food & drink federation
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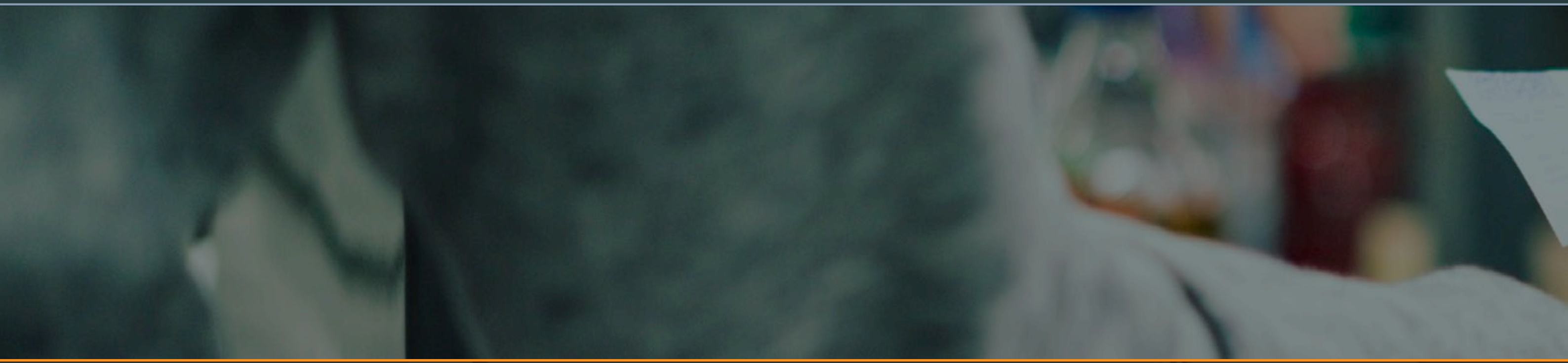
Eating into household budgets

The Government's recipe for food price inflation

July 2021



As this useful and prescient report sets out, government policy also needs to take account of families – surely the most important stakeholder given it is they who will pay.

Foreword

This report could not come at a more important time. With household budgets at their most stretched, this is a timely opportunity to assess how government policy will increase the cost of families' shopping baskets.

That food prices are under immense pressure has been acknowledged at the highest level. Earlier this year, Andy Haldane, the outgoing Chief Economist of the Bank of England, highlighted the fact that food commodity prices have increased by around 17% since the start of the year. More recently, a United Nations report stated that food commodity inflation has accelerated to a 40% year on year increase.

This report looks at seven different policies coming from either the sustainability or public health policy arenas. The combined cost of these policies to our sector over the next three years will be £8.3bn. With very little margin left for food and drink manufacturers to absorb any of these costs, the burden will have to be passed directly on to shoppers. The cost of food and drink shopping per household would increase by more than £160 per year. The poorest households would see their shopping bills increase by 11%, roughly equivalent to the average proportion of their annual food shop that goes to fresh vegetables; a perverse result from a government that rightly wants to promote healthy eating.

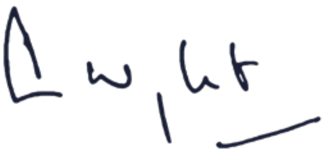
And then there's inflation!

Policy making does not happen in a vacuum. It is right that the Government responds to pressing concerns around sustainability and obesity. But it is also incumbent on government to bring forward effective policy.

Food and drink manufacturers want to sell to a fit and healthy nation. Unhealthy customers are very bad for our business, so it is a matter of great regret for us that the obesity policies currently being proposed by Government will have a negligible impact on calorie intakes. In the same vein, the proposed reform of Extended Producer Responsibility (EPR) cannot be constructed as an open-ended cost commitment if its desired outcomes for the environment are to be realised. As it is put together, full transparency of the costs of the system must be assured. Producers have a central role in delivering the UK's circular economy. A badly designed EPR system will only set the UK further back when compared to other leading economies, with hardworking families having to pick up the bill.

Too often policy debates take place in a bubble in and around Westminster. Government, business and NGOs and their lobbyists push doctrinaire policy programmes with no thought of the cost for those impacted. As this useful and prescient report sets out, Government policy must take account of our nation's families – surely the most important stakeholder. After all, in the end it is they who will pay.

Ian Wright, CBE
Chief Executive
Food and Drink Federation



Executive summary

Food and drink prices are made up of many components. These range from the price of raw ingredients, to energy prices, transportation costs, exchange rates, trade and customs charges, and the administrative costs of manufacturing, including business investment in product and business development. All are determinants that fluctuate on a daily basis and need careful management.

There is no margin left to squeeze

Over the past twenty years agricultural prices have doubled, due to weather and climate conditions, as well as the price pressures of global supply and demand. During the same period, food and drink manufacturers have worked hard to keep costs and prices down. This has been through managing currency risks, investing in technology and streamlining the way food is transported, stored and distributed. As a result, prices have only increased by half even as agricultural prices have doubled.

In a highly competitive retail environment, major retailers have significant market power to place downward pressure on wholesale prices, meaning that the profit margins for many food and drink manufacturers have remained tight, particularly among small and medium-sized enterprises (SMEs). Manufacturers may not have always liked this situation, but consumers have benefited through competitively priced food. As the economy shakes off Covid-19 restrictions, it is far from certain that business, and hospitality in particular, will immediately return to normal. Combined with the fact that Brexit is still affecting European export markets, there has been no let-up in the pressure on producers' margins.

The costs of government policies will mean higher food prices

While food and drink manufacturers have been able to take advantage of market mechanisms so that they can absorb and minimise the impact of price increases for consumers, **there is now little margin left to offset the further costs of government policies.** There are two policy areas in particular – sustainability and public health – where the UK Government is introducing a host of policies in quick succession without understanding the true cost to business. The food and drink industry really wants to see a fit and healthy nation, and supports Government's aims in achieving a circular economy and tackling plastic waste. We nonetheless question the effectiveness of the policies proposed and the ability of businesses to implement them. This report studies the effects of the following policies:

1. **Reforming Extended Producer Responsibility**
2. **Deposit Return Scheme**
3. **Plastic Packaging Tax**
4. **Soft Drink Industry Levy**
5. **Online advertising bans of foods deemed to be high in fat, salt or sugar**
6. **9pm watershed broadcast advertising ban of foods deemed to be high in fat, salt or sugar**
7. **Price and location promotions of foods deemed to be high in fat, salt or sugar**

Working from the Government's own impact assessments, the Food and Drink Federation (FDF) estimates that the combined cost of these policies to our sector over the next three years will be £8.3bn. The extent of these costs, combined with the lack of margin left for business to be able to absorb them, will mean that the costs will inevitably be passed on to hard working families through increased food prices.

Higher food prices disproportionately hit poorer households

In the late 1970s, more than a quarter of total household expenditure went to food and drink. Looking at the latest available data, this had fallen to an average of

Executive Summary contd

11% by 2019. However, this does not mean that food is equally affordable for all. **The poorest fifth of the population by contrast spend over a third more of their household income on food and drink, equating to 15%.** As such, increased food prices will disproportionately impact lower income households at a time when the impacts of Covid-19 are already affecting poorer households the most.

The products impacted by the policies covered in this report are consumed in similar proportion by all households, irrespective of their income. Assuming an equal division among all UK households, the cost of the Government's policies if passed on would result in **the cost of food and drink shopping per household increasing by more than £160 per year,** equivalent to £3 per week. For the poorest households, this will see their **shopping bills increasing by 11%,** roughly equivalent to the proportion of their entire food shop that currently goes to fresh vegetables.

The additional costs from government policies comes at a time of rising global inflationary pressures. Earlier this year, Andrew Haldane, the outgoing Chief Economist of the Bank of England pointed out that **global food commodity prices have risen by 17% since the start of 2021.** Latest data from the UN Food and Agriculture Organisation indicate a year on year increase in global food commodity prices of 40%. This increase will directly feed through to higher food prices affecting household budgets. At a time when British families, particularly those whose budgets are already stretched, are likely to be facing higher general grocery bills, it is doubtful that consumers will take kindly to the Government implementing contentious and often ill-thought through policies that will further increase their shopping bills.

Policy making needs to be better – fundamental reforms are needed

This report looks at ways to mitigate some of the costs involved with the various policies outlined. However, **it is crucial that the Government considers fundamental reforms to the UK's regulatory architecture** that would go a long way to ensure that future policy is effective and well-targeted, and where there is evidence to suggest it is not, it is stripped from the statute book.

Does the Government want to increase shopping bills?

Up until now, households across the UK have been spending less of their budget on food and drink than at any point in the last two decades. This is in major part due to the careful management of costs by the food and drink industry which has been a significant achievement. **It would be a great shame if the Government, by stint of its own policies, reverses the trend of affordable food prices and is the instigator of higher prices.**

Chapter 1: Food affordability and prices

Food affordability

People in the UK are spending less of their budget on food and drink than at any point in the last decade. In the late 1970s, more than a quarter of total household expenditure was on food and drink. Looking at the latest available data, this had fallen to 11% by 2019[1].

However, food is not equally affordable for all. While an average of 11% of household spending was on food and drink in 2019, this rose to almost 15% among the poorest fifth of the UK population[2]. Household expenditure on food and drink is much more volatile among poorer households. Consumption patterns are reliant on a range of factors including food prices, housing affordability, and employment rates.

In 2019, the average UK consumer spent £39 per week on food and drink[3]. When we look at different income brackets, the average weekly expenditure was £27 for the bottom 20% and £51 for the top 20%[4]. On average, the most well-off 10% spent twice as much on food and non-alcoholic drink than the bottom 10%[5]. However, the same pattern does not apply to all food categories. Consumer spending on certain products, such as bread or confectionery, is roughly the same for all income classes.

Increased food prices are likely to disproportionately impact households belonging to lower income brackets, at a time when the impacts of the Covid-19 pandemic are affecting poorer households the most. Statistics from the Trussell Trust, a nationwide network of foodbanks, showed usage of their foodbanks rose to over 2.5 million emergency food parcels handed out between April 2020 and March 2021, a 33% increase on the previous year.

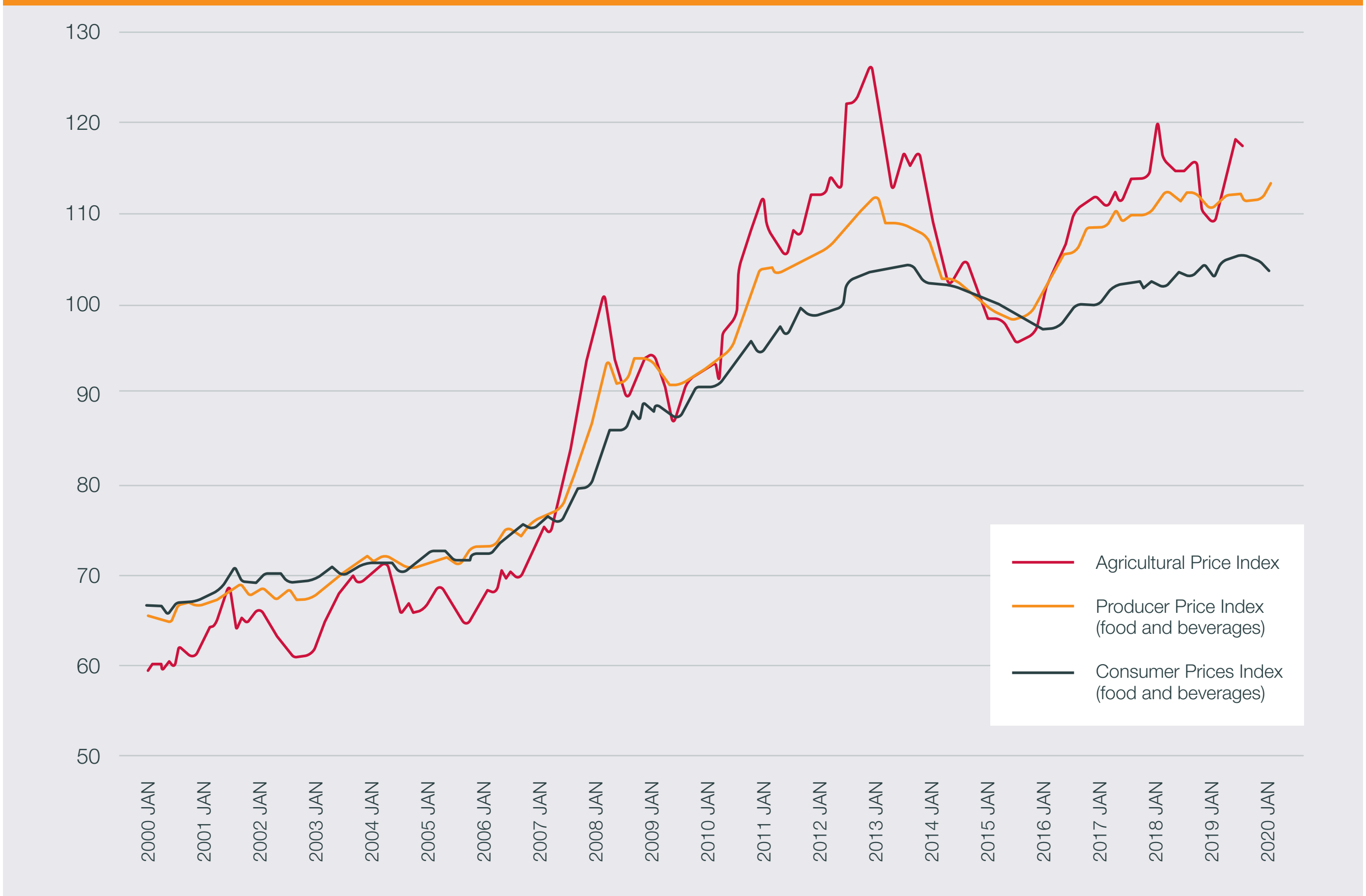
What Determines Food Prices?

Food prices are the result of many factors including weather and climate conditions, trade restrictions, global supply and demand, energy prices, retailer market power, and government policies. In a globalised Britain, many of these factors are hard for the Government to directly control. However, where the Government does retain direct control is over the policies that regulate food and drink production in the UK.

Despite facing increased volatility in agricultural raw material prices and exchange rates, food and drink manufacturers have managed to keep costs and prices down by managing currency risks, investing in technology, and streamlining the way food is transported, stored and distributed. Moreover, many have not been able to accommodate these increased input costs and have instead had to accept reduced profit margins.

1. Data on household spending come from ONS' Family Spending Workbook, available at: https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook2expenditurebyincome
2. https://www.gov.uk/government/statistics/food-statistics-pocketbook/food-statistics-in-your-pocket-prices-and-expenditure
3. EID expenditure, https://www.gov.uk/government/statistical-data-sets/family-food-datasets
4. https://www.gov.uk/government/statistics/food-statistics-pocketbook/food-statistics-in-your-pocket-prices-and-expenditure
5. https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook2expenditurebyincome

Link Between Commodity, Producer and Consumer Prices



Despite high levels of agricultural price volatility which have seen them double in the past 20 years, producers and manufacturers have absorbed increased costs. As a result, consumer prices have only risen by 50% during the same period, shielding consumers from spikes in agricultural costs. The evident time-lag between changes in input prices and consumer prices demonstrates the important role manufacturers play in absorbing these short-term cost increases where it is possible for them to do so.

However, there are limits to how far food and drink manufacturers are able to suppress the impacts of inflation from elsewhere in the supply chain, and profit margins can only be squeezed so far. Whilst some inflationary pressures are a natural response to lockdown restrictions easing, there are concerns these pressures may become acute. Last month, the outgoing Chief Economist of the Bank of England, Andy Haldane, warned against emerging inflationary pressures, stating that the stakes are "high for companies and consumers, who would bear the brunt of a rising cost of doing business or living," and pointing to rising global food commodity prices of 17% since the beginning of the year[6]. Data from the UN Food and Agriculture Organisation (FAO) shows that global food commodity prices have increased by 40% year-on-year[7]. In this context, Government should avoid making domestic policy choices that would add fuel to the fire of global inflationary pressures which will inevitably feed through to households, particularly to those whose budgets are already stretched.

6. https://www.newstatesman.com/2021/06/dangerous-moment
7. https://www.ft.com/content/8b5f4b4d-cbf8-4269-af2c-c94063197bbb

Chapter 2: Domestic costs and inflationary pressures

Current drivers of cost pressures

Food and drink manufacturing has demonstrated remarkable resilience during the past 16 months of Covid-19 and associated restrictions. Our workforce of hidden heroes have responded to the huge demands placed on them throughout the pandemic to ensure continued food supply in the face of significantly heightened demand.

Manufacturers have done a remarkable job in maintaining production levels and meeting unprecedented retail demand, despite the challenges of global supply chain disruption, social distancing regulations, PPE availability, and Covid-19 testing. It is a misconception that the food and drink sector has emerged from this crisis largely unscathed. Manufacturers were impacted differently depending on their position in the supply chain. Our members that rely on imports of raw materials reported significantly interrupted supplies, increased prices for the goods they import, and a sharp rise in shipping costs which has persisted into 2021. Businesses higher up the supply chain lost a considerable share of their foreign demand, as UK food and drink exports decreased by almost 10% in 2020. Going into 2021, the full impacts of new barriers to trade resulting from our new terms of trade with the EU are also becoming apparent in the form of significant lost export sales and costlier access to imported ingredients and packaging.

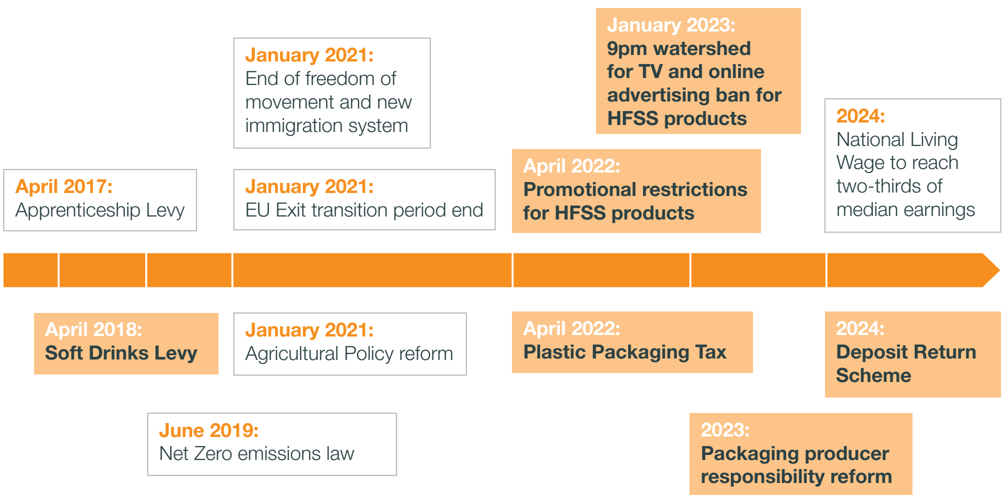
National lockdowns across the globe also meant that hospitality sectors in the UK and abroad were forced to shut down for months, leading to a dramatic fall in demand for food and drink products from a key sales channel. Many of our members that supply the hospitality sector struggled to redirect their products into retail channels. Moreover, profit margins are typically higher for products sold via hospitality channels, allowing businesses to offset slimmer retail margins. As the economy shakes off Covid-19 restrictions, it is far from certain that businesses, and hospitality in particular, will return to normal for some time.

In this context, two-thirds of members responding to FDF's Q1 2021 Business Confidence Survey believe that increased costs will be one of the main barriers to success in the months ahead. In addition to the recovery from Covid-19, and the adaptation to the UK's new trading environment outside the EU, members are also managing and preparing for ongoing costs associated with agricultural reform, net zero and the apprenticeship levy, to name but a few.

The challenges posed by Covid-19 restrictions and significant commodity price inflation, translates into squeezed margins for manufacturers. Manufacturers' ability to absorb additional costs in the short-term has been significantly reduced by these challenges. Additional input cost increases will need to be passed on to consumers and drive price inflation further.

Forthcoming inflationary UK policies

In addition to these challenges, manufacturers face further disruption from the introduction of a raft of new UK Government regulations which will further drive cost increases.



Domestic costs and inflationary pressures contd

We have analysed the cumulative cost to food and drink manufacturing estimated by the Government for six of the policies detailed above that have specific relevance to our sector. Taking evidence from our members to inform gaps in the Government's analysis, we also believe some of the Government's estimates do not accurately capture the acute short-term pressures that this combination of policies will have on costs to manufacturers (and ultimately the public) over the next three years. Below we set out the cumulative impact on our industry of these policies in the immediate aftermath of the largest recession the UK has seen for 300 years.

Even in more normal economic times, the introduction of the costed policies in a three-year time frame would be extremely challenging. However, in the current economic climate, they present a perfect storm for food and drink manufacturers and risk holding back food and drink manufacturing as a driver of economic recovery and growth.

Table 1:
Estimated short-term annual cost impact of forthcoming UK government policies on food and drink sector[8].

Policy	Date of implementation	Cost estimate for Food and Drink manufacturers[9]
Soft Drink Industry Levy	2018	£336m
Promotional restrictions of High Fat Salt or Sugar (HFSS) food and drink[10]	2022	Location promotions restriction: £712m Volume promotions : £121m
Plastic Packaging Tax	2022	£149m
9pm watershed and total online ban	2023	£12.5m[11]
Reform to Extended Producer Responsibility	2023	£1.7bn
Deposit Return Scheme[12]	2024	£850m

Table 2:
Estimated cumulative cost impact of forthcoming UK government policies on food and drink sector for 2022 to 2024.

Policy	Cost estimate for Food and Drink manufacturers
Cumulative cost over 2022-2023	£4.4bn
Cumulative cost over 2022-2024	£8.3bn

8. Impacts UK wide except where stated – England is affected by all policies costed
9. Estimates produced by FDF analysis of Government impact assessments, with a review and verification of our analysis provided by Aldwych Partners consultancy
10. England only. Estimated as gross profit losses – Aldwych Partners and our members agree that this is a more accurate measure of short-term losses than net profit losses
11. The Regulatory Policy Committee stated that this estimate's cost-benefit analysis is "weak" – FDF and our members believe these costs will be far higher, but there is insufficient data for an alternative calculation
12. Scotland has a separate DRS

Chapter 3: Impact of exacerbated UK food price inflation

The Government's proposals as they currently stand are poorly thought through and risk being rushed and ineffective. In addition, the package of measures outlined in the previous section will add significant additional costs across a very short time period of three years, just as we begin the economic recovery from the impacts of the pandemic. This will directly impact both the public's food bills and investment in the industry that would otherwise drive innovation, growth and jobs. In addition, we believe the measures will fail to deliver effectively on their stated policy objectives.

Impact on the industry

Additional costs to our industry as a result of the policy changes outlined in chapter 2 will total £8.3bn over the period 2022-2024. Due to the constraints of existing supply contracts, manufacturers are very likely to have to absorb these costs during the first year of implementation of the policies (2022-2023). Due to the already reduced margins discussed in the previous chapters, these costs are likely to be largely passed on to consumers the following year.

Increased costs over 2022-2023 exceed £4.4bn. To absorb these costs, businesses will reduce their economic activity in other areas or incur temporary losses, which many small businesses will not be able to afford. Pressing ahead with all of these proposed changes at once is likely to increase indebtedness, reduce competitiveness, and reduce investments. It could also trigger a further loss of confidence among insurers who were only willing to provide cover to food and drink businesses with the guarantee of the Government's Trade Credit Reinsurance Scheme which expired on 30 June 2021, before large parts of our industry will be able to reopen.

Increased indebtedness

Small businesses may ask for credit to overcome these losses, resulting in increased costs, exacerbated by this regulation. External financing is not an issue per se, but can lead to serious consequences if businesses struggle to turn their debts into increased production and revenue. The City UK[13] estimate that four out of ten SMEs in food and drink manufacturing have sought external finance between 2016 and 2019, with unsustainable business debt levels likely to reach up to £70bn by March 2021. Research by the Department for Environment, Food, and Rural Affairs found that two-thirds of businesses that had sought external finance in the past three years did so to address cash flow issues.[14] Research conducted last year by the Federation of Small Businesses suggests this issue is likely to get worse with four in ten SMEs carrying debt describing their debt level as "unmanageable".[15]

Reduced competitiveness

Large businesses are typically better equipped to survive increases in costs than small business. Our industry employs 440,000 workers directly and supports the jobs of 4.3 million people employed in the food supply chain. 97% of food and drink manufacturers in the UK are small and medium sized enterprises. If small businesses struggle, the consequences for local development and employment will be significant. A reduction in the number of SMEs will not only represent a loss to UK food and drink manufacturing, but will also lead to reduced competitiveness, reduced product choice and increased prices.

Reduced investments

In order to absorb increased costs, businesses might choose to halt or reduce investments. In 2019, total investments in assets from manufacturers were in the region of £3.5bn[16]. Reduced business investments lead to reduced economic activity, which risks impeding the ability of the food and drink sector to build back better from the pandemic.

13. https://www.thecityuk.com/research/the-demand-for-recapitalisation-updated-estimates-of-uk-unsustainable-debt/
14. http://randd.defra.gov.uk/Document.aspx?Document=14683_SMEFoodandDrinkManufacturersSurvey2018TechnicalReport.pdf
15. https://www.fsb.org.uk/resources-page/small-firms-call-for-help-with-unmanageable-debt-burden-as-lending-tops-100bn.html
16. Due to data grouping, these figures include tobacco manufacturers. Data available here: https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/businessinvestmentbyindustryandasset

Impact of exacerbated UK food price inflation contd

Impact on consumers

During 2023-2024, the industry faces an additional £4bn in costs due to the rollover of annual costs of previous policies. It is likely that manufacturers will need to update contracts with customers to account for the increased costs absorbed in the previous period, and these costs will inevitably be passed on to consumers.

Our projection from ONS estimates suggest that, without taking these additional policies into account, expenditure on retail and out-of-home food shopping would be £188bn in the UK by 2023-2024[17]. If the impact of these policies is passed on to consumers, they will have to absorb £7.4bn in additional costs in 2023-2024[18]. This additional £7.4bn in consumer expenditure during 2023-2024 will push total spend to £195bn – a 4% increase on our base projection.

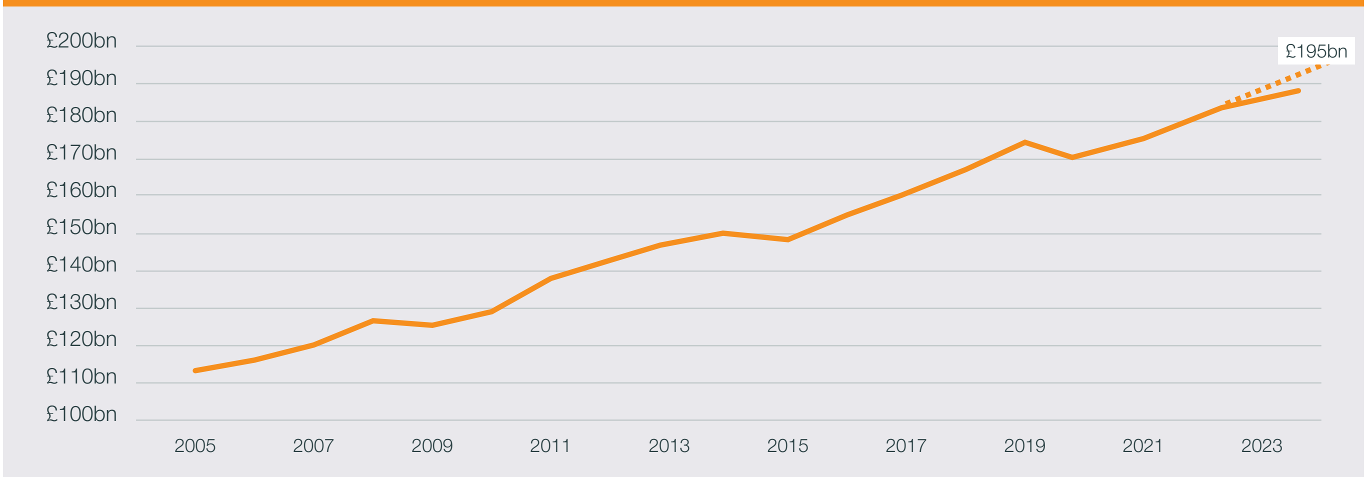
Increased costs will hit those on lowest incomes the hardest. The products impacted by the policies in scope are consumed in similar proportion by all income deciles.

Assuming an equal division among all UK households[19], the cost of food and drink shopping per household would increase by £320 between 2023 and 2024. This is an increase of more than £160 per year, equivalent to £3 per week.

On average, a person in the lowest 10% of incomes spends £1,404 per year on food and non-alcoholic drinks[20]. An increase of £160 represents an increase of 11% over current food shopping expenditure for the lowest earners.

According to ONS estimates, a household of one adult and one child in the bottom income decile spends £45 per week on food and drink[21], meaning these proposals could lead to an increase in food and drink spending of nearly 7%. For these poorest consumers, £160 represents 2% of their gross annual income[22], roughly equivalent to their entire annual expenditure on fresh vegetables.

Food and drink shopping expenditure (retail and hospitality)



17. FDF projection from ONS data
18. This £7.4bn is made up of the cumulative impact of costs incurred by industry in 2022-24, which are then passed on to consumers during 2023-24 (this excludes £850m in DRS costs to consumers, which are likely to be passed on from businesses to consumers in 2025)
19. In 2018, the ONS estimated 23.2m households in the UK
20. EID expenditure, https://www.gov.uk/government/statistical-data-sets/family-food-datasets
21. ONS family spending workbook, available at: https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook1detailedexpenditureandtrends
22. Data from: https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/adhocs/11663incomebygrossincomedecilegroupukfinancialyearending2019

Chapter 4: Recommendations

We all want to see a healthier nation and sustainable environment. However, the Government's current proposals undermine the ability of industry to help deliver on these goals. Rushing proposals through in a short time period will increase costs for consumers and manufacturers as they try to recover from the pandemic. We set out below where the Government should adapt its approach, with policies needing to be delayed, reviewed, or both, in order to achieve these important goals while also avoiding excessive costs for consumers and the industry in the immediate aftermath of the pandemic.

The evidence base and impact of previous measures, such as the **Soft Drinks Industry Levy** (SDIL) is debated. Introduced in 2018, the levy aimed to raise funds for breakfast clubs. However, the funds are no longer hypothecated. Soft drinks companies have been reducing sugar for over a decade, long before the SDIL was announced, and should be congratulated for their huge achievements. However, a tax is not necessary to incentivise reformulation; as demonstrated by the successful voluntary reformulation of milk based drinks. There are increasing calls to extend the SDIL, but changing the parameters now would only penalise companies who have already reformulated. The Government should instead promote an environment in which the food and drink industry has the financial certainty to commit funding to long-term, costly reformulation programs, ensuring that the levy is not extended or increased as a revenue-raising exercise for the Treasury.

The **HFSS promotional restrictions are set to be introduced in April 2022,** followed by a **9pm watershed** and **total online advertising ban** on 1st January 2023. These restrictions brought forward by the Government are unlikely to impact obesity rates, but will undermine existing government policies, principally the reformulation programmes to reduce calories, sugars, and salt, and reducing portion sizes. These policies will prevent companies from advertising and promoting many healthier, reformulated and smaller portion products developed specifically in response to the Government's own programmes. It is difficult to envision how companies will be able to justify continued investment in this innovation if an important mechanism to bring the products to the market is blocked. Greater nuance in what is and isn't covered by these bans would improve health outcomes by allowing manufacturers to effectively market healthier options to shoppers. There are also fundamental issues with the proposals, as they will stifle inward investment post-Brexit, and will act as a barrier to new entrants, whilst shoppers will pay more from increased food prices and banned volume promotions.

It is essential that Government publishes guidance for businesses as soon as possible so that they can prepare. For the promotional restrictions, businesses will have only six months to implement the new rules once the legislation has been laid. This is unprecedented and vastly contrasts with the adjustment period allowed for previous public health measures[23]. The Government should work with the Committee of Advertising Practice to **consider a more proportionate approach to online advertising restrictions.** The total online ban proposed is an unprecedented restriction on the commercial freedom of companies to advertise to adult consumers, when a more effective and targeted approach is possible to achieve the Government's objectives.

Years of policies focused on single nutrient reduction

23. https://www.gov.uk/government/publications/sugar-reduction-report-on-progress-between-2015-and-2019

Recommendations contd

simply haven't worked in reducing obesity levels. The Government should focus on the overall balance of our diets with messages that focus on what we should be eating more of (fruit, veg and fibre), as well as what we should be reducing. Government should also be supporting companies trying to launch healthier and smaller products, not hindering them. Government should work with industry to harness the power of their brands to encourage shoppers and families towards healthier choices including reformulated products. Given the huge inequalities in health and obesity, the Government should also do more to put in place targeted measures to support those who need it most and **abandon their current plans to restrict the promotion and advertising of foods high in fat, salt or sugar.**

The **Plastic Packaging Tax** is currently scheduled to be introduced in 2022. The policy measure aims at incentivising businesses to increase the recycled content of plastic packaging by applying a tax to packaging that contains less than 30% recycled plastic. However, **this fails to take into account the legal, food safety related restrictions that currently prevent recycled plastic content in certain types of plastic packaging for food and drink.** The introduction of this tax should be **delayed** for such food and drink packaging until such time as food grade recycled content is available for all types of plastic packaging, thereby incentivising food and drink companies to make changes they are legally allowed to make. This will allow businesses to do the right thing and help reach the aim of the tax without it being just a revenue raising exercise for the Treasury.

The proposals for **Extended Producer Responsibility** for packaging shift the costs of collecting, sorting and recycling packaging onto brand owners from local authorities. This is likely to lead to undue negative impacts on the UK's largest manufacturing sector, its major employers and the consumers it aims to assist, particularly in terms of the estimated cost burdens.

The FDF and food and drink manufacturers have long called for reform to Extended Producer Responsibility, with producers wanting to take accountability for the packaging they place on the market, commonly known as the 'polluter pays' principle. But the Government's proposals for reform overburden one part of the supply chain which places packaging on the market, ignoring the vast majority of retailers that don't produce own brand products, as well as distributors and the hospitality sector's responsibility to do the right thing. This level of cost will have a wholly prohibitive impact on driving forward the investments needed in packaging design and innovation to increase recyclability and lead to other improved environmental outcomes.

The UK Government **needs to look again at the scope of necessary costs** for producers, particularly the inclusion of business payments and litter costs. Littering is a criminal behaviour and the root cause should be targeted rather than using a plastic tax to cover the problem. The ambitious implementation timetable for EPR is also challenging, including the proposed phasing. This is likely to add to cost and complexity for producers, including through a lack of time to be adequately prepared, which could lead to costly and poor implementation. More discussion is needed between Government and industry in order to highlight the complexities involved in packaging reforms and to find more workable solutions in order to protect the financial sustainability of our sector.

Recommendations contd

The **Deposit Return Scheme** for England, Wales and Northern Ireland will follow the introduction of its Scottish counterpart. Risks remain around a lack of synchronisation with the introduction of the scheme in England, Wales and Northern Ireland and manufacturers operating in all nations having to bear an unnecessary administrative burden. Our top priority is that the DRS **is aligned with the Scottish DRS** to avoid undermining the UK's common market.

We have previously called on the Government to overhaul the regulatory architecture of the country to ensure that, where regulation is necessary, it is well targeted, effective, and commands the confidence of businesses that must operate under its parameters. We believe a cornerstone of this new architecture could be the introduction of an Office of Regulatory Impact to model policy impacts on key sectors of the economy. In the same way that overcoming the contestability of economic forecasts was a key principle in establishing the Office for Budget Responsibility, an Office for Regulatory Impact would have a similar role in ensuring the objectivity of evidence gathering and impact assessment calculations.

The responsibilities of an Office for Regulatory Impact could include:

1. Advising on the provision of sunrise clauses for substantial new policy interventions, affording industry sufficient time to voluntarily make changes to achieve policy objectives
2. Recommending annual limits to the collective cost of proposed policies or regulations from across government departments on key sectors of the economy
3. Providing independent, periodic analysis of the effectiveness of policies, with the ability to recommend sunset clauses where policy has proven ineffective
4. Providing an industry ombudsman function for industry to appeal against excessive and disproportionate regulation coming into effect over a short time period

In performing these roles, an Office for Regulatory Impact would ideally help all sectors of the economy to avoid the situation food and drink manufacturers are currently facing from the raft of new policies set to be introduced over the next three years.

Policy	Delay	Review
Soft Drinks Industry Levy		✔
HFSS promotional restrictions	✔	✔
Plastic Packaging Tax	✔	✔
HFSS 9 pm watershed and total online ban	✔	✔
Extended Producer Responsibility reform	✔	✔
Deposit Return Scheme		✔

Chapter 5: Conclusion

The UK's food and drink sector has been through an exceptionally challenging 16 months. However, thanks to its wide geographical spread and importance to the UK economy, it is exceptionally well-placed to drive the post-pandemic recovery and support the Government's Levelling Up agenda.

In the aftermath of the pandemic, food and drink manufacturing needs time and space to deliver short-term economic recovery and lay the groundwork for longer-term growth. The upcoming wave of novel, poorly-designed regulations that are being implemented in such a short-time period will increase prices faced by shoppers while hindering our industry's ability to build back better from the pandemic.

Pushing through these policies in such a short period of time means manufacturers will inevitably have to pass significant added costs on to consumers, leading to higher food prices which will disproportionately impact poorer households.

The Government should act now to avoid increasing the public's food bills and hampering the recovery of the UK's largest manufacturing industry. We urge the Government to:

1. Delay and/or review the policies as outlined in chapter four of this paper
2. Pursue a joined-up, cross departmental approach when introducing regulations that impact our food and drink supply, taking the opportunity to address this in the Government's forthcoming National Food Strategy White Paper
3. Work more closely with industry and industry bodies such as the FDF when producing impact assessments to deliver accurate evidence that establishes the true cumulative costs of the Government's policy proposals at the earliest stage possible in policy development

More broadly, greater consideration should be given to the overall impact of policy proposals on individual sectors of the economy such as food and drink. This relates both to areas where Government policy appears contradictory (i.e. the plastic packaging tax attempting to incentivise the use of recycled plastics in a sector where other policy largely prohibits this) but also the cumulative cost impacts of policies from across Government on sectors of the economy, individual businesses, and the public.

Our potential for growth

Food and drink manufacturing has a presence in every nation, region, and constituency of the UK. By working together, Government can support us not just to reduce waste and tackle obesity, but to deliver jobs and growth and to level up across every corner of the United Kingdom.

We are uniquely placed to deliver on these commitments. The diversity of our products and businesses provide an inherent flexibility to adapt and grow, so long as we are given the regulatory space to do so.

We are a sector ready to grow out of the darkness of the pandemic and play our part in leading this country forward into a bright economic future. With the right support from Government, we hope to deliver just that.

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