

Grant Shapps MP  
Secretary of State for Business, Energy, and Industrial Strategy  
House of Commons  
London  
SW1A 0AA

By email

28 October 2022

Dear Secretary of State,

### **Energy Bill Relief Scheme Review – Input from Scotland Food & Drink**

Welcome to your new post. I wish you every success.

I am writing to input to your department's review of the Energy Bill Relief Scheme and appreciate the opportunity to do so. I understand this matter is also being closely monitored by the Treasury and have therefore copied in the Chancellor of the Exchequer as well as the Secretary of State for Scotland.

To outline our central point upfront: if, as expected, energy prices remain unusually high beyond March 2023 then continued energy price relief will be needed to protect the UK's food supplies and the manufacturers, processors, and primary producers across the UK's safe and high-quality food and drink supply chain. Not doing so will risk jobs, business closure and the safe and reliable supply of food and drink across the country.

As you will know, Food is one of the UK's 13 Critical National Infrastructure sectors, "the loss or compromise of which would result in major detrimental impact on the availability, delivery or integrity of essential services".

Food and drink businesses are in a unique position. They play a critical role in feeding the nation whilst providing jobs, supporting communities, and enabling responsible growth. However, they are also uniquely exposed to cost pressures and rely heavily on energy supplies to make the food and drink we all enjoy. It is this juxtaposition of vulnerability and criticality which I believe necessitates further relief for non-domestic energy prices in this sector.

For background, Scotland Food & Drink is the leadership body for the food and drink industry in Scotland, working in partnership with businesses, trade bodies and the public sector to responsibly grow its value and reputation. We are proud to have 430 business members across Scotland, including 300 food and drink manufacturers, all of whom contribute to our organisation and work with us to ensure we are internationally recognised as a land of amazing food and drink.

Food and drink businesses are the lifeblood of our communities, particularly in our most remote and rural areas, yet they have been severely impacted by the major

economic shocks caused by Covid-19, leaving the EU single market and now, an inflation crisis. This combination of factors has created a perfect storm of challenges with dramatic rises in the cost of ingredients, packaging, transport and logistics, credit arrangements, labour, and energy, combined with dampened demand in some markets which is likely to worsen.

One of the most significant challenges of all has been the dramatic rise in energy prices which, as you know, were not capped for non-domestic users until your predecessors intervened. The six-month relief package being provided up to March 2023 is extremely welcome and has protected many businesses.

The outlook for energy prices has not yet sufficiently improved to provide any sense of security, so thousands of food and drink businesses face a cliff edge in the Spring – up to a 400-500% increase from the already high levels reached earlier this year if support does not continue. For one small member business, the annual energy cost is forecast to rise from £180k to £900k, and for a larger one from £2 million to £9 million, unless they secure further support.

As mentioned above, a compounding factor is the unique challenge for our industry when it comes to either absorbing or passing on these costs. Incredibly tight margins in the UK’s highly competitive food and drink market preclude the former, whilst the social imperative to minimise food price inflation for households precludes the latter.

I include a table below, using information helpfully produced for us by the Office for National Statistics, to show how the food and drink sector is disproportionately affected by these challenges, compared to “all businesses”:

	<b>Competition</b>	<b>Cost of labour</b>	<b>Cost of materials</b>	<b>Financial costs</b>	<b>Insufficient domestic demand</b>
<b>Food and beverage industry</b>	<b>28.5%</b>	<b>25.7%</b>	<b>46.8%</b>	<b>23.0%</b>	<b>18.4%</b>
<b>All businesses</b>	<b>12.2%</b>	<b>17.3%</b>	<b>31.3%</b>	<b>14.3%</b>	<b>10.9%</b>

A particularly stark statistic from this data shows that just **2.9%** of UK food and drink businesses report “no concerns for my business” vs **19.7%** for all businesses.

Among the concerns raised, inflation of goods and services was highlighted by **46.2%** of food and drink businesses vs **28.8%** of all businesses.

Simply put, food and drink businesses are making major decisions about how and whether to continue operating. We expect that some will sadly not survive the next 12 months, and this could mean some much-loved regional food products disappearing altogether.

We do of course recognise the pressure on public sector finances and the magnitude of the challenge regarding the wider economic situation. We also

watch with interest to see what impact the recently published Energy Prices Act 2022 will have on energy prices generally. But we cannot rely on prices falling back to normal levels by April and continued support, reviewed regularly, will be needed to plug the gap.

As one of our members pointed out recently, this is not simply a case of switching lights off. Food and drink production is intrinsically linked with energy use. Our businesses are busy baking, brewing, distilling, processing, freezing, chilling, heating, boiling, canning, and more besides, all to provide us with the fantastic food and drink products we enjoy at home and sell abroad which provide quality jobs across our communities and add value to the UK economy through their innovative use of ingredients.

Unlike businesses which use energy mostly to heat spaces, there will no respite for our members in the Spring – food and drink production is a year-round, day and night endeavour.

Of course, one solution that many businesses are rightly investing in is local, off grid renewable energy. But this takes time and investment and continued use of centralised grid energy is essential during the transition.

We applaud any efforts the Government can make to further increase the centralised provision of renewable energy, which will, over time, decouple growth from fossil fuels and help to lower prices. As we transition to net zero, and as we ride the wave of high inflation, we need to protect businesses from costs they cannot absorb and to recognise that we will all benefit from a successful journey towards responsible and sustained growth beyond this current crisis, so long as we can survive it.

Your continued support for our vital sector will demonstrate the importance you place in our food and drink industry and, by working together, I am confident we can look forward to a bright future.

I look forward to hearing from you.

Yours sincerely

**John Davidson**

Interim Chief Executive

CC Alister Jack, Secretary of State for Scotland

CC Jeremy Hunt, Chancellor of the Exchequer