FDF Autumn Statement Submission to HM Treasury

Introduction

Driving growth and increasing investment in the UK remains a shared priority for government and food and drink manufacturers. We support the Chancellor's four pillars of economic growth – Enterprise, Education, Employment and Everywhere. With a footprint in every region and nation, our industry contributes £33 billion to the economy, employs nearly half a million people and has invested £21 billion through capital and R&D projects in the last five years. All of these investments contribute to the security and resilience of our food system, and there are opportunities to grow new markets – such as chemical recycling. The prize to the UK economy is significant if we create the right policy environment to attract investment in food and drink manufacturing.

By harnessing our advanced manufacturing capabilities, we will strengthen the UK's food security and everyone's access to nutritious food while accelerating the reduction of greenhouse gas emissions, improvements in resource efficiency, reductions in food waste as well as creating more well-paid jobs and higher productivity. Huge opportunities exist within our industry to create new interfaces between two of the Chancellor's key growth sectors – life sciences and advanced manufacturing – through cutting-edge technology adoption.

However, the industry has faced some challenging headwinds with significant cost rises. Manufacturers are now seeing signs that cost inflation is subsiding after almost three years of increases in all areas of the production process, from ingredients and labour to logistics, transportation, packaging and energy. In August 2023, food price inflation eased for the fifth consecutive month, reaching 13.6%[1]. We expect food inflation to continue to slow and reach single-digit levels early next year. Businesses now need time to recover from this challenging, inflationary environment and to rebuild their margins after successive structural shocks so that we can invest for the future to deliver our Net Zero ambitions.

We welcomed the announcements on childcare and pension reform in this year's Budget to boost labour supply and full expensing. The 2023 Autumn Statement must build on these critical interventions to deliver an internationally competitive business environment that supports our industry's efforts to invest, drive economic growth, productivity, exports, and create a sustainable food system while easing inflationary pressures for businesses and consumers.

1. Boost productivity, create higher skilled, better paid jobs and drive R&D investment

Output lost in food and drink manufacturing due to labour shortages is estimated to be £1.4 billion during the year to June, while for Q2 2023 alone we lost £192 million[2]. Our vacancy rate eased to 4.8% (down from 5.9% in Q1) but remains higher than those in wider manufacturing and the UK (Chart 1). Labour and skills shortages are holding

[1] Office of National Statistics
[2] FDF State of Industry Report Q2 2023

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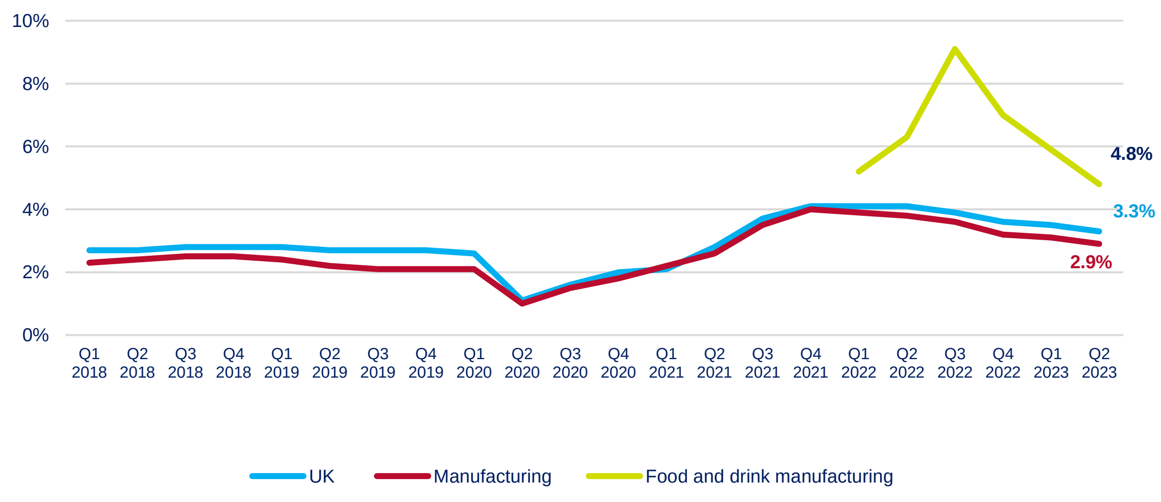
back growth in the sector. We welcomed and supported the recommendations in the Independent Review into Labour Shortages in the Food Supply Chain in June and look forward to the UK Government's response on how it will take forward these recommendations in partnership with industry and the education sector. A cross-government workforce strategy is needed, that is underpinned by data to identify skills and labour gaps, bringing together a joined-up approach to developing our own domestic skills, the role of migration as well as investing in automation and robotics. Two recommendations the government should prioritise from the review are:

- **Target financial incentives to increase the uptake of robotics, automation and digital technologies in food and drink** to address labour shortages and enhance productivity in the UK's largest manufacturing sector. These incentives should focus specifically on enhancing productivity alongside boosting higher-skilled jobs and achieving improved environmental outcomes.

- **Reform the Apprenticeship Levy** so businesses can spend more of their levy funds on shorter, modular training that will address immediate skills needs (e.g. data and digital skills) but also could lead on to Apprenticeships at a higher level in the future. Only 45% of food and drink levy payers were able to spend over half of their available funds[3]. Apprenticeships are key to upskilling our workforce and there is potential to **increase participation further by removing the functional English and Maths skills requirement**. Removing this requirement will widen participation, particularly for older, experienced workers, and would be better supported by relevant training outside of Apprenticeships.

Chart 1: Vacancy rate in UK, manufacturing and food and drink manufacturing *(vacancies per 100 employees)*



Source: FDF State of Industry Survey and ONS

The majority of food and drink manufacturers are focused on innovation either by investing in new products (54%) or new processes (33%)[4]. The UK has long been a favoured destination for investment in food and drink, with global manufacturers

[3] FDF State of Industry Report, Q2 2023
[4] FDF State of Industry Report, Q2 2023

choosing the UK for R&D hubs and to drive world-leading innovation, from Nestlé R&D centre in York to Unilever in Bedford and Mondelez in Reading. But it is worth noting that investment is very competitive – global food and drink manufacturers compete within their businesses for investment in new production lines, products and packaging across the markets in which they operate. In order to attract this investment to the UK, companies look for a predictable, stable regulatory framework. A vision for advanced manufacturing – which includes food and drink – will be critical if we're to shift the dial on attracting investment in the UK. We have therefore identified opportunities to reinforce the UK's competitiveness by incentivising more companies to invest for growth:

- **Make permanent the 100% first year capital allowance** (full expensing) to provide certainty for businesses who want to invest in vital plants and machinery and help with their cashflow. We welcomed the announcement in the Spring Budget and now ask the government to provide longer-term certainty for businesses by committing to making the scheme permanent.

- **Broaden the eligibility criteria and accessibility of R&D tax credits and grants to incentivise healthier product innovation**. This should include bringing capital within the scope of R&D tax credits that will allow companies to offset the significant upfront costs that can often prevent further investments in product reformulation and innovation. For example, new or altered equipment and operating costs, factory trials, product analysis, packaging and labelling changes, and consumer testing and insights costs.

- **Establish a UK-wide Reformulation for Health Programme** to support smaller businesses to access technical support and trial new innovative solutions to improve the healthiness of products. For smaller businesses in need of practical help, the Scottish Government has funded a Reformulation for Health Programme, at a cost of £100,000 per annum, which has successfully supported the delivery of recipe changes in line with public health goals. Reformulation is technically challenging, costly and time consuming. It requires significant technical support and funding which is often a barrier for SMEs with limited resources. Given over 97% of the 12,460 food and drink manufacturing businesses are SMEs, there is a significant opportunity for the UK to be a genuine world leader in reformulation and healthier product innovation with the right level of support in place.

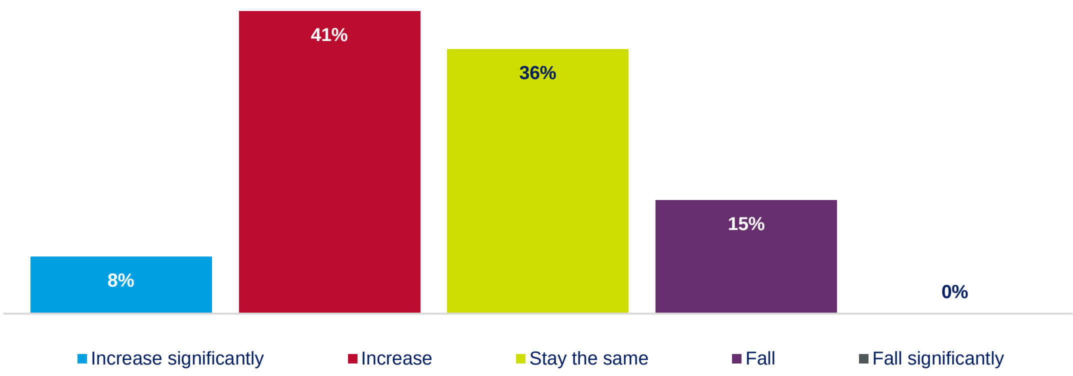
- To develop new cutting-edge products, businesses need to import product samples for testing and research. The current regime for importing these samples, inherited from the EU, is overly burdensome and costly leading companies to outsource innovation to other countries. A more pragmatic solution for samples is needed to encourage investment in the UK. The **creation of a permissive sample import system** that is much more streamlined and dedicated to allowing import of food samples for R&D purposes, approving facilities and product types is essential.

2. Deliver an internationally competitive business environment to drive investment

Similar to pharmaceutical and life sciences, food and drink manufacturing is defined by high regulatory, quality and efficiency demands and as such the UK is prized for its food and drink quality and safety. But we need to do more to remain an attractive investment destination for R&D operations as the UK is losing out to other countries, like the Netherlands. The UK should redouble its commitment to ensuring that its regulatory policy for food and drink supports investment and growth.

In FDF's Q2 State of Industry report, almost half (49%) of members are planning to increase their capital investment expenditure in the next 12 months while only 15% are expecting a fall (Chart 2). But there are stark differences between companies depending on their size, with half of SMEs (50%) planning to cut investment. Smaller businesses are finding it more difficult to access finance and have been harder hit by ongoing cost pressures. Even among larger businesses we hear about UK operations losing out on investment decisions to overseas locations due to the perception of doing business in the UK being more challenging.

Chart 2: Expectations of planned capital investment expenditure changes over the next 12 months



Source: FDF State of Industry Survey

It's increasingly important, therefore, for our sector that government does everything it can to deliver an internationally competitive business environment – whether that's easing the cost of doing business including not introducing additional food taxes, action to ease trade pressures, or providing regulatory certainty. A stable regulatory environment is needed so companies have the confidence to invest. There are a number of key areas where the government should focus their efforts:

- **Work in partnership with industry to develop evidence-based, effective initiatives that will genuinely shift the dial on obesity and poor diets**. Recent regulations, such as further restrictions on advertising of food and drinks high in fat, sugar or salt (HFSS), are far from effective – with government's impact assessment estimating a 2 calorie daily saving to children's diets – with net costs to businesses of £200 million per year.

- We **do not support the introduction of new food or drink taxes**. This will not help companies to find solutions to complex technical issues but may divert investment away from innovation and increase food prices for consumers.

- We welcomed the government's announcement to delay the Extended Producer Responsibility (EPR) scheme until October 2025. But it's critical that government now **works closely with industry to deliver a world-leading EPR scheme** that will effectively remove plastics and packaging from the residual waste system and drive up recycling rates but drive down costs. For this we need government to set out **a timeframe for implementing consistent collections in England (with equivalent policies in the Devolved Nations)** before or simultaneous with the start of EPR fees in October 2025, including for plastic films to be fully collected no later than March 2027.

- However when it comes to flexible plastics and films mechanical recycling will only take us so far. This is because for these materials mechanical processes present more challenges when it comes to removing contaminants from plastic waste making it difficult to use recycled material derived from mechanical recycling in food-grade packaging because of food safety legislation. Chemical recycling offers a solution to this. The technology presents a major opportunity for the UK to attract global investment as currently, the UK has very limited capacity to recycle plastic through such means and which results in too much being exported overseas for landfill or incineration. With the introduction of EPR and the other Collection and Packaging Reforms requiring substantially greater circularity in the use of packaging, it will be important for the UK to unlock the chemical recycling market to create domestic supplies of recycled materials. For that reason, and consistent with the current consultation, **we strongly urge HMRC to allow mass balance accounting, which is the key unlock for chemical recycling in packaging material.**

- Remove the unnecessary requirement for UK-wide 'not for EU' labelling to help reduce unnecessary cost burdens for businesses. We welcomed the Windsor Framework as a pragmatic solution for trade between Great Britain and Northern Ireland. But we are very concerned about the government's plans to extend on a UK-wide basis the 'not for EU' product labelling required to access green lanes into Northern Ireland. It remains our industry's priority to continue to supply consumers in all parts of the UK with the widest range of affordable food and drink. The best way to achieve this would be to **make 'not for EU' labelling optional in Great Britain rather than mandatory.** This would deliver essential operational flexibility that businesses need to deliver the best outcomes for shoppers.

- Work with us to **set up a dedicated UK trade information portal** to ensure SMEs can access essential information on international trade, building business confidence and ensuring compliance with new trading requirements.

- **Deliver the UK's Single Trade Window (STW) in a timely manner** to allow businesses to benefit from its introduction and make use of international best practice. For example, the Singapore Single Trade Window provides an exemplary template for the UK's own STW.

3. Creating a sustainable food system

Our industry has an ambition to reach Net Zero emissions by 2040 along with our food chain partners. Decarbonising emissions on manufacturing premises and within supply chains requires action across operations, including investments in new heating technologies and improvements to processes and efficiency to lower energy use. For many companies, improving energy efficiency and switching to renewable electricity can be the most significant short-term actions to reduce emissions. To support the transition to Net Zero, food and drink manufacturers will need to manage the impact of high and volatile energy costs while maintaining high investment levels. We are therefore asking government to prioritise the following actions:

- **Develop a successor scheme to the Energy Bills Discount Scheme from April 2024 with targeted support for food and drink manufacturers** as an energy intensive industry. For many food and drink manufacturers, energy accounts for a larger share of total costs since the war in Ukraine. 25% of mid-sized and 17% of smaller businesses have reported that energy was over 20% of total operating costs[5]. Some companies have already cut product lines to save money, and often these are those usually sold at more affordable prices, with implications for lower-income households and the cost of living crisis.

- **UK Deposit Return Scheme (DRS) must go ahead as soon as practically possible** and all parts of the UK need to align on its scope and date. Despite the significant business challenge and cost, we firmly support plans to roll out DRS across the UK. Evidence suggests they will reduce litter[6], increase recycling rates[7], deliver a circular economy and ease the current shortage of readily available food grade recycled plastic. DRS is critical for drinks manufacturers to not only use 100% recycled material for their products but also reaching Net Zero[8]. The continued uncertainty is causing a delay to investment. With EU Member States progressing such schemes with haste, the UK could lose out on recycling investment and circularity.

- On Climate Change Agreements[9] (CCA), we welcome the commitment for a future phase with targets from January 2025, but the **consultation on the future phase of the CCA scheme must be expedited.** It is imperative that we **incorporate decarbonisation into future targets** in order to ensure optimal policy outcomes – at the moment the focus is solely on energy efficiency which can work contrary to fuel switching policies for decarbonisation.

- **Simplify the application process and increase the budget of the third phase of the Industrial Energy Transformation Fund (IETF)** to ensure more food and drink manufacturers can invest in energy efficiency and decarbonisation.

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[5] FDF State of Industry Report Q2

[6] DEFRA estimate that 85% fewer drinks containers will be discarded as litter once DRS are operational, Jan 2023:https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1130296/DRS_Government_response_Jan_2023.pdf

[7] Current recycling rates are around 70%, but a well designed scheme could achieve rates of 90% or higher, Jan 2023:https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1130296/DRS_Government_response_Jan_2023.pdf

[8] Studies suggest using recycled plastic in manufacturing results in 79% fewer emissions compared to using virgin plastic

[9] Around 750 sites participate in the Food and Drink Climate Change Agreement (FDCCA), and as a result receive relief of up to £70m on their energy bills in return for meeting energy efficiency targets

Overview of recommendations

Boost productivity, create higher skilled, better paid jobs and drive R&D investment	**1.** Target financial incentives to increase the uptake of robotics, automation and digital technologies in food and drink
	2. Reform the Apprenticeship Levy to allow use of levy funds on shorter, modular training. To widen Apprenticeship participation, remove the functional English and Maths skills requirement.
	3. Make the 100% first year capital allowance (full expensing) permanent.
	4. Broaden the eligibility criteria and accessibility of R&D tax credits and grants to incentivise healthier product innovation.
	5. Establish a UK-wide Reformulation for Health Programme.
	6. Create a permissive sample import system to attract R&D investment.
Deliver an internationally competitive business environment to drive investment	**7.** Work with industry to develop evidence-based, effective initiatives that will genuinely shift the dial on obesity and poor diets.
	8. Do not introduce new food or drink taxes that hurt consumers, but find alternative ways to drive innovation in reformulation.
	9. Work with industry to deliver a world-leading Extended Produced Responsibility (EPR) scheme.
	10. Set out a timeframe for implementing consistent collections in England (with equivalent policies in the Devolved Nations) by October 2025, including plastic films collections by no later than March 2027.
	11. HMRC to allow mass balance accounting to unlock investment in chemical recycling.
	12. Make 'not for EU' labelling optional in Great Britain rather than mandatory.
	13. Work with us to set up a dedicated UK trade information portal to support SMEs.
	14. Deliver the UK's Single Trade Window (STW) in a timely manner, using international best practice.
Creating a Sustainable Food System	**15.** Develop a successor scheme to the Energy Bills Discount Scheme from April 2024 with targeted support for food and drink manufacturers.
	16. UK Deposit Return Scheme (DRS) must go ahead as soon as practically possible with alignment on scope and date across UK.
	17. Expediate the consultation on the future phase of the Climate Change Agreements and include decarbonisation in future targets.
	18. Simplify the application process and increase the budget of the third phase of the Industrial Energy Transformation Fund (IETF).

September 2023