BIRTWISTLES

Market Report

JANUARY 2022

Market Report

JANUARY 2022

KEY POINTS TO NOTE & OPEN WITH THIS MONTH

- 2021 in review
- Menu Focus
- Innovation, trends & flavours for 2022
- New Brexit regulations
- UK/Aus. Free Trade Agreement
- Other news
- Final Thought

Market Report

JANUARY 2022

2021 In Review

It's been another turbulent year as Coronavirus again dominated headlines. Whether it was the emergence of new variants, the vaccine rollout or the restrictions on our lives being imposed or lifted, COVID was never far away from the daily news and our lives.

In what seems a lifetime away from the first mutterings of the impending pandemic in March 2020, lockdowns-openings-lockdowns and inhibiting restrictions placed on business just to be able to open, it is now just two months short of two years that we have all had to endure the ever-changing landscape whilst still trying to remain positive about the future.

Although towards the end of the last twelve months have seen some progress, we have still had to deal with record fuel prices, food inflation, the ongoing labour/HGV driver shortages, raw material increases at a pace and a scale we have not seen before with record levels of pricing reached for proteins.

Entire supply chains were and still are impacted, with each and every link as we know it having felt the consequences.

The path to recovery was mapped out and clear starting from March to June but the bounce back was far from easy for many in the supply chain for the hospitality industry worth in excess of 10 billion.

Suppliers were reluctant to plan with no guarantees on their returns along with being worried about overproducing and underperforming returns.

The driver shortage was a particular threat to the recovery of the hospitality and catering industry and affected every corner of the meat supply chain. We started to notice gaps on retailers' shelves along with items missing from the menus at your local pubs and restaurants.

We had a plan …. and with engagement from our customer base, their flexibility along with our own intelligence and market information, we were able to react quickly to changes and keep the menus available. Our service levels were second to none and this was not achieved easily. We could not have done this without the engagement from you, our customers and the fantastic teams in our business at every level who really did go above and beyond.

To get back to the level required we saw some serious pressure on lines such as steak meat, burgers and chicken, which were all as expected in massive demand with the opening of the casual dining sector. There was little or no stocks available to cope with the bounce back, animals and birds were not on the ground and prices were on the move.

There were supply issues along with shortages, with normal levels of proteins not forecast to be back to normal until early Summer at best. We found ourselves like many competing for the same products, this did not improve throughout the year and the single biggest factor we face currently is the acute shortage of labour.

While we here in the UK were trying to come out of the restrictions to normality the majority of the EU were still under lockdown measures making the supply chain from the EU and availability very difficult. EU producers that were operating were only doing so at a reduced capacity and orders were affected by up to 60 % being not available. A difficult twelve week period from the EU was endured with more pressure on UK products to back fill the shortages pushing poultry prices up in May on average by 8% with 14% noted on some lines.

Feed costs for poultry increased by 10 % in May. In Poland the EU's largest poultry exporter, they had to endure during April when they wanted to resume productivity an outbreak of Avian Bird Flu in which during one week 20 million birds were culled again creating shortages and pressure on prices. It took until July for the country to be free from and have no new reported cases of avian bird flu and at last we had some visibility of more availability in the coming months.

In May we also saw the price for cattle break the £4 per kg barrier, prices for imported beef saw increases also in this month between 10-15 %.

Lambs also saw an above five-year average of over £1 per kg.

In June & July we saw the re-opening of European travel and with this demand for EU poultry again tightened. It was a case of two steps forward and ten steps back.

Producers were also now starting to see the challenges around the availability of labour with many only being able to operate at around 60% of capacity. This of course had a knock-on effect in terms of availability.

August saw the National Pig Association highlight the need for help with producers already at 25% less throughput.

The sector was "edging close to a major crisis" as staff shortages hit production, causing backlogs on farms and more gaps on supermarket shelves.

The resulting cut back on throughput meant that producers were once again having to keep pigs on farm for longer than would usually be the case.

The shortage of labour was driven by the new stricter rules on EU workers coming to the UK, furlough schemes, the expansion of jobs in other sectors along with the 'pingdemic' that resulted in more than 600,000 people per week being told to isolate by the NHS Test and Trace app.

It was also further reported that labour shortages were being felt across the entire pig sector, including on farms.

Pork processing plants were reporting absenteeism of 10-16% even before COVID-related absences, with a further 5-10% of staff self-isolating.

In some plants, it reached a critical stage, with production being cut by a quarter and pigs being 'rolled' into the following week, meaning backlogs started to build on farms.

EU staff returned home and did not come back, they had gone on to find alternative employment. Demand for British pork was strong, but pork plants were struggling to meet it because they did not have the staff to produce it.

September saw another challenge with the return of the education sector full time for the first time since the beginning of the pandemic. This did compound and worsen an already under pressure food supply chain from producers/production to deliveries. The urgent need for extra staff/drivers which were simply not available lead to further challenges across the sector.

We also saw in September KFC, Nando's and Greggs go from "Fast Food" to "No Food".

This news was the stark reality we faced and continued to face as a result of the shortage of labour at all levels of the supply chain.

We were under no illusion that the coming months were not going to be easy, flexibility needed to be prioritised. We as a business had to adjust our production methods particularly on value added poultry lines. We were and currently are unable to offer the full range until we are able to fully establish again a full dedicated team/unit for this area of the business.

It was hard to avoid the news and be informed of the current situation in many parts of the supply chain.

As we came out of the Summer and entered Autumn with the anticipation of a busy last quarter to 2021 another crisis came our way in October in the form of the fuel shortages could things get any worse? We coped admirably throughout and yet again maintained our service levels.
We also saw another pending crisis on the horizon with the muted shortages expected on CO_2. The government stepped in to temporarily subsidise the American firm CF Fertilisers which produced 60% of the UK's supply at a cost of many millions so it could continue to operate.

Market Report

JANUARY 2022

November saw the first highly pathogenic bird flu case confirmed in England. The case of Highly Pathogenic Avian Influenza (HPAI) H5N1 was discovered at a swan rescue centre in Worcestershire in the West Midlands of England. This was the first case of bird flu detected in the UK of the 2021-2022 flu season.

Menu Focus

Throughout 2021 and as mentioned in our review of the year we faced many challenges in terms of supply & availability.

The flexibility and interaction from our customer base helped keep meat in the kitchens and on the tables across the country.

Looking ahead into 2022 and innovation around menus, we can offer plenty of choice around cuts that have been more readily available in the last twelve months and if we/EU enter a short circuit breaker lockdown again in the New Year this could have a knock-on effect.

Low & Slow Cooking to cook meat over low heat for an extended period of time typically produces a more tender, juicy product has been regaining momentum during the pandemic, with a renaissance of slow cooking and crockpot dishes which can account for 10% on all menus. Slow cooked meats allow the versatility to use for multiple menu choices, whilst being an affordable option. We have some fantastic options across the main proteins for example:

- Whole Pork Collars, Whole Pork Ribs, Pork Tomahawks, Pork Bellies.
- Whole Flat Briskets, Beef Tomahawks, Beef Jacobs Ladder Plate Ribs, Beef Feather Blade.
- Boneless Shoulders of Lamb, Lamb Shanks

Even the cheapest cuts of meats can be turned into gourmet gold.

Chicken also featuring on 95% of menus as we all know it is such a versatile and popular staple protein all over the country. Popularity as we know is due to the fact that it is easy to prepare and considered one of the healthiest animal proteins enjoyed by consumers throughout the day. Although availability with this has been a lot better than it was in the Summer, we do still have some availability issues around thigh meat.

Innovation flavours & trends for 2022

We certainly have plenty to look forward to in the coming year. Currently in the mainstream we have British, American, Regional Mediterranean, Regional Mexican, Modern Indian & Thai along with Chinese. The flavour profiles around Spicy & Chilli, Herb, BBQ and Sweet Smoke all feature.

We have some regions already recognised including Korean, Caribbean, Regional Middle Eastern and Japanese, with flavour profiles around Earthy, Warming, Citrus, Fruity and Alcohol.

We also have some exciting and emerging flavours to look forward to include South African, North African, Vietnamese, Sri Lankan & Peruvian. All these have flavour profiles around the following Charred, Sour & Acidic, Bitter and Fermented.

A number of flavours are currently in the inception stage which may or may not feature in the New Year, these include a focus on cuisines from Malaysia, Philippines, Polynesian, Indonesia and Argentina.

We will of course keep you all updated and do hope to reintroduce at some stage our monthly specials which are extremely popular and would feature any new lines acting as a soundboard for feedback. THis has always been a very good benchmark in terms of deciding which to launch based on feedback/sales from our customer base.

Market Report

JANUARY 2022

New Brexit Regulations Come into force

The UK imports five times the amount of food than it exports to the EU, so the potential for delays and food supply issues in January is high.

With only days to go before the new rules are implemented, many remain concerned that January could be “a fraught month” with a concern is that not enough planning has been done to ensure the new requirements are understood by everyone in the food supply chain.

As of 1 January 2022, full customs import declarations will be required on all goods entering Great Britain from the EU, and custom checks will begin on those goods. It follows a Brexit “grace period” during 2021, which allowed for goods to enter under more relaxed rules and for businesses to prepare for the expected changes.

To help ease the transition of Brexit in 2021, the government introduced a temporary measure, under the Staged Customs Controls rules, which allowed most goods to come through from the EU without the need for businesses to provide full customs paperwork up front. However, the rules are now being tightened, and the requirement to make full customs declarations and controls on imports will come into force from 1 January.

In addition, the new customs import rule changes will require businesses to pay any relevant tariffs at the point of import, too, rather than being able to defer this for six months, which has been the case during 2021.

The new rules will require full customs paperwork up front at the point of import. This includes Certificate of Origin documents – a supplier declaration certificate confirming the origin of those goods, at the point they cross the border.

A customs declaration has always been required but the difference now is that a Certificate of Origin document is also needed on file, at the point of import. And without the correct paperwork, goods could be delayed or potentially rejected at the border with the knock-on effect potentially being very expensive especially around shortened shelf life on goods.

If goods are held at the border, the knock-on effect is huge. The logistics problem is global, with issues around container costs having knock-on effects for everyone. You’ve got the perfect storm at a time when the economy needs to rapidly recover post-Covid.

With the added bureaucracy and associated costs of the new rules impacting cashflow, already squeezed businesses could see the true cost of Brexit in 2022, with some suppliers forecasting price hikes of 15% to 20%.

Market Report

JANUARY 2022

UK-Australia FTA (Free Trade Agreement)

The UK and Australia on the 17th December finalised the free trade deal agreed in principle by the UK and Australian premiers Boris Johnson and Scott Morrison in London last June.

The accord, dubbed "historic" by the UK government, is Britain's first "from scratch" trade deal since leaving the EU and says it will benefit the UK by eliminating most tariffs on UK exports and unlock £10.4bn of additional trade.

However, UK Agriculture bodies have separately lambasted the agreement, stating it contains very little to benefit British Farmers.

Industry bodies have expressed mixed reactions below on the signing of the UK-Australia Free Trade Agreement.

In an unpredictable world where anything from a pandemic to animal disease outbreaks can happen, having access to high quality meat from a range of trade partners, on top of domestic production, is key to maintaining UK food security. The additional duty-free access within this agreement will contribute to that.

Reaction "A one-sided deal"

The National Farmers Union said: "As we feared following the agreement in principle, there appears to be extremely little in this deal to benefit British farmers. We will analyse the detail in full but on the face of it, this is a one-sided deal. When it comes to agriculture, the Australians have achieved all they have asked for and British farmers are left wondering what has been secured for them."

The UK's agreement surrounding beef and lamb quotas is also of concern. The agreement will favour imports of high-value cuts, despite this being the end of the market where British farmers tend to derive any value from their hard work.

The National Sheep Association (NSA) is disappointed that this deal has been pushed through and now signed without any resolution on how Tariff Rate Quotas (TRQs) could be managed in a way to limit potential damage to the UK's own domestic trade.

They have no confidence that a licensing procedure has been or is now being considered. "We are told the deal still has to be scrutinised by parliament, but from recent experiences we can be sure this will be a formality rather than an opportunity for positive amendments to be made."

According to NSA, the deal will see the Tariff Rate Quotas for lamb more than triple immediately from roughly 8,000 tonnes annually to 25,000, and then grow over ten years to 125,000 tonnes – at current consumption rates that is equivalent to more than 40% of the UK's total sheep meat needs, quite incredible really.

Market Report

JANUARY 2022

The (NSA) warned from day one that the UK sheep sector could end up being the sacrificial lamb for the benefit of other industries in a trade deal with Australia, and indeed New Zealand.

Beef Overview

Cattle prices weakened slightly in the most recent week. During the week ending 18 December, the deadweight all prime average slipped 2.2p, to 404.5p/kg. Reports suggest Covid related staff absences in abattoirs have increased, no doubt reflecting the increase in cases seen throughout the country.

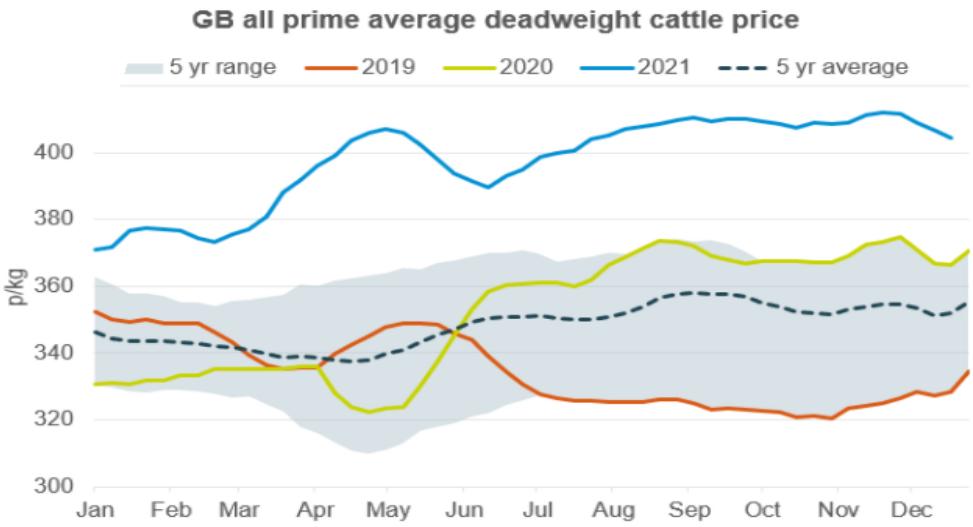
On top of this an unsettled undertone continues to emerge across the UK beef market. While pockets of the market remain active, catering confidence continues to falter amid talks of 'Plan C' and the introduction of tougher restrictions in January.

Incremental growth in hospitality trade in the lead up to December has been reversed with a host of cancellations in restaurants and bars due to people not wanting to have to risk self-isolating over the festive period and again not be able to spend time with family.

While small pockets of foodservice continue to report steady trade, others have cited a decline in walk in trade by as much as 35% over the previous week.

According to recent reports, office catering is at a standstill with several caterers ceasing operations. While mixed reports continue to be fielded, some feedback suggests that offices in central business districts will not reopen until the end of February.

Reports also suggest an uptick in formal event cancellations, including weddings initially set for Q1 2022.



Market Report

JANUARY 2022

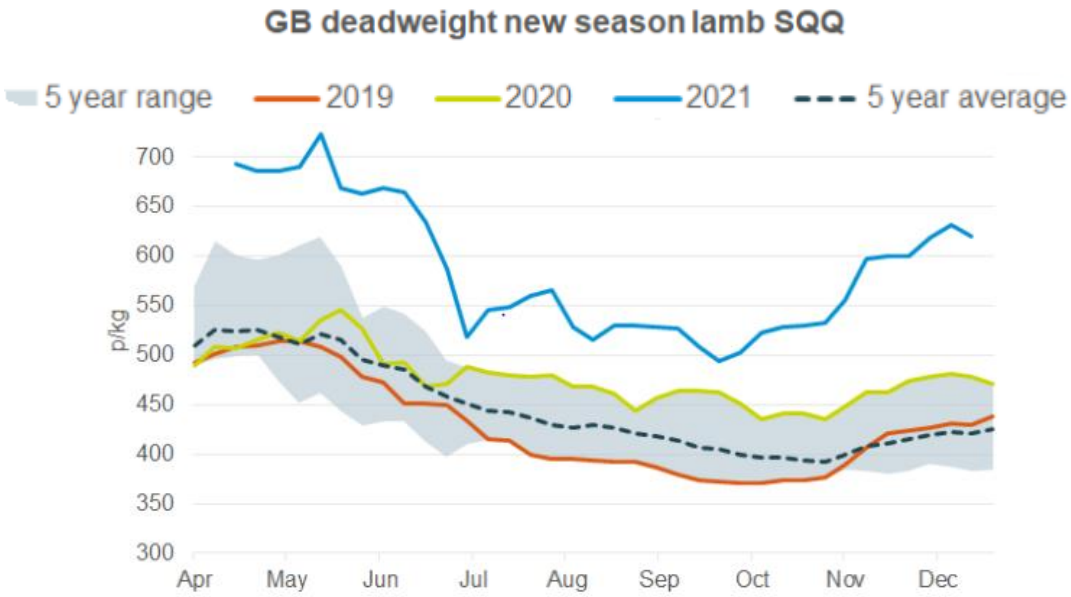
Global beef prices

On the international trade front, orders remain firm though export demand to Europe as a whole remains below expectations. Some participants have reported an uptick in meat volumes from South America, with discounts noted on steak meat out of Uruguay and Argentina.

China is more active having now lifted its suspension on beef imports from Brazil. Discussions have also commenced with China to lift suspensions on Irish beef. Reports suggest that fifth quarters are strong with offal and hide markets are on the up. Ox tails, livers, thick skirts, and cheek meat are reported as strong sellers in recent weeks.

UK Lamb Market Overview

The GB deadweight price reflected the previous move in liveweight prices, dropping 11p, to 620.4p/kg for the week ending 18 December. Estimated kill for that week totalled 237,000 sheep which was 24% down on the same week last year.



Industry reports also suggest that staff absences for Covid related reasons have risen again. There is uncertainty over demand, due to the foodservice sector struggling with an increase in cancellations. January always tends to be a slower period for foodservice, but with rising Covid cases it could be even slower than usual. This will have an impact on demand throughout the coming weeks, until there is more clarity on whether there will be any new restrictions.

Market Report

JANUARY 2022

Pork Overview

Finished pig prices remained broadly unchanged in the week ending 18th December.

At 194,100 pigs, estimated throughput was 6% higher than the week before but 1% below this point last year. It was one of the highest weekly kills of the year. The average carcase weight stood at 91.26 kg, slightly lighter than last week but still 3.74 kg above the same week in 2020.

Although this is moving in the right direction, it's too early to say that it's indicative of the backlog reducing. Many producers continue to face difficulties with high numbers of market-ready pigs on farm. Under normal circumstances we would typically see weights fall at this time of year, with producers finishing their pigs early ahead of the Christmas season.

Poultry overview

As we enter the festive period through to the New Year, we will of course be on a limited delivery schedule from the EU and have to work with possibly shortened shelf life on some products. We have tried to alleviate this in terms of keeping service levels high and you may receive on occasion through the festive period product that has been frozen, this will be clearly labelled at point of dispatch.

Global poultry demand on the rise, but supply pressures still to endure in 2022

Global poultry markets are expected to be strong in 2022, on the back of reopening economies, increasing vaccination levels, and stronger economic conditions. Growing demand, but caution that managing supply will be a key challenge in the coming year. This will create an environment of stronger prices in many markets worldwide. We have seen already the impact that demand and supply has had on prices in the second half of 2021 especially with price after price rises seeming to follow the last six months.

As general economic conditions improve, demand for poultry follows, with growth expected to reach 2% in 2022, despite the restrictions caused by supply challenges. In the second half of 2021 as noted above, supply growth was restricted by high costs, avian influenza (still ongoing), reduced capacity, and limited availability of inputs. We expect supply to remain tight in 2022 due to high input prices, reduced labour availability in many countries, and logistics challenges.

Input costs are expected to stay high in 2022, with elevated feed, labour, logistics and energy costs. Feed prices in particular are expected to stay high and volatile, with a 5% increase in feed costs in the first half of 2022.

Market Report

JANUARY 2022

Global Supply Chain Update

INTERNATIONAL TRADE:

With export demand firm and rising import costs reported, both of which are partly a consequence of a downturn in global production, container costs and delayed shipping remain a major challenge.

Right around the globe, supply chains are still in turmoil in the lead-up to Christmas. The global shipping crisis, UK energy crisis, Brexit, ongoing COVID restrictions and an international labour shortage amongst abattoirs and transport are at play in creating these issues.

Reduced service expected throughout 2022/3

Business confidence declined significantly in Q3 2021, with net confidence returning to negative after the positive outlook in Q2 2021. A FDF report shows that businesses feel pessimistic about the impact of ongoing labour shortages, rising consumer price inflation and the tightening of product margins.

Ian Wright CBE, chief executive at the FDF, said that the results “demonstrate that confidence levels across our sector have been hit by continuing supply chain disruption.” He added: “On top of this, the confection of increasing uncertainty about Omicron, the UK’s changing trading relationships, and the re-ignition of inflation, all threaten to undermine resilience across the sector. Many businesses now expect disruption and reduced service levels to continue right through 2022 and into 2023.”

The report also found:

- 44% noted decreased availability of warehousing
- 68% experienced a shortage of HGV drivers
- 68% noticed a shortage of process, plant and machine operatives
- 53% experienced reduced output/closure of production lines
- 79% noted increased production costs.

FINAL THOUGHT

“THIS YEAR MAY HAVE THROWN MORE AT US THAN WE PLANNED, BUT WE ALL STILL MADE IT”

Market Report

JANUARY 2022