extraordinarily courageous and rapid decisions to address the COVID-19 challenge. Now, together, we need to design a 'path to recovery' that delivers:

- **Balance of trade and resilience (employment and productivity) gains – sector-specific**
- **Move to healthier diets (nutrition, energy balance, portion size)**
- **Integrity gains (CO₂, environment, and animal welfare)**

Achieving these shared goals will require new understanding and collaboration. It will deliver huge gains for society across the UK. Doing nothing invites success for our competitors.

A commonly used tool for crisis management is PIOSEE: Problem, Information, Options, Select, Execute, and Evaluate. This grid has been used in framing the options.

TERMS OF REFERENCE

Our vital industry is changing fast. Some of these changes are potentially very damaging; others potentially beneficial, if difficult to realise. This ‘**path to recovery**’ begins thinking about how to build success in the “new normal” with the following seven objectives:

Balance of trade (employment and productivity) gains – sector-specific

1. Maximise value addition, capacity and productivity
2. Maximise global reputation

Move to healthier diets (nutrition, energy balance, portion size)

3. Identify key initiatives industry can undertake with Government across all departments

Integrity gains (CO₂, environment, and animal welfare)

4. Minimise waste
5. Maximise environmental and animal integrity
6. Identify market failures/strategic interventions Government could make
7. Identify areas where failure is unavoidable

We will need clarity on timetables for ending restrictions on the hospitality and food service sector.

We have assumed worst case scenarios.

Benchmarking how other nations are moving forward and supporting their food industries will be very helpful. We note the support ferry companies have recently gained, and this is welcome. Support of logistics, documentation and compliance will be an essential component of the ‘path to recovery’. This paper outlines the problem areas and suggests some high-level potential short-term and longer-term solutions.

The UK’s 7,000 small and medium-sized food and drink manufacturing enterprises (SMEs) are particularly vulnerable in the middle of the ‘eating ecosystem’. There is little clarity on new trading arrangements due in seven months.

It is essential we build an agreed, coherent plan on these key economic, environment and health issues for the UK. Early removal of tariffs would be very difficult to reverse, so we would advocate a more detailed case by case examination before final decisions are taken.

KEY WORKING ASSUMPTIONS

1. Based on the Spanish recovery model, hospitality food service will not return to 80 per cent or more of pre-COVID 19 levels until Feb 2021; (others suggest 2023)
2. Whilst the UK Government and devolved administrations are currently developing food and agriculture support structures and strategy, these urgently need to be shared with industry and devolved governments. COVID-19 will require an adjustment in the approach to the '*eating ecosystem*'
3. Other countries will aggressively support their agri-food sectors in recovery
4. The four nations of the UK are distinctly different in their farming base and output product mix (e.g. CAP maximum divergence between Wales and Northern Ireland)
5. UK retail is a mixed picture but will continue at current volumes and restricted SKU count until food service fully resumes
6. Retailers will not necessarily range back to pre-COVID 19 levels:
 - a. Consumer behaviour changes may accelerate – Flexitarian, Plastics, Waste
7. Deep 'U' shaped global recession with a recovery beginning in 2021 – consumer purchasing will become recessionary in behaviour (2023 as end of recession?)
8. Raw materials – next 12-18 months severe disruption in:
 - a. Currency markets
 - b. Credit insurance/credit limits
 - c. Imported material prices: next 12-18 months severe disruption in:
 - i. Agri based imports
 - ii. Animal feed constituents
 - iii. Grain for products for human consumption
 - iv. Essential raw materials (e.g. olive oil, tomato paste)
 - d. UK agriculture – farmgate prices:
 - i. Dairy – minimal capacity to absorb price turbulence
 - ii. Beef – carcass balance issue and cull dairy cows?
 - iii. Fish – aquaculture volatility
9. New UK trading relationships:
 - a. New tariffs
 - b. New protocols
 - c. New logistics
10. Labour – as unemployment rises, labour supply will ease. Critical need for seasonal labour
11. Manufacturing costs rise, driving food inflation:
 - a. National living wage filters through
 - b. New PPE costs
 - c. New screens and social distancing productivity costs
 - d. Time taken for consumer market to re-engage and drive manufacturing demand
 - e. Mergers and acquisition activity driven by failures creating new market dynamics
 - f. Bad debts from food service creating 'domino' effect

ACTIONS

The actions are detailed in the two tables overleaf, however, as we develop the **'path to recovery'** and its three main society benefits, other issues will arise.

We should seek to **minimise waste**, and industry should create initiatives to move stocks into Charity UK or developing nations before out of life, respecting the need to avoid dumping.

Given the urgent need for a framework for UK food and agriculture, we look forward to strategy publication.

UK has a deteriorating trade deficit of some £24 billion in food. Assuming 30 per cent of this could be produced efficiently in UK, a balance of trade benefit of up to £8 billion could be realisable, albeit on a sector-specific basis.

(e.g. Republic of Ireland current egg shortage, UK self-sufficiency 89 per cent)

The current challenges in dairy and beef sectors, however, highlight the fragility of the current *'eating ecosystem'* to withstanding turbulence. There is a need for Government to support or lose capacity.

We should consider investing in a **'UK Food and Drink'** support organisation with a strongly devolved-friendly structure.

A more **collaborative approach** from Government to industry and especially between Government Departments will allow us to move faster.

Scotland (Scotland Food & Drink), Wales (Food and Drink Wales) and the Republic of Ireland (Bord Bia) are models of success that demonstrate how Government and industry can collaborate to deliver **export-led food and drink growth**. Both benefit from high level, political support and provide a focal point for export support and promotion that enables exporters to fulfil their potential, with a key focus on provenance and quality.

Food and drink is devolved in the UK. The four nations collectively are UK Food and Drink. Each has a strong identity and adds value to the national offer. Particularly with food and drink, we must **respect and encourage devolved administration work** – 'we are all in it together'.

We should consider additional investment in **enhanced specialist export support** across the UK, providing additional funding to existing successful models and addressing gaps in coverage, in particular in England and Northern Ireland. An annual investment of £120 million in enhanced support should create £1.2 billion export sales growth. We have an excellent regulatory and scientific community who should be enabled to support.

To drive a more joined-up approach, a **new Food and Drink Export Council** should bring together industry and Government export leads for Scotland, Wales, Northern Ireland and England, on an equal footing, to identify UK-wide collaboration opportunities to boost the effectiveness of existing export activities, benefiting exporters in all regions. This would support Government's future trade negotiations.

Companies whose markets are unlikely to recover within a 12-month timeframe should be assisted in diversification.

Government should look at how existing **grants, cost deferral options used in hospitality and retail, and job retention measures** can be used across the wider food and drink sector to maintain capability and liquidity; reducing as recovery is built upon.

SHORT-TERM ACTIONS

Area	Outcome	Action	Timescale	Responsibility	Resources
Farming loss of production and profitability	Minimise losses through support	Grant aid farmers through price supports and training/advice re productivity	Immediate for 6-12 months	Defra / Devolved	Significant - foundational to future of Industry
Farming and processing seasonal labour	Minimise losses through support	Support schemes to aid supply	Immediate for 6-12 months	Defra / Devolved	Significant – foundational to future of Industry
Exporting	Food and Drink Export Council	Create Food and Drink Export Council with Devolved administrations	6 months	Gov and Industry	Initially £120m/year 100% Gov tapering to 50/50 over 10 years
New trading arrangements	Successful adaptation	Support for SMEs in particular	As soon as rules agreed	Gov	Minimal
Manufacturing /processing & supply chains	Maintenance and recovery support	Steps to maintain business liquidity	Urgent	Gov	Short-term deferral costs high but recovered over time
Government Industry interface	Build on current structure	Formalise inputs and outputs	Ongoing	Gov	Small investment in secretariat
Dimbleby Review	Publish ASAP	Begin debate on future	Urgent to define future direction	Industry and Government shared responsibility	Minimal
PPE / protocols / testing	Further clarity	Industry / Government GMP rules	Urgent	Industry and Government shared responsibility	On costs are significant
Fresh produce	Maintain supplies	Labour for horticulture	Urgent / Now	Defra / Home Office	?
New supply fraud risk	Fraud / safety / reputation issues	Expand NI QUB Food Fortress concept	1-3 months	FSA Food Crime Unit	£3-4m
UK retailers to support UK food	Encourage positive action	Support promotion to alleviate COVID-19 turbulence	Immediate	Retailers and Industry	Minimal

LONG-TERM ACTIONS

Area	Outcome	Action	Timescale	Responsibility	Resources
Balance of food trade – sector-specific	Target £8bn	Increase value addition and productivity in the UK	2-5 years	Gov set framework industrial strategy including supportive trade policy – industry delivery	Investments in marketing and sales support Investment in innovation Investment in skills
Exporting	Food and Drink Export Council	Create Food and Drink Export Council £1bn export growth by 2022	1-10 years	Gov and Industry	Initially £120m/year 100% Gov tapering to 50/50 over 10 years
Government Industry interface	Build on current structures	Formalise inputs and outputs	Ongoing build up skills	Gov	Small investment in secretariat
Health	Improve nations health	Agreed long-term strategy	2-10 years	Government / Industry	Investment will generate savings?
Emergency Food Scheme	Hold 8 weeks stock for UK population	Gov and Industry plan	2 years	Gov	Annual budget

The 'eating ecosystem' is diverse, complex and vital to the UK.

The signatory organisations, (and the many companies they represent), seek partnership with Government in delivering better outcomes for UK citizens. We hope Government will respond swiftly with a high-level of engagement and the creation of more detailed work following this blueprint.

Smaller investments now will preserve capability for expansion in an agreed future UK food and drink strategy. This we call a **'path to recovery'**.

This paper is meant to enable and stimulate action; much more detailed work will be required to flesh out the principles.

ENDORSED BY

Northern Ireland Food and Drink Association (NIFDA)
Association of Independent Meat Suppliers (AIMS)
Association of Labour Providers (ALP)
British Coffee Association (BCA)
British Food Importers & Distributors Association (BIFDA)
British Frozen Food Federation (BFFF)
British Meat Processors Association (BMPA)
British Poultry Council (BPC)
British Sandwich Association (BSA)
British Soft Drinks Association (BSDA)
British Specialist Nutrition Association (BSNA)
British Growers Association (BGA)
Chilled Food Association (CFA)
Council Responsible for Nutrition UK (CRN UK)
Federation of Bakers (FoB)
Food and Drink Federation (FDF)
Federation of Wholesale Distributors (FWD)
Food and Drink Wales Industry Board (FDWIB)
Health Food Manufacturers' Association (HMFA)
National Association of British and Irish Flour Millers (Nabim)
National Association of Cider Makers (NACM)
National Edible Oil Distributors' Association (NEODA)
Proprietary Association of Great Britain (PAGB)
Provision Trade Federation (PTF)
Seasoning and Spice Association (SSA)
Seed Crushers and Oil Processors Association (SCOPA)
Packaging Federation (PF)
UK Flavour Association (UKFA)
UK Tea & Infusions Association (UKTIA)
Ulster Farmers Union (UFU)
Vinegar Brewers Federation (VBF)

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