

Food and Drink Federation

Covid-19 The impact of the incident on food and drink manufacturing

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Foreword



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CBE
Chief
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The Covid-19 crisis has put enormous pressures on food and drink manufacturing, but also highlights the extraordinary

flexibility of the sector to face the biggest public health emergency in living memory. Perhaps the early days of the pandemic, before the lockdown, will be remembered for the nation's desire to stockpile toilet roll. The UK's food and drink manufacturers will remember it very differently.

The FDF has always been at the forefront of helping its members through food safety incidents. However, an integral incident of this nature is unprecedented in modern times. Early into the crisis we established our incident team, simultaneously moving the FDF and FDF Scotland staff to remote working. Since the lockdown the FDF has been unstinting in our support for members. Every day has seen the FDF pivot into researching and supporting on a new concern usually centred on workforce, safety, international trade and business financial support.

Our long-standing working relationships with government including Defra, BEIS, DIT and the Scottish and Welsh Governments, enabled access to Ministers and senior civil servants almost daily, and sometimes seven days a week.

Working so closely with the decision-makers has been key to shifting the many administrative and practical obstacles for members.

The resilience of our member companies has been monumental during this time. They kept rising to the early challenges of consumer stockpiling, maintaining operational factories, and keeping the food on our nation's table, a truly remarkable feat.

I'm delighted how industry has engaged with the FDF, FDF Scotland and FDF Cymru raising questions to our dedicated incident team and responding to our weekly surveys so we could feed the very latest information and challenges directly into government. Our weekly Covid-19 webinars were attended by hundreds of businesses each week. And the FDF reached out and spoke personally to almost all of our members to hear first-hand their concerns and issues, and get an insight into members priorities.

I am also very proud of, and not the least bit surprised, by this industry's support and generosity. Food and equipment were donated to the NHS, foodbanks and local charitable good causes, while we were facing into the crisis.

Government and shoppers recognise how critical, and sometimes fragile, the UK food and drink industry is to ensure the safe well-being and feeding of the UK population. We will build on the position we have established. None of this would have been possible without the herculean effort by the people. We will continue to recognise and remember the 'hidden heroes' in the food and drink manufacturing industry, that have made this all possible.

This interim report reflects on the challenges, the important wins, and helps to plan for the future.

Overview

The early onset of panic buying in February saw shoppers clearing shelves of many food groceries, as a result the total food and drink sector supplying into retail temporarily sky rocketed. The pressure on manufacturers' supply chains and logistics to service retail was at unprecedented levels. But it was not universally good news, some experienced the collapse of their customer base, supermarkets cancelled promotions and rationalised ranges, while demand for the out-of-home and hospitality sectors evaporated overnight. While the majority of members have at least in part remained operational, many have been forced to reduce or substantially change their operations. Some small, flexible producers have been able to pivot to maximise direct-to-consumer sales through their own websites.

Early on the FDF established its priorities for managing the incident which were to:

- Ensure business continuity in the delivery of the FDF's services to our members
- Keep our staff as safe and protected as possible
- Provide our members with timely and accurate information and advice from credible and respected sources to minimize disruption to their operations and supply chains
- Provide a respected industry voice throughout the outbreak, advising Government where required and feeding in industry needs

High on all members' agendas was the safety and welfare of their employees, most businesses quickly adapting to and supporting working from home, where practicable. For manufacturing environments, operating safely within social distancing and workspace hygiene rules challenged production areas. Early concerns about hygiene and Covid-19 led to the FDF obtaining clarity and reassurance on required health & safety protocols in the case of a factory outbreak.

The FDF leveraged its established relationship with Defra, (and other key government departments), and has been involved in daily discussions with ministers across numerous government departments to highlight emerging problems and to work constructively to resolve them. An early win for the FDF in response to members concerns was to obtain 'key worker' status for the food and drink industry and associated supply chains. George Eustice, Defra

Secretary of State, publicly recognised the critical nature of the food and drink supply chain. The FDF's 'Key Worker' letter provided both employee and employer reassurance, enabling food and drink workers to access the limited childcare, commute confidently, and ensure the nation could be fed.

In Scotland and Wales, FDF Scotland and FDF Cymru colleagues have worked closely with their respective Governments and regulatory bodies to ensure that members' needs were accommodated. The various UK nations have sometimes moved differently and at different speeds throughout the pandemic but in all cases the combined FDF team has worked on areas of commonality and engaged constructively with the governments where thinking has diverged. A key win in Scotland, due to successful lobbying, was the Scottish Government adding food and drink to the critical national infrastructure and recognising all food as essential.

Days after the lockdown announcement included in the Health Protection (Coronavirus Business Closure) Regulation was the closure of workplace canteens. For many food and drink sites with 24/7 operations, this would have necessitated the closure of the factory. The FDF worked with both companies and government to ensure canteens stayed open in support of manufacturing sites continuing to operate.

By April 2020, members' concerns shifted to PPE shortages of supply of FFP face masks, gloves and hand sanitisers with some members down to one week's supply. The FDF's monitoring of the situation showed this shortage progressively eased though in the initial stages of the crisis it was a dire predicament facing those who need PPE routinely to comply with health and safety regulation.

Many of the FDF's members supported the collaboration between the Institute for Grocery Distribution (IGD) and food surplus charity FareShare. This work across food and consumer good companies played an essential role in supporting key workers, vulnerable groups and the increasingly under pressure food banks, during the height of the pandemic.

Emerging market picture

Both the FDF's Q1 Exports Report and government data highlighted the speed at which the impact of the crisis and lockdown affected manufacturing between January and March 2020. The total grocery retail sales grew £2.8bn in Q1, as a result in the spike in demand for food¹, whilst exports declined 12.7%, over £700m lower than the quarter in 2019. Sales to EU countries were the hardest hit, with the total value falling by 17.4%. The impacts of Covid 19, with the closure of the hospitality and travel sectors, meant a loss of sales into the high-value restaurant and out-of-home sector across Europe.

Exporters also reported increased costs - for example, freight and chilled container costs, and in parallel continued to see rises in Custom Declaration Services costs from third parties. The FDF has requested government funding to extend exports support facilities, to support the recovery.

UK food and drink exporters adapted quickly to changing global consumer demand. If export growth is to return and make an important contribution to the UK's economic recovery, it is clear additional government support will be required and future trade agreements with key trading partners progressed.

With shoppers and consumer habits changing before the March 2020 lockdown, as many started to work from home and were travelling less, the out-of-home and hospitality sector, virtually collapsed overnight. Manufacturers in the sector sought to repurpose foods destined for out-of-home, production ceased, and members rationalised their ranges. The centralised government support requested and discussed didn't materialise, leaving members in the out-of-home sector to find solutions.

The food retail environment witnessed a seismic shift, Food Strategy Associates analysis indicates an almost doubling of online sales to 13% in May 2020, as the public increased demand for home deliveries. Consumer shopping habits moved to larger basket sizes with higher spends and less frequent visits.

For some members, particularly small and medium-sized businesses, the Covid-19 crisis has accelerated their branded online channel and e-commerce growth plans, enabling those omni-channel branded manufacturers to adapt to changing demand, and better equipped for predicted future shopping habits.

¹ Food Strategy Associates, COVID-19 Market Performance, June 2020.

Financial Impacts

The Government's package of financial interventions was an essential move to shore-up UK PLC, industry and manufacturing. Short term access to working capital for the nation's food and drink manufacturing and employees was welcomed. However initial details on the scheme were limited, and delivery capacity proved an issue.

SME's make up 97% of the UK's food and drink manufacturing industry and many faced rapid and serious cashflow concerns. The Coronavirus Business Interruption Loan Scheme (CBILS) scheme was initially difficult to access, and a relatively small proportion applied. The Bounce Back Loans scheme was a useful step towards making funds more easily accessible for small businesses. Our FDF survey results indicated that fewer than half of food and drink manufacturers applied for either CBILS or Bounce Back Loans support. Of those that did apply, our findings report fewer than 50 per cent received funds.

In Scotland, the Pivotal Enterprise Resilience Fund was critical to businesses but it was oversubscribed and the fund was closed before a brief re-opening for a second phase. The support the Scottish Government provides to support the recovery of food and drink will be vital to the future success of the industry.

Early on, members highlighted to FDF these concerns and issues securing Trade Credit Insurance (TCI). The removal of credit risk insurance, the reduction in the level of cover and significant increases in premiums all posing a risk to industry's ability to continue operations. The FDF's member survey showed a fifth of UK food and drink businesses had seen Trade Credit Insurance reduced or removed. Following discussions with government, the FDF welcomed a £10bn support package as guarantee for the Trade Credit Insurance market but there remain barriers.

Logistics and border issues

The strength and robustness of most food and drink supply chains have been maintained in response to the crisis. Businesses have largely managed to ensure continued access to key ingredients and raw materials, and where issues have occurred, they have tended to be isolated or short-term problems.

On imports and exports, the reduction and frequency of crossings both between the UK and Ireland, and with mainland Europe were issues. The Irish and UK Governments moved to provide additional support for ferry operators to ensure key trading routes remained open. The FDF's members reported difficulties clearing goods

through UK ports due to the challenge in obtaining original copies of required paperwork and certification. Defra issued guidance to Port Health Authorities (PHAs) instructing them to accept electronic copies of some key paperwork.

Government announced from 8 June 2020, passengers arriving in the UK would be required to self-isolate for 14 days. The FDF successfully argued for exceptions to enable relevant food and drink sector and supply chain colleagues and contractors, to continue to travel to support manufacturing, and along the length of the supply chain.

Workforce issues

In the FDF's weekly survey of members, the early concerns were around staff shortages. Reported staff sickness and absenteeism, peaked early in the crisis with some members reporting 20+% absences, adding pressure to manufacturing.

The early lack of testing available to non-healthcare key workers resulted in reported higher than normal absence levels in food and drink manufacturing. Employers lacked visibility on which absences were suffering from Covid-19, against shielding and self-isolation.

The FDF and the food supply chain were successful in the campaign to allow furloughed workers to take on additional work in the wider critical food and drink industry chain. In addition, the FDF responded to support food and drink manufacturers by working closely with the Association of Labour Providers (ALP) and recruitment trade associations, developing short-term professional affiliations with several online job apps, including Syft, Placed, Sonic Jobs and Gumtree, supporting employers and employees alike.

Members welcomed the Coronavirus Job

Retention Scheme (CJRS). While as an overall sector food and drink manufacturing has been less impacted with overall demand manageable, individual companies have faced falls in revenue that led them turning to the CJRS. The scheme was more widely used by the FDF's SME members and those supplying into the widely closed-down out-of-home and hospitality sectors.

With the details of the changes and end to the furloughing scheme, many members will be able to adapt to changes in August and September making tax and NI payments, and small wage contributions. Members supplying into the recently opened hospitality sector are requesting more flexibility and ongoing support. The scheme end in November 2020 raises concerns and some members have reported they will be forced to make redundancies due to the Covid-19 impact, though limited business foreclosures are anticipated.

On a positive note, some members have paid factory staff a bonus to those who continued operating through the pandemic.

Critical Covid-19 operational issues

Members have faced a range of challenging issues and scenarios, some emanating from the different rules in England and across the devolved nations, including conflicting messaging and timings. The FDF has surveyed its members weekly on Covid-19 related issues and while some such as key worker status, access to childcare and staff sickness have abated, some remain an ongoing concern:

The PPE shortage for sectors requiring it for health and safety reasons including bakeries and milling, was a priority for the FDF in their engagement with PHE and HSE. The case made by the FDF and the agri-supply chain resulted in HSE relaxing the restrictions. Most companies are now confident of their supply but it remains a concern.

In mid-May 2020 the Government set out guidance to help understand how to work safely during the pandemic and help businesses to manage and assess risks and consult staff in preparation for return to work. The FDF received many questions on these requirements. Of the eight workplace areas, factories, plants and warehouses, vehicles, offices and laboratory settings relevant to members, the relevance and detail for food manufacturing was initially short. Mostly companies were concerned that having conducted risk assessments at an early stage as they have operated throughout the pandemic, they would need to revisit these. So far, publication of risk assessments has not been widespread

Test and Trace

With the plans for the Test and Trace app curtailed, officials are now looking at how to utilise the Google and Apple platforms with the roll-out of the digital app now not expected until later this year. The contact tracing Test and Trace service has caused some concerns amongst members due to the possibility of widespread requests to self-isolate likely to cripple smaller business. The difference in devolved services has been a concern for members with the Scottish Government providing less clarity in their

guidance documents initially. Due to direct questions from the FDF Scotland team to the Scottish Government further clarity has been sought and a guidance document has been published for contact tracers which helps alleviate some concerns from members. So far, the Test and Trace service has provided reassurance that although there have been some localised outbreaks, it's not seen the extent of issues feared by the industry.

Future outlook and recovery

Our members' concerns reflect the monumental socio-economic impacts of the crisis on business and the longer-term bounce back to a 'new normal'. Key is the timeframe and the shape that recovery may take. Understanding the changes to consumer shopping behaviours, be that more online shopping, less urban footfall in retail and impulse shopping, is central to many businesses growth.

Despite Government calls to return to the office, for many this may be determined by the schools re-opening as planned and confidence in safe public transport. For the food and drink sector, the very real changes in where and how people work will impact the food industry, specifically the out-of-home and hospitality sector. If fewer people return to regularly working in offices, the UK may look to learn from EU counterparts, and countries further afield, where they are ahead in the next phase of this crisis.

The uncertainty over local lockdowns and travel restrictions will undoubtedly have a significant impact on UK visitors and tourism. The UK hospitality sector is heavily dependent on tourism, and the likelihood of the UK population 'staycation', whilst a welcome boost, will not replace the international summer tourism season.

Now is the time of year many members start planning for Christmas. Looming after is the impact of EU Exit, deal or no deal, which regardless will bring new trade processes. Members will need to decide if they can also be stock building for January 2021.

Along with a wider manufacturing industry position, FDF supports the opportunity to push for the green recovery, which will require collaboration with, and support from the government. This is gaining traction across all levels of political and public debate.

For our larger members, the pendulum is now swinging back to an EU exit focus. For some members EU exit stockpiling helped secure their way through the March 2020 spike in demand. Whether the UK's food and drink manufacturers will have the inclination to stockpile again towards the end of 2020 with the typical Christmas peak period, or the capital or capacity to do so, is another matter.

Reported key concerns for the year ahead by members, along with Covid-19 include exchange rate volatility, failure to secure a Free Trade Agreement with the EU and the UK Global tariff schedule, which were highlighted by over 69% of respondents. On a positive note, despite the current difficult trading conditions, two thirds of our members continued to report increased domestic demand as an opportunity for their business this year.

To address the recovery, industry and Government must work in collaboration. The close partnership through the Food and Drink Sector Council must find workable solutions, including specialist support to help UK food and drink exporters quickly adapt to changing global consumer demand and make an important contribution to the UK's economic recovery.

Our 'wins' on behalf of members

We have handled over 600 queries from food and drink producers during the crisis. We believe FDF efforts, supported by members, in both public and private, significantly contributed to the following wins:

1. Keeping production of all types of food and drink going, if businesses wished to remain open, in light of early pressure (particularly from Scottish Government and a union) that production should be limited to certain types of foodstuffs.
2. Ensuring that food and drink supply chain workers were designated 'key workers' for access to childcare, transport, early access to testing, and that a broad definition was maintained (when others were calling for more granular definitions).
3. Pushing for furloughed employees to be able to take on additional work whilst furloughed and for further flexibility in the scheme (confirmed from 1st July).
4. Keeping essential workplace facilities open (e.g. staff canteens) where the original guidance would have forced their closure.
5. Requesting and shaping additional FSA/Defra guidance on face coverings in food settings.
6. Securing relaxation on regulations around normal-use PPE during the acute shortage.
7. Allowing digital rather than physical papers for consignments at ports and immigration right to work checks.
8. Pushing for Government intervention on trade credit insurance and continuing to press for it to alleviate concerns about cover for sales into hospitality as it reopens.
9. Ensuring that Perspex screening and other factory safety measures are taken into account in determining who needs to self-isolate as part of the Test and Trace programme.
10. Creating and signing a statement of agreement with key sector unions around industry's importance and the safeguarding of employees at sites.
11. Securing exemptions from the quarantine self-isolation regulations for those in roles crucial to maintain food and drink supply.

Praise for the food and drink sector during Covid-19

On behalf of those of us who remain safe and at home, I also wanted to thank all key workers who ensure the infrastructure of our life continues; the staff and volunteers working in food production and distribution, those keeping postal and delivery services going, and those ensuring the rubbish continues to be collected.

Prince Philip, Duke of Edinburgh

In the initial few weeks, when there was an episode of panic buying, our food manufacturers increased output by some 50%. Although our food security depends on both international trade and domestic production, this crisis has brought home the crucial importance of domestic food production. We are fortunate to have some of the most innovative food manufacturers and producers in the world, and I pay tribute to all they have done in recent months.

Defra Secretary George Eustice, House of Commons, 19 May 2020

I am extremely grateful to the Food & Drink Federation (FDF) for your continued support during this incredibly testing period. FDF members have really stepped up and made valuable contributions to Defra's COVID-19 response.

George Eustice to Ian Wright in private correspondence, 5 June 2020

Today I also want to particularly acknowledge people working in our food and drink and essential retail sectors. This is not an easy time to work in agriculture, or food manufacturing, or distribution, or of course in stores and supermarkets that require to remain open. But what everyone in these sectors do is absolutely essential for all of us and I am very grateful to all of them.

First Minister Nicola Sturgeon, 3 April 2020

All the key workers within their workforces should rightfully be recognised and celebrated as hidden heroes. I'd like to pay tribute to all those working throughout Wales' food supply chain. From farmers, to fishers, to manufacturers, wholesalers and retailers.

Welsh Minister Lesley Griffiths, 24 May 2020

I am extremely grateful to the Food & Drink Federation (FDF) for your continued support during this incredibly testing period. FDF members have really stepped up and made valuable contributions to Defra's COVID-19 response.

Victoria Prentis MP, Parliamentary Under Secretary of State at the Department for Environment, Food and Rural Affairs

Praise for FDF during the Covid-19 incident

Wonderful! This [Secretary of State letter of support to industry] has already shifted the thoughts of many staff, very welcome message.

Managing Director – small business

Just a short note to say thank you for pushing this issue (Trade Credit Insurance) to some sort of resolution with the Government so quickly.

Managing Director, flavourings business

Thanks for influencing on this (workplace canteens). The additional guidance will be well received across the business.

Director of External Relations, Multinational food business

The professionalism and commitment of FDF Scotland / FDF staff is awesome and inspirational and everything that an excellent trade body should be achieving.

Operations Director, mid-sized food business

I just wanted to let you know how very useful I am finding these weekly up-dates (webinars) to be, they are absolutely topical, well structured, have very useful slides and the key issues are very clearly explained. It is also clear that the relationship between the FDF and Defra, etc is very much alive and working well.

Food and Drink Sector Council member

Thank you to yourself and your team for the excellent work you are doing in representing the food and drink industry during this crisis, ensuring our voice is heard and needs are understood.

Chief Executive, Multi-national food business

Many thanks for what you are doing and for your leadership to face this terrible crisis. It's a good opportunity to strengthen the role of our association and to work together for a common interest.

Chief Executive, Multi-national food and drinks businesses

I want to say thank you for all the work the FDF has done and continues to do during the COVID-19 crisis. The regular updates are invaluable and helps avoid uncertainty amongst our employees.

Managing Director, Mid-sized food company

FDF is providing very strong support to the industry. Thanks to FDF and its staff for that.

Managing Director, Multi-national drinks business

Can I also say how impressed I am with FDF already since joining and what a fantastic amount of info there is out there. Should have joined years ago.

Partner, small business

Contacts

For further information about FDF's Covid-19 response please contact the Incident Team Chair, Nicki Hunt, Director of Membership and Commercial Engagement, FDF 07801 023562 nicki.hunt@fdf.org.uk

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