

#MARKETPLACE



Industry insight delivered to you by



**A GOLD
STANDARD FOR
BRITISH FOOD?**

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

Ultimately, weather will dictate how availability over the summer pans out, but the shoulders of the seasons could prove difficult for both leafy and hard salad supply. Labour is a major concern for both UK and Dutch growers.

08.



Vegetables

Snow and freezing temperatures in the UK over February and March have not been ideal for UK vegetable farmers, but a return to warmer seasonal temperatures should see growing conditions improve.

10.



Fruit

The availability and cost of labour is the biggest concern for British berry growers this summer, whilst the availability of apples and pears is a major issue.

14.



Dairy

Although farmgate milk prices have fallen slightly in recent months, butter and cream prices remain as volatile as ever, with inflationary pressure prevalent in the shell egg market.

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FORWARD



Linda Evans,
Sales Director

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

WELCOME

Welcome to the fourteenth edition of *The Marketplace*.

It has not been long since I joined Reynolds, but already it has become abundantly clear just how passionate and knowledgeable the team is about sourcing and supplying the best produce, both from Britain and around the world.

This was reinforced to me when I first read *The Marketplace*, which is a totally unique publication. Not only does it help our customers to better understand the vast amount of variables which can impact on the production and supply of agricultural products, but it also picks out the big issues of the day to paint a picture on future supply and this edition is particularly topical.

THE FUTURE OF BRITISH FOOD

The Government is in the process of consulting with the industry and inviting people to contribute their thoughts to help shape the future for British food and farming.

We too have invited experts to contribute their views, which you can read in our feature article, 'A once-in-a-generation opportunity for British agriculture?'. The article provides valuable insight for anyone whose business is dependent on the supply of quality produce and ingredients and asks the questions; Is Britain heading towards becoming the golden standard for global food production? Can our farmers rise to the challenge in managing the environment alongside producing affordable quality food?

BREXIT

As Siôn Roberts, Senior Partner at EFPF reflects, the country appears to be currently 'treading water' as it waits for more clarity to come from the Brexit negotiations.

Industry has already been impacted by exchange rate movements and labour shortages, with some businesses already moving production to different parts of the world where future labour availability is more certain. Labour is clearly an issue across the board and will undoubtedly have a marked impact on production. Our issue focus on page 07 brings this issue to the fore.

And of course labour isn't just an issue for our farmers; it's an issue for all of us. As Paul Collins mentioned in the last edition of *The Marketplace*, one third of employees at Reynolds are EU citizens. In fact, at last count, our team share 51 different nationalities.

"IS BRITAIN HEADING TOWARDS BECOMING THE GOLDEN STANDARD FOR GLOBAL FOOD PRODUCTION?"

CAN OUR FARMERS RISE TO THE CHALLENGE IN MANAGING THE ENVIRONMENT ALONGSIDE PRODUCING AFFORDABLE QUALITY FOOD?"

INSIGHT, PREDICTIONS AND ANALYSIS FROM THE TEAM AT REYNOLDS

THE NEXT SIX MONTHS

But, at a more operational level, we are all acutely aware that business can't stop to take a breath and people need to eat.

The views of our procurement team provide a more immediate picture of what to expect over the next few months and you can find these within our fruit, vegetable, salad and dairy articles. We hope this insight will help you with your procurement planning and menu development for the six months ahead. From the damage to the Spanish Verna lemon crop which has impacted yields to the larger than usual potato crop, the team works closely with farmers and suppliers in different parts of the world to ensure minimum disruption to supply and the best value at all times. By sharing our sourcing plans, we aim to instil the confidence amongst our customers that your produce will be delivered as promised.

GENUINE INSIGHT

I very much hope you enjoy this edition of *The Marketplace* and that it provides you with what we hope to be informative and valuable insight from people at the coalface.

We know that the future is currently overshadowed by many uncertainties, but we are also confident that the role we have in bringing farmers and producers together with our customers affords us the ability to help everyone plan for a healthy future, and with a little more certainty.

We are always interested to hear from people who would like more information or with suggestions on topics to cover for future editions – so please do get in touch.

Thanks for listening.

TREADING WATER

Siôn Roberts,
Senior Partner



EFPF ■■■

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

UK ECONOMY

In many ways you could liken our current economic and political situation to treading water. Energy is being expended by politicians in trying to advance Brexit discussions with the EU, but little progress seems to be made – our head is still, just, above the water but no more. Yet at some point, politicians have to either sink or swim. The dialogue internally within the UK government and between them and their EU counterparts has to be resolved – one way or another.

There are so many unknowns and the situation seems to have been going on for a long time. Undoubtedly, it will continue for many months yet.

If we look at the economic position we aren't in a such bad place compared to where many thought we'd be. The much-predicted post-referendum recession never happened and consumers kept spending for quite a while, despite the odds. What's more, global economic growth has been strong, especially in Europe, which has helped British manufacturing industries. UK growth has not slowed as much as people expected and the world economy remains, for now, buoyant looking forward.

There remain clouds on the horizon, however. The uncertainty over Brexit talks definitely poses a short-term threat. Will talks collapse? Will Trump's recent trade war rhetoric damage economic performance in the EU and in the UK?

There is also a threat from the squeeze that has come back on living standards in the UK, as inflation has moved ahead of earnings again, and on top of this, corporate confidence is hampered by political uncertainty, with businesses delaying investment decisions until the outcome of Brexit is clearer. In the meantime, productivity remains stubbornly low, impacting overall prosperity.

FOOD INFLATION

If we look more specifically at the food industry, global agriculture prices were higher last year, but this year have started a little lower, largely as a result of falls in dairy and other sectors.

Overall, this means that UK food inflation is at a tipping point, and is likely to fall this year, subject to the 2018 harvest. Food inflation, which had been running at around 4 percent, is, therefore, turning around and is likely to be around 2 percent by the summer.

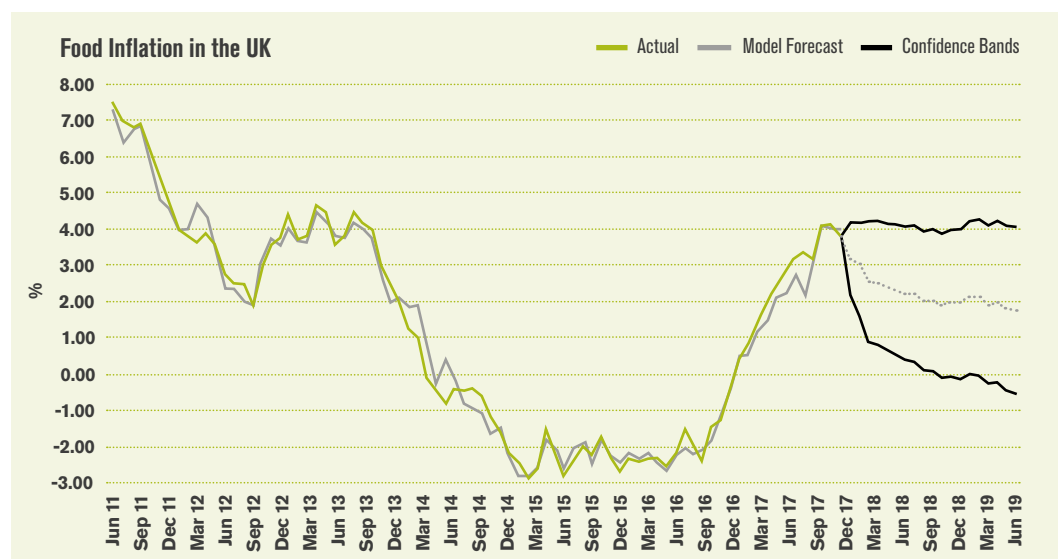
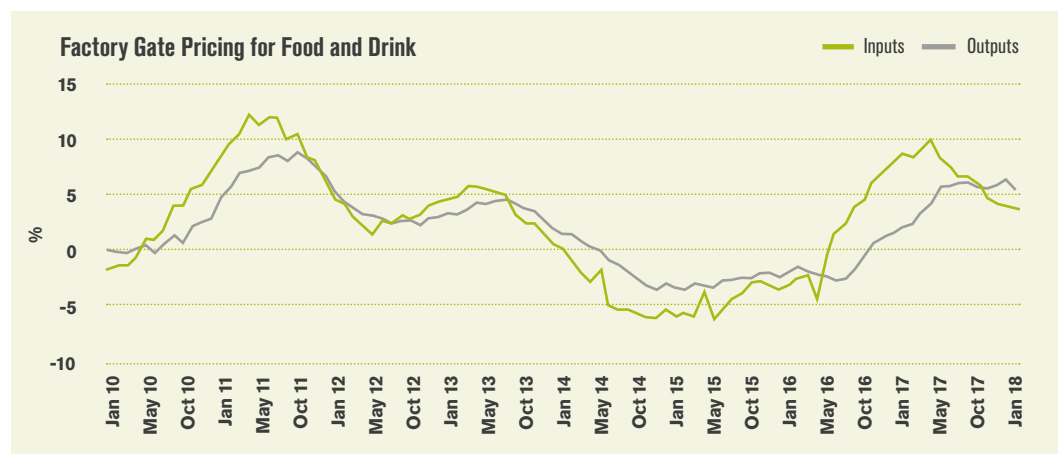
LOW INTEREST VERSUS HIGH DEBT

Factory gate pricing in the UK food sector is also reduced, as input prices had been running above output prices, but this is now changing around.

Despite food inflation in the UK coming down, globally there is still fear of a general inflation increase, linked to the strong global economic growth we are seeing combined with rock bottom interest rates. Both the Fed in the USA and the Bank of England here are trying to normalise monetary policy to control this potential inflation,

with interest rates expected to rise – perhaps three or four times this year in the US.

One of the fascinating things is that we have lived through an extraordinary period of very low interest rates since the global recession of 2008, yet debt levels are high, both for governments and businesses. This business debt could prove a challenge as interest rates rise. Some businesses have undeniably survived as 'zombie businesses' in recent years because low interest rates have meant that debt burdens haven't crippled them, despite poor underlying performance. An increase from 0.5 percent interest to 2 percent interest, for example, is a massive change and may finish some businesses with significant borrowings.



Before the Brexit vote, almost

70%

of workers in the fresh produce sectors may have been seasonal EU migrants.

THE OUTCOME OF BREXIT WILL INFLUENCE HOW GLOBAL COMMODITY TRADE PRICES IMPACT ON UK MARKETS DUE TO MOVEMENTS IN THE EXCHANGE RATE.

THE IMPACT OF BREXIT

Returning to Brexit, this, of course, has the potential to impact on every individual and business in the UK, and particularly those in food supply chains.

The outcome of Brexit will influence how global commodity trade prices impact on UK markets due to movements in the exchange rate. It will impact on international trade, affecting our access to markets and the barriers we must deal with to gain access. Exchange rates also set prices for many agricultural inputs – fuel, fertiliser and feed – and this will impact on profitability. Regulation might be changing and the labour supply is affected. Last but not least, we mustn't forget the potential for massive change to support payments. This will impact some sectors more than others but will certainly change the emphasis of payments in the future. We can't assume that agriculture and food businesses are immune to the sort of confidence issues that other industries face either, so wider economic uncertainty will change views on investment, which will impact productivity.

Many of these issues are medium term, however. In the immediate term, the two most significant issues are the exchange rate and the impact on labour availability. The sharp devaluation of Sterling has meant exports are more competitive and imports are more expensive. Labour availability since the referendum is becoming a pressing issue, particularly in fresh produce at a farm and packhouse level and throughout the food processing industry. Changes in the £/€ exchange rate since the vote to leave the EU have made it less attractive to work here for migrants from the EU, and there is also a perception that they are less welcome. This is borne out in immigration data, which shows that non-EU net migration is now much larger than net migration from the EU. Before the Brexit vote, almost 70% of workers in the fresh produce sectors may have been seasonal EU migrants so this change in migration has serious short-term consequences for the food sector.

This is driving a growing interest in labour-saving technology, but the implementation of this takes time and money. One of the challenges with some fresh produce sectors is that a large proportion of the overall cost is labour-related. Take Spring Onions, for example. Some 65% of the cost of producing a spring onion is labour, and they are easy to transport. If labour dries up or becomes more expensive, these products can be cost-effectively imported, impacting on UK farmers and supply chains.

SOLVING THE KEY ISSUES

There can be no doubt that the outcome of Brexit will be key. The next step in this process is whether the government can agree a transition deal with the EU, with pressure on them to do this by the end of March.

But big issues remain – what has, or hasn't been agreed with regard to the Irish border with Northern Ireland? The pressure is mounting, and Teresa May cannot simply 'kick the can down the road' – we are now getting to the point of decisions having to be made, one way or another.

The key issues for the food sector remain trade, labour supply and agricultural policy. It looks increasingly likely that we'll end up with some kind of soft Brexit – the Conservatives don't have a majority, or indeed consensus across their own party to enable them to get a hard Brexit through parliament – although with politics involved no outcome should be completely discounted. The Government's preferred position remains that we come out of the single market and customs union and replace it with something that replicates that arrangement without the cost, and with the freedom to negotiate our own trade deals. But they haven't yet been able to fully articulate what that might look like or how it would operate.

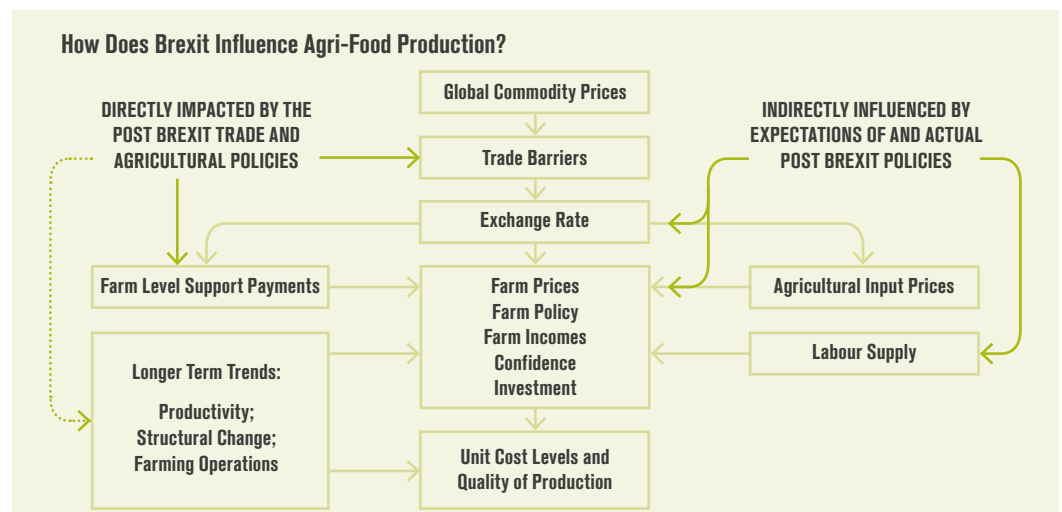
Recent developments have shown that the Labour party is in favour of remaining in the customs union, which would mean that we weren't able to negotiate significant trade deals ourselves. We are in danger of a stalemate among our own politicians, quite apart from finding common agreement with the EU!

The position on agricultural policy post-Brexit does seem to be becoming clearer, though. Michael Gove has been well received as Secretary of State at Defra, and he has clearly articulated that he wants a co-ordinated agri-food policy, linking consumers, food, health and the environment. He has suggested that public money will only be used for public good not simply paid out to those who own land and that farmers and growers will be given time to adapt to any new policies.

What's the outlook, then? Well, so much will depend on which way the Brexit discussions progress, but we won't have to tread water for too much longer either way, with Brexit now only 12 months away.

Brexit could, potentially, deliver benefits over the longer term to the UK food and drink sectors, as greater control over trade and agri-food policy will bring opportunities. There are, however, still some big issues to address and it is not clear how some of them will be solved – the current debate over membership of a customs union, and the ongoing availability of labour being just two examples. It is also unclear how agriculture will stand compared to other industries in any wider trade negotiations with third party countries and the impact that may have on the domestic industry. Some will argue that if we can't compete on price on international markets then we should instead compete on quality, and that will protect us. But a danger with that view is that any future trade deals may allow into the UK cheap imports produced at lower standards, which may undermine UK produce.

Whilst much still seems hazy, one thing is clear – success for the UK food industry will come from being as competitive as possible with standards set at a level that match consumer expectations.



SALADS FROM UK AND EUROPE

Matt Jones, Senior Buyer, gives his view on what to expect for the forthcoming season.

LEAFY SALADS

The majority of UK leaf supply is grown in the Murcia region of Spain from November to May. Low levels of rainfall over many months have seriously affected water supply in the area and the Trasvase canal which can be used to supply water from Northern Spain is effectively closed, until water supplies are replenished in the northern regions.

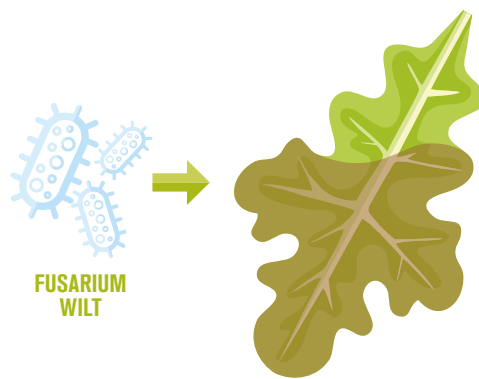
It is quite likely as we approach the end of the Spanish leaf season that, if seasonal rainfall levels do not improve, availability will tighten further. In this instance, supplies will be required from France before the UK season is up and running, which would be a costly exercise.

As always, the ease of transition from Southern Europe to the UK is very much weather dependant anyway, and contingency is important to ensure continuity of supply.

The UK leafy salad season generally runs from mid-May until mid-October, with the first plantings made towards the end of February and initial harvests targeted for 75 days later. Note that the growth cycle reduces as the season develops, falling to just 60 days during the height of the summer.

It is too early to predict how the early season harvest is likely to develop. Suffice to say that, so far at least, the first plantings appear broadly fine and on schedule. The cold temperatures seen in the UK during late February and early March should pose no major risk, with fleece

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used to protect crops from overnight frosts. However, any sustained period of very cold temperatures or, more critically, low light levels will reduce crop growth with the potential to delay harvesting.

Aggressive fungal disease, Fusarium wilt, was reported in UK lettuce crops for the first time in Lancashire in October 2017. The soil-borne pathogen has previously been found in lettuce crops in mainland Europe.

As the 'Race 4' strain found is a particularly aggressive type of the disease, with no known treatments or resistant varieties currently available, the potential threat to UK salad crops is significant. In addition, the disease is particularly difficult to control as spores survive for a long time in soil and crop debris. In the Netherlands, growers have been forced to move production to protect crops, or to only grow lettuce in cooler winter temperatures.



Jon Knight, Head of Crop Health and Protection at AHDB, said: "Despite the strict rules in the UK regarding quarantine and sourcing of plants from other countries to keep the probability of new threats coming in as low as possible, unfortunately the Fusarium wilt has still found a way through."

As ever, by ensuring our crop programme has a wide spread across the country, our growers aim to minimise the risk of any localised adverse weather conditions and regional crop issues. We are also able to select the best quality product available at any one time.

HARD SALADS

Although the period was nowhere near as extreme as the 2016/2017 season, cold temperatures seen across Spain over January and February have once again had an influence on Spanish and Moroccan hard salad production, which is where the vast majority of UK supply is grown during the winter. In particular, peppers and tomatoes have struggled to reach colouration levels at times and growers have been chasing crops throughout the entire season.

Market conditions have reportedly been made worse by Moroccan growers harvesting crops up to three weeks early at the beginning of the season, to maximise market share and fulfil their reportedly over-contracted supply commitments.

As usual for the summer season, UK and Holland will supply Reynolds with the majority of hard salads, including tomatoes, peppers, cucumbers and aubergines. As we approach the end of the Spanish and Moroccan hard salad seasons, the market availability of hard salads will invariably be lower than usual for the time of year. Consequently, domestic and Dutch growers will be in a position of strength leading up to the negotiation of summer contracts.

As always, Reynolds will offer customers the choice to procure domestic or imported products.

UK production will be broadly in line with last year and will remain at a significant price premium to Dutch crop. Retail demand for UK sourced hard salads is also increasing as we approach Brexit. Whilst the weak pound against the euro and higher year-on-year oil prices will influence input costs, labour will be the largest challenge for the season ahead by far (see issue focus below).

For Dutch hard salad growers, low light levels have been an issue throughout January and February, so plant growth has been very slow at times. In early January, many of the early plantings were reportedly up to two weeks

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60 DAYS

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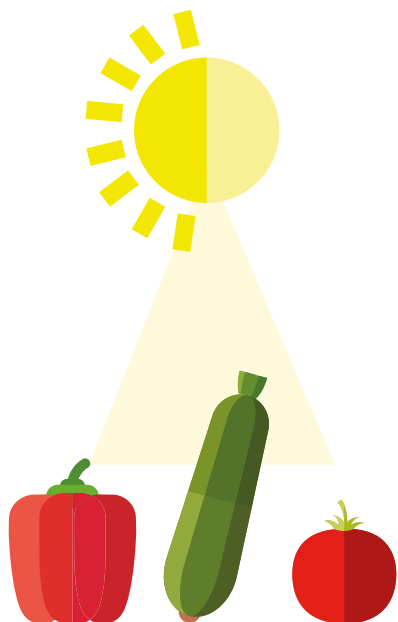
ULTIMATELY, WEATHER WILL DICTATE HOW AVAILABILITY OVER THE SUMMER PANS OUT, BUT THE SHOULDERS OF THE SEASONS COULD PROVE DIFFICULT FOR BOTH LEAFY AND HARD SALAD SUPPLY. LABOUR IS A MAJOR CONCERN FOR BOTH UK AND DUTCH GROWERS.

behind. Some growers have used artificial lights in the glasshouses to help bring on the crops, although many will be reluctant to absorb the additional costs. In addition, a small number of Dutch growers were reportedly affected by damage to young cucumber plants during Storm Eleanor at the start of January.

Whilst the cost of labour is a major issue for UK salad growers, it is also a significant issue for Dutch growers. Competition for reliable employees across Europe is fierce and wages are expected to rise across the entire European agricultural sector.

Following a successful trial of tomato supply last year, we will also continue to develop our relationships with growers in Poland. As well as offering an alternative option for supply in over-subscribed markets, Poland provides a competitive alternative, albeit currency is less favourable than last season.

"FOR DUTCH HARD SALAD GROWERS, LOW LIGHT LEVELS HAVE BEEN AN ISSUE THROUGHOUT JANUARY AND FEBRUARY, SO PLANT GROWTH HAS BEEN VERY SLOW AT TIMES."



ISSUE FOCUS



13%

FEWER WORKERS



"THE DECLINE IN EAST EUROPEAN MIGRANTS IS REFLECTED IN AN NFU SURVEY THAT SHOWS, FOR THE 2017 SEASON, UK GROWERS RECRUITED 13 PERCENT FEWER WORKERS THAN NEEDED."

AGRICULTURAL LABOUR

Without doubt, labour is set to be the key issue for the majority of UK growers this summer. Post referendum, there is an increasing shortage of EU migrants entering the UK to pick fruit and harvest vegetables. Some of the reasons for the decline in the labour pool include the fall in the value of the pound, increased demand in other EU countries and reported concern amongst migrants that they no longer feel welcome in the UK.

Figures published by the National Farmers Union suggest that, across the horticulture sector, a seasonal workforce of around 60,000 mainly EU nationals harvest and pack over nine million tonnes and 300 types of fruit, flowers and vegetables. Meanwhile, according to Defra, there were 67,000 seasonal workers employed within the sector in 2015. 170,000 tonnes of strawberries alone are estimated to be picked each year by 28,000 EU nationals who come to the UK for an average of 22 weeks between May and September, before returning home.

The decline in East European migrants is reflected in an NFU survey that shows, for the 2017 season, UK growers recruited 13 percent fewer workers than needed. The survey also showed a fall in the number of returnees denying the industry of much needed experience and skills.

Many farmers continue to demand a return of the Seasonal Agricultural Workers' Scheme (SAWS), which was closed by the UK Government in 2013, although this is yet to be realised.

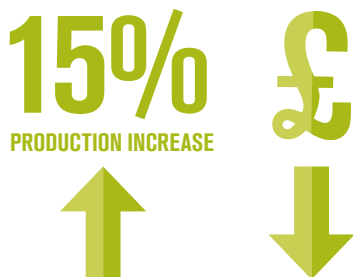
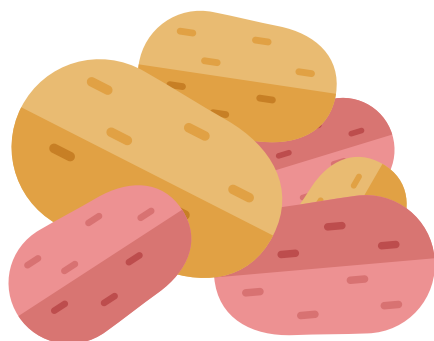
In April 2018, the minimum wage for over 25s is set to rise to £7.83 from £7.50 which will place further pressures on the cost of labour. However, most growers report that in order to retain staff, they already need to pay in excess of this figure.

Beverly Dixon, Director of Human Resources at G's, one of Reynolds' salad growers, has said that labour trends do not bode well. Beverly said of last year: "We had double the number of no-shows and double the number of early leavers this summer, which added to our labour bill." Beverly went on to say: "Usually we have a waiting list of 700 to 800 people in July. This year we had zero."

It follows that inflationary pressures are very likely on the more labour intensive crops this summer, including salads, berries and brassica crops.

BATTLING THE ELEMENTS

Matt Jones, Senior Buyer, explains the impact of tricky weather conditions on future vegetable supplies.



POTATOES

The 2017/18 UK potato season saw a significant year-on-year increase in total volumes harvested, resulting in generally lower than average market prices. Figures released by the Agriculture and Horticulture Development Board (AHDB) showed a total production increase of 15.2 percent on the previous season to 6.04 million tonnes, the highest level since 2011.

This is due to a combination of the planted area being up five percent to 122,779ha and yields being one of the highest averages on records, up 9.6 percent on the previous year.

Similar record harvest levels were reported by the five countries within the North-Western European Potato Growers (NPEG), with volumes up 17.2 percent on a five year average, to 29.33 million tonnes.

The vast majority of UK potatoes are harvested by October and then stored for the months ahead. Potato quality has been good for the season to date, with cold stored material keeping well. However, Maris Piper remains a challenging variety, with some bruising and skin finish defects.

Looking forward to new season crops, the first new potato harvests could be later than usual unless the weather improves. Cornwall experienced some very wet

"THE 2017/18 UK POTATO SEASON SAW A SIGNIFICANT YEAR-ON-YEAR INCREASE IN TOTAL VOLUMES HARVESTED, RESULTING IN GENERALLY LOWER THAN AVERAGE MARKET PRICES."

and cold weather over December and January, so plantings to date are slightly behind schedule.

Mainland growers will be hoping for some dryer weather conditions in order that the land is in good condition for plantings which start in early March.

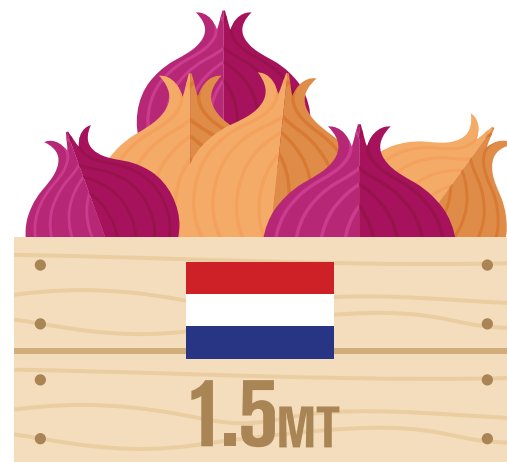
Based on seed sales to date, indications are that there will be a reduction in the volume of white varieties grown in the UK, given the market surplus this year. Seed sales for speciality varieties, such as Maris Piper, King Edwards and new/salad varieties remain stable.

Expectations are that less acreage will be committed to potatoes for the 2018/19 season, albeit the decrease is unlikely to be at the same increased levels over the past two seasons.

LEGUMES

With adverse weather conditions and water shortages becoming more prevalent, we continue to investigate alternative sources outside of the traditional African nations, including Kenya, Ethiopia and Zimbabwe for legume supply.

Trials continue in countries including the UK and Spain, to widen the scope of the product range available and the length of the seasons.



ALLIUMS

As with last year, Dutch and UK ambient onions in storage have lasted fairly well for the season. However, stock levels are now very low and, of the few which remain, slightly higher growth levels than normal are evident following on from what was a fairly changeable growing season.

Growers generally put their best crops into long term cold storage and stocks of domestic red and brown onions appear favourable. All being well, both red and brown are expected to last until July as normal. Holland has had a record harvest of around 1.5 million tonnes this season, although bulb sizes are smaller than normal and large sizes will command a premium.

Spain or Egypt are most likely to pick up supply from the UK and Holland until new season UK onions are ready to harvest from September.

Some early sets have already been planted in the UK, but the cold weather will have done little to move the growth on. Warmer weather will be needed to ensure a timely start to the new season.

The total labour input cost for brassica growers is somewhere in the region of

30%

putting severe pressure on this season.

SNOW AND FREEZING TEMPERATURES IN THE UK OVER FEBRUARY AND MARCH HAVE NOT BEEN IDEAL FOR UK VEGETABLE FARMERS, BUT A RETURN TO WARMER SEASONAL TEMPERATURES SHOULD SEE GROWING CONDITIONS IMPROVE.

ROOTS

High levels of rainfall mean that existing carrot stocks in storage will have been sitting in water for much of the winter before being lifted, which is likely to affect quality as we move through the current season.

At the time of writing, the last of this season's crop still to be lifted is under straw and the wet conditions mean that instances of cavity spot being seen are quite high. However, after grading these out of the marketable crop, yield weights have so far been sufficient to prevent any crop shortages.

Looking towards new season crops, the year so far has been much the same as last year for root vegetable farmers, in that it has remained wet for most of the season. In many areas, field work and preparation for drilling next season's crop has needed to be delayed to allow ground to dry.

These delays could mean an extended import season is required for parsnips and carrots, although much will depend on the weather over the coming months. As always, root crops will be grown across different regions in order to reduce the risks associated with localised, adverse weather. Even within each growing region, rainfall levels can vary greatly for example.

Producers are continuing to invest in labour saving machinery such as camera graders, as well as GPS controlled field applications and drilling techniques to keep costs down.

Input costs, such as chemicals, fertilisers, crop cover and packaging costs are affected by oil prices which are firmer than twelve months ago. Exchange rates are also a factor as most materials are imported from the EU.

Finally, growers are reporting a strong export market, which is keeping domestic prices strong.

"INPUT COSTS, SUCH AS CHEMICALS, FERTILISERS, CROP COVER AND PACKAGING COSTS ARE AFFECTED BY OIL PRICES WHICH ARE FIRMER THAN TWELVE MONTHS AGO."



BRASSICAS

The recent snow across the UK has prevented growers from harvesting brassica crops at times, including cabbage, kale, spring greens and cauliflowers. The low temperatures have also slowed plant growth, which has impacted head weights at times.

Weather issues have also been felt on the continent this winter, especially in Spain who provide the UK with a large proportion of brassicas over the period. Whilst conditions have not been as cold, temperatures have still been low and for a more sustained period than in the UK. Growers have also struggled to maintain supply at times and found it difficult to meet sizing requirements.

Returning to the UK, weather conditions have also affected some new plantings of brassica crops, due for harvesting in the summer. However, providing the UK does not see a sustained period of similar weather conditions return, thoughts are that there are unlikely to be any gaps in the summer supply of cauliflowers, broccoli, cabbage and kale.

With labour representing somewhere in the region of 30 percent of total input costs, brassicas growers will be under severe pressure this season from the fragile nature of the labour market (see issue focus on page 07 for further details).

The importance of technology is continuing to gather momentum as growers look to further mechanise grading and packing facilities, as well as to investigate opportunities for automated harvesting.

ASPARAGUS

The snow and cold temperatures over February and March are likely to delay the first batch of UK asparagus by up to two weeks. Warm weather would help the main crop catch up and encourage volumes to be ready in May.

Meanwhile, few issues are currently expected with the Peruvian and Mexican crop.



MUSHROOMS

Mushroom supply for the season ahead will be made up from a variety of sources, namely UK, Ireland, Holland and Poland.

For non-UK produce, exchange rates are a factor influencing prices, whilst the cost of labour is a concern for all producer nations.

BALANCING GLOBAL SUPPLY AND DEMAND

Sandra Kajda, Category Buyer, paints the global picture for the likely supply of fruit.

"ACCORDING TO THE US DEPARTMENT OF AGRICULTURE, 'CHINA'S CURRENT CONSUMPTION OF AVOCADOS IS ONLY A FRACTION OF THAT IN THE US, BUT IF IT WAS TO APPROACH THE US LEVELS, THE DEMAND WOULD BE 10 TIMES HIGHER THAN THE VOLUME CURRENTLY PRODUCED IN THE WORLD.'"



AVOCADOS

As we move towards April, as usual supply will transfer from the Northern Hemisphere, namely Israel and Spain, to the Southern Hemisphere, predominantly South Africa and Peru. This period between April and May is one of the two 'pinch-points' in supply as seasons come to an end or begin.

The Spanish and Israeli seasons are likely to finish broadly on time this year, although supply will still be tight due to high demand, and fruit sizes on the smaller size, especially from Spain.

Both Peru and South Africa are expecting good seasons, with Peruvian green-skin fruit arriving early into the UK this season, from late February. Avocado trees have an 'on' and 'off' year producing cycle, with one year producing a high volume and the next producing a lower crop yield. The 2018 Southern Hemisphere season is forecast to be an 'on' year for volume, although climatic conditions can change things quickly and disrupt supply.

Global demand continues to grow at a pace, including within China. In the US, per capita consumption of avocados now stands at around 3.2kg per person, compared to 1.8kg in 2010. According to the US Department of Agriculture, "China's current consumption is only a fraction of that in the US, but if it was to approach the US levels, the demand would be 10 times higher than the volume of avocados currently produced in the world."

Investments continue to be made in new and emerging sources for fruit, such as Portugal and Mozambique, to ensure supply keeps up with demand and seasonal availability gaps are minimised. However, there is a waiting list for trees, with nursery waiting times of up to 10 years and orchards take several years before bearing fruit.

With global demand continuing to outpace supply, many buyers are relaxing their product specifications and tolerances in order to secure fruit at competitive prices. Given this, and that Reynolds is reluctant to sacrifice produce quality to meet price points for premium fruit, it is inevitable that the price of class II fruit is set to increase.

STONE FRUIT

Although severe frosts in Murcia and Valencia over February will have damaged some early Spanish stone fruit crops, a generally good harvest is expected this summer. The cold temperatures seen in December and January will have helped the trees to end their period of dormancy and promote spring growth.

However, the damage has been considerably more severe in Italy, with about 70 percent of early season fruits reported to have been affected in the key growing areas of Apulia and Campania. As the trees were already in bloom, flowers which later turn to fruit were damaged which will mean a greater reliance on Spanish fruit.

TOP FRUIT

Stocks of European stored apples are incredibly tight as we move into the spring period, on the back of the worst Northern Hemisphere top fruit season in a decade. Of the stocks that do remain, fruit quality is far from perfect and many varieties will finish much earlier than for a usual season.

Reliance on fruit from the Southern Hemisphere will therefore be needed much earlier than usual, but news from the World Apple and Pear Association (WAPA) suggests that the season is expected to be delayed by one to two weeks.

According to WAPA, figures published at the beginning of February suggested that the 2018 Southern Hemisphere apple crop is expected to be stable compared to last year, at 5.31 million tonnes, with exports rising from 1.63 million tonnes to 1.65 million tonnes.

However, since the figures were announced, further reports have emerged that the South African top fruit harvest may be lower than expected. During a short period of extreme weather conditions, the country experienced temperatures up to 44 degrees centigrade for two consecutive days, followed by extreme rain which flooded orchards due to the hard ground caused by drought conditions. A severe hail storm was the final, but perhaps more devastating event in the series.

Apples will also be on the small size compared to a normal season from South Africa, due to the drought, which will put pressure on larger fruit sizes. Whilst South Africa is only one of several viable options for fruit during the summer, the country is a key partner to the UK.

Unfortunately, the total Southern Hemisphere pear crop is looking much less favourable still, with exports expected to fall by 15 percent, dropping to 569,349 tonnes. Market prices for all top fruit are expected to remain very robust throughout the summer period.

GRAPES

With supply from South Africa and India looking to dry up earlier than normal due to drought and strong local demand respectively, May and early June supply is likely to be tight.

As ever, the summer grape season will be dominated by Mediterranean production, starting in Egypt and Morocco, followed by Spain, Italy, Greece and Portugal. It is too soon to comment on likely harvests with any degree of certainty, but no major issues are currently predicted.

The Spanish Verna lemon crop was severely damaged last year. Estimates suggest that fruit yields are

30%

lower than a normal season.

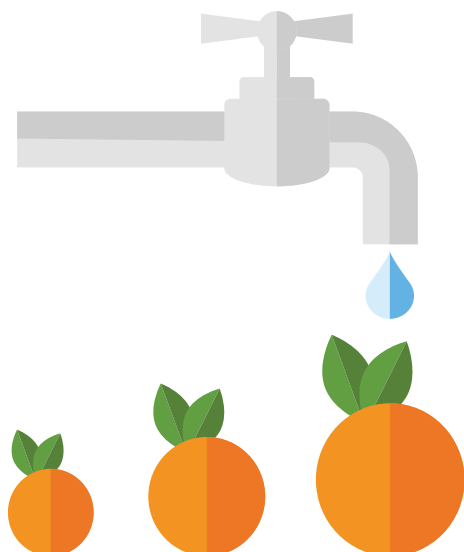
THE AVAILABILITY AND COST OF LABOUR IS THE BIGGEST CONCERN FOR BRITISH BERRY GROWERS THIS SUMMER, WHILST THE AVAILABILITY OF APPLES AND PEARS IS A MAJOR ISSUE.

CITRUS

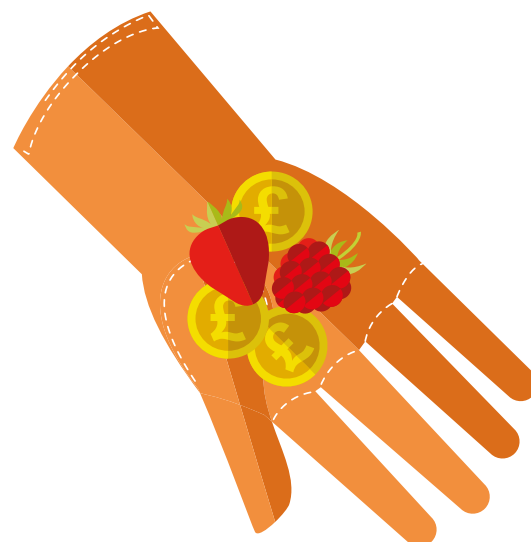
The Spanish Verna lemon crop which should start in April was severely damaged during the blossoming stage last year and estimates from growers suggest that fruit yields are around 30 percent lower than a normal season, leaving a significant shortfall in the market. An early requirement for Southern Hemisphere fruit is inevitable which will place significant pressure on price.

Elsewhere, more than 40 percent of Valencian oranges and easy peelers have been affected since mid-January by skin cracks. The problem is thought to have arisen due to a severe alteration in climatic conditions, namely water deficits and high temperatures followed by periods of heavy rain and cold weather. As with lemons, overall market availability will remain tight until fruit from the Southern Hemisphere begins to arrive in the UK.

Looking ahead, drought conditions in certain parts of South Africa will impact overall fruit sizes and availability of oranges this season. Along the Berg River in the Western Cape, most growers have already used their allocation from water schemes and the authorities recently announced that no more water will be made available for agriculture. Meanwhile, early season South African lemons are commanding very high prices from the Far East and Asia. In addition, Citrus Black Spot (CBS) remains a sizeable threat to South African fruit imported into the EU, which could deliver a serious blow to fruit availability should circumstances dictate.



"IN THE UK, MANY BERRY GROWERS ARE LIKELY TO PAY MORE THAN THE MINIMUM WAGE INCREASES DUE IN APRIL, IN ORDER TO GUARANTEE STAFF AVAILABILITY AND COMBAT THE WEAK POUND."



BERRIES

The winter berry season has been a difficult one for Spanish and Moroccan growers, with some reporting major crop reductions due to the very cold temperatures preventing the ripening of fruit.

Salih Hodzhov, production director for WB Chambers, a supplier to Reynolds, reported in February: "The growers we work with in both countries are saying they've never seen such low temperatures or such a difficult harvest".

As the Spanish and Moroccan seasons draw to a close, we look towards Holland and the UK as primary sources for strawberries and raspberries. Although the UK is most likely to supply the majority of fruit from mid-May, Holland will be required to bridge the shoulders of the seasons. However, Dutch light levels have been very low during February and March, which means that artificial lights are required to bring on fruit, and at a cost. Belgium remains an option should contingency be required.

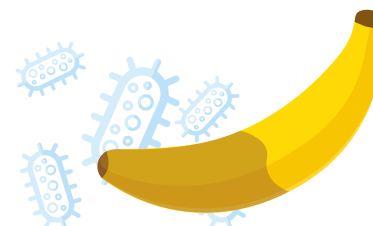
In the UK, many growers are likely to pay more than the minimum wage increases due in April, in order to guarantee staff availability and combat the weak pound. With the cost of labour a major proportion of input costs, berry prices are likely to remain firm throughout the season.

BANANAS

Banana supply to the UK and Europe is currently the tightest it's been for many years, following bad weather and vessel delays from Central America. Low temperatures, heavy rains and flooding have significantly reduced yields in Costa Rica and other Central American sources. It is unclear how long market prices will remain high.

The pound has improved against the dollar year-on-year, which will bring some relief to proceedings. However, ripening costs in the UK have increased somewhat due to rising energy prices, which will offset some of the benefit.

The Fusarium fungus continues to affect Cavendish banana crops across much of the world. Experts believe that it is quite likely to reach the Caribbean at some stage, where most of the UK's fruit is grown. With no current treatment found to protect crops against this disease and no commercially viable alternative to the Cavendish available, the situation is perilous and fruit availability is at a major risk.



A ONCE-IN-A-GENERATION OPPORTUNITY FOR BRITISH AGRICULTURE?

ACCORDING TO THE RT. HON. MICHAEL GOVE MP, BRITISH FARMERS HAVE A "ONCE-IN-A-GENERATION OPPORTUNITY TO SHAPE THE FUTURE OF FARMING AND THE ENVIRONMENT." THOSE WERE HIS WORDS AS HE LAUNCHED THE GOVERNMENT'S CONSULTATION DOCUMENT – 'HEALTH AND HARMONY: THE FUTURE OF FOOD, FARMING AND THE ENVIRONMENT IN A GREEN BREXIT' – RECENTLY.

OUR NATURAL CAPITAL APPROACH

With all the rhetoric and bluster around the wider Brexit discussions, Defra appears to be an oasis of calm and focus. Gove, the Environment Secretary, seems to have a clear view on the future of agri-policy and, for now at least, his approach seems to be viewed fairly positively by the wider industry.

Brexit will give the UK an opportunity to re-define agri-food policy for the first time in decades, as we have previously been constrained by the Common Agricultural Policy. So, what's on the table?

The current proposals are that support payments will be re-directed from a system where they are based on the area of land farmed towards a new approach focused on paying farmers 'public money for public good'. In practice, it is suggested that this will focus on the environment – through a recognition of the value of natural capital – and sustainable food production, although it could also include investment in skills and technology to improve productivity, providing public access to farmland, enhanced animal welfare standards and measures to support resilience of rural communities.

In contrast to the ambiguity caused by wider Brexit discussions, the government is also giving some certainty – it has committed to maintaining payments at the same level until 2022, although payments may be capped for those farming larger land areas.

Critically, it is also consulting with the industry to determine the exact shape and implementation of future policy, so this is not about being done unto – for now, at least.

But what will this new approach mean for the agricultural industry in the UK?

"Gove's proposals could really add strength to the current approaches, if implemented correctly," reckons Caroline Drummond MBE, Chief Executive of LEAF (Linking Environment And Farming). "Farming has changed massively over the last 25 years and farmers are already making a significant contribution to protecting and enhancing the environment. Adopting a natural capital approach would mean that this could be quantified and valued beyond the income forgone, which could be a rather blunt and ineffective measure of environmental enhancement."

"As always, the devil will be in the detail. Farmers need to retain flexibility and there must be scope for collaboration between farmers in order to really drive change across larger land areas. In addition, there should be clear agreement on what 'good' looks like, which isn't always easy," she added. "For example, how do you compare a vegetable grower in East Anglia with a dairy farmer in Cornwall, where the farm circumstances, weather and production methods are completely different."

"GOVE'S PROPOSALS COULD REALLY ADD STRENGTH TO THE CURRENT APPROACHES, IF IMPLEMENTED CORRECTLY," RECKONS CAROLINE DRUMMOND MBE, CHIEF EXECUTIVE OF LEAF."

ENVIRONMENTAL ACTIVITY AND THE DELIVERY OF PUBLIC GOOD

Alastair Leake, Director of Policy for the Game & Wildlife Conservation Trust agrees. "Farmers manage 70 per cent of the land area of the UK and produce our food, so they are critical to us all," he said. "The current proposals aren't anything new – there are two public policy reports – The Curry Review from 2003 and the Lawton Report from 2010 – that advocated more focus on environmental activity and the delivery of public good."

He goes on to say "What is different this time is that Gove is advocating payment by results and more focus on natural capital rather than land ownership for payment. This makes sense, but what is not clear is what a 'good' result looks like. Some farmers may initially struggle with the concept, as it is not about supporting food production, which is where agricultural support has come from historically. Going forward, farmers will need to look at land as an asset that can deliver food production alongside things like recreation, ecosystems services and energy generation."

"Farmers already recognise the need to be environmentally sustainable," adds Caroline. "UK consumers care deeply about these issues and farmers have already responded positively. We've seen this with the number of farmers that have joined LEAF and are using the LEAF Marque assurance system to demonstrate their environment commitments. 36% of UK produced fruit and vegetables are grown on LEAF Marque certified businesses, which means they are working to higher environmental standards. We also know that consumers will pay a fair and realistic price for products produced in the way that they expect, so the proposed new approach to agricultural support may well be more acceptable to taxpayers as well."

"Customers want safe, responsibly produced food," said Jim Moseley, Chief Executive of Red Tractor Assurance. "The industry has responded to an increasing customer focus on environmental performance, but in terms of assurance we can't add cost to producers that doesn't generate a return."

So far, so good then? But perhaps it isn't all quite as rosy as suggested. Some think that the new proposals are too focused on the environment and public good and haven't given enough emphasis to food production. Back in July 2017, a report was published by the University of Sussex – *A Food Brexit: time to get real* – which outlined

Food and drink is the UK's largest manufacturing sector, contributing

£112 BILLION

to the nations economy and provides 3.8 million jobs.

COMMENTARY:

- Caroline Drummond, Chief Executive, LEAF
- Jim Moseley, Chief Executive, Red Tractor Assurance
- Alastair Leake, Director of Policy, Game & Wildlife Conservation Trust
- Richard Mowbray, TH Clements.

that 31% of food consumed in the UK comes from the EU, and called for the government to "make a clear and explicit commitment to ensuring a sufficient, sustainable, safe and equitable supply of food, and set out how that will be achieved when and if the UK is no longer in the EU." It went on to suggest that "unless some such broad commitment is made and delivered, we foresee a danger of the UK's food supply becoming insufficient, increasingly unsustainable, unsafe and inequitable." Yet the consultation document the government has issued recently, despite mentioning food in the title, has not really focused on food security at all.

The NFU issued a response to the government's consultation, in which NFU President Minette Batters said: "High quality, safe and affordable British food is a public right and needs to be placed at the centre of Brexit negotiations. We absolutely need to get this right if farming is to keep delivering for Britain's economy, environment and food security. Farming is the bedrock of the largest manufacturing sector – food and drink – which contributes £112 billion to the nation's economy and provides 3.8 million jobs. This cannot be forgotten."

"FARMERS MANAGE 70 PER CENT OF THE LAND AREA OF THE UK AND PRODUCE OUR FOOD, SO THEY ARE CRITICAL TO US ALL."



A POINT OF DIFFERENCE?

What does seem clear is that for some producers there will be considerable change. Some sectors rely heavily on the current basic payments made as part of the Common Agricultural Policy to survive, as profitability is so low.

Potential capping of these payments for larger producers, alongside a change in emphasis towards natural capital and public good, could bring fundamental change for some. But will it bring an agricultural revolution?

"Agricultural payment mechanisms have changed regularly under the CAP system, so farmers are well used to adapting accordingly," said Richard Mowbray, from TH Clements, who farm 11,000 acres and grow traditional vegetables for retailers and the food service sector. At TH Clements, they've established a nature reserve on the farm to increase biodiversity and follow the principles of integrated farm management, as required by the LEAF Marque, which include taking measures to protect soil health and water quality, ensure energy efficiency, follow landscape conservation methods and engage with communities – much of the activity that Gove has suggested should be promoted within new agri-policy.

"TH CLEMENTS HAVE ESTABLISHED A NATURE RESERVE TO INCREASE BIODIVERSITY AND FOLLOW THE PRINCIPLES OF JOINT FARM MANAGEMENT."

"The market has been focused on environmental enhancement and sustainability for many years, so for producers like us with direct retail and wholesale customers, we've had to adapt our approach to ensure we are delivering the wider benefits alongside food production anyway. I actually think that the new approach to agricultural support will be a good thing – it will provide opportunities for those farmers that are adaptable and ready to get the best out of what comes."

"After Brexit we need to compete on a world stage," added Jim. "Other countries don't operate the same standards of food safety, traceability and environmental performance as we do, and we need to ensure that consumers can make easy choices based on food prices

and provenance. Our high standards – referred to as 'Golden Standards of British Food and Farming' by some – need to be recognised, protected in any future trade deal and communicated to consumers."

Therein lies a challenge, however. The UK operates to high standards that aren't necessarily followed elsewhere, but unless the point of difference that creates is easily understood by consumers, then any future trade deal could undermine the domestic industry by allowing in cheap imports of food that aren't produced to the same safety, sustainability and welfare standards but are much more competitively priced. "At Red Tractor we plan to be much more consumer-facing in the next 2 years to ensure that customers recognise the difference between products that carry Red Tractor Assurance and those that don't, so they can make more informed decisions," Jim added.

As with everything to do with Brexit, there is no doubt that change is coming to the way that farmers are supported. Whilst the proposed changes away from area-based payments and towards payment for public goods seems broadly acceptable, there remains concern that food security is not being given the focus it deserves, nor being recognised as a public good.

The consultation process, which ends in mid-May, will be critical. Viewed within the wider context of uncertainty over trade arrangements, access to markets and exchange rate volatility, Brexit still brings insecurity – both for farmers and for food security. And change benefits some, yet is to the detriment of others. A 'once-in-a-generation' opportunity? We'll see.



"GOLDEN STANDARDS OF BRITISH FOOD AND FARMING NEED TO BE RECOGNISED, PROTECTED IN ANY FUTURE TRADE DEAL AND COMMUNICATED TO CONSUMERS."

VOLATILITY IS THE NEW NORM

Kasia Charkiewicz, Category Buyer, predicts more uncertainty for the dairy industry.

DAIRY

2017 was an incredibly turbulent year for the dairy industry, which will be remembered for record high butter and cream prices which peaked in August/September.

Whilst expectations are for a slightly less volatile year ahead, the industry remains difficult to predict with many factors in play. Weather patterns, production levels both as home and abroad, existing stock levels, emerging demand and regulation are just some of the important considerations, before we even consider Brexit.

LIQUID MILK

Figures produced by the Agriculture and Horticulture Development Board (AHDB) suggest that between January and November 2017, UK milk production was seven percent higher than for the same period over the previous year.

This increase in production was seen despite the number of dairy cows falling by 5,000 in 2017, so it follows that the increase in overall milk production is being driven by additional yield.

Aside from a blip during the snow in February, UK milk production in 2018 to date has been relatively stable compared to last year, which appears to have mitigated any concerns that output will increase to unhealthy levels, at least for now.

Since the start of 2018, the farmgate milk price in both the UK and the EU has decreased slightly, presumably a result of reduced commodity prices and higher milk production. According to Defra, the 'UK all milk' average price for January fell by 3.2 percent from the month previous.

Whilst a reduction in milk prices is unlikely to encourage production levels to increase further, farmgate milk prices published for January 2018 remain around 13.5 percent higher than the same time last year. As we approach the spring flush, milk volumes will traditionally increase although, as always, the degree of volume increase will be weather dependent to an extent. Favourable weather will encourage good quality grass growth and an early return to pasture.

Despite the recent fall in farmgate milk prices, according to the ADHB at least, it appears unlikely that this will form part of a long-term trend: "early indications suggest that farm prices may settle or even move up again after the spring flush, although the deciding factor

"THE COMPETITIVE POUND CONTINUES TO MAKE UK CHEESE ATTRACTIVE TO BOTH THE EU AND DOMESTIC BUYERS AND PRICES ARE EXPECTED TO REMAIN FIRM, IN THE SHORT-TERM AT LEAST."



will be how wholesale markets hold up through the peak production period."

However, the modern dairy market is a global one and, although New Zealand's milk production for June 2017 to May 2018 is expected to be down by 1.5 percent year-on-year, output is now improving on the back of increased rainfall which will stimulate market availability. The only hard and fast conclusion is that experts remain unsure as to the future direction of milk prices, both at home and abroad. The volatility we have seen in the last few years is not likely to disappear – far from it – and the whole issue of Brexit brings a new level of complexity to the situation, not least the impact on exchange rates and then the effect on general economic and consumer confidence.



↑ 7%

UK MILK PRODUCTION INCREASE BETWEEN JANUARY AND NOVEMBER 2017

FATS

Following the holiday season, cream prices dipped at the start of January (as is normal for the time of year). However, little trade was conducted during this period and prices firmed during the month as demand, or at least interest, picked up.

During February, the UK Wholesale price, published by ADHB, rose by 19% over the period, to reach a level up 20% on the same period for 2017.

Meanwhile, the UK wholesale market price for butter also dropped during the early part of January, before increasing towards the latter part of the month. Since then, prices have risen again in February, by 17% on the month previous according to ADHB. At this level, the butter price still remains up by 25% when compared year-on-year.

Expectations of poor skimmed milk powder (SMP) returns in 2018, the co-product of butter production, suggest that butter prices may need to rise again later in 2018, if enough butter is going to be made for the market. In addition, the anticipated additional milk volumes seen during the spring flush are traditionally used to produce cheese, which could limit the availability of cream and butter later this year.

Wholesale Cheddar prices have not shown anything like the degree of turbulence we have seen in the butter and cream markets over recent times. However, exports of cheese from the UK grew by 7 percent in 2017 in volume

Farmgate milk prices published in January 2018 remain around

20%

higher than the same time last year.

ALTHOUGH FARMGATE MILK PRICES HAVE FALLEN SLIGHTLY IN RECENT MONTHS, BUTTER AND CREAM PRICES REMAIN AS VOLATILE AS EVER, WITH INFLATIONARY PRESSURE PREVALENT IN THE SHELL EGG MARKET.

terms according to AHDB, equating to almost 12,000 tonnes of additional exports over the year previous. The competitive pound continues to make UK cheese attractive to both the EU and domestic buyers and prices are expected to remain firm, in the short-term at least.

The real challenge for SME cheese exporters from the UK is the situation regarding access to key international markets going forwards – the likes of France, the US and South Korea are often critical to the overall export effort and favourable market access is going to be so important for them post-Brexit. The situation for Irish cheese exports to the UK, which are substantial, will also be of importance. The Irish agri-food sector exports to a number of key markets around the world, including Africa and the Middle East and the rest of the EU, but the UK is still by some way their number one export market. If fact, easy access to the UK market is likely to be just as important to Irish producers, as access to the rest of the EU is for the UK.

While the future is quite uncertain as we head towards the spring flush, it is clear that supply and demand are precariously balanced at present, and that the sustained market volatility and uncertainty adds a degree of complexity to purchasing cream and butter. However, in many cases, this sort of volatility can be regarded as the new norm. Around the world, especially in those countries which are more export focused, producers and processors are looking at ways of using new innovative contracts to try and reduce the impact of market movements as much as possible. Producers have in recent times been generally reluctant to contract product forward for long periods, without factoring in a degree of insurance against future market price rises. Inevitably, taking a relatively short-term approach to procuring dairy seems an appropriate response for many, especially in a market which is priced at levels which are still historically high.



Egg market size in 2017 (industry estimate)



EGGS

UK egg consumption has never been higher, following recent news from the FSA that salmonella has been completely eradicated from British Lion mark egg production and that runny eggs are safe to eat.

The general trends towards healthier eating and meat-reduction in diets are also both reported as helping to drive interest in eggs, as a valuable source of protein.

According to Kantar, the total UK egg market is currently growing at around five percent year-on-year, with free range eggs sales exceeding ten percent growth. Meanwhile, organic eggs now account for 6.9 percent of all egg sales in the UK. According to The Soil Association's annual market report, organic egg sales grew 7.4 percent over 2017, increasing further still towards the end of the year.

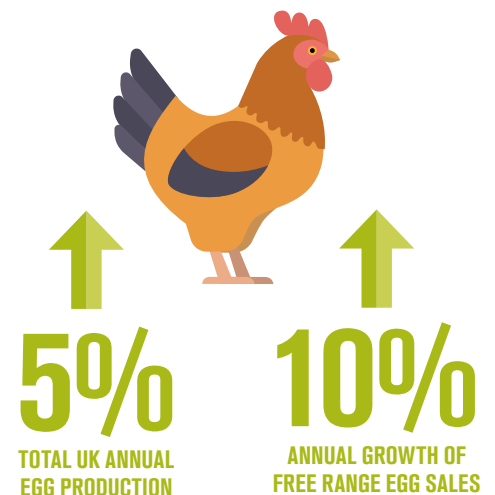
Since the latter half of 2017, this increased demand has seen domestic egg availability tighten somewhat. The situation has also been exacerbated by the Fipronil egg contamination crisis and Avian Influenza, both seen across Europe.

Whilst the UK is mainly self-sufficient in egg supply, some eggs are still imported, mostly for the manufacturing sector. However, this figure has been falling slowly and, since the change in the FSA's stance regarding egg consumption, more businesses are expected to convert to British Lion mark eggs. This extra demand is very likely to keep the market tight for the foreseeable future and

prices firm. Inevitably, UK supply will grow steadily to meet this increased demand, which should enable the UK to become more self-sufficient in egg production.

As with most sectors of the farming industry, the availability of labour from the EU is vital to the egg industry, but producers are seeing a shortage of seasonal workers. Mark Williams, the chief executive of the British Egg Industry Council (BEIC), claims that EU migrants currently accounted for up to 60 percent of people employed in UK egg packing centres and as many as 40 percent of those employed on farms.

The UK government has raised its risk of avian influenza in commercial poultry flocks from 'low' to 'medium', following an outbreak in wild birds in Hertfordshire.



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

AUTUMN 2018

Keep an eye out for the next edition of The Marketplace, in Autumn 2018.

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