food & drink federation
passionate about food & drink

Rt Hon Sajid Javid MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

6 February 2020

Dear Sajid

Food and Drink Federation, Budget Representation 2020

I am writing to you on behalf of the Food and Drink Federation (FDF) and our member companies. As you know, the FDF represents the interests of the UK's food and drink manufacturers. Our membership is diverse, spanning small and medium sized businesses, (which make up 96 per cent of our industry), to world-leading FTSE 100 and 250 companies.

Food and drink manufacturing is a UK success story, contributing more than £28 billion to the economy each year and employing over 430,000 people. A resilient sector, the industry has consistently delivered choice, quality and value to consumers and shoppers despite consistent input cost rises throughout 2019. With a footprint in every UK constituency, and most manufacturers located outside London, there is no industry better able to support the 'levelling up' agenda.

Our greatest challenge now is to boost productivity growth, which has stalled in food and drink manufacturing over the last year, while adapting to address the challenges of climate change. As the UK's largest manufacturing sector, we are ambitious to transform our performance in exporting, skills and innovation to benefit health and the environment.

Through the Food and Drink Sector Council and a new National Food Strategy, spearheaded by Henry Dimbleby, we will play our part in making food production more sustainable and in ensuring the £120 billion food and drink supply chain is fit for the future.

We are highly ambitious for the UK's future trade policy and will be working hard to open up food and drink trade beyond the EU. The EU27 will remain a vital market, not least for reasons of proximity and shelf-life, and securing the least possible friction in the UK-EU trading relationship will ensure manufacturers continue to provide jobs and growth in every part of the UK.

Please do not hesitate to contact me if you think FDF can be of further assistance.

Yours sincerely

IAN WRIGHT CBE
Chief Executive

FDF Budget Submission

1. A Government Partnership with industry to turbocharge food and drink exports

UK food and drink is prized around the world for its provenance and high quality. However, specialist support is not consistently available across the UK. Over 7,000 small and medium sized firms therefore struggle to exploit untapped potential and take advantage of growing demand for British food and drink.

FDF is currently working in partnership with the UK Government through the Food and Drink Sector Council to create a new long-term International Action Plan for exports. In 2018 the UK exported more than £23 billion of food and drink, with over 220 countries as the end destination, playing a key role in helping to showcase the UK as a modern and innovative food tourism destination of choice across the world.

Our exports are increasing and, to ensure this continues, it is essential that we maintain our ease of duty-free access to valuable European Union markets, not least because of short product shelf-lives that mean many products cannot be exported further afield. We also stand ready to take advantage of new opportunities arising further afield, including in high growth priority markets: USA, China; Japan; the Gulf and India. Despite strong growth, only one in four of food and drink manufacturers currently export. We want to work with Defra and DIT to grow this figure, so that our exporting performance matches the ambition for Global Britain.

Industry is ready and willing to work with Government to drive up our performance. However, our sector needs additional specialist support both in-market (where previous administrations have prioritised funding for other sectors) and in England where food and drink exporters operate at a disadvantage to counterparts elsewhere in the UK.

Action is required to address significant regional gaps in the provision of specialist food and drink export support. Scotland, Wales and Northern Ireland significantly outperform England in terms of export growth. Strategic partnerships between industry and the devolved administrations have helped deliver additional support for the promotion of food and drink, both overseas and domestically. There is a great deal we can learn from highly effective models seen in Scotland (Scotland Food and Drink), whose exports make up a quarter of the overall value of UK food and drink exports, and Ireland (Bord Bia). Central to this is an approach that is genuinely led by industry and backed by long-term Government support.

International trade in food and drink is more complex and more highly regulated than other sectors. Exporters face unique challenges in overseas markets and there is a need to improve the availability and scope of specialist support to help businesses take advantage of export opportunities in overseas markets.

Industry and Government must work collaboratively to ensure the consistent availability of support that meets the unique needs of food and drink exporters. To achieve this, we propose the following activities:

- **A food and drink export portal that provides a one-stop shop for exporters.** To meet the complex information needs of current and future food and drink exporters, a dedicated portal should be created to act as a focal point for food and drink exports. SMEs desperately need access to a single unified source of information to inform and guide their export activity, they do not have the resources to do this work by themselves. This would provide much-needed clarity, and serve as the go-to centralised source for all food and drink export intelligence and information, highlighting essential resources and signposting to specialist support services.

- **Provide access to essential market research for SMEs.** Specific action is required to address market failure in the availability of cost effective research to support export prioritisation. Even large food and drink businesses inform us that they, in effect, gamble when entering new markets as it is cheaper to fail than to pay for private sector research that would enable successful market prioritisation. SMEs simply cannot afford to make these mistakes, and will opt not to export rather than take this risk. To address this market failure, Government should put in place a new scheme of grants to support access to essential market research. This should support fully funded projects on the condition these can be viewed by other UK businesses, over time producing an extensive archive of research covering various products and markets

- **In-market assistance to support businesses in key target markets.** This is needed to help address significant gaps in the provision of food and drink specialist support in UK Embassies in our sector's key target markets, where exporters will require specialist support on both commercial and regulatory matters. UK Government lags far behind EU counterparts in terms of food and drink specialists supporting the industry overseas. The UK has only 0.85 full time equivalent support for food and drink to cover the whole of India. Existing in-market food and drink teams are also poorly funded in comparison to other sectors and insufficiently resourced to support in-market trade promotion and business development activities for our industry.

FDF and the wider industry has demonstrated the depth and breadth of support for these proposals and are committed to delivering further rapid growth of our exports. However, this will not be possible without the full support of Government and access to our sector's fair share of available funding to put in place long term solutions to address gaps in support. Our export proposals will be of greatest benefit to the 7,135 small and medium-sized manufacturers and entrepreneurs that underpin the UK's food and drink industry.

2. Resolve issues surrounding the current US food and drink tariffs

FDF and our members are enthusiastic about the opportunities that can be secured through an independent UK trade policy. However, parts of our industry are currently experiencing very serious impacts as a result of tariffs that have been applied by the US Government in response to the ongoing WTO Airbus dispute on UK and EU products. UK producers of cheese and Scottish shortbread have already faced a substantial loss to their export trade as a result of these tariffs. Our members have been unfairly impacted by this sanction and we urge the Government to work constructively with US counterparts to deliver a swift solution.

Most immediately, we would ask the Government to take action to support and compensate affected businesses and where possible find alternative markets for affected products. The situation highlights the UK's current gap in terms of export support and knowledge, where FDF's afore-mentioned proposals would aid businesses should similar situations arise in future.

3. Help for businesses to innovate for health through reformulation

The UK's food and drink manufacturers are committed to supporting the Government's ambition to halve childhood obesity by 2030. Product reformulation, new product development (NPD) and portion sizing are the key actions manufacturers can take which will have the greatest impact in reducing the calories consumed. Compared to four years ago, FDF member companies provide 12 per cent fewer calories and 13 per cent less sugar into the average shopping basket.

However, smaller firms in England are currently at a financial disadvantage in undertaking reformulation work compared to businesses in Wales, Scotland and Northern Ireland. FDF would like to see support made available for smaller businesses looking to reformulate their products. There should be funding available or an initiative from Government to incentivise innovation for the purposes of reformulation.

The Scottish Government currently funds a reformulation post that work with food businesses across Scotland to help make their products healthier. The Welsh Government supports Welsh businesses to make healthier products through Food Centres. The Northern Irish Government are working with the College of Agriculture, Food and Rural Affairs (CAFRE) to help smaller companies reformulate. It is clear that additional support, targeted at businesses across the English regions, would enable more businesses to innovate for health.

More broadly, Government policies should support all size of business who commit resource to producing products that support its nutrient reduction aims – whether that's reformulation, NPD or portion size. The current promotion and advertising restrictions proposed under the Government's Childhood Obesity Plan, work against PHE's nutrient reduction programmes by restricting companies' abilities to successfully bring these products to market. For example, 30 per cent reduced sugar chocolate confectionery would be subject to marketing bans, preventing companies from making their customers aware of new, healthier options.

4. Deliver a fairer food supply chain by bringing further retailers into the remit of the Groceries Code Adjudicator

In the interest of fairness in the supply chain, we would like to see further targeted additions to the list of designated retailers. Further major grocery retailers should be brought into scope and serious consideration should also be given to extending GSCOP to include major grocery and food service wholesalers.

As part of this extension, FDF would like to see a firm commitment to ensuring office of the Groceries Code Adjudicator (GCA) is adequately funded in the long term. Extension of the code to additional retailers should provide the additional resources that the GCA will need to undertake its essential work.

5. Climate Change: Pathways for decarbonising the economy

Our food system is set to face unprecedented pressures over the coming decade as the demand for resources and effects of climate change intensify. Already, our members are reporting increased costs of energy in our quarterly surveys which is impacting investment and growth[1]. FDF is keen to continue working closely with Government and other stakeholders to find pathways for industry to meet the net zero target in 2050.

FDF members have reduced CO_2 emissions by 51 per cent since 1990, contributed to a reduction in food waste of over 30 per cent on a per capita basis between 2011 and 2018 and have reduced water consumption by 39 per cent since 2008. We are committed to this agenda and seek long-term policy commitments from Government, coupled with regulatory stability, to give confidence to businesses and investors.

a. Announce the future of the Renewable Heat Incentive

The Renewable Heat Incentive (RHI) has been an important policy to incentivise renewable heating systems which FDF has supported. However, given the current scheme is due to end on 31 March 2021, we are concerned there has been no confirmation from Government to date on how this will be extended or replaced.

[1] Food and Drink Business Confidence Report 2019, Food and Drink Federation

Manufacturers need to know what the successor scheme will be to help with investor certainty and prevent cliff edge effects in the supply chain. Industry is committed to a sustainable future, and we want to see commitment from Government that decarbonisation of heat is of critical importance.

b. Clarity on the Net Zero Review

FDF welcomed HMT's review into funding the transition to a net zero greenhouse gas economy. We would ask that the results of this review are announced as soon as possible ahead of the current timetable of autumn 2020. Industry needs the results of the Net Zero review to contribute fully to the forthcoming Energy White Paper (expected in spring 2020) and the Heat Decarbonisation Roadmap (expected in summer 2020).

c. Commitment to the future phase of the Climate Change Agreements (CCA)

FDF would like to see an early commitment to a future phase of the CCA scheme as the current phase only runs until 31 March 2023. Given that the scheme permits agreement holders to a reduction in the Climate Change Levy in return for meeting agreed targets on energy efficiency and carbon reduction; the CCA scheme is essential in facilitating industry's pathway to zero carbon in 2050.

6. Reform the apprenticeship levy system to maximise its effectiveness

The commitment by industry to increase the number of apprentices in food and drink manufacturing is vital in meeting our future workforce needs. The Apprenticeship Levy presents an opportunity for positive change and an increase in productivity, giving employers the tools to invest in skills needed, both by bringing in new talent and upskilling our existing workforce.

However, increased flexibility in the current system would enable the Levy to work more effectively for our industry, and the wider economy. Under the current system, many businesses are unable to tap into the full potential of the Levy as there are a series of barriers that businesses cannot move past. The inclusion of an allowable expenses regime would help manufacturers to cover the cost of valuable staff time, salary, travel and accommodation to training centres for apprentices. Currently these extra expenses which are additional to the Levy act as barriers to recruiting more apprentices, especially for the medium-sized businesses where training budgets are now overtaken by Levy contributions.

a. Broadening the current scope: Training Levy

We would like to see the current scope of the Levy to be widened to allow more flexibility including T Level and additional training expenses. Creating a broader training levy would give businesses the opportunity to maximise the various pipelines the government is creating to support training and up-skilling new and existing employees. Creating strong career pathways for new employees into industry by ensuring a smooth transition from T Levels to apprenticeships and into higher-level and degree apprenticeships are key for future growth within our industry. Increasing the maximum funding band allowance to cover the cost of the higher-level apprenticeships will also be necessary for companies to fully benefit from paying the Levy, as it is level 3 are above apprentices who are key to the future growth of our industry.

FDF members are struggling to find high-quality training providers who understand the unique needs of the food and drink industry, for example understanding food safety requirements within an engineering apprenticeship. As well as this, businesses in the sector often struggle to find training providers locally who are able to deliver the relevant training needed to meet the industry's requirements. By broadening the scope of the levy, this will allow employers to work with trusted, credible and local providers. Making the broadest use of the available expertise and allowing levy funds to cover these expenses will help employers to work together with providers to provide the industry expertise to students and raise the quality of the apprenticeships and T Levels offered.

b. Increase the time allowed to spend funds to 36 months

The food and drink industry is different to other manufacturing sectors as many companies do not have the infrastructure required to deliver an apprenticeship programme, as currently structured, from start to finish. The wide geographical spread of manufacturers across the country has meant that many FDF members have reported difficulty in developing standards with providers that fit the industry needs and in recruiting enough apprentices. These delays mean that many businesses have not had the opportunity to identify standards which fit the needs of their business and therefore have not been able to use the funds from their Levy pot.

FDF would like any review of the Levy to consider if businesses could be allowed to spend allocated funds over 36 months rather than the current 24. There are currently sixteen standards specific to food and drink, seven of which were only approved this year. Many food and drink businesses would benefit from the additional time to spend their allocated funds on the apprenticeships for which they were intended.

7. Explore alternative measures to a plastic packaging tax

Improving resource efficiency is mission critical for manufacturers, who are striving to meet consumer and investor expectations. We want to work with Government to deliver realistic reform of the packaging producer responsibility system so it is fair to business while promoting long-term investment and planning.

The FDF is clear that the use of modulated fees within a packaging extended producer responsibility system would be a smarter, less blunt way to encourage the right behaviours around use of recycled content, rather than a tax. Modulated fees could be used both to incentivise progress towards 30 per cent, as well as encourage those that are working to incorporate even higher levels but the revenue generated could be reinvested to improve the recycling system and infrastructure, rather than being diverted elsewhere.

We believe that insufficient weighting is being given in the design of a tax to the ‘food safety’ legislation that currently applies to the use of recycled content in plastic polymers used for food contact material. This legislation requires that plastic materials only contain recycled content derived from an authorised recycling process. So far certain processes for PET and HDPE applications have been assessed under this legislation but this does not apply to other plastics. By extension this will in effect mean that the tax sanction will be legally unavoidable for many FDF members. Therefore, we would expect at least some of this additional cost to get passed on to consumers in the form of higher food prices – a regressive step in terms of societal impact.

Therefore, while we support the capture and recovery of used plastics from food contact applications, we cannot support their inclusion in the proposed taxation model where this is not currently authorised under current food safety legislation. We could understand if such materials were added to the scope of the tax at a later stage, once the relevant approvals have been obtained under food contact material legislation, but see the tax as entirely punitive as it is currently proposed. Exemptions should therefore be considered for specific components where there are significant sourcing or regulatory barriers in reaching 30 per cent recycled content and where non-plastic alternatives are not currently available. Furthermore, we would like to see the monies generated from a tax used to increase the number of approved recycled materials for food contact applications (through appropriate testing and legislation) and which would likely be seen positively by many parties.

Future packaging policy, including in respect of a tax, must be developed as part of a joined up, holistic strategy that avoids unintended consequences including negative impacts on both industry and consumers. The correct sequencing of future Government interventions will be critical to ensuring the best outcomes. Our view is that the current proposed timing for introducing a tax (April 2022) is illogical when considering that measures aimed at increasing the supply of high quality food grade recyclate (the new packaging producer responsibility system, introduction of a Deposit Return Scheme (DRS) and a move to more consistent collections) will not come into effect until 2023 at the earliest. In addition, according to the work being undertaken by the UK Plastics Pact, a sustainable supply of post-consumer recyclate for flexible plastics packaging suitable for direct food contact will not be available until at least 2025. Therefore, if the Government wishes to press ahead with its tax proposals, then implementation should be delayed until 2025 based on the current Defra timetable to allow these other changes to take effect and maximise the opportunity for immediate positive outcomes.

It is vital that in designing a tax that Government considers the widespread concerns raised about the proposal to exclude imported, filled goods from liability. This would create a serious market distortion for domestic producers and damage their competitiveness. It may also lead to some businesses relocating some or even all of their manufacturing operations outside the UK.

We also ask that Government takes into account the potential negative environmental impact of moving to alternative packaging formats, such as increased greenhouse gas (GHG) emissions from use of heavier materials or other such unintended consequences.

8. Increase data availability for food and drink manufacturing

The availability of timely, transparent and sufficiently granular data is key to ensuring a world leading UK food and drink supply chain. To ensure our industry can continue to deliver for consumers, workers and investors, access to reliable and accurate UK market data will be essential.

As we leave the European Union, businesses will need to adapt to changing terms of trade. They will also lose access to important European Commission published data and market intelligence. UK data will be stripped out of key datasets which provide essential insight into trade flows and prices. It is essential that UK Government provides access to equivalent UK data to ensure producers are fully informed of latest trends and can remain resilient and competitive in the face of price changes.

As an advocate for evidence-based policies, FDF would like to see more granular data available for food and drink manufacturing in the public domain, including by sub-sector and region. Without access to more granular data, the differing strengths, needs and challenges across the sub-sectors and across the UK are not fully represented. While we do what we can to collect data, the degree of fragmentation means that Government can only truly provide an accurate representation of the food and drink sector. We, therefore, ask that food and drink manufacturing data currently held by government is reported publicly at regular intervals in a detailed form that allows an accurate picture of our hugely diverse sector.