

The Rt Hon Penny Mordaunt MP
House of Commons
London
SW1A 0AA

15 July 2022

Dear Penny,

How to ease the cost of living crisis while supporting the UK's food and drink manufacturing sector

The UK has a brilliant food and drink manufacturing sector. It's hard-working, innovative and successful. It's our companies who ensure the fantastic range of food and drink that everyone, everywhere across the UK, can buy in shops, train stations, cafes, leisure centres and along our high streets every day. Not only does this sustain us, but it gives us all enormous pleasure.

In doing what we do, the thousands of companies in our sector also create economic opportunity right across the UK. There isn't a single parliamentary constituency that doesn't host a food and drink manufacturing site. Our industry employs nearly 500,000 people directly, and many more indirectly through our supply chain. These are good jobs, which are the stepping-stones to great careers for many thousands of people, and they are the lifeblood of so many communities.

But our industry cannot be taken for granted. Our success is hard won. Our margins are slim and have been relentlessly squeezed by the pandemic and its impacts, and now by the crisis in Ukraine. All our companies are doing everything they can to contain the impacts of inflation. We know we have a responsibility to provide good and affordable food, and we are cutting costs everywhere we can to limit price rises for shoppers.

But there are limits – our companies must also remain viable if they are to be a vibrant part of our economy into the future. We are now in the tenth consecutive month of food price inflation. With the cost of ingredients and energy still rising relentlessly, companies in our sector think that food price inflation still has some way to run.

With this in mind, there's more the government must do to support us through the cost of living crisis to help contain price rises for households and to help our sector emerge from the crisis in growth. I hope, if you become the UK's next prime minister, we can count on your commitment to support us on:

- easing **labour** shortages, for skilled and unskilled labour. A shortage of labour and skills is one of the drivers of food price inflation. We need government support both in finding a short-term 'bridge' and in working with us to devise medium to longer term solutions that secure a future pipeline of skilled labour into our critical sector;

- creating agile ways of supporting our sector to boost **productivity**. Given the labour shortages, there's now a very strong case for companies to make investments that boost their productivity – from automation to digital and advanced technologies. There are a range of ways in which government can incentivise this investment by helping to reduce the risks of taking on more debt. An imaginative, swiftly rolled out government scheme (for example, a fund that companies could bid into competitively, which could be linked to levelling up objectives), focussed on the needs of food and drink manufacturers would pay real dividends;
- **taxation**. Following through on the government's proposed reform of capital allowances is critical too. Creating an environment that incentivises businesses to invest in productivity, future growth and the transition to green energy is essential to businesses in our sector and to their competitiveness. The government should also look at VAT, business rates, the reform of R&D tax credits and the Apprenticeship Levy – ensuring these work for businesses of all sizes, as well as for government, couldn't be more important in the context of soaring inflation;
- reducing the costs of **regulation**. It's not clear to us that leaving the EU is, so far, resulting in the UK adopting a more agile and proportionate regulatory regime. A good deal of current regulation is actually imposing new costs on our industry without a clear benefit in return. For example, current government plans to create a circular economy for packaging are overly complex and have been poorly consulted on with business. As such, they risk forcing more costs onto hard-pressed shoppers. We urge you to intervene to make these plans sensible and value for money. Meanwhile, the ill thought through Plastics Packaging Tax is imposing a huge administrative burden on businesses of all sizes as well as additional costs, without increasing the use of recycled plastic because sufficient recycled plastic simply isn't available in the UK. The Business Department's review of eligibility for Climate Change Agreements needs focus too, to ensure it doesn't perversely disincentivise companies in our sector from making the investments they need to continue to make – whatever the prevailing economic conditions – in the transition to green energy; and
- redoubling efforts to maintain a functioning **UK internal market**. If our sector cannot operate seamlessly across the UK because of divergent regulatory regimes across the UK's four nations, our costs will go up. We will do what we can to contain these, but some will find their way into items in everyday shopping baskets.

We would be very happy to provide further information on any of these issues, or to meet you to discuss them further.

Otherwise, we wish you success in the leadership contest and look forward to engaging with you and your team.

*With my best wishes,
Karen Betts*

Karen Betts OBE
Chief Executive