

Written evidence submitted by The British Retail Consortium (BRC) (FS0019)

EFRA Select Committee Inquiry on Food Security

1.0 Introduction

- 1.1 The British Retail Consortium (BRC) is the trade association for retailers in the UK. Our members include all the major supermarkets, who between them account for over 90% of grocery sales, and many of the major food to go businesses.
- 1.2 Our members welcome the opportunity to contribute to the Committee's inquiry. Ensuring resilient food supply chains is critical to every food business. They invest heavily in their supply chains, both here in the UK and globally to ensure consumers have access to the high quality, affordable food.
- 1.3 Retailers know how important resilience in their supply chains is to their business and invest in them accordingly. The vast majority of food in those supply chains is produced here in the UK, where working with their farmers and food producers they have most control over production, anticipating and managing challenges. They are also adept at managing interruptions and problems in the supply chain, finding alternative sources where necessary and maximising resources to keep food moving through the supply chain.
- 1.4 As an organisation we work closely with Defra on food security; both in long term planning and providing regular feedback during periods when the supply chain is under strain, such as during covid and the current rise in food prices. Government has an important role to play in UK food chain resilience; sending the correct production signals to farmers, ensuring infrastructure for key inputs and distribution is maintained and supporting retailers and their suppliers when rapid decisions need to be taken on alternative sourcing.
- 1.5 Our detailed responses to the questions posed by the Committee are below

2.0 What are the key factors affecting the resilience of food supply chains and causing disruption and rising food prices – including input costs, labour shortages and global events? What are the consequences for UK businesses and consumers?

- 2.1 The biggest factor is the production and distribution of key commodities, particularly oil and gas but also key crops such as cereals, rice and vegetable proteins. The UK is part of a global supply chain and we are dependent on these commodities to produce and move food, as inputs for animal and food production and to supplement our own production here in the UK. As all these major commodities are traded globally our own production and farmgate prices reflect the global price; so events elsewhere which restrict production and trade, as we have seen in the Ukraine war, will reflect in higher prices not only for imports but also our domestic production.
- 2.2 Its worth stressing the impact is generally seen in pressure on food prices rather than availability; the point on availability was demonstrated as supplies were maintained despite the disruption of Covid. The UK is a rich country and able to compete in the global market for supplies. However, rising prices disproportionality impact the budget and choice of lower income households who spend a much higher proportion of their income on food.
- 2.3 The current war in Ukraine is an unfortunate extreme example of how restricted distribution of commodities can impact on the UK market. There was already a rise in oil and gas price before the war as global trade resumed post covid and demand for energy rose rapidly. That was exacerbated by restrictions of oil and gas from Russia together with key commodities such as cereals, sunflower oil and maize from Ukraine and Russia.

The reduction in supply pushed up prices and the combined impact has been significant on the UK food supply chain. The increase in prices for all these commodities has fed through the supply chain in rapidly rising food price inflation, the highest for over a decade.

- 2.4 The last time we saw similar conditions was in 2008 when a combination of increased demand for oil and agricultural commodities combined with poor harvests led to rapid increases in food prices. The situation was also exacerbated by the actions of some major agricultural producing countries to reduce exports to protect domestic supplies. The Ukraine war has also demonstrated this, although we were heavily reliant on certain crops such as sunflower oil, the wider impact on the global trade of grain also has had a significant impact on prices.
 - 2.5 Global events such as the Ukraine war or droughts in major food producing areas will always impact on the UK. They provide key inputs to our supply chains and will have a big impact on the prices for major commodities. Other events will test the resilience of UK supply chains but with a much smaller impact on consumers. Fuel strikes, covid and bad weather have all impacted on the distribution of food but generally additional resource can overcome the problem and are short lived. Retailers and their suppliers have contingency plans for these types of events and can cope. There is generally only a short term problem for consumers in terms of limited availability of some products.
 - 2.6 The changes in availability also impact on additional costs, such as labelling. Changing the sourcing of ingredients, and having to substitute different ingredients requires labelling changes and costs.
 - 2.7 Whilst global factors are the key factor on resilience and price, domestic production can exacerbate the challenge. One of the smaller factors influencing food prices currently is labour prices. There is a labour shortage in the UK, particularly acute in food production, logistics and distribution. This has driven the market for labour and wages have risen, sharply in some key areas such as HGV drivers. A lack of semi-skilled labour can also mean we are more dependent on imports, whilst not a major concern for resilience as the vast majority of imports for UK food retailers come from the EU, it still leaves food production beyond the UK's direct control.
 - 2.8 Global events leading to problems of availability also creates additional costs of labelling. Changing the sourcing of ingredients, and having to substitute different ingredients requires labelling changes and costs.
 - 2.9 Labelling costs have also increased as retailers have substituted different ingredients to try and control costs. Substituted ingredients, such as oil rather than butter, will be more affordable but will change ingredient listings as well as important information on allergens.
 - 2.10 Retailers and their suppliers are also acutely aware of the increased risk of food fraud in this period of increased costs. Whilst they have increased surveillance and monitoring to address the risk, that has added to costs of compliance.
- 3.0 What is the outlook for UK food price inflation in the short and medium term? What policy interventions should the Government consider to manage these pressures
- 3.1 Food price inflation has risen to its highest level since we began our inflation index in 2005. Prices have continued to surge with their strongest rate of change in inflation since the Global Financial Crisis. (update for relevant month before submission.
 - 3.2 Global Commodity prices have continued to fall through July from a peak on 9 June. They are currently 14.5% lower than the peak (Thomson Reuters/Core Commodity CRB Index). However, markets remain volatile influenced by worldwide events, including the uncertainty about the future of supply chain reliability from China, as well

as the knock-on effects of the Ukraine-Russia war, and so expect further challenges in commodity markets and retail prices.

- 3.3 The lag between input prices and retail prices is roughly 6 months, so we expect to see further continued upward pressure on food retail prices to last until at least the end of the year with stabilisation into Spring. However, the key factor will be whether there is a stabilisation of energy markets which has a direct effect on the cost of operating retail supply chains and thus retail prices.
- 3.4 We expect to see continued fierce competition and innovation from retailers as the economic backdrop continues to be challenging, which will benefit consumers in reducing some of the worst impact of commodity prices.
- 3.5 In the medium term, we expect with the stabilisation of energy and supply chain costs, we will see a return to price deflation that has been the long term trend in food prices.
- 3.6 Whilst accepting there is little the Government can do to influence global commodity markets and prices it could consider domestic factors which are adding to them
- 3.7 The first point would be to address the current labour shortage, particularly seasonal migrant workers. We accept the Government policy to restrict immigration and we also believe advances in efficiency and innovation in areas such as robotics will reduce labour requirements. However, those changes in the supply chain will not be introduced in the short term and we believe the Government should look at appropriate, managed immigration on a time limited basis to reduce labour shortages. We would support expansion of the Seasonal Workers Scheme, but one which is managed through bi-lateral arrangements with source countries with clear accountability for the enforcement of the scheme requirements both in the source country and UK. This will require increased resource from all within the scheme as the permit numbers increase and workers are recruited from wider abroad.
- 3.8 The second intervention would be to pause all but the most important policy and regulatory interventions. We support the Government's drive towards a more sustainable food system and set our own net zero target at 2040. However, major interventions such as an extended producer responsibility (EPR) scheme for packaging will add several billions to the cost of producing food. We believe, where possible, interventions which will add significant costs to the supply chain and could feasibly be paused until inflation falls should be postponed.

4.0 How will the proposals in the Government's food strategy policy paper affect:

- The resilience of food supply chains?
- The agri-food and seafood sectors?
- Access to healthy, nutritious food?

- 4.1 The proposals could help strengthen resilience. In particular the paper addresses the long term security of CO₂ which has been a concern for the last few years, as the major UK producer has signalled it would be ceasing production. However, we are yet to see the long term plan proposed which will be crucial to ensuring security of supply. The paper also suggests more support for farmers to help them with contracts which better hedge against volatile markets for inputs such as fertiliser and animal feed. As with CO₂ this is a welcomed intervention but it will be important to see if it drives change in the farming industry.
- 4.2 As flagged above, one of our key concerns is labour shortages but also the increased risk of exploitation as we fill those gaps. The Strategy paper recognises the problem and the Government has increased available permits for migrant workers this year, although we still believe that will be insufficient to address the problem. We welcome the proposal to

work with industry to support the case to the Migration Advisory Committee for extension of the Shortage Occupation List. However, we remain sceptical there will be a realistic assessment of need that leads to a more constructive policy on immigration to improve supply chain resilience. We share the sentiment in the Strategy that innovation will help reduce dependency on migrant labour, but in the short term we need a more constructive policy that addresses the problem of labour shortages.

- 4.3 In terms of support for agri-food production, it is difficult to determine if this will increase UK food resilience. We have expressed concerns that emerging agricultural policy may not have the correct balance between environmental gains and efficient food production, including a focus on increasing productivity. As the biggest buyers of UK farm produce we believe there needs to be more clarity on the importance of food production alongside environmental policy, which we may get as the Government publishes its Land Use Framework in 2023. Our members, reflecting consumer demand, want food produced to high environmental and animal welfare standards, but that must also be affordable and we remain concerned the Government's agricultural policy is pushing too quickly for even higher standards when the market will not be able to generate the income farmers need to pay for their increased costs in higher prices in our stores.
- 4.4 We believe the Strategy is right to identify opportunities to increase production of horticultural and seafood produce. There is the demand here and it could replace imports to strengthen our control and resilience in the supply chain. It is important, however, that the increased production is comparable, if not improves, on environmental standards for current supplies, particularly in carbon and use of fish food. It also reinforces the current problem of labour shortages; would we be able to expand production in these two industries, both of which are reliant on seasonal, temporary workers.
- 4.5 We don't believe there is a great deal in the Strategy which will affect access to healthy, nutritious food. Supermarkets have pioneered affordable nutritious diets over the last two decades through reformulation to remove fats, sugars and salts supported with clear nutrition labelling and healthier alternatives all designed to help customers make better choices. The support for alternative protein production and manufacture is welcomed to stimulate a growing part of the market which offers opportunities to improve diets and reduce carbon.

5.0 Is the current level and target of food self-sufficiency in England still appropriate?

- 5.1 We agree with the argument that food resilience is the key factor in food security rather than levels of self-sufficiency. We do not have particular concerns regarding the level and ambition of self-sufficiency levels. As the Food Strategy report points out we already produce about three quarters of the food we can grow here in the UK. Also the bulk of our imports come from stable countries with strong links with the UK (80% of retail food imports are from the EU).
- 5.2 However, it is also true increasing sustainable production of food in the UK, will only add to the resilience of our supply chains. Retailers already source over 70% of their food here in the UK, more than other food sectors and Government procurement, demonstrating there is a demand for British food and supply can be grown where food businesses invest in their UK supply chains.
- 5.3 We believe the Government is right to identify sectors such as horticulture and seafood as ones with the potential to increase supply. However, as covered above, that production needs to be sustainable.

6.0 How could the Government's proposed land use strategy for England improve food security? What balance should be struck between land use for food production and other goals – such as environmental benefits?

- 6.1 We believe the Government's land use strategy has the potential to be either beneficial or detrimental to our food security, which is why it is so important to maintain the correct balance in agricultural support between encouraging efficient, sustainable production and delivering improvements in the environment.
- 6.2 We need to remember many of the environmental benefits we have today, particularly in landscapes and the reduction in pollution has been achieved through supporting farmers to improve production whilst still delivering, until very recently, steady deflation in the price of food on our shelves.
- 6.3 There is no doubt farming can do more to tackle environmental challenges, particularly reduction in carbon and green house gases, but it can do that whilst continuing to improve efficiency and production.
- 6.4 Our concern is the importance of food production is lost in the rush to higher environmental standards and appropriate animal welfare standards. Getting the balance between production and increasing standards has to be right. Reducing efficiency and increasing costs of food production will affect our food security. Expecting consumers to pay more for their food for improvements to the environment they fail to appreciate and are unwilling to pay for will mean increased prices cannot be passed back to farmers to compensate for their increased costs. It will also result in greater competition from imports, able to deliver lower prices.
- 6.5 It is vital, therefore, the Government understands the ability and inclination of the market to pay for increased costs for higher environmental standards. There will be some improvements which the market will pay, for example, the drive to net zero will reward those producers who adapt through improved waste management or changed feed regimes, but other less tangible improvements will not translate into added value in our stores.
- 6.6 This is about the pace of change and approach to land management. Consumers expect improvement but they also want affordable food. We believe efficiency, innovation and better land management can deliver both but the Government's policy has to be delivered in a way which works with the market to ensure we maintain our levels of UK production, which we know British consumers expect to see in their supermarkets.

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