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### Service update

We are still experiencing some of the challenges mentioned in our last update, including labour shortages and higher than usual absence as a result of Covid-19 infections. However, supply levels are holding up well in most depots, despite the increases in demand we have seen since the removal of domestic restrictions.

There are still some pressure points in a small number of depots, and we are working with customers to smooth delivery patterns through the week, or in some cases organising Saturday deliveries to alleviate these. If any of your orders are likely to be impacted, you will be contacted by your account manager who will discuss the options with you.

There have also been a number of further challenges in the wider supply chain that have been in the news over the last week:

**Protests at ports as a result of ferry staff redundancies:** We have been able to re-route most of our loads which would otherwise have been disrupted by suspended crossings. We have therefore only experienced a small number of delays which depots have accommodated by accepting loads delivered later in the day.

**Protests and blockades across Spain, Morocco and Italy:** These demonstrations are widespread, the result of disputes about pay, the rising cost of fuel and working conditions amongst independent drivers. They are having an immediate impact on supplies of fresh produce, and are particularly intense and disruptive in:

- Almeria, a major growing region for greenhouse produce such as cherry tomatoes, cucumbers, peppers and courgettes
- Murcia, where products such as leaves, broccoli and lemon are grown in the open
- Morocco, a key sourcing region for round tomatoes
- Italy, where baby leaf products are grown
- There are also concerns that this unrest could also spread into France.

At Bidfood and Oliver Kay, we are currently awaiting supply of Dutch product as an alternative. In the meantime, we are still receiving deliveries from our overseas suppliers, although we are expecting some delays with these which could affect deliveries in the short-term. We are working closely with suppliers to mitigate these.

**Surges of Covid-19 in regions of China:** There have been recent reports of increases in Covid infections in a growing number of regions across China. However, due to the long lead times we expect when ordering Chinese goods, at Bidfood we do hold additional contingency stock to help offset any delays, and so any supply challenges are limited.

We will continue to monitor the situation with products we purchase direct from China.

## **The situation in Ukraine and its impact on key commodities**

Whilst the atrocities continue in Ukraine, like many others in the industry who are concerned about the humanitarian impact of the war, Bidfood are doing all they can to support organisations like #WeAreHope4 and the Ukrainian Children with Cancer charity through donations and food consignments for refugee camps.

We are holding out hope, too, that negotiations between the two countries achieve a swift and positive outcome to relieve any further suffering of the Ukrainian people.

We are also fully focused on doing all we can to protect our customers by mitigating the potential impact of the conflict on availability and prices. Whilst we are currently collating and reviewing information from suppliers about potential impacts on affected product ranges from impact in their wider supply chain, we are also now seeing industry-wide warnings in the media and from key industry organisations (e.g. The Federation of Wholesale Distributors and the Food and Drink Federation) about the impact of the conflict on availability and prices across food, feed, fertilisers, packaging, energy and fuel.

Ukraine itself has understandably announced an export ban on products like rye, millet, oats, buckwheat, salt, sugar, meat and fertilizer, to shore up their own food supplies. Other products can only be exported with a license from the Ukraine government, for example, wheat, sunflower and rapeseed oil, sunflower seed, and corn. Availability of supplies for export is therefore restricted and there also is the possibility of a ban on these commodities going forwards, which is a concern for markets.

## **Shortages**

Jayne Almond, who is Head of Policy at the Food and Drink Federation (FDF) recently confirmed that suppliers are already reporting widespread shortages of products and ingredients including wheat, oils (especially sunflower oil), and white fish. She also commented that the situation will be very hard to manage, resulting in significant disruption across the supply chain, and higher levels of inflation, which could cause concern over the long-term resilience of the sector.

## **Tariffs**

Andrew Kuyk, director general of the Provision Trade Federation (PTF), also warned that the announcement of 35% tariffs on Russian food products and materials used in food and drink (including beverages, cereals, spirits, oil seeds, white fish and fertilisers), would have very significant consequences for suppliers and shoppers.

However, the UK government has stated that it is seeking to maximise the impact on the Russian economy whilst minimising the impact on UK customers, which is the

reason it has avoided outright bans. We continue to await further detail about how they will apply these tariffs to Russian products, specifically, whether tariffs will affect fish caught in Russian waters but processed in other countries, and fish caught before the conflict began. These tariffs would be applied immediately once clarified.

## **White fish**

Russia controls around 45% of the global supply of white fish (cod, pollock, haddock etc.), and around 40 to 60% of the white fish consumed in the UK is captured in Russian waters and frozen on Russian ships, although much of it is processed in other countries. The war will therefore add considerable disruption to the global seafood supply chain.

High price inflation on white fish is consequently inevitable, not only as a result of the severe availability challenges that sanctions will create, and the impact on raw material prices across all fish categories and markets, but also because of the rising processing, packaging and transportation costs caused by soaring energy and fuel prices.

Tariffs will push global prices up as the rest of the market adjusts to these new levels, and we start to see a move away from Russian pollock to sources from other waters and to alternative fish such as Pangasius or basa. Clarification on tariff impact is especially important given how the fish is caught and processed, and we continue to liaise with Defra on this.

## **Wheat**

Pre-pandemic, Russia was cited as the top wheat exporter and Ukraine the 5th, according to World Bank data for 2018. Combined, both countries make up about a quarter of the world's wheat exports.

Recent statements from the World Bank have suggested that the war in Ukraine could mean shortages of wheat for a number of poor and developing countries that are dependent on Ukrainian wheat. This is partly because wheat is one of those categories that the Ukrainian government now require export licenses for. Russia has also restricted exports of wheat and other cereal grains to countries outside of its Eurasian Economic Union allies such as Belarus, Kazakhstan etc.

These challenges with supply will be further compounded by the fact that stocks available in other countries to draw from are currently at very low levels.

As well damage directly inflicted on Ukrainian wheat crops by Russian forces during the invasion, many of Ukraine's farm workers have been redeployed to fight on the front lines, while roads and bridges needed for deliveries to farms have been destroyed.

Wheat is a prime constituent of essential food items like cereals, pasta and baked goods. Taking Russian or Ukrainian wheat out of the equation will undoubtedly create upward pressure on manufacturing costs for these other associated categories.

Disruptions to exports of wheat will also have a knock-on effect on wheat substitutes, for example, staple foods such as corn or rice. Ukraine and Russia are the fourth and fifth largest corn exporters, together making up around a fifth of the total exports.

This year Ukraine was expected to grow its largest ever crop of corn, with around 80% destined for export. With ports closed during what is peak export season for this foodstuff, it is looking unlikely that any corn will make it out of the country.

The Ukrainian maize crop would normally be sown in spring, however only about 60% of the seed required to plant maize has been delivered to farms. If there is still fighting by the wheat harvest in July then there could be very little harvested at all.

## **Meat and poultry**

Corn has many uses beyond its role as a food product, and its use as animal feed in many parts of the world could soon have a significant impact on production costs and also prices of meat and poultry. Indeed, poultry is a perfect example of how a raft of different factors are combining to drive up prices by 20% or more from some suppliers:

- Around 80,000 metric tonnes of poultry were imported last year from Ukraine into European markets, which now have to source from Poland and Romania
- Grain and wheat supplies from Ukraine have largely ceased and planting for harvests this year looks unlikely to happen
- Energy costs in Poland have risen four-fold, with gas and feed being the main cost components of poultry production
- Many Ukrainian men working in UK slaughterhouses have returned to Ukraine
- Imports into the UK are facing higher administrative and documentation costs
- Transport costs from Europe will increase from 1<sup>st</sup> of April, 2022, as a result of the EU's European Mobility Package which addresses social fairness, competition and environmental performance of transport and haulage.

The National Pig Association have also reported that a number of UK pig farmers have exited the industry as a result of rapidly increasing costs of feed and production.

## **Oils**

Russia and Ukraine account for around 70 to 80% of global exports of sunflower oil. In fact, roughly 30% of all sunflower oil is grown in Ukraine and future prices have jumped significantly since the conflict began. This is due to concern over blockages of ports, and the export restrictions and sanctions that have been imposed. We have also heard reports of seed crushing plants damaged by missile attacks, and major growing areas for sunflowers destroyed.

Sunflower oil is often used to create fried snacks like crisps and chips, and we are seeing suppliers switch to other oils and raise prices in the face of a shortage of sunflower and alternative oils. All other oils are seeing inflationary pressure at the moment, and rapeseed oil prices, in particular, have spiralled to unprecedented levels.

Chips are worth mentioning, as much of the oil used in their production is sourced from Russia and Ukraine, accelerating already inflated prices caused by high demand which has been outstripping supply, surges in energy prices, and reduced potato yields.

## **Fertiliser**

Fertiliser prices have been trending at record levels for some time now. Ukraine, Russia and Belarus are key exporters on the global market. China has also imposed an export ban on nitrogen and phosphate, to address increases in their domestic food prices. Whilst Canadian producers plan to increase production, they have been affected by industrial action in the rail freight sector. There are limited stocks available elsewhere at present, and therefore Ukraine's ban on exports will undoubtedly push up fertiliser prices even further, increasing production costs for crops going forwards. The impact on grain will also affect animal feed, further fuelling inflation on meat and poultry.

Farmers in the UK and other markets are having to weigh up whether to plant crops they may not be able to afford to grow because of increases in fertiliser costs, or whether not to grow crops at all. If many decide to cease or reduce planting, then we may well see a consequent reduction in supply of grains and produce in future months.

## **Pallets and packaging**

**Wooden pallets:** Ukraine, Russia and Belarus are all large suppliers of the wood used in pallet production, and both export significant supplies into the EU. The conflict is expected to create a large shortfall in these essential materials. Alternative timber sources, which include Germany, Scandinavia and the Baltic States, do not have sufficient surplus to cover this shortfall.

**Plastics:** Russia is a major exporter and producer of crude oil and gas, the constituent chemicals used in plastics. The increase in raw material costs and reduced trade flow caused by the conflict will significantly impact the price of plastics in the short-term.

**Glass:** Ukraine is home to several glass factories, a material which is already extremely expensive because of the current high demand for vaccine vials, and its use a replacement for plastics. Any further reduction in supply will inflate already high prices.

**Aluminium:** Russia accounts for 6% of the aluminium supply globally, and as a raw material it has hit record-high prices as a result of the sanctions against Russia and fears over the resulting reduction in availability. The majority of Russian aluminium is exported to the EU. Higher energy prices have also exacerbated production costs in the EU, and we can expect to see prices increase still further in the short-term.

**Steel:** With an EU ban on Russian steel products looming, as part of further sanctions being planned, markets are anticipating reduced availability further compounding the loss of product from Ukraine which is Europe's 5<sup>th</sup> largest supplier. These factors have already started to play out in price hikes on steel markets.

## **Fuel and energy costs**

Energy is a key element in the manufacture of food and drink products, whilst fuel is essential for their transport and distribution through the supply chain. As with every other business and household in the UK, including our suppliers, Bidfood is exposed to the volatility in the energy markets we are all currently enduring. This affects everything from industrial gases, to power and diesel – and there are no immediate signs of pressures on supply chains easing. We are seeing this reflected in increases in the prices of products that we buy, and in the cost of diesel across the supply chain.

We have a number of in-house specialists within our business who proactively monitor and mitigate (where possible) the risks which current conditions are creating across our own operations. Whilst prices continue to follow a worrying trend, there is no suggestion of any cuts to electricity or gas supplies, and we are working closely with our third party energy experts to review the ongoing situation.

We are a contracted customer of a large fuel distributor and hold bunkered fuel on our sites. Our drivers have access to the 'Key Fuels' network of fuel courts for commercial vehicles as a contingency measure. We also have a secondary supply of bulk fuel for added resilience. At present, all of our sites are closely and proactively managing their fuel stocks and we remain highly vigilant at both site and group level.

## **CO<sub>2</sub>**

CO<sub>2</sub> is used in the production of fresh meat and carbonated drinks, as well as in refrigeration plants on Bidfood sites. From a supplier standpoint, the situation remains stable and UK plants continue to supply CO<sub>2</sub>. Our suppliers have not reported any issues with availability of CO<sub>2</sub>, and many also have established alternative sources outside the UK from which to draw should this change.

Bidfood refrigeration plants, which rely on CO<sub>2</sub>, have supplies of gas stored should these be required in the event of any short-term disruption.

I appreciate that this is a long update and there is certainly a lot to take in. The conflict in Ukraine is having global repercussions, particularly in poorer and developing countries that are already struggling with food poverty and cannot cope with escalating inflation and shortages. It's impossible to comprehend the devastating impact that the war is having on the brave and resilient people of Ukraine. Our hearts go out to them, and we very much hope that an end to this horrific conflict is soon in sight.

As always, we will continue to keep you apprised as any further news emerges. Please be assured of our continued commitment to delivering the highest levels of service.

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