

Minutes
‘Rising Food Prices: Impacts across the UK Food Chain’
July 15th 2008, 2-3.30pm

Welcome and Introduction

Bill Wiggan MP welcomed speakers and attendees to **the All Party Food and Drink Manufacturing Industry Parliamentary Group**, which met to discuss the issue of rising food prices. Speakers included:

- **Martin Douglas** – General Manager, Cargill plc
- **Carmen Suarez** - Chief Economist, National Farmer’s Union
- **Giles Quick** – Director, TNS Worldpanel
- **Tim Innocent** - Purchasing Manager Direct Materials, Nestlé
- **Richard Taylor** – Group Director of Corporate Affairs, Morrisons

Parliamentarians in attendance included:

- Janet Dean MP
- Doug Henderson MP
- Lord Haskins
- John Grogan MP
- Elliot Morley MP

Around 30 stakeholders attended; including representatives from NGOs, trade associations, and food manufacturers.

Presentations:

Martin Douglas, general manager of **Cargill UK**, talked about his role running the largest wheat mill in the UK. He explained Cargill’s role as a major player in world food and agricultural markets; trading, processing and transporting all the major crops in the world, with substantial interests in meat and in animal feed, particularly in poultry meat in the UK. Douglas spoke of this being an unprecedented time in recent history in rural agriculture - a convergence of five factors having led to huge price increases due to great prosperity in developing countries particularly in Brazil, China and India has boosted demand for grains, meats and dairy products. Escalating oil prices and government mandates have rapidly accelerated through growth of bio fuels as well as supplies (relative to the demand) have tightened over the course of the last 12 to 15 months, due to incredible extremes of weather. Douglas also mentioned the lack of research funding has meant the rapid expansion of yield that was taking place in the 60s and 70s has ground to a halt. Furthermore crude oil costs increased more sharply and fertilizer for fuel costs have increased more rapidly than agricultural output. Lastly, the influx of money from commodity index funds and exchanged traded funds has forced equity money into markets and which has massively increased volatility and it’s significantly inflated those markets beyond the fundamentals normally expected. Douglas described the consequences for food businesses depending on the competitive market and the UK supply. He warned that credit in the market and insolvency risk is much higher than before and the timing of buying and sowing is absolutely crucial. Douglas questioned what can be done, highlighting that it is a global market and that the UK’s a player and it’s not a driver. He specifically spoke of several actions that needed to be taken such as in the EU, the need to lobby against restrictions in other markets and for greater freedom, the need to change role of China and import licenses

which are stopping trade flows. He questioned infrastructure problems in South America which are causing problems in the liquidity of markets and also pressed that more land be brought back into production. Finally in the longer-term, the need for increased investment and search, including genetically modified engineering, farmer education and basic handling and storage infrastructures. Douglas concluded that the prospects for agriculture are better than they have been for the last 20 years - farmers are seeing a market for their products, but that his job at Cargill is to help those products find markets through supply chains which are efficient, minimise costs and push unnecessary inflationary pressures.

Carmen Suarez from the **National Farmers Union** spoke of both the media and public interest in food prices and food issues being good news for farming. She talked of the factors causing the current increases such as increased population growth, income growth, and increases in meat demand - all of which will affect food prices in the next few years, such a 2% increase in global demand for meat, with 80% of that growth coming from Asia. She spoke of the supply side, less land availability for production as well as extreme weather as another factor affecting prices. Suarez lamented the lack of investment in agricultural sector not only from private agents but also government. She also touched on the role of bio fuels and their affect on prices and highlighted the myth that when grain goes to the bio fuels production it doesn't go into the food chain. Suarez also mentioned the increased problems sourcing GM free protein. She predicted that commodity prices in the next 10 years are going to be significantly higher than those over the last 10 years and that other issues, such as energy prices, increase in labour, costs play a massive role. She illustrated that the average household is spending around 10% of disposable income on food, which is less than the impact of energy price increases are having on that average household. Suarez finished by saying that the best solution for high prices is high prices and that high prices will hopefully generate an interest in agricultural research and investment in land - and to some extent help to reduce prices in the long term.

Giles Quick from **TNS Worldpanel** opened his presentation by saying that there has been some fairly hysterical media speculation about the rising food prices, which created some of the rise. He introduced the concept of product food inflation and consumer food inflation with the current level quoted between 12 to 21%, based on very small baskets of goods - 10, 12, up to 20 different items, and looking at the year on year growth in the price of those items. He criticised this as being a limited view of shopping – based on flour, eggs, butter – which runs at 27% inflation. He outlined consumer behaviour through people switching from more expensive items to cheaper items; change from one supermarket to another, stop eating one product and switch to another. Quick quoted the latest food inflation figure is 6.6% (ONS) but put forward TNS' own figure which are slightly broader based at 5.8%. He calculated that the typical household spends £2,600 a year on grocery and until March 2008, product inflation matched consumer inflation, taking into account switching and trading down or up between different products, peaking at about 4.5% in March 2008. Quick highlighted how since then two lines have diverged and whilst food product inflation is going up, consumer inflation and actual consumer spend on food is going down, currently being 2.6%. He added that for some of the poorer income groups it's actually zero as consumers, effectively have found ways, of saving money, and collectively saving about £1 billion a year through their switching. For staples, there are few substitutes and they have increased sharply, such as like wheat, grain and dairy and are having a disproportionate impact on consumer spend. He concluded that in order to keep the impact of food inflation low to maintain the options, improve food education is good, improve health knowledge and to control wasted food

Tim Innocent from **Nestlé** outlined the main commodities which he regularly buys being affected by increased food prices. He spoke of Nestlé's long term view approach to price and the three ways in which he manages risk; by making timely decisions; looking at tools within the marketplace to try and cater around commodity prices and . trying and understand what the drivers are in relation to sustainability levels with the supplier to secure a long-term supply. He spoke of looking at value added products to provide healthier options and where appropriate, to reformulate products to take advantage within a product price. He then spoke of the variety of reasons behind the increased food prices before touching on how integral energy pricing was as a factor behind food price increases

with many materials Nestlé using incurring a huge energy cost. Innocent concluded by highlighting the need for joined up policies as well as the importance of giving confidence to UK agriculture. He also called for proper assessments of the global markets and approaches to them.

Richard Taylor, Group Director for Corporate Affairs from Morrisons brought in the importance of consumer/customer in understanding the food prices debate. He asserted that Morrison's is a unique supermarket in that it is vertically integrated as well as being the fifth biggest food manufacturer in the country. Taylor agreed with Giles Quick that inflation is about 6% overall this year, running higher in fresh foods. Taylor summarised that consumers are most price conscious about meat and fish, followed by dairy with toiletries coming third. Morrisons customers ranked increased fuel prices as being the number one cause of food price rises. He asserted that there were a lot of promotions to meet the customer expectation meaning that customers are getting good deals across the basket. Taylor briefly touched on farming over the next ten years and questioned the benefit to consumers of farmers driving down prices especially with the margins at which supermarkets operate lying at about four or five%. He maintained that it was a very high turnover and low profit margin businesses. Taylor concluded that in terms of policy levers, leaving the market to work would be the best thing, as well as focusing on energy, saying that he thought it was right the government has been trying to and persuade and use its influence around the world on oil production and consumption and other alternatives. Taylor also highlighted the importance of is being questioned, asking whether it should that be a good thing and help encourage greater competition between retailers? He also asserted that it may time to avoid unnecessary intervention at this time into the sector.