

Liz Truss MP
Prime Minister
10 Downing Street
London
SW1A 2AA
By email

5 September 2022

Dear Prime Minister

Scotland's Food and Drink Industry: Cost of Production Crisis

Congratulations on your appointment as Prime Minister and best wishes in your new role.

As you enter office, I know you will be facing many critical issues, but I am writing to convey the perilous situation facing Scotland's food and drink industry and to seek your support to bring forward urgent measures to mitigate the worst of the impact.

Specifically, we seek your support in the following areas:

- Implement 5 measures (see below) to reduce costs for business and stimulate recovery; and
- Convene a meeting with the industry and relevant UK Government Ministers to coordinate a strategic response to the challenges

By way of background, Scotland Food & Drink is the leadership body for the food and drink sector, working in partnership with other trade bodies and the public sector to grow the value and reputation of the industry. We also have 430 companies that are our members, including 300 food and drink manufacturers.

The cost of production crisis facing food and drink businesses is so severe that bold action is urgently needed to stem the tide of the unprecedented rising costs faced by manufacturers, processors and primary producers across the supply chain.

I know you well understand how important our industry is to Scotland's economy through your time as Environment Secretary. It is the lifeblood of communities, particularly in our most remote and rural ones. The past 15 years has been one of success, growing our value and reputation domestically and internationally. However, our journey has been halted by two major economic shocks.

Firstly Covid-19, which effectively shut the domestic hospitality market and our lucrative export markets overnight, with many producers reporting more than a 50% reduction in turnover. Leaving the EU compounded the effects of the global pandemic, leading to additional costs and complications and, in many cases, the entire loss of supply into key markets.

Our already vulnerable businesses now face a triple whammy with a worsening cost crisis caused by the unprecedented rise in input costs, including:

- Ingredients, which are increasing on average by at least 40% due to increased fertiliser and feed costs and global supply chain shortages;
- Packaging materials, averaging 50% increases due to global shortages in materials and pressure in the wider supply chain;
- Transport and logistics increasing by around 50%, with fuel costs and driver shortages significant factors; and
- Most devastating of all, energy, with many businesses seeing a 400-500% increase from the already high levels reached earlier this year. For one small business, the annual energy cost will rise from £180k to £900k, and for a larger one it will rise from £2 million to £9 million.

A further compounding factor is the unique challenge 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 keep consumer prices as low as possible precludes the latter.

Simply put, businesses are, right now, making major decisions about how and whether to continue operating.

We do of course recognise the pressure on public sector finances and the magnitude of the challenge facing the Government in light of the wider economic situation. But I fear that without direct intervention from the Scottish and UK Governments many businesses across the industry will become unviable.

We have therefore set out below two areas where we seek the UK Government's support:

1. A series of direct policy and financial interventions to remove costs, whilst also stimulating recovery:
 - i. **Energy Price Freeze:** Most pressing of all is the need to address the spiralling cost of energy for businesses. Our manufacturers, processors and primary producers are intensive users of energy and the increased costs – as high as 500% in many cases – is likely to make many producers unviable. On the back of an extremely difficult few years businesses simply don't have the reserves or margin to absorb these costs and therefore it is imperative that the UK Government brings forward an urgent solution, including the possibility of further regulation to protect the future supply and price of business energy.
 - ii. **Reintroduce the Fuel Rebate:** One simple intervention would be to reintroduce, even for a temporary period, the fuel rebate to allow the food and drink supply chain to use red diesel. Re-introducing this would provide businesses with immediate relief and would give more time for the Government to work with industry to develop a clear transition plan to an economically viable, greener alternative.

- iii. **Pause Covid-related Loans:** the support provided by the Government to business during Covid helped ensure many remained viable. Businesses are now starting to re-pay those Bounce Back Loans but we ask that payments are now paused to aid businesses' cashflow.
 - iv. **Access to Labour:** Amongst the many challenges faced by businesses across the food and drink supply chain, access to labour remains one of the most pressing. I know you understand the challenges the industry has in attracting new talent, and how reliant we were on EU labour, particularly at peak times throughout the year. We are now starved of this talent due to UK immigration policy and it is almost impossible to meet our demands through domestic labour. We welcome the UK Government's approach to seasonal agriculture workers, and now urge you to extend and expand this scheme (or find an alternative mechanism) to ensure more sectors across the industry can access the labour in the short-term.
 - v. **Safeguarding CO2:** Due to the spiralling energy costs we fear that access to CO2 provision could be in jeopardy once again and urge the Government to once again intervene to safeguard the supply and help manage the cost. As you know, CO2 is a critical input for the industry and it is imperative that we have continuity of supply as we enter into the vital Christmas trading period.
2. I believe that by working together we can make progress to alleviate some of these short-term challenges and would ask that you, or one of your Cabinet, agree to meet with the key trade bodies across the Scottish industry to discuss these issues in more detail.

We want to avoid rising food prices and protect consumers during this cost-of-living crisis. We want to avoid job losses and we especially want to avoid business closure. The current, unprecedented cost crisis within the food and drink industry means that, without intervention, these are the inevitable consequences of inaction. To be clear, these outcomes are no longer in the control of individual businesses, the external pressures are simply too great.

We have written in similar terms to the Scottish Government urging it to bring forward interventions in devolved areas of policy. It is clear to us, our members, and the wider industry, that leadership and action from the UK Government holds the key to unlocking a large part of this challenge and we are committed to working constructively with you to achieve this.

I look forward to hearing from you.

John Davidson

Interim Chief Executive