The impacts of COVID-19 on agriculture

Introduction

As with many parts of the UK economy, agriculture has been hit hard by the coronavirus crisis. The main impact has been the loss of demand from the foodservice sector with the closure of cafes, pubs and restaurants. The foodservice sector not only brings volume demand for agricultural commodities, but also adds additional value to food products that simply isn't achieved through the high volume, low margin model of the retail supply chains.

According to the AHDB eating-out review 2019, consumer spending on eating out was almost as great as that spent on food and drink through retail.

While retail demand for food has increased due to consumers eating more meals at home, this isn't sufficient in either volume or value terms to offset the loss of demand due to closures in the foodservice sector. Switching supply for foodservice to retail is not always straightforward. Real barriers exist that can stop this happening easily and these include logistics, equipment, packaging, specification, private standards and commercial obligations. This means that even if there is increased demand in retail a switch may not be possible or timely.

There are many other factors linked to C19 disruption affecting agriculture and this briefing sets out the headline challenges being faced across the sectors.

Dairy

Of the estimated 9,200 farmers in GB, more than 5,200 have suffered a milk price reduction this spring. Those price cuts range from 0.5ppl to 4ppl and higher. In addition nearly 500 had milk collections cancelled, 500 had payments deferred, 2,200 have been asked to reduce milk output and 700 have had the volume they get paid a full price on reduced.

However, a number of farmers have suffered more than one of these impacts and the cumulative impact has been massive for those farmers. AHDB estimate **that around 1,100 farmers have seen a high impact on their business**. It is those farmers that will be struggling the most at the moment, but there is also a risk that those in the medium or low risk category see the impacts worsen over the next few weeks.

AHDB have estimated the financial impact and to date, the impact in April alone is put at over £7m. This impact increases to nearly £13m in the month of May when other milk price reductions come into play, putting the overall impact for price cuts alone at £20m over the two months.

The average cost of production is around 27-31ppl depending on production system. At a milk price of 22ppl the average dairy farmer may be losing around 6ppl. This translates to £10,000 per month or £120,000/year and is clearly unsustainable.

Surplus milk that previously had a home in foodservice is now is being sold at a distressed open market price and converted into bulk generic products such as cheese and powered milk. At this time of year, GB milk production is approaching its seasonal high as dairy cows benefit from the rapid growth of lush grass from pastures. In normal times, this seasonal peak is balanced by processing more into milk powder. Therefore the addition of surplus milk from the collapse of foodservice demand means that these processors are overwhelmed and unable to fully utilise all the milk.

This re-direction of milk is happening across the world as the industry tries to save its product from being wasted. The increasing supply is depressing prices of milk globally and is significantly reducing the export market for British products.

A lack of market confidence is contagious, which means over time, the depression of the commodity markets will drive down producer prices overall and the money paid to farmers for their milk. The availability of cheaper raw material will eventually undermine retail supply chains too

As processors supplying the foodservice sector become further weakened, there is a very real risk that processing capacity in the UK will be lost in the long term and therefore when the foodservice sector is able to open up again, more milk or dairy products may need to be imported. At farm level, the loss of processing capacity risks eliminating the dairy sector from certain regions of the UK, in particular the South East where the largest proportion of milk goes into foodservice.

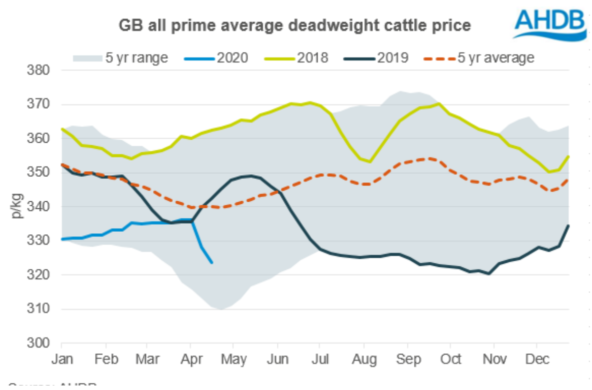
Beef

The beef sector came into the COVID-19 crisis showing signs of recovery, following a rapid fall in prices throughout 2019 which had created tough trading conditions for producers.

Success of the beef industry is heavily reliant on balancing demand for the whole carcass. The foodservice market plays an important part in adding significant value through the sale of steaks in restaurants. The lower value cuts from the front end of the animal also add value through sale into the fast food industry. With the focus now being on retail sales, the value of the carcass has fallen. The fall in value is also amplified by the consumers who are buying more products like mince and reducing their consumption of higher priced items like steaks and roasting joints. In terms of volume, mince accounts for almost half of the prime beef carcass, but it only provides about 20% of the price.

As there are very few formal relationships in the beef supply chain and more of an open market mentality - the whole market is hit by the loss of foodservice demand and consumers opting for lower value beef products. Prime beef markets have now fallen back to their lowest level since November 2019, exacerbated by increased business support in importing countries. As a result, there is limited prospect of market recovery in the short term.

Recently, the GB deadweight prime beef price has fallen below £3.30 per KG. In mid-2019, AHDB estimated that for the top 25% of producers cost of production was over £3.50 per KG. for the middle 50% it was over £4.30 per KG.

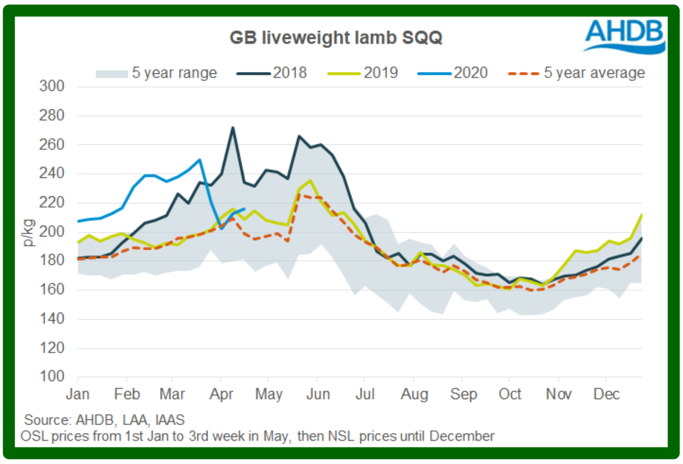


Lamb

Lamb entered into the COVID-19 crisis with a level of resilience and prices were relatively high. A weak pound against the euro supported continental demand in recent months and years, despite the longer term threat that disrupted trade to lucrative European export markets would arise. However, prices have since been driven down as movement restrictions on the continent have depressed demand.

The lamb season is soon coming to an end, which also poses a risk to producers. If producers still have old season lamb on farm much beyond May, the animals will be too old for specification and won't be as valuable.

If COVID-19 restrictions persist further into the summer and beyond, it is likely that the new season lamb market will also be impacted. New season lamb will start being available to the market around the middle of the year and to prevent market disruption we will need to see normal demand from both the domestic and continental market.



Crops

The COVID-19 crisis impacts will be felt in the longer term in the crops sector.

The main near term impact has been the drop in demand for malting barley as pubs and restaurants close. Around half of the beer demand is through pubs and restaurants and the rest is sold into retail. As with other sectors, the foodservice route provides a key source of value. The barley that would normally go into this beer therefore risks being downgraded to feed barley (animal feed) at a lower value.

The UK's particularly wet autumn and winter has meant that farmers planted less wheat in October and November and more barley this spring. With a strong supply of barley likely from the 2020 harvest and weak demand because of reduced beer sales, returns could be hit with a double whammy. Indeed globally, demand for beer is low and so barley surpluses are growing.

Producers of hops and cider apples are also being impacted as many have been contracted to produce these specialist crops, but are now left with a much depleted market due to the collapse in demand from the foodservice sector.

In addition, restrictions in the US mean that the demand maize-based ethanol has collapsed. Over the last 15 years, the US ethanol market has grown and consumes around a third of the US maize crop (over 100 million tonnes). In contrast, the total UK grain crop is around 24 million tonnes. The collapse of maize demand from ethanol risks a deluge of feed grain on the world market and a prolonged price depression.

On the flip side, wheat prices for human consumption are relatively stable because of the threat of Russian export restrictions and the current dry conditions being experience in key parts of Europe. This stability is not guaranteed in the medium term, and is of little comfort to UK arable farmers given that this summer will be one of the lowest wheat harvests for forty years in the UK due to the wet autumn and winter.

Fruit and vegetables

In addition to the impact of lost foodservice demand, the availability of seasonal labour to pick fruit and vegetables this summer has become a critical issue. Before the current crisis, the availability of seasonal labour was the single biggest concern for the 2020 harvest. The expansion of the seasonal workers pilot scheme to 10,000 welcomed by the NFU but is now on hold due to the closure of visa offices in the source countries. In addition, travel restrictions have limited the ability to bring in skilled and experienced returnee workers from the EU who were already contacted to return this year. Much industry effort is being put into trying to recruit workforce domestically through the "Pick for Britain" campaign, which is essential if the supply of affordable fresh produce is to be maintained.

Flowers and Plants

The COVID-19 Crisis has come at the worst possible time of year for the ornamental sector. On average 70% of an ornamental business' turnover is made between February and June, with key events such as Mother's Day, Easter and the May Bank Holidays all falling during this period. The closure of garden centres and florists mean that many businesses have lost their primary route to market during the peak sales period, which will lead to the loss of the majority of perishable plant stock with no recoup on the capital invested in producing that stock (c. 50% of turnover).

The total value of the 2020 ornamental crop (flowers and bulbs, pot plants and hardy nursery stock) is estimated by the Horticultural Trades Association to be £1.4bn. The 2018 Oxford Economics Report "The Economic Impact of Ornamental Horticulture and Landscaping in the UK" also estimates that the ornamental horticulture and landscaping sector in the UK contributed £24.2 billion to national GDP in 2017, supporting 568,700 jobs and contributing £5.4 billion in tax revenues. This is in addition to the contributions the sector makes in terms natural capital, social, mental and physical wellbeing. It is estimated that a third of ornamental businesses could become insolvent in a matter of weeks, while many more will be seriously impacted. This will have severe long term impacts on our ability to produce plants and flowers domestically.

Potatoes

Much like dairy, some potato sectors have been severely impacted by the closure of food service outlets. Those supplying fish and chip shops in particular lost almost their entire market overnight when an estimated 90% of shops closed. Since these growers supply shops with 25KG bags of specialist 'chipping' potatoes the viability of redirecting to supermarkets has been limited. Likewise, growers supplying processing potatoes have been impacted by food service closures, although it has been more viable to redirect this produce to supermarket shelves as frozen processed produce. Due to the limited storage life of the excess potato stock, and a need to empty stores to make way for the 2020 crops, there is a rapidly increasing risk that these stocks will have to be sent to landfill if demand from food outlets does not pick up. The effects on the market are being felt by more widely even in contracted supply with production orders reducing along with prices too.

The impact of food service outlets closing has not just been on price, but also a total drop in demand leading to questions of how to dispose of a crop with a limited storage life if no alternative outlets can be found. Potato growers need to plan well ahead due to a restricted amount of land suitable for potato growing, and so growers are considering reducing cropping area due to market uncertainty, which could lead to future shortages when demand returns to normal levels.

Poultry meat

Despite good overall demand, the UK poultry meat sector has been financially impacted by Covid-19. As for other sectors, while sales in the retail sector have been very strong, the food service and wholesale sectors have collapsed.

At present, the primary concern is the wholesale market. The wholesale sector has collapsed due to the closure of many retail butcher shops, takeaways and restaurants. The estimated, weekly demand from McDonalds, KFC and Nandos was collectively in the region of two million chickens per week and this demand is no longer there. Whilst some of the surplus product has been re-purposed into the retail supply chain, which has undoubtedly helped, this remains to be a relatively small volume, which is why production has been forced down

Prior to COVID-19, we estimate that some 3.1 million birds per week are reared and produced for the wholesale market. Reducing that production in response to a change in demand takes time as:

- Fertile eggs are in the hatchery for **three weeks** before the day-old chick is delivered to the farm;
- The birds are then on the farm for up to **seven weeks** as they grow to the required weight.

In short, this means that reducing the numbers of birds in the system to immediately react to changes in the market is not possible.

Pork

The UK pig sector is more protected from the loss of the food service sector, as this is filled largely from imported, cheaper pork. Meanwhile, British pork is more common in retailers but common pork products sold through food service such as bacon and sausages are also in high demand by the British public right now through retail. Prices had been well supported in the previous six months due to increasing demand from China in the wake of African swine fever, which the country still continues to grapple with, leading to an overall stable picture for the industry.

The UK is around 54% self-sufficient in pork; however this figure differs when it comes to different pork cuts. UK demand exceeds supply in the UK for loin (bacon) and the leg (ham) but supply of belly and shoulder cuts exceed UK demand. This is why it is so important for retailers to try and sell and promote as much of these cuts as possible, helping ensure that more of ‘the pig’ is eaten in the UK. Because we are more than self-sufficient in these cuts, they are very cheap in price, which offers a great opportunity to promote the products whilst incomes are under pressure.

The most important factor is to ensure that pigs can move off farm, to processers and abattoirs. Livestock production, especially in pigs, cannot simply stop. Animals will continue to grow, and as a result it would be very concerning if those pigs cannot move off farm because abattoirs are unable to slaughter them, as has been seen in the USA. This is why abattoirs must be able to stay open as far as possible.

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