



“UK FOOD SUPPLY IN THE 21ST CENTURY: *THE NEW DYNAMIC*”

Research Project Proposal

(Year 2: 1st October 2007 to 30th September 2008)

Introduction

Corporate decision makers and government policymakers are facing a future shaped by uncertainties of resource supply and distribution. Basic questions that had once receded from everyday life are reappearing as crucial points of debate in the developed world - how will we get our food, water and energy; what will be the impacts on the way we do business; how will rules be set, trust maintained and influence exercised?

UK food supply chains now rest on complex networks that span countries and continents. Serving a critical area of the British public good, their exposure to global trends and influences is nevertheless increasing all the time with changes already observable from:

- the impact on global markets of new levels of demand, particularly from the major emerging economies;
- the effects of climate warming on regions of production and the implications for trade and international relations
- inflationary pressures on food pricing
- the competing demands of food, fuel and feed on land in the UK and elsewhere
- the need to conserve energy and reduce damaging emissions.

“UK Food Supply in the 21st Century: the New Dynamic” is a major project that capitalises on Chatham House’s power to convene influential opinion and facilitate the discussion of often opposing views. The work is built around a core Panel of stakeholders with research expertise drawn from centres of excellence around the country. The project will evaluate the combined effects of a range of global conditions and influences on the UK’s food supply. Highlighting the challenges to be faced, it will give participants a system-wide perspective and identify the options open to professionals across the supply network.

The programme of work

The complex dynamic that faces players in the UK’s food supply chain is a product of five key elements acting together: increasing global demand, changes in global production patterns, scientific and technological innovation, trade and consumer behaviour. The Chatham House work is developing a new methodological approach that combines scholarly analysis of global influences with a detailed examination of their effects on established supply networks. Using the stakeholder and research expertise now assembled, it is examining both volumes and patterns of supply and the effects of interactions at various points throughout the supply networks concerned. Focusing on the supply of wheat and milk to the UK market, the research is examining in particular:

- why the same issues may be judged differently from different points in the network
- the significance of the individual positions taken by stakeholders
- possible economic and other breaking points
- possible responses to change and the effects they generate
- the limitations of the current model of governance (regulation by public authorities, self-regulation by companies and consumer self-protection).

Information is being gathered by means of interviews, Delphi studies and network analysis, with emerging propositions tested through facilitated focus groups, expert panels and workshops – these are being held at different points of the supply network and, in the process, engaging opinion throughout the UK. The culmination of the study programme will be a series of scenario play days that will provide the basis for the project's ground-breaking products:

- a new methodology for evaluating demand and supply arrangements
- models of the UK's future wheat and milk supply networks
- outlines of the new practices required in domestic and overseas (wheat and milk) production
- maps of the key stakeholder relationships, existing and future models of alternative governance arrangements.

The scenario-based methodology used will not be predictive. Rather, it will be directed to explore the strategic options and policy/operational responses open to industry stakeholders, examining the effects of different decisions on the evolution of the network. The accompanying analysis will set out to identify the key indicators of significant change, in particular the conditions for any potential mismatch between consumer expectations and supply.

The UK wheat industry

For cereals generally, the emergence of a global market for bio-fuels is creating significant changes to the global dynamic. A widespread switch to crops for bio-fuels is in progress (ethanol production is predicted to consume 31% of the US corn harvest by 2016)¹ creating increasing concerns about the global competition for food and its associated resources, in particular land.² Though significant questions remain about whether current bio-fuel policies in the US and European Union will continue to drive long term structural change to global trade patterns, there is no doubt that this dynamic is currently contributing significant inflationary price effects. For wheat in particular, this must be set against rising consumption levels of wheat for food and feed, lower levels of stocks due to poor weather conditions, changes in the availability of imports and further inflationary pressures on input costs. In the UK, there is widespread uncertainty as to the shape of the new market and the nature of future supply options to meet demand. Questions are raised in particular over the potential use of set-aside and whether current export surplus will meet demand or be absorbed in a significant switch away from food/feed crops to bio-fuels. The programme to reform the CAP is continuing and regulatory controls to reduce emissions and general environmental pollution are increasing. There are also the key uncertainties created by the effects of climate change that have the potential for changing the pattern of wheat production globally.

The complex interplay of these factors could create significant changes in the landscape of the UK cereals industry. A series of workshops and associated research strands will address specific issues affecting wheat. Using the scenarios developed as part of the main programme of work, they will explore the direct effects on the UK industry of:

- the growth of the bio-fuels market
- global competition: changing patterns in global wheat growing areas and the availability of imports
- increasing trade liberalisation and globalisation
- potential changes in input prices
- environmental regulatory pressures
- evolving consumer behaviour

¹ www.usda.gov

² UN Energy (2007), Sustainable Bioenergy: A framework for Decision Makers. (<http://esa.un.org/un-energy/pdf/susdev.Biofuels.FAO.pdf>)

The UK dairy industry

The UK dairy supply network has seen significant changes since de-regulation in 1994, among them a continuing reduction in the number of dairy producers (7% per year)³ and the rationalisation of the processor base. While the UK is self sufficient in liquid milk, an increasing trade deficit (£971M in 2006)⁴ has seen the market for other dairy products increasingly exposed to global effects. This has been illustrated most recently by increases in the prices of commodity products (skimmed milk powder has risen by 140% since 2006)⁵ caused by poor weather conditions in Australia and the US and strong global demand. The move to single farm payments and a decrease in price support mechanisms will add to uncertainties.

The key focus for the future is likely to be on the industry's successful transition to the open market. On one level, with global demand set to continue to rise on the back of higher incomes in developing countries, significant opportunities will present themselves. The challenge will come in deciding how best to exploit those, not least in the face of changes in trade patterns, inflationary pressures on global feed prices, stiffer environmental regulation and uncertainties over the move to a low carbon/greenhouse gas economy.

Against this background, the Chatham House programme will examine:

- the transition to a market-led business model
- the UK's competitive position and capability to exploit new markets
- pricing issues
- the effect of the continuing reduction of the producer base and further producer rationalisation
- environmental regulation, including pressures to reduce emissions
- evolving consumer behaviour.

Benefits of the work

As UK food and drink industries adjust to increasing exposure to the open market, it is vital that individual stakeholders develop the capacity to plan for future market eventualities. The activities supporting the Chatham House research programme will provide a rare opportunity for stakeholders across the industries to examine the issues together and in partnership with an outstanding research team. The scenarios created, along with the evaluation of specific effects on the wheat and milk supply networks, will provide valuable insights into the potential evolution of the food system in the UK. These, and the intended 'road test' of a range of potential responses, will support the development of better informed investment and market strategies both within individual organisations and across the food supply network as a whole. The new methodology will also be employable across all food - and other - supply networks, informing industry responses to change wherever required.

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Annex A Project Participants
Annex B Project Management

³ Milk Development Council, www.mdcdatum.org.uk

⁴ Milk Development Council, www.mdcdatum.org.uk

⁵ Wallopp, H., Global dairy crisis will send up cheese and butter prices, The Daily Telegraph, Tuesday, June 12, 2007

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Project Participants

The Stakeholder Panel and research team members are assisted by the contributions of a wide circle of ad hoc advisers from sources that include the European Commission.

The Stakeholder Panel

The core Stakeholder Panel is made up of senior representatives of organisations at each point of the supply network: food production (including suppliers), manufacturing and processing interests, logistics, the consumer perspective, government, the risk sector and academia.

The Research Team

With specialist scientific and technological, economic and additional consumer-related expertise to be co-opted as required, a research team has been assembled that represents excellence in each of the relevant fields:

CHATHAM HOUSE: (Susan Ambler-Edwards) the link to expertise around the world on the analysis of international issues

CARDIFF BUSINESS SCHOOL (David Simons, Kate Bailey, Alexandra Kiff): supply chain lean thinking/elimination of waste, supply chain design and sustainable development, performance measures, cross-supply chain collaboration, the use of information flows in business environments

CITY UNIVERSITY (Professor Tim Lang): food policy analysis, human and environmental health issues as they relate to social justice and culture

ECONOMIC AND SOCIAL RESEARCH COUNCIL/CARDIFF UNIVERSITY BUSINESS RELATIONSHIPS, ACCOUNTABILITY, SUSTAINABILITY, SOCIETY CENTRE (BRASS) (Professor Terry Marsden, Professor Robert Lee): analysis of business relationships to promote sustainability, accountability and social responsibility, interaction between businesses and their social and physical environment, governance: accountability across the food supply chain, national, regional and local government and the responsibilities of commercial interests and consumer/social groups

OXFORD UNIVERSITY, Said Business School (Hardin Tibbs): scenario planning and strategy to address global concerns, the facilitation of debate, the future effects of change

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Project Management

Chatham House

Chatham House (the Royal Institute of International Affairs) is a charity-based organisation that was founded in 1920 and officially established by royal charter in 1926. Membership-based, it works to promote the understanding of key international issues. Chatham House undertakes **independent** geo-political and economic research and its analysis-based debate is conducted through meetings, briefings, conferences and publications as well as through its library and expert interviews for the media. From its position at the forefront of the global debate, Chatham House is now focusing on a future shaped increasingly by the distribution of natural resources.

“UK Food Supply in the 21st Century: the New Dynamic” is a major project that capitalises on Chatham House’s power to convene influential opinion and facilitate the discussion of often opposing views. It will link the interests of a number of research Programmes within Chatham House, including Energy, Environment and Development, International Economics and Asia. Led by Susan Ambler-Edwards, a UK Ministry of Defence official on secondment to Chatham House, the project is being conducted entirely under the auspices of Chatham House and according to its ethical guidelines. Founded on independence of analysis, their principles are shared by all members of the project’s research team.

Governance

The original project proposal underwent a structured process of evaluation from June 2005 until February 2006. In that period seven by-invitation meetings were held of a discussion panel called the Food Supply Working Group. Chaired by Chatham House, the organisations represented in the discussions were: DEFRA, HM Treasury, the Cabinet Office, City University, Reading University, Cardiff Business School, the Institute of Grocery Distribution, The Packaging Federation, the National Farmers’ Union, Aon UK, Monsanto UK, Nestle UK, the Agricultural Industries Confederation, and the European Commission. The issues considered included:

- the dependencies inherent in the UK’s milk and wheat supply arrangements
- a technical appreciation of risk versus uncertainty in the operation of supply networks
- an initial analysis of key strategic influences operating on milk and wheat production and supply
- patterns of consumer behaviour from the 1950s onwards (in particular the balance between price-led and values-led purchase).

A formal Stakeholder Panel was then established in June 2006. In project governance terms, that remains the core body around which the project’s research activities revolve. The Stakeholder Panel is made up of senior representatives of organisations at different points in the supply network: food production, manufacturing and processing interests, the retail sector, the consumer perspective, government, the waste industry, the risk sector and academia.

Administration

All funds raised to support the project are payable to Chatham House from where they will be administered in pursuit of the research, testing and publication activities specified.

The project’s work will set out to engage opinion throughout the UK, aiming to take particular account of the circumstances operating in Wales and Scotland. To allow maximum flexibility of input, the work will be accommodated in a password-accessed Chatham House web-page.

The same site will also deliver provocateur-style inputs to the research team and electronic peer review of proposed outputs.

Promotion

Opportunities for publishing results exist at each stage of the research programme. Key stakeholders will be encouraged to use them as a basis for debate and planning within their respective organisations. Each member of the project research team will also have the right to publish academic papers that further develop the project's thinking in each of the specialist fields concerned.

A major Chatham House review conference is planned for late Summer 2008 to present the findings of the research work. An overall project report will be published in Summer/Autumn 2008.

All outputs published by Chatham House will be available in hard copy and on the Chatham House website.

Evaluation

Judgments about the value of individual lines of work will be reached jointly throughout the study programme following consultations between Stakeholder Panel members and the research team. In terms of the final products and outcomes of the project, indicators of success would include:

- an expressed interest maintaining a permanent forum for discussion of the issues within Chatham House, one that would be offered as a means of engaging interests around the complete supply network rather than just sections of it;
- changes in stakeholders' business plans as a result of either participation in the work or aspects of the project's findings;
- a decision to take the current phase of the research work to a further stage.