

#MARKETPLACE



**FARMING AND
FOODSERVICE:
THE POWER OF
PARTNERSHIPS**

WHAT YOU NEED TO KNOW AT A GLANCE

Matt Jones,
Senior Buyer



Matt Jones,
Senior Buyer

Sandra Kajda,
Fruit Category Buyer



Kasia Charkiewicz,
Dairy Category Buyer



06.



Salads

Whilst European salad growers are predicting a steady start to their seasons, the winter weather is anything but predictable.

08.



Vegetables

UK vegetable growers have struggled with climatic conditions so far this year. Product availability and quality are unlikely to dramatically improve over the winter period, as damage to crops has already been done.

10.



Fruit

Few issues are currently expected for winter fruit imports. . . weather permitting of course.

14.



Dairy

Farmgate milk prices have crept up over recent months, whilst butter and cream prices remain volatile.

IN THIS ISSUE...

04. Still treading water
European Food and Farming Partnerships

10. Ensuring a consistent supply of fruit
Fruit

06. Winter salads from Europe
Salads

12. The power of partnerships
Feature article

08. Come rain or shine
Vegetables

14. Tough times for dairy farmers?
Dairy

FORWARD



Linda Evans,
Sales Director

Reynolds' Sales Director,
*Linda Evans, introduces the
fifteenth edition of **The Marketplace.***

WELCOME

Welcome to the latest edition of **The Marketplace**, Reynolds' 'deep dive' into what is affecting the produce and dairy industries and our view on the season ahead.

Transparency is at the heart of what we do here at Reynolds and one of the reasons why we produce *The Marketplace* twice a year. It's our way of demonstrating to you, our customers and stakeholders, that we have a robust procurement plan in place and that our volumes are secure. The food industry is fraught with challenges and these don't seem to be getting any easier - leaving things to chance is not an option.

A DIFFICULT TIME FOR FARMERS

This year so far, you won't need reminding that British growers have had an incredibly tough time of it with the weather.

Farmers can generally cope with short periods of unseasonable weather, but it is difficult to imagine how the UK climate could have been more variable this year. And, of course, this summer's heatwave has not been confined to just the UK - in fact it's officially been the most difficult summer for European growers in 40 years, so it's even more vital that we continue to work together to produce the food that our consumers demand.

"WE ARE ABLE TO REACT EARLY IN THE EVENT OF ANY LIKELY SHORTAGES, TO ENSURE WE HAVE THAT CONTINGENCY IN PLACE WHEN WE NEED IT."

WORKING TOGETHER

This is why our chosen feature topic for this edition of *The Marketplace*, collaboration, is particularly pertinent. Collaboration is at the heart of what we do here at Reynolds, as we rely on firm commitments from our growers for the season ahead.

We need to know that the crops are grown safely, to the appropriate specifications and that they are going to be available when we need them.

We talk to our suppliers on a daily basis and work together throughout the season to ensure there are no surprises. We have produce experts working on the ground, walking the fields with our growers - not just talking the talk.

STAYING AHEAD OF THE GAME

Importantly, by understanding what is happening at farm level, we are able to react early in the event of any likely shortages, to ensure we have that contingency in place when we need it.

This summer has been a classic example. Working closely with our suppliers has ensured that, despite the reduced yields, smaller sizes and colouration issues seen in the fields and greenhouses, we have been able to maintain supply to our customers. Of course, this means being flexible at times and modifying specifications where appropriate, because supporting our growers is the right thing to do. But, at no time does this mean that our customers receive an inferior product or that food safety is compromised - because we only procure product from known, approved sources, all of whom have the appropriate accreditations.

In an era where supply chains have been all too frequently compromised and food scares hit the headlines, we are proud that our customers know that our produce and dairy products are all produced safely, and are fully traceable back to the farm. Our supply chain is very simple, with much of what we provide grown in the UK.

INSIGHT, PREDICTIONS AND ANALYSIS FROM THE TEAM AT REYNOLDS.

BREXIT

As we approach Brexit, we know that there is little else on the minds of our farmers. Nobody yet knows what Brexit might look like. Future regulation, agricultural policy, customs and tariffs - all of these things are still uncertain as we approach 29th March.

This makes future planning tricky but what we can do is understand, as best as we can, what the potential threats and opportunities are at each stage of the chain and work with suppliers and customers alike to mitigate any risks.

In particular, the fall in seasonal migrant labour has already become a huge challenge for UK farmers, especially for those growers producing the more labour-intensive crops such as berries and hard salads. Whilst there are no easy solutions, we will continue to support farmers to help them come through these tricky times.

CROP UTILISATION

When it comes to our customers, by better understanding their needs we aim to use a greater percentage of our growers' crops, which means we can deliver better value for everyone.

Whilst the retail industry only seems to have recently woken up to the benefits of using 'wonky veg', at Reynolds we have been supplying imperfect produce for many years. Using the right products for the right job makes great business sense.

And we don't stop there. There continues to be a healthy pipeline of new and innovative products being developed in the field, which will only ever be a success if we continue working collaboratively, with our suppliers and customers alike.

If you are interested in accompanying our team in the fields, to see what's new, please let us know - we'd be delighted to share!

I hope you enjoy this edition of *The Marketplace*.

STILL TREADING WATER

Siôn Roberts,
Senior Partner



EFFP ■■■

European Food and Farming Partnerships is a specialist agri-food business consultancy, working along the whole supply chain. It combines farming knowledge with food industry expertise to address structural, commercial, operational and relationship issues across the industry, from an objective and independent standpoint.

www.effp.com

AGE OF WISDOM, AGE OF FOOLISHNESS

“It was the best of times, it was the worst of time, it was the age of wisdom, it was the age of foolishness” starts A Tale of Two Cities – the famous Charles Dickens historical novel set in the time of the French Revolution. And, whilst we might not be quite at the revolution stage in the UK, these words would seem a fair summary of how we find ourselves with just six months to go until Brexit becomes a reality.

In my last article I wrote of how there was lots of posturing within government but no real progress on negotiations with the EU. Here we are, six months later, and the uncertainty remains. Worryingly, virtually nothing has changed. In March I talked about growing uncertainty in agriculture, Brexit and the wider economy, and this remains the case. If anything, the situation is getting more unstable as we move closer to March 2019, without any apparent idea of the shape of Brexit and there remains just a short window of time for a deal to be done if we are

to avoid the cliff edge of a no deal departure. Of course, what compounds this is that our own politicians can't agree. UK politics is as fractured as ever and the result is that not one political party seems capable of finding a solution that would get sufficient support to be voted through parliament, let alone be agreed by the EU negotiators.

For starters, the Tory party is splintered. Some still don't believe in Brexit at all, some seem to be pushing for a hard Brexit, whilst the cabinet's so-called 'Chequers' plan seems to be criticised by all, in that it would appear to offer no real benefits and all the negatives – cost and loss of control.

Meanwhile, the Labour party is in turmoil over accusations of anti-Semitism as well as a host of other issues, which mean they offer no real robust opposition to the government.

If it wasn't so serious, it would be funny. Two years ago, it was joked that our one country would quickly establish a coherent position on Brexit and it would be the other 27 EU member states that would spend the two years in turmoil trying to agree a stance. Instead, the reverse has been true – the EU has remained steadfast behind Barnier, whilst the UK government took 18 months to 'agree' the Chequers position, with two prominent cabinet ministers then immediately resigning because, in fact, they didn't agree with it at all.

ECONOMIC CONCERNS

Putting Brexit to one side for a moment, other factors also present challenges.

The economy remains sluggish, growing at around 1.3%, with subdued consumer spending and inflation above wage growth. The wider global economy is strong, resulting in a weaker £ and this has helped support inbound tourism and exports, but this hasn't been enough to drive the economy forward. Of concern is the fact that the EU and some emerging market economies appear to be slowing. EU countries such as Italy are causing economic concern, whilst rising interest rates and a strong US\$ is putting a squeeze on emerging markets as they tend to borrow in US\$.

In contrast, the US economy appears to be currently firing on all cylinders boosted by the significant tax cutting package introduced by Trump earlier in the year. But the US position on trade, which is creating global trade tension, could over time derail the global economy if it results in the introduction of significant tariffs across a wide range of products.

Alternative trade outcomes for farming

Now in Stage 2 negotiations

Parliament rejects stage 2 deal

UK remains in EU

Alternatives post transition:
2021 or later. In all cases the UK would control its own agricultural policy

Remain in single market but leave customs union:
Norwegian option. Trade outcome similar to WTO

During transition UK remains in single market and customs union
No change in trading relationships

Remain in customs union but leave single market:
Turkey option. Non-tariff barriers and customs checks

Failure to agree stage 2 deal but parliament accepts position
These outcomes could significantly influence farmgate prices

WTO regime
UK would seek FTAs in following years

Canada (+?) free trade deal ie, leave both single market and customs union: Non-tariff barriers and customs checks

Short-term chaos but higher farm prices
Tariffs and non-tariff barriers

Government unilaterally removes agricultural tariffs to lower farm prices
No tariffs on imports but tariffs and non-tariff barriers on exports

The economy remains sluggish,
growing at around

1.3%

with subdued consumer spending
and inflation above wage growth.

IT CERTAINLY IS THE AGE OF
FOOLISHNESS – LET'S JUST HOPE
THAT, FOR SOMEONE AT LEAST, IT
CAN ALSO BE THE AGE OF WISDOM
BEFORE IT IS TOO LATE.

HIGHS AND LOWS

When it comes to the agri-food sector, commodity prices were rising in the first quarter of 2018 but fell back as we moved into the summer.

Sugar prices, for example, fell sharply whilst meat prices have softened, and vegetable oils have fallen sharply. Global cereal stocks remain high following a reasonable US harvest, and so prices that were rocketing up in the early summer, in anticipation of drought-affected supply challenges, are now trending down as it emerges that harvest was ok.

Overall then, there is a general weakness in global agri and food commodities which, whilst not dramatic, is, nonetheless, the backdrop to our current position.

The warm summer did help UK food consumption though, with higher sales of alcohol and soft drinks due to the football and the hot weather. UK grocery retailers are seeing year on year growth of around 3.5%, with the discounters still expanding aggressively, and we still have grocery price inflation, although this is falling back.

PREDICTING THE UNPREDICTABLE

Back to Brexit for a moment then and what might happen. At this stage, the options seem to be narrowing. We could remain in the EU. It is a real possibility that the government cannot get a deal that will be voted through parliament and the EU, which would result in either a general election or a new referendum.

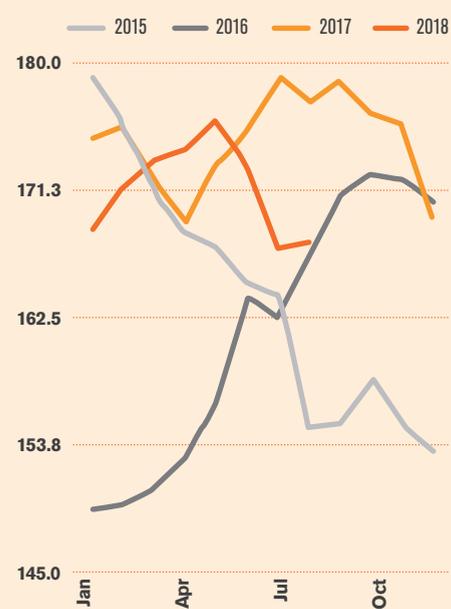
Alternatively, if they get a deal, the chances seem strong that it will either look like a Canada deal or a Norway deal, with each offering different levels of alignment with the EU. Of course, the final option is that we simply crash out of the EU in March, like a drunk leaving a party, with nothing but a sour taste in our mouths and a headache to look forward to.

A last-minute fudge seems highly probable. That could be agreeing to leave the EU and handing over the divorce money without having an agreed approach to a trade deal in place, with negotiations on the latter continuing throughout the transition period. This situation could leave us exposed as particularly weak negotiators. That said Labour might not support such an approach and if the deal can't get through Parliament then again an election or repeat referendum could result.

In summary, the situation currently remains on tender hooks. As was the case six months ago, the growth in the global economy is quietly starting to slow, with emerging markets and the EU having a wobble and the UK not faring much better. Whilst the USA is currently doing well, rising interest rates and potential trade wars may well bring that to an end. On top of all that, there is a small, but real, threat of massive disruption in the months ahead, with plenty of doom mongers suggesting total economic turmoil, from the CEO of Jaguar Land Rover predicting serious consequences for British manufacturing to Bank of England Governor, Mark Carney suggesting that house prices could fall 35 per cent. The likelihood seems to be growing that whatever happens, the government will have to go back to the country to resolve the mess that has become Brexit.

What this means for agri-food businesses is hard to predict – how can you predict the unpredictable? Strategic planning is critical, however, especially for businesses involved in importing and exporting significant quantities of food products. Decisions will have to be made in light of information as it becomes available and this presents a massive challenge for many businesses in the months ahead. To quote Mr Dickens, it certainly is the age of foolishness – let's just hope that, for someone at least, it can also be the age of wisdom before it is too late.

Global Agricultural Commodity Prices Source: FAO



Index 2002 - 2004 = 100

ARTICLE FOCUS

WHAT NEXT FOR THE AGRICULTURE BILL?

Another uncertainty on the horizon is the recently published Agriculture Bill and what that will do in terms of industry impact. Gove set out his vision in the Health and Harmony consultation and, after 43,000 respondents, he has, finally, published the outline of future legislation.

Details remain scant at this stage, but the ramping up of environmental payments and the principle of public money for public good would seem to be engrained deep within the thinking at Defra.

What is clear in the documents published thus far is that there appears to be very little focus on food

productivity and competitiveness and the question remains whether that is the right focus moving forward?

There are strong arguments that food security and availability should be at the core of future policy. After all, the issue of malnutrition continues across the globe, and not only in developing and emerging markets. There are an estimated 815m people suffering from malnutrition in the world today and so there remains a moral and political imperative to ensure that any support provides for improvements in technical efficiency as well as protection of the environment and provision of public good. Global agriculture needs to produce 50 per cent more food in the next 30 years in order to feed a growing population and, as a rich and fertile country with advanced agricultural practices, surely we must ensure we play our part in providing adequate, safe food for all.

WINTER SALADS FROM EUROPE

Matt Jones, Senior Buyer, talks through the challenges which lie ahead as we approach the shoulders of the salad seasons.

HARD SALADS

The unseasonably warm temperatures seen across Europe, including the UK, Poland, Germany, Belgium and Holland, initially accelerated the ripening of hard salads this summer.

However, while tomato, cucumber and pepper plants can tolerate more extreme temperatures for short periods, during sustained periods of outside temperatures of 30°C and above, glasshouses became too hot to grow salad crops. When internal glasshouse temperatures exceed 50°C, plants become dormant. Although it is possible to put heat into a glasshouse via artificial light, reducing temperatures is virtually impossible.

Throughout much of the summer, vine tomatoes were ripening unevenly, such that on a vine, two reach perfect ripeness, two overripen and one stays green. This means that trusses were being cut short and yields significantly reduced, despite the speed of plant growth.

Even worse, the hot temperatures burn the set flowers which would otherwise turn into fruit, which is known as blossom drop. While the plants can tolerate more extreme temperatures for short periods, several days or nights with temperatures outside the ideal range will cause the plant to abort fruit set and focus on survival. According to the University of Nevada Cooperative Extension, temperatures over 104°F sustained for four hours can cause tomato flowers to abort.

Consequently, at times during the summer period, cucumber, tomato, pepper and aubergine yields were reduced by up to 50%. Market shortages were compounded, as the hot weather also boosted demand for hard salads, in favour of root vegetables and brassica crops.

With very little capacity elsewhere across Europe due to the widespread hot conditions, maintaining consistent quality and availability has been very difficult. Market prices, especially for cucumbers, have been very high.

As we near the end of the Dutch and UK hard salad seasons, plants are stressed, have very little energy left and yields are falling still. A premature end to the season is inevitable and Reynolds has been procuring early season Spanish hard salads, mainly cucumbers, since early September. This step is a highly unusual one for the time of year, but necessary in order to maintain availability.

Looking forward to the winter season in Spain, reports suggest that the heat has impacted on the pollination levels of hard salad plants. At high temperatures, the foraging levels of bees can decrease, especially in the centre of the greenhouse which tends to be the hottest point. As a result, hard salad yields will be impacted during the start of the season, with higher instances of misshapen fruit very likely.

"WHEN INTERNAL GLASSHOUSE TEMPERATURES EXCEED 50°C, PLANTS BECOME DORMANT, CEASING TO GROW."



However, with no other major issues to note, Spanish growers will be hopeful of a favourable season ahead.

Morocco will continue to provide a proportion of our winter programme this year, especially for round tomatoes where the country is the dominant player; other tomato producing nations tend to be more focused on speciality varieties, such as baby plum or cherry varieties. However, as reported in the last edition of *The Marketplace*, supply from this country is becoming somewhat unreliable.

At the start of last winter, growers were harvesting crops up to three weeks early, to maximise market share and fulfil their reportedly over-contracted supply commitments. Spain, Italy and the Canary Islands offer credible options for round tomato supply, albeit at a price. The likes of Turkey, Israel, Tunisia and Egypt also provide limited opportunities for supply and Reynolds is exploring avenues in all areas possible to ensure continuity of supply, at competitive prices, especially as we approach Brexit.

"REYNOLDS IS EXPLORING AVENUES IN ALL AREAS POSSIBLE TO ENSURE CONTINUITY OF SUPPLY, AT COMPETITIVE PRICES, ESPECIALLY AS WE APPROACH BREXIT."

LETTUCE AND BABY LEAF

UK lettuce growers have also struggled to maintain supply this summer as, when temperatures reach 30°C, lettuces become stressed and stop growing. Whilst growers have been irrigating where they can, crops have suffered from major quality issues including bolting, internal and external breakdown and rots. Yields of Iceberg, Cos, Romaine and Little Gem have been significantly lower than have been programmed and product specifications have been relaxed at times to avoid shortages and to support our growers.

Whilst Reynolds has growers spread across the UK, including in Lancashire, Yorkshire, Cheshire, Shropshire, Lincolnshire, Cambridgeshire, Hampshire, West Sussex, Suffolk and Essex, crop issues were seen across all locations. As with hard salads, the lengthy period of hot weather also boosted demand for leaf, which only compounded the short supply situation. According to the British Leafy Salad Association (BLSA), sales at times were trending around 40% higher than last year.

The high demand, combined with difficult ground conditions, low water levels and extreme pest pressure mean that growers have been chasing crops from July onwards and the UK leaf season will finish prematurely.

The British Leafy Salads Association has warned that the conditions will remain difficult for growers for the rest of the year and that the more seasonal weather of late will do little to resurrect the UK's lettuce crop. A BLSA spokesperson said: "The last crops of the season were planted in tricky conditions when the mercury was around the 30-degree mark. The crop coming to maturity now is still quite small and there are still some imports coming into

In 2016 the UK was just

36.5%

self-sufficient in fresh produce,
a 2% reduction on 2015.

**WHILST EUROPEAN SALAD
GROWERS ARE PREDICTING A
STEADY START TO THEIR SEASONS,
THE WINTER WEATHER IS
ANYTHING BUT PREDICTABLE.**

the UK. There won't be a return to business as usual until the start of the Spanish season in October. That will, as always, depend on the weather in Spain."

Anticipating these issues towards the end of the UK season, our European growers have planted earlier to ensure we are able to satisfy our customer commitments as best we can. However, brief periods of shortages may occur through October.

As already reported, the sustained heatwave was not confined to the UK this summer, with the majority of Europe experiencing unseasonable temperatures. Spain was certainly no exception to this, although the areas of Murcia and Almeria, where the majority of leafy salads are grown, has not been quite as hot as other parts of the country.

However, rain in the area has been minimal and ground conditions remain very dry. Almeria, home to Europe's only semi desert, barely has around 130 mm of rain a year, whilst Murcia has less than 350mm each year. Given the pressure that Spanish growers are still under from their own water restrictions, prices are very likely to remain high for the rest of the year and possibly beyond.

Of course, the last two Spanish salad seasons have been extremely challenging, especially that of 2016/2017. For short periods of time, the UK has needed to rely on lettuce from as far afield as the US. Growers are hopeful that this will not be the case during the season to come, but nothing is certain. To protect against extreme weather conditions, Reynolds has a particularly broad supply base this year, which will offer greater protection against frost in Spain during the early part of the calendar year.

In early September, fresh outbreaks of the disease Fusarium Wilt were reported in lettuce crops grown in Lancashire, Cambridgeshire and Ireland. The Agriculture and Horticulture Development Board (AHDB) has confirmed that the disease has been spreading, with all cases found in crops grown in greenhouses. Whilst several industry bodies are working hard to find solutions to control this soil-borne disease, growers are especially concerned as to the implications for the UK lettuce industry. In the short term, growers are particularly concerned about the prognosis for round lettuces, which are grown in the UK during the winter months.

**"SALES AT TIMES WERE
TRENDING AROUND
40% HIGHER
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ISSUE FOCUS - BREXIT



**"IF NEGOTIATIONS ARE
SUCCESSFUL, BOTH THE EU
AND THE UK THEN STILL NEED
ENOUGH TIME TO RATIFY THE
AGREEMENT BEFORE THE
OFFICIAL DATE OF BREXIT,
ON 29TH MARCH 2019."**

NOTHING IS AGREED UNTIL EVERYTHING IS AGREED

According to the Department for Environment, Food and Rural Affairs (DEFRA), in 2016 the UK was only 36.5% self-sufficient in fresh produce, a 2% reduction on 2015. The EU is a critical provider of produce to the UK, providing around 40% of our fruit imports and almost 80% of vegetable and salad imports. Spain and the Netherlands alone provide around half of all imported vegetables and salads to the UK, which includes a large proportion of our salad consumption.

Figures reported by The Spanish Federation of Associations of Producers suggest that uncertainty created by Brexit, combined with the devaluation of the pound, caused Spanish fruit and vegetable exports to the UK to fall by 4% in volume and 3% in value over 2017. The negative trend has continued for the first half of 2018, with Spanish exports decreasing by 2% in volume compared to the same period the year previous.

With negotiations still ongoing between the UK government and the EU, the shape of Brexit remains unclear. A transition deal has been agreed in principle which, in simple terms, places an extension on current arrangements to January 2021, including trade, customs and movement of people. However this is conditional and

'nothing is agreed until everything is agreed'. In short, a 'no deal' scenario still appears a distinct possibility.

Before the end of this year, agreements must still be made around future UK/EU relations and how to avoid having a physical Northern Ireland border. If negotiations are successful, both the EU and the UK then still need enough time to ratify the agreement before the official date of Brexit, on 29th March 2019.

Leaving the EU with no deal in place on 29th March would mean that the UK defaults to the rules of the World Trade Organisation (WTO). This is very likely to mean that the current free trade deal with the EU will expire and that WTO 'Most Favoured Nations' tariffs will apply to all imports coming into the UK, from both the EU and outside. For fruit and vegetables currently sourced from the EU, these tariffs average 3.1% for fruit and 4.0% for vegetables – however, some are significantly higher. In addition, as the UK will no longer be a member of the EU, we will no longer be able to benefit from any trade deals the EU has negotiated with other third-party countries.

In the event of 'no deal', the UK will also leave the customs union, which has the potential to result in huge disruption at borders and could (according to some parties) lead to the UK government needing to take emergency action to maintain supply and price equilibrium for consumers.

Reynolds has been taking every step possible to ensure continuity of supply for its customers, at commercially viable prices, in the event of there being 'no deal'.

COME RAIN OR SHINE

Matt Jones, Senior Buyer, explains how unseasonable weather conditions continue to impact vegetable supplies in the UK.

POTATOES

Potato plantings were initially delayed this winter by approximately three weeks, due to the snow and cold temperatures throughout the UK. According to AHDB, initial estimates suggest that some 3% fewer potatoes were planted this year compared to last, which would be the third-lowest planted on record.

At the time of planting, with plenty of potato crops in storage, there were few industry concerns regarding the season to follow. However, the hot and dry conditions seen through June and July in the UK were far from ideal for potato farmers. Potato tuber development declines with soil temperatures above 20°C and practically stops above 26°C.

Additionally, farmers often find it very difficult to provide sufficient irrigation given the size of the fields. According to AHDB, in 2017 the percentage of the GB planted area which was available to be irrigated stood at only 48.8%, noting that the ability to irrigate might not necessarily transpire to actual irrigation. Often, irrigation is only favoured towards crops destined for storage, or premium lines which will command the best prices.

Despite the return to more 'normal' weather conditions in August, the rain came too late for many growers, with crops unable to reach anywhere near their full potential before needing to be harvested. In fact, excessive rain experienced late in the growing season is likely to create more defects, including growth cracks, common scab and hollow heart. Some crops will even start to 'chit' (sprout) in the ground, which severely limits their use and rules them out for storage.

We are undoubtedly looking at a poor season ahead for domestic potatoes. Yields will be down year-on-year, sizes will be smaller and defects will be higher. Our growers estimate that yields from Scottish crops will be 5% down on last year, with English crops reduced by up to 30%.

Larger bakers (30s, 40s and 50s) and jumbo potatoes will be in especially short supply this season. In addition, higher instances of skin diseases, such as silver scurf, will inevitably make potatoes less aesthetically pleasing. King Edward will be a very problematic variety this season, with low yields and small sizes, combined with heavy scab and misshapes. Scab levels in the Maris Piper crop will also be particularly high.

The quality of crops destined for storage are of particular concern, which will mean very difficult supply conditions as we move through stored crops in 2019. Higher levels of dry matters are also reported across all varieties, so extra care will need to be taken during the harvesting, washing and packing processes to prevent bruising.

Ordinarily, the UK is more than 95% self-sufficient in fresh potatoes and in the region of 50% self-sufficient in processed potatoes. However, the UK's self-sufficiency rate will certainly be lower this season, whilst harvests elsewhere in Europe are unlikely to be particularly favourable.

ROOTS

As reported in the spring 2018 edition of *The Marketplace*, the UK has relied on imported carrots for a longer period than usual this year due to the poor quality stored crop, combined with delayed plantings this winter. Most growers were four to six weeks late de-stoning and drilling this spring, due to very wet weather conditions.

Over the summer, crop growth has been severely affected by the lack of rain and the extreme temperatures. In the Nottingham area alone, where much of the UK carrot crop is grown, only 19.4mm of rain was recorded this June, compared to 121mm of rainfall last year. Irrigation has been running at full capacity, such that licences were used up quickly. It has been reported that some growers have used 120% more water this year than an average year.

Water aside, root vegetables prefer a more temperate climate than we have seen this summer, with plants shutting down at temperatures above approximately 23/24°C. The weeks of dormancy have severely restricted development.

The UK is usually up to 97% self-sufficient in carrot production but Roger Hobson, Chairman of The British Carrot Growers Association, has predicted this year's carrot yield will be around 30% smaller than last season, with the shortages most acute between February and April next year.

With larger carrot sizes expected to be scarce, particularly those in excess of 40mm, inflation on further processed items such as baton carrots is also inevitable. While imports will be an option, northern Europe has also suffered from similar weather conditions and carrots are not plentiful there either. In addition, whilst the value of the pound remains historically low, UK growers are able to capitalise on the export market.

Straw prices are also very high, which will add cost to production over the winter period, when both carrots and parsnips are covered to protect them from frost. The condition of these root vegetables destined for later harvest is broadly unknown. Meanwhile, the UK swede crop is thought to have fared well this season.

Reynolds has already reduced tolerances around sizing to support root vegetable growers this year where possible.

ALLIUMS

The summer has been very difficult for onions this year. As we moved through stored onions from last season, the hot weather was creating premature shooting and reduced shelf life. Market prices have been high throughout.

Looking forward to the new season harvest, 4% less plantings were originally made than in 2017, predominantly due to the wet weather delaying proceedings by up to six weeks. Growers were hopeful of some fair weather conditions to compensate for the delays, but this never materialised.

Experts report that bulb sizes this season will be significantly undersized and yields very low due to the considerable stress placed on plants by the heat. According to British Onions Chairman, Tim Elcombe, this year's British onion harvest is likely to be 25% down both in terms of the quantity of onions and the size of the onions harvested. Some growers are predicting their yields to be even lower than this figure, although much will depend on location.

Tim said back at the end of July: "The warm weather in May was welcome, allowing the onions to catch up following the late drilling and planting which resulted from the wet spring. However, the hot weather we have experienced in June and July has put the onion crop under considerable stress, affecting both yield and bulb size."

Normally Dutch growers expect around 60% of their harvest to reach sizes of above 60mm, but reports suggest that only around 25% of crops will achieve these sizes. In short, larger onions will be extremely short in supply and high in price for the season ahead. As the UK is only around 50% self-sufficient in onion supply, the country will be more reliant on imports this season.

"LARGE ONIONS, POTATOES, AND CARROTS WILL BE VERY SCARCE THROUGHOUT THE WINTER PERIOD."



It has been reported that some UK root vegetable growers have used

120%

more water this year than an average year.

UK VEGETABLE GROWERS HAVE STRUGGLED WITH CLIMATIC CONDITIONS SO FAR THIS YEAR. PRODUCT AVAILABILITY AND QUALITY ARE UNLIKELY TO DRAMATICALLY IMPROVE OVER THE WINTER PERIOD, AS DAMAGE TO CROPS HAS ALREADY BEEN DONE.

BRASSICAS

With brassica crops becoming stressed and refusing to grow at temperatures above 25°C, weather conditions over this summer have been far from perfect. Broccoli and cauliflower florets have suffered from burning and flowering, leaving many hectares unharvestable. Cabbages have struggled to gain weight due to the extreme temperatures and pest pressure has been extremely high across all brassica crops.

Both white and red cabbages have failed to make their usual target weights this season. Processors will be taking smaller sizes, normally used in retail and catering, which will impact availability and price.

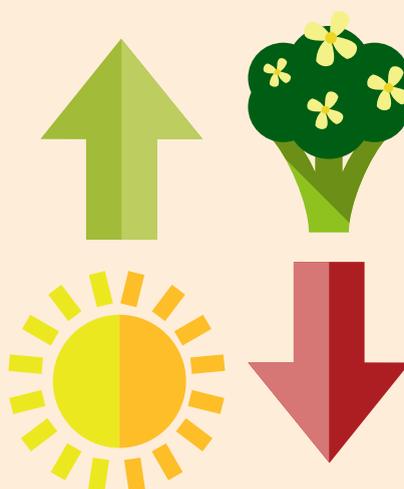
Spokesman for the Brassica Growers Association, Jack Ward has said: "The 2018 season has been one of the most challenging in recent years... Growers have incurred substantial additional costs which they will need to recover through higher prices to ensure growers can continue to invest in this important sector."

Looking ahead, with autumn and winter UK cabbages, spring greens, kale, leeks and cauliflowers already in the ground, the weather will ultimately determine the outcome of these harvests. Although drip irrigation can support the plant for the first few weeks of its life, the longer-term outcome is uncertain at best and very weather dependent. Growers report that the very high temperatures burnt off a high percentage of plants that were planted in early to mid-August and future volumes are expected to be down compared with the five-year average.

Supplies of UK broccoli are now thin on the ground and, as usual, Spain will provide the main source of broccoli from November onwards. However, early season crops are suffering from mildew due to the hot and wet temperatures in Spain. Spain will also serve as the main non-domestic source of supply for other brassica crops throughout the winter period, including cauliflower and cabbages, should UK supply not be available.

Regarding Brussels sprouts, many UK farmers delayed the planting of crops this year due to the hot and dry conditions. With sprout harvesting particularly time sensitive, due to the large spike in demand over the Christmas period, farmers will now be maintaining a watchful eye on the weather. Elsewhere, Holland provides the UK with a large amount of sprouts during the winter period. Here, weather conditions have been similar to the UK this summer and both yields and sizes are expected to be small.

ARTICLE FOCUS



"THE PRODUCTION VOLUME IN MANY VEGETABLE PRODUCTION AREAS DROPPED SHARPLY AS A RESULT OF CONSTANT HIGH TEMPERATURES AND DRY WEATHER."

THE WEATHER AT HOME AND ABROAD

It is difficult to imagine how the UK climate could have been more variable this year. January saw the arrival of Storm Eleanor which brought strong winds and flooding to parts of the country. During February and March, we experienced a sustained period of freezing temperatures and widespread snow (The Beast from the East) which caused much disruption to the farming community and industry in general. During April, many farmers had to contend with large amounts of rainfall and flooding which delayed the planting of crops, whilst in May the weather was fairly changeable. Unseasonable conditions across the whole of the UK throughout June and July contributed to what was reported as one of the hottest and driest summers since records began.

Towards the end of July, Guy Smith, deputy president of the National Farmers' Union (NFU) commented that farmers' reservoirs were being depleted and that the sustained heatwave was causing crops to be "parched to the bone".

The summer heatwave has also been seen across the rest of Europe, with the European Association for Fruit and Vegetable Growers reporting: "The production volume in many vegetable production areas dropped sharply as a result of constant high temperatures and dry weather. Farmers and vegetable producers face one of the worst crises in the last 40 years."

The Association went on to report that France, the Netherlands, Germany, England, Hungary, and Poland had suffered the most. Data shared by the Association shows that 2018 is the third consecutive year in which the European fruit and vegetable industry had faced weather-related difficulties.

ENSURING A CONSISTENT SUPPLY OF FRUIT

Sandra Kajda, Category Buyer, looks forward to the winter period ahead.

TOP FRUIT

Generally favourable growing conditions across the continent mean that the European top fruit crop has recovered this year, following a depleted season last year which delivered the lowest crop in a decade due to frosts during the blossoming stage.

Warm conditions over the blossoming and fruit setting period have resulted in top fruit harvests being generally two weeks earlier than the average, which is welcome given that stocks of Southern Hemisphere fruit have been limited approaching the autumn.

This August, The World Apple and Pear Association (WAPA) reported that for the 2018/2019 season, EU apple production is estimated at 12.6 million metric tons, a 36% increase over last year and a 3% rise above the 2014 to 2016 average. Meanwhile, the pear crop is predicted to reach around 2.3 million metric tons, a 4% increase on last year's harvest.

WAPA reports that, of the three largest producing nations in the EU, average apple crops are expected in Italy and France, whilst Poland is expected to produce a very strong crop of around 4.5 million metric tons, one that is 23% larger than the average of the past three years and 56% larger than in 2017.

However, the industry body warns a 'revision downwards of some of the figures' is expected due to the drought and heatwave in Europe. WAPA has also reinforced that the volume of apples suitable for fresh consumption is also estimated to be slightly lower than average, due to the drought affecting skin finish. Consequently, a higher percentage of the product will end up in the processing industry. Larger sized fruit will certainly be more difficult to secure at competitive prices.

Golden Delicious will remain by far the largest apple variety harvested in the EU, with an estimated production of 2.3 million metric tons, some 23% higher than last year and 3% higher than the average for 2015 to 2017. Furthermore, Gala volumes could increase by 15% on 2017 to 1.46 million tonnes.

China, the largest apple producer in the world, expects a 30% smaller apple harvest than last year due to frosts, which may open up opportunities for exports. Meanwhile, increased tariffs between the US and other countries, including China and Mexico, could also create more demand for European apples.

According to trade body English Apples & Pears, prolonged sunshine at the right stage in the season looks set to produce 'brilliant flavour' on the UK apple crop this year. However, storage capabilities of the fruit could be an issue due to the lack of water during the summer period.

GRAPES

There are no major concerns as we move towards the end of the European grape harvest, with most countries having started harvests later than usual. The extreme heat does not seem to have damaged the crops in any way and a plentiful supply is available from Spain, Greece, Italy and Portugal.

As the Northern Hemisphere season draws to a close, we initially turn to Brazil and Peru for the provision of grapes. Peru is expecting a particularly good harvest, with potential for record export levels. Unofficial estimates made by the Peruvian Table Grape Producers Association suggest a likely increase of around 36% on the 2017/2018 season.

As usual, South Africa will be a major supplier of grapes to the UK this winter, with fruit expected to arrive into Europe from November.

The South African table grape industry body, SATI, doesn't release its first crop estimate for the 2018/2019 season until the second half of October. However, the association suggests that good levels of rain over the winter period have helped relieve drought conditions over the Western Cape and conditions point towards "much better and near normal conditions for the coming season."

However, a spokesperson from the association added that the final situation will depend "on a few critical factors such as favourable weather conditions before and during harvest, the availability of sufficient irrigation water, as well as the ability of producers and other stakeholders to optimise their systems to handle a bigger crop."

The South African Rand remains volatile, as does the country's political climate.

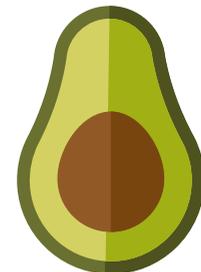
Chile begins exporting to the UK from February, with Indian volumes likely to build just afterwards. It is too early to accurately predict how successful harvests will pan out in these countries.

AVOCADOS

With the Israeli season finishing prematurely this year, there was an early reliance on Peruvian fruit, which was a major challenge as early season fruit struggles to ripen due to the low oil content and high levels of dry matter.

Fortunately, supply conditions improved over the summer period, with good harvests seen in both South Africa and Kenya, combining with improved fruit quality from Peru. However, as we near the end of their export seasons,

"EUROPE IS ONE OF THE FASTEST GROWING MARKETS FOR AVOCADOS AND IS ALREADY THE SECOND LARGEST IMPORT MARKET FOR THE FRUIT."



October is traditionally the start of one of the two most difficult periods of the year for avocado supply.

This year is unlikely to be an exception as we balance the shoulders of different seasons across the globe, although indications suggest that Chilean new season supply looks to be favourable. The Chilean Fresh Fruit Association are expecting a small year-on-year increase, as well as a longer season. This is welcome news, following earlier reports of frost and low temperatures which were thought to have damaged some fruit and limited potential production levels in the country. Expectations are that volumes of fruit should start arriving in the UK from early to mid-October, with up to 100,000 tonnes of their estimated 245,000 tonnes destined for the EU.

As we move closer towards the new year, Israel will pick up much of the supply to the UK market from December, with Spanish fruit arriving around January. Columbia and Morocco will also provide important roles in ensuring we

China, the largest apple producer in the world, expects a

30%

smaller apple harvest than last year.

FEW ISSUES ARE CURRENTLY EXPECTED FOR WINTER FRUIT IMPORTS... WEATHER PERMITTING OF COURSE

are able to offer a consistent supply of good quality fruit. Whilst Mexico does not traditionally provide the UK with large volumes of fruit over the winter period, it can provide important contingency should it be required. The country is by far the largest grower of avocados in the world, supplying around 45% of the international avocado market.

Both Spain and Israel are forecasting record seasons, albeit Israel is forecasting a notably large green-skin crop. Globally (excluding Mexico) winter volumes are expected to be in the region 12 to 15% above last season's volumes, but this extra capacity should be easily absorbed by the growth in global consumption.

Europe is one of the fastest growing markets for avocados and is already the second largest import market for the fruit. The World Avocado Organization (WAO) expects a further consumption increase of 15% annually for the next five years. Elsewhere, Chinese consumption of avocados continues to grow at pace. By June this year, Mexico had shipped 7% more avocados to China than in the whole of 2017.

CITRUS

The Spanish Verna lemon crop was very short this year, with a reduction on the 2016/2017 season of around 40%. This meant there was an earlier reliance on fruit from the Southern Hemisphere.

As we look towards Spanish new crop, harvesting of the Fino variety will begin in September, with volumes becoming available for export to the UK from early October. Initial forecasts released towards the end of July by Spanish trade association, The Asociacion Interprofesional de Limon y Pomelo (AILIMPO) suggest the forthcoming Fino crop is looking favourable, with an estimated total yield of 920,000 tonnes. This figure would amount to a year-on-year increase of 14%.

Meanwhile, preliminary forecasts for the Verna variety, which is generally harvested from April, point to a potential output of 380,000 tonnes. This could result in a significant increase of 90% compared to last year's very low harvest, or an increase of 38% compared to the average harvest for the past two seasons.

If AILIMPO's estimates prove to be accurate, the total Spanish lemon harvest would exceed last year by 29% and the last two season average by 20%. The organisation attributes the expected strong harvest to a combination of factors, not least the additional investment made in new plantations, combined with good weather conditions at the flowering stage which promotes more fruit per tree.

Of course, much can change over the coming months, although weather conditions since AILIMPO's initial forecast

have been broadly favourable, aside from some localised hailstorms in the Valencia region during late June and early July.

As ever, Brazil is expected to provide the bulk of lime supply to the UK throughout the next six months or so. In contrast to last winter, when supply was affected by a cold snap, no major weather related issues are currently expected. However, with the threat of El Niño always a concern amongst growers in the regions, contingency is vital. Consequently, Mexico is likely to feature in our supply plans, with possible support if required from countries such as Dominican Republic, Columbia, Peru and Guatemala.

Disease is possibly the biggest threat to the citrus industry in the Southern Hemisphere. Brazil has some ongoing problems with Citrus Canker and, although our lime growers are confident of providing "disease free" fruit, current EU regulations mean destruction of the entire container if one fruit is seen with the disease. Citrus Greening (HLB) is an even more serious problem for Brazil, as well as Mexico where it has also been found. Should this disease become unmanageable, we could see widespread devastation to entire citrus plantations as we have already seen in Florida.

Finally, no particular issues are currently expected for (predominantly) Spanish oranges or easy peelers for the season ahead.

SOFT FRUIT

The UK berry season was always going to be a challenging one this year, given the well-publicised issue regarding the shortage of seasonal migrant labour. However, growers could not have predicted the long spell of hot weather, which accelerated fruit growth through June and July, impacting both quality and shelf life. With plants stressed and yields high throughout this period, a premature end to the UK season is inevitable.

Dutch and Belgian fruit will be required earlier than usual and in greater numbers but, with weather conditions much the same across the whole of Europe, both Holland and Belgium are predicting an early end to their seasons. Some growers of greenhouse fruit have responded by planting earlier, which may restrict the shortages somewhat.

As always, Egypt will pick up the supply of strawberries from November into March, with Moroccan and Spanish fruit becoming available in December and January respectively.

These two countries will also pick up the bulk of the raspberry supply from November through to spring, as well as blueberries from late February. Until then, South America will provide the majority of fruit.

MELONS

From late October to early November, Brazil will take over from European sources, predominantly Spanish for melon supply. Although Brazilian production has suffered from drought in recent years, the outlook for this season is looking more fruitful. Growers report good crop progress and low levels of plant disease.

At the back end of the season, we will move to Central America, such as Costa Rica or Panama. No problems are currently reported in these areas.

BANANAS

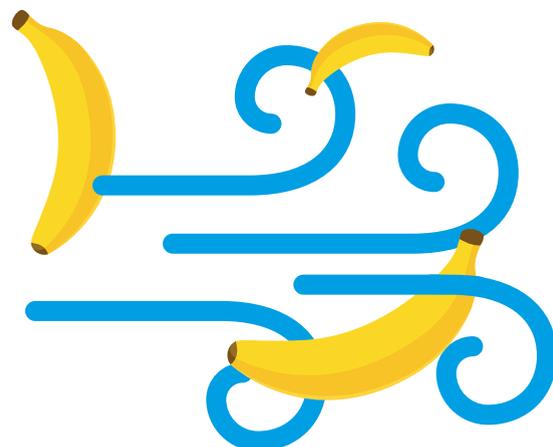
As always, weather poses the largest risk to availability for banana growers.

From October, South American banana growers face increasing risk of floods and pest incidence due to the El Niño phenomenon.

According to the World Meteorological Organisation (WMO) there is a 70% chance of a recurrence of the El Niño before the end of this year, although researchers say they are not expecting this new one to be as intense as 2015-16, which was one of the strongest ever recorded.

Fusarium Fungus and Panama disease continue to affect Cavendish banana crops across much of the world and remain a major concern amongst growers.

With a grower base and supply contingency located across Colombia, Ecuador, Costa Rica, Ivory Coast and Ghana, Reynolds is well placed to deliver a consistent supply of fruit.



THE POWER OF PARTNERSHIPS

WITH BREXIT LOOMING AND WITH NO CLARITY OVER WHAT IT MIGHT BRING, BUSINESS LEADERS CANNOT PREDICT WHAT WILL HAPPEN TO TRADE, EXCHANGE RATES, LABOUR AVAILABILITY, SUBSIDY SUPPORT, MOVEMENT OF GOODS AND SERVICES, WAGE RATES OR THE WIDER ECONOMY.

In fact, all of the major factors that might impact a business – positively or negatively – are up in the air. This makes day to day business planning for the months ahead very difficult. It makes strategic decision making almost impossible.

COLLABORATION COMES IN MANY FORMS

Yet, for some time, there has been a drumbeat in the food and agriculture sector – the drumbeat of strategic business collaboration. Of course, collaboration comes in many forms, and the benefits, we are told, are numerous.

But setting out to achieve collaboration is not always easy – it is no coincidence that the Oxford English Dictionary has two definitions for the word. The first, and the one we are interested in, says that collaboration is 'the act of working with someone to produce something'. But the second, which says that collaboration is 'traitorous cooperation with an enemy' is what puts many off even exploring it as a strategic option – after all, why would you share information with a competitor on the off chance of seeing a benefit? Surely the potential downsides of having shared that information outweigh the potential benefits? Embarking on collaboration takes a degree of courage then.

"There are two main types of collaboration – vertical and horizontal – and both take considerable trust and openness," explains Dr. Denyse Julien, Senior Lecturer in the Supply Chain Research Centre at Cranfield University School of Management. "Vertical collaboration is the most common and typically involves organisations working with others in their own supply chain – suppliers or customers. In this case, there are already existing relationships and, typically, a degree of trust, so that makes establishing discussions around potential collaboration much easier. Horizontal collaboration is less common because it involves working with different and potentially competing organisations, and there is inevitably a degree of suspicion and wariness

about sharing information in these circumstances, which makes establishing the potential for collaborative projects much more difficult."

Indeed, Denyse suggests that horizontal collaboration rarely gets off the ground without an intermediary being involved, and often someone slightly removed from the organisation – a neutral adviser or other party – is useful in facilitating potential collaboration, even within established supply chains.

THE BENEFITS OF COLLABORATION

So, what are these numerous benefits that collaboration can bring? "Money always talks, and so most collaboration starts with a business case, often around cost savings or improved returns," Denyse explains.

"But there are longer term benefits as well, which sometimes are less tangible at the outset – things like security of supply, achievement of sustainability objectives, risk mitigation or delivering innovation."

"The key things to think about can be grouped in three distinct pillars – people, product and environment – and typically collaboration will deliver benefits in these areas."

Of course, collaboration isn't something new. Sectors such as automotive manufacturing and aerospace have been vertically collaborating with suppliers for many years and their supply chains are often so intertwined that they couldn't easily be separated, with parts manufacturing and logistics typically being highly integrated into their operations. These businesses also often collaborate on product development, and this is where more trust is required,

as often suppliers will also be working with other competing manufacturers at the same time.

But there are also many examples of successful collaboration in the food and agriculture sectors, including the long-term collaboration that Nestlé, one of the world's largest food manufacturers, has had with dairy farmers for milk supply into two of its UK sites, as Robin Sundaram, Milk Buyer and Responsible Sourcing Manager at Nestlé explains:

"Nestlé has been collaborating with First Milk, a British farmer-owned co-operative, and a number of its farmer members, for more than 13 years on fresh milk supply into our Girvan and Dalston manufacturing sites. This started out with a very clear objective as we can't make our products without a reliable supply of milk, so we wanted to ensure that we had continuity of long-term supply. Initially there was the inevitable wariness and lack of trust about our motives, but the relationship is now very well established and delivers benefits for all involved."

These benefits include that sought-after security of supply, but also include waste reduction, reduced risk, improved transparency and food safety and an ability to develop shared strategies on responsible sourcing, ensuring Nestlé can achieve its purpose and sustainability objectives.

"Critically, the benefits are not one-sided – for collaboration to succeed they need to be shared among all parties involved," Robin says. "If done properly,

"MONEY ALWAYS TALKS, AND SO MOST COLLABORATION STARTS WITH A BUSINESS CASE, OFTEN AROUND COST SAVINGS OR IMPROVED RETURNS."



INITIALLY, WE SIGNED UP A SMALL NUMBER OF FARMERS IN THIS WAY, BUT TODAY WE HAVE AROUND

150

FARMERS INVOLVED.

IT IS FAIR TO SAY THAT NOW, MORE THAN EVER, IN THE FOOD AND FARMING SECTORS, THE FUTURE HOLDS IMMEASURABLE AMBIGUITY.

"DEVELOPING AN INTEGRATED AND COLLABORATIVE SUPPLY CHAIN DOES TAKE A LOT OF TIME AND EFFORT."



everyone involved shares in the financial benefits and in reduced risk. Another advantage is better communication up and down the supply chain. This avoids the 'bull whip' effect that can introduce volatility into otherwise stable supply chains, as people up and down the chain cover themselves due to a lack of transparency where collaboration isn't in place to ensure they can deal with changes in supply and demand."

Peter Taylor, General Manager at Westlands UK, agrees that collaboration takes time and effort but then brings rewards. Westlands produce a range of micro leaves, speciality salad and tomatoes, as well as edible flowers, and collaborates closely with Reynolds and the chefs and restaurants that they supply.

"It is vital that with Reynolds we have close relationships and are in constant communication with chefs from across the industry, so that they can be sure we are growing what they require and so that we know what produce will be in demand in the future, so we can plan ahead," Peter explains.

"Developing an integrated supply chain like this takes time and effort and this is probably the biggest challenge that we have faced. We have also had to change how we do things as a business as a result of feedback from chefs and this wouldn't have occurred if we didn't collaborate so closely with them and Reynolds."

But there are clear advantages. "As a supply chain becomes more closely integrated, there is a lot less uncertainty and we have all come to rely upon each other. This helps with business planning and mitigates against some of the uncertainty that is currently around in the fresh produce market."

COMMUNICATION IS KEY

Mitigating uncertainty was also a strong driver for Molson Corrs when it looked to develop closer working relationships with arable farmers to secure the supply of malting barley.

"In the past, whilst relationships with growers were good, contracts and growing arrangements were agreed annually," explains Jerry Dyson, Brewing Material Category Manager, Europe. "In 2007/2008 I had concerns about security of supply as there were a number of external factors that could have tempted arable producers to switch to growing more wheat, potentially harming our supply of malting barley."

"We decided that we needed to develop longer term relationships with farmers and outlined plans to implement three year rolling contracts. Initially, we signed up a small number of farmers in this way, but today we have around 150 farmers involved, supplying us with 47,000 tonnes of barley. Communication is key, and we have set up a steering committee with representation from all the stakeholders in the Group, including six growers, who represent the farmers in their local area. This steering committee makes recommendations on future contracts, makes decisions on Group events and agrees future initiatives for the Group."

This arrangement has brought many benefits, including security of supply, risk mitigation and improvements in barley quality, whilst bringing some much-needed stability for farmers.

"Developing an integrated and collaborative supply chain does take a lot of time and effort. You also have to be sensitive about what you want to get out of the relationship – it is no good just pushing to secure a raw

material for the lowest price, for example. Equally, if a Grower is only interested in price per tonne then a Group such as ours may not be the right option. If you want others to buy into what you are doing, they have to see that the whole process is mutually beneficial to everyone involved, not just the end buyer," Jerry says.

"It is really important to look for natural synergies and exploit them," concludes Denyse. "There will sometimes be conflict along the way, and there may be culture clashes and a lack of visibility of where the opportunities may lie. But, if you stick with it and relationships develop, the benefits of collaboration can be huge, helping organisations mitigate some of the challenges they face and create a new dialogue with stakeholders that wouldn't have been possible without the collaboration."

As author Paul Solarz is quoted as saying, "Collaboration allows us to know more than we are capable of knowing by ourselves." Given the significant change ahead, and with many businesses wondering how to respond strategically to that challenge, perhaps now is the right time for food and agricultural businesses to be focusing more on exploring opportunities to collaborate to reduce risk and improve business performance? This takes time and effort, but with sufficient trust and open communication, can certainly deliver benefits beyond those initially anticipated.

"WE HAVE ESTABLISHED GROWER GROUPS ACROSS THE COUNTRY, AS WELL AS A STEERING COMMITTEE."



TOUGH TIMES FOR DAIRY FARMERS?

Kasia Charkiewicz, Category Buyer, sets out how winter is shaping up for the dairy industry.

LIQUID MILK

The spring flush was delayed this year, with dairy farmers hampered due to the heavy snow, sub-zero temperatures and wet conditions, which prevented cows being put out to pasture. A reported 19 million litres of milk went uncollected in the UK during February and early March due to the adverse weather.

GB milk production from January to April this year was reported as being down 0.5% compared to the same period last year, which may in part have been driven by the changing dynamic of the milking herd, as well as just the bad weather. Peak milk production for 2018 was achieved on 19th May, a couple of weeks later than normal.

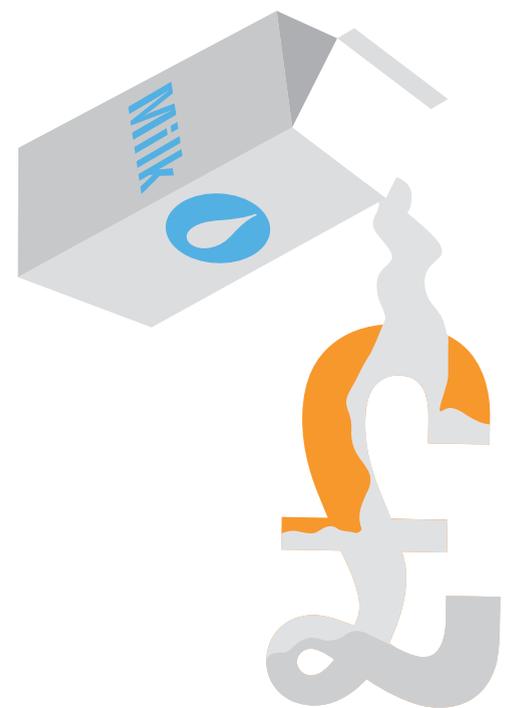
The heatwave and drought conditions which followed in June and July posed very different challenges for dairy farmers, with the intense heat affecting milk yields. Some farmers needed to draft in extra water supplies due to farm wells, ponds and boreholes running dry. At the time, NFU Cymru President John Davies said that farmers were already using their winter supplies of fodder because the lack of rain had stunted grass growth while the 'intense heat was burning off crops'. Meanwhile, in July the price of culled

cows dropped 23% from June, as some dairy farmers chose to reduce the size of their herds to save costs.

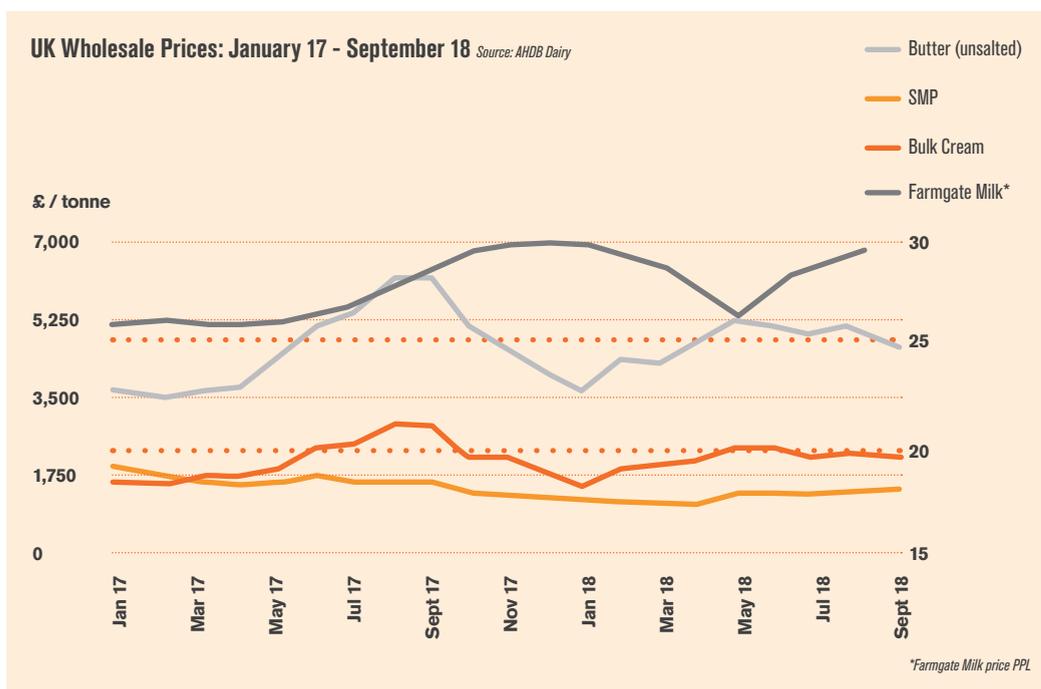
Thanks to the more seasonal weather over August and September, grass conditions have more or less recovered and domestic milk volumes have generally improved. However, total milk output in the UK still remains below that of last year and stocks of winter feed are now low.

Good weather throughout the autumn period could see milk production improve further, although there are major concerns that milk production will falter towards the end of 2018, due to high feed costs. Certainly, farmers will be hopeful of keeping cows in pasture as long as possible for the rest of the year to avoid additional expenditure. AHDB still estimates that milk production levels in quarter four will fall well short of those seen in 2017.

Over recent months, the uncertainty over milk production levels, combined with higher input costs and low market returns, have influenced milk prices. Farmgate milk prices firmed through May, June and July, with the UK 'all milk' average price for July reported by Defra at 28.56ppl, up 5.1% compared with the previous month and slightly higher than last year. A range of increases have been recently announced by processors and further marginal increases are expected as we move through the autumn period towards winter.



"OVER RECENT MONTHS, THE UNCERTAINTY OVER MILK PRODUCTION LEVELS, COMBINED WITH HIGHER INPUT COSTS AND LOW MARKET RETURNS, HAVE INFLUENCED MILK PRICES."



**GB milk production from January to April
this year was reported as being down**

0.5%

compared to the same period last year.

**FARMGATE MILK PRICES HAVE
CREPT UP OVER RECENT MONTHS,
WHILST BUTTER AND CREAM PRICES
REMAIN VOLATILE.**

FATS

Although milk output has improved for now in the UK, the weather has still been affecting key EU producing member states, so that lower than expected levels of milk have been made available across the EU for fat production.

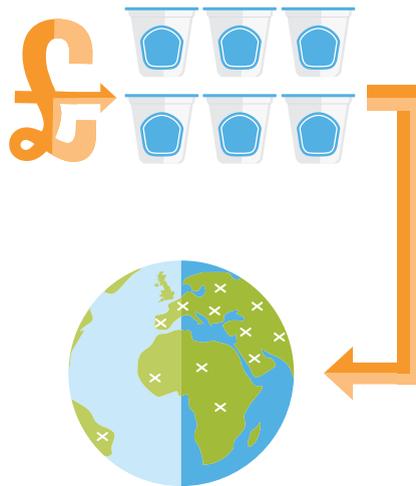
Despite a lack of stock to cover our domestic market, UK cream exports have continued to grow from last year's already high levels, encouraged by the weak pound. Poor milk composition across Europe has also put pressure on bulk cream availability.

This increased demand for cream from both inside and outside the EU has also helped keep butter prices firm. In addition, as predicted in The Spring 2018 edition of *The Marketplace*, poor returns from skimmed milk powder (SMP), the co-product of butter production, have led to further increases in butter prices to compensate. SMP prices have begun to strengthen recently but, with butter stocks very low in Europe, the potential for further price increases cannot be ruled out – especially given the renewed consumer interest in the product.

"IN THE MEDIUM TO LONGER TERM, DAIRY MARKETS ARE LIKELY TO REMAIN UNCERTAIN DUE TO THE VOLATILITY OF BOTH SUPPLY AND DEMAND."



"UK CREAM EXPORTS HAVE CONTINUED TO GROW FROM LAST YEAR'S ALREADY HIGH LEVELS, ENCOURAGED BY THE WEAK POUND."



With excess supplies of fats very low on the market, and much uncertainty around future milk production levels, dairy experts report somewhat of a standoff between buyers and sellers. In particular, bulk cream prices remain extremely volatile, with many producers reluctant to commit to long-term deals – without at least commanding a significant price premium.

On the cheese front, mild Cheddar stocks are relatively low and sellers are therefore in no rush to sell. Buyers do not appear to want to rush positions, thus prices are relatively stable. Meanwhile, stock positions for mature Cheddar will continue to be thin into 2019, as manufacturers seem to prefer trading mild at respectable prices, rather than risk holding stock for maturation purposes with no certainty of better returns.

In the medium to longer term, dairy markets are likely to remain uncertain due to the volatility of both supply and demand. The UK has also just secured a five year trade deal to export dairy products to China. Demand for dairy fats is expected to continue growing across the world and production will not be able to keep up with demand, according to Christophe Lafougère, GIRA Director at the Eucolait conference in early June. In particular, China, Russia, the US and EU are expected to demand an extra 1.8% per year of dairy fat from 2018 to 2022.

EGGS

UK egg farmers have seen feed costs rise significantly following the drought conditions experienced across Europe this summer. According to British Free Range Egg Producers Association CEO, Robert Gooch, feed costs for the lifetime of an average flock of 16,000 hens have increased £40,000 since the start of the year, a year-on-year rise of between 30% and 50%. With the bulk of feed imported into the UK, currency will play a part in the future outlook as we near Brexit.

Reports suggest that some free-range egg producers are on the brink of collapse, with the situation exacerbated by sluggish demand over the summer due to hot weather, combined with an increase in egg production. According to Defra 7.7 million cases of eggs were packed in UK egg packing stations during the second quarter of 2018, representing a 2.3% increase on the second quarter in 2017 and a 0.2% increase on quarter one 2018.

Despite industry calls for an increase in the prices paid to egg farmers, the average UK farmgate egg price through the second quarter of 2018 was 69.8 pence per dozen; a 2.1% decrease on quarter one of 2018 and a 0.3% decrease on the same quarter in 2017.

In the run up to Christmas, demand for eggs traditionally increases in the UK which is likely to lead to a tightening in availability and an increase in market prices.



The Marketplace is our insight and view of the key issues affecting the industry. We'd love to hear your views – feel free to get in touch with any feedback or comments. What would you like to read about in the next edition? Email us at feedback@reynolds-cs.com

SPRING 2019

Keep an eye out for the next edition of The Marketplace, in Spring 2019.

Reynolds Catering Supplies Limited
National Distribution Centre
Britannia Road
Waltham Cross
Herts
EN8 7RQ

T 01992 809200
E feedback@reynolds-cs.com

www.reynolds-cs.com

 [@ReynoldsFood](https://twitter.com/ReynoldsFood)