Escalating UK flour prices

A sign of a broken post Brexit Britain or yet another Covid caused crisis?

by Levana Hall, Milling & Grain magazine

Flour is a staple food throughout the world. In the UK this is no different - with about 11 million loaves of bread, two million pizzas and 10 million cakes and biscuits made every day, a feat that could only be achieved with the daily production of approximately 14,000 tonnes of flour, which is present in roughly one third of all supermarket food products.

The price of flour has been on the rise since the 1970s, starting off at just UK$0.12 (US$0.17) per 1.5kg, reaching almost UK£0.70 (US$0.97) by 2004. In 2011 there was a huge spike in flour prices, reaching a peak of UK£1.34 (US$1.85) per 1.5kg of flour, although this spike was due to a series of adverse weather events, such as droughts and high temperatures, as well as flooding in other parts of the world reducing the majority of crop to just feed grade. Plantings were delayed due to unforeseen weather changes, rare freezes, and spring rain, all destroyed potential crops, causing the stock-to-use ratio to fall close to a 40 year low.

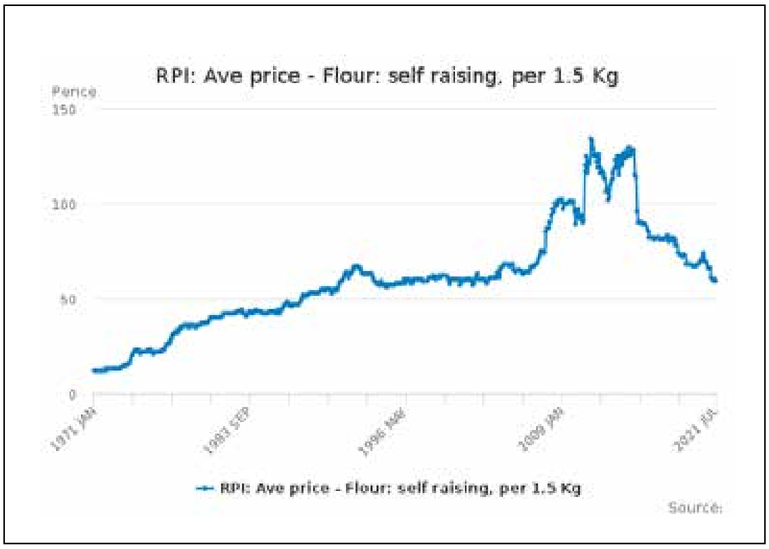
Supplies ran low again in 2014, causing another price hike, but dropped down to around UK£0.90 (US$1.24) per 1.5kg in 2015. Flour prices had been on a slow decline since then, reaching as low as UK£0.68 (US$0.94) per 1.5kg, but rose quickly during the pandemic to UK£0.74 (US$1.02), so the effects were not as bad as the 2011 price hike but still bad enough that it affected those across the UK.

As the pandemic slowly ends, the price also lowers, staying around UK£0.59 (US$0.82) for now. There is still a potential for price spikes, although this would be due to weather conditions now that we have the pandemic under better control (See Figure 1).

The Brexit effect

With the UK leaving the EU in January 2020, many supply chains have had to adapt to new rules, some even ceasing trade with the UK altogether. It has been difficult to judge how much it has affected us, with Covid-19 hitting around the same time and causing more damage to the economy it leads to some tangled data.

With additional customs and safety checks being introduced in January 2020, trade fell sharply, exports from the UK to the EU



were five percent lower in April 2021 than in December 2020 according to some companies, but elsewhere the figures were closer to 24 percent (see Figure 2).

The baking industry took one of the bigger hits when dealing with the Brexit fallout - as demands for flour and grains rose, so did the prices. Flour trade has had more problems all over the country, where a lot of flour that we export contains a high proportion of Canadian or American wheat.

The Republic of Ireland has a heavy reliance on flour imported from the UK, but with tariff imports increasing their costs, consumers could see a nine percent rise in the price of bread, causing a potential knock-on effect between the nations.

Most millers will already be aware of this, including director of the UK Flour Millers, Alex Waugh. “We have certainly noted the impact of this issue, and indeed the concerns of the flour milling sector were raised directly with the [European] Commission and UK government on more than one occasion before the TCA was signed,” he says. “We particularly highlighted the potential impact of the now-agreed rules of origin on Irish bakers and consumers.”

There are a few solutions to this problem, however. “The most obvious would be a slight adjustment to the product-specific rules of origin applying to wheat flour, so that it would be acceptable to make flour from third country grain where the originating grain would itself have been subject to the same tariff in both jurisdictions.

“It so happens that both the UK and EU apply a tariff of zero to the high-quality Canadian and US wheat used to make the flour in question. This is because grain of the required quality and with the correct technical characteristics is not available within either the EU or the UK.”

A steady supply of wheat to mills and flour to bakeries is needed to keep supply chains running smoothly, disruptions in this could cause effects across the whole industry, and
a shortage could lead to increased prices. Throughout the pandemic, the Government has recognised millers and their situation by helping with the necessary flexibility needed to deal with risks in staff absences and growing demand.

Global shortage of logistical resources

Despite the pandemic drawing to an end, issues still continue to arise that have the ability to affect supply continuity. There have been major HGV driver shortages across the UK, there was already a decline before the pandemic, but it has worsened in the past year.

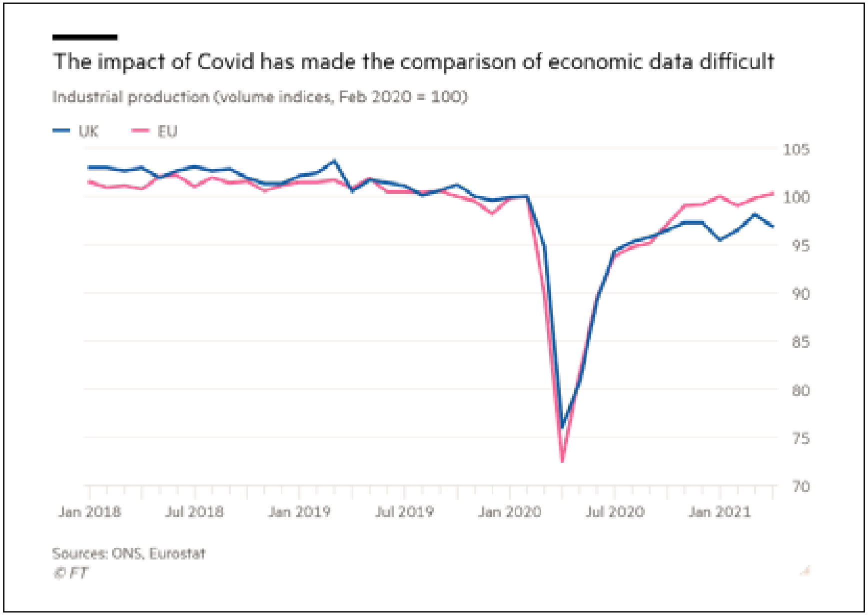
There are many reasons for a shortage of drivers, such as HGV training capacity being restricted due to lockdowns, retirement of HGV drivers, as well as EU drivers leaving the UK – another potential Brexit side effect.

If there are no HGV drivers, it is a lot harder to get produce to where it needs to be. There is also a lack of short-term visas being given out, which means fewer drivers are able to go to and from where they are needed.

Not only is there a shortage in HGV drivers, there is also a global shortage of shipping containers. Many countries implemented national lockdowns at the start of the pandemic, meaning shipping companies began to reduce the number of cargo ships they were sending out. This stopped the flow of imported and exported goods, and meant the empty containers weren’t being collected.

As consumers spend more time in lockdown, they would turn to online goods more, which were often imported. This has bumped up cost and demand, resulting in companies struggling to keep up. Even in the UK, importers are facing additional delays and charges, so goods are taking even longer to get to consumers and costing even more.

Not being able to import goods at the right times means delays in the milling industry, wheat is used by millers in the UK to blend with lower quality domestic milling wheat, without the imported wheat millers will have to use more of their own produce. This results in millers using up their supply faster, meaning higher costs for everyone else.



Brexit breakdown or Covid catastrophe?

Some believe the 'pingdemic', referring to when you are pinged by the NHS Covid track and trace app, is causing shortages in production, as when you are pinged you have to self-isolate even if you have only been in the general vicinity.

This means more employees will get called out of work, slowing down production. Another potential cause in shortages could be due to the stockpiling that took place at the start of the pandemic, pushing stock to its limits very early on.

Others believe it is purely due to Brexit that food shortages are rising. Many aisles in supermarkets will be full one week and empty the next, as many deliveries were made via EU companies and even small business owners, who now can't afford to pay the admin costs of the paperwork since Brexit.

Now, deliveries go through London, which can cause further delays due to border checks. Some of the food imported has quite a short shelf life, so by the time it gets through all these delays there isn't enough time to get it to the stores and sell all the stock, causing lower quality food to be sold and potentially losing customers.

This will affect smaller businesses more than the larger supermarkets, but it will still have a lasting effect for anyone involved in the importation of goods.