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The impacts of COVID-19 on agriculture

Introduction

As with many parts of the Welsh 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

There are around 10,000 dairy farmers in GB, with 1640 in Wales, where dairy represents 30% of Welsh agricultural value output. Of our 1640 dairy farms, NFU Cymru estimates that around 700 of these have been impacted by Covid-19 disruption, with 170 of these severely impacted. This severe disruption includes very significant price cuts, deferred payments or even having to dispose of milk as there is simply no market.

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 and Welsh 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. The addition of surplus milk from the collapse of foodservice demand means that these processors, who normally turn milk into powder are overwhelmed and unable to fully utilise all the milk.

In terms of market share, prior to the loss of the foodservice sector, the market for Welsh liquid milk was a split of around 50:50 between retail liquid milk sales and sales via foodservice outlets. A 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 our 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

Wales does not have a large milk processing sector, and currently we send 55-60% of Welsh milk for processing outside of Wales. The coronavirus pandemic threatens to weaken processors supplying the foodservice sector in particular, which risks the loss of more processing capacity in the longer term. Our concern is that when the foodservice sector is able to open up again, more milk or dairy products may need to be imported.

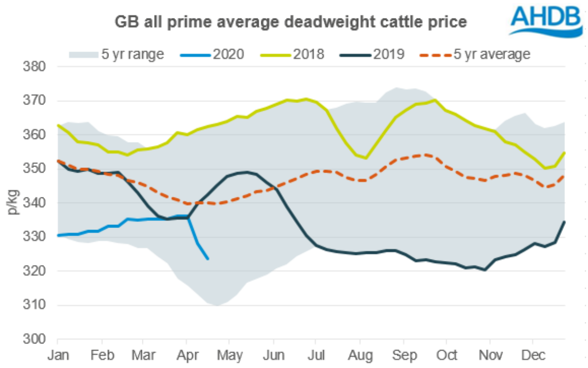
Beef

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.

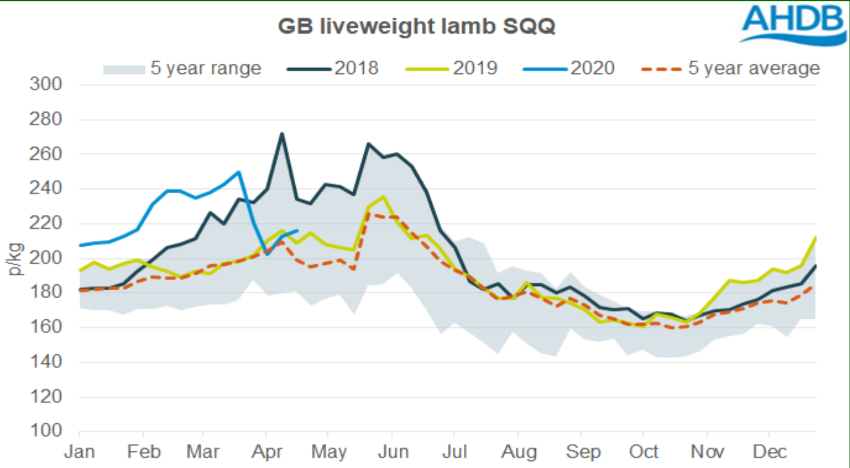


Lamb

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.



Source: AHDB, LAA, IAAS
OSL prices from 1st Jan to 3rd week in May, then NSL prices until December

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 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.

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.

Fresh produce – fruit, vegetables & ornamentals

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.

Much industry effort is being put into trying to recruit workforce domestically. A central online recruitment hub is now live for fruit and veg businesses to advertise their job vacancies for this year's harvest. The site, developed by government and the industry, helps to bring workers and employers together in order to fill vacancies in the sector, which will be essential if the supply of affordable fresh produce is to be maintained.

The ornamental plants industry, pre COVID-19, was preparing for the most important time of year as consumers get back into their gardens after the winter. This point of the year, particularly around Mothers' Day, Easter and the May Bank Holidays is without a doubt the peak sales period and ornamental businesses have much of their working capital tied up in living plant stock with a limited shelf life. 80% of an ornamental plant business's turnover occurs in the March to May period. Ultimately with garden centres and nurseries closed due to the lockdown, much of this stock will have to be destroyed with no recoup of the working capital employed.

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 £1,405m. 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.

Potatoes

Much like dairy, the potato sector is exposed to the loss of foodservice demand. Closure of fish and chip shops and fast food restaurants means a much reduced demand for frying potatoes. These potatoes are grown to a particular specification making them difficult to repurpose into retail. Such stocks have a limited shelf life and risk being destroyed or sold as animal feed at a much lower price. The effects on the market are being felt by more widely even in contracted supply with production orders reducing along with prices too.

Potatoes are general sold to fish and chip shops in 25kg bags of unwashed potatoes, and these growers will rarely, if ever hold a contract, unlike most other potato sectors. While some potatoes are still going to the small number of open fish and chip shops or to local markets, anecdotal figures suggest an immediate drop of between £40 and £100/t for the value of these potatoes.

Poultry meat

Despite good overall demand, the 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 UK 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.

I trust you will find this information useful, if there is anything further I can help with then as always, please do contact me on 07813 670324 or e-mail huw.thomas@nfu.org.uk