

Energy Price Rises – Food and drink manufacturing

FDF Scotland represents the food and drink manufacturing industry - Scotland's largest manufacturing sector and one of the "energy intensive" industries being most impacted by the unprecedented rise in fuel costs.

This is driving the cost of grocery bills in Scotland upwards adding to the cost of living crisis communities across Scotland are facing.

We recently surveyed our members to better understand the impact of the Ukraine crisis which included questions about energy use and cost. Relevant points include:

- On average, food and drink manufacturers expect their fuel/energy costs to rise 84% following the invasion of Ukraine
- Risk of gas supply being shut off / rationed was a key concern
- Wider impacts of the crisis are pushing the price of ingredients and raw materials higher
- Those currently on fixed price contracts with energy providers expect shock rises as contracts end
- One company anticipates up to 400% increase in their energy costs
- One member said that their gas supplier (CNG) went into administration, their gas rate went from 1.9p/kw to 9p/kw and they can't negotiate any less anywhere else.

Challenges and Solutions

There is no "quick fix" solution that food and drink manufacturers can deploy to mitigate against the energy price rises. It is therefore imperative that other cost pressures facing our food producers are well understood. We urge the committee not to view energy price rises in isolation.

Our industry faces rising commodity prices, ingredient and raw material shortages and the longer-term impacts of the huge increase in the cost of fertiliser and another potential CO₂ shortage.

The ongoing global impact of the pandemic is resulting in major disruption to global logistics pushing costs yet higher.

Example: Multiple businesses have told us that the cost of accessing shipping containers, when they are available, has increased tenfold.

With this in mind we are calling for all parliamentarians to urgently remove complexity and cost from upcoming regulation across the policy landscape. Businesses must be able to focus on keeping afloat and feeding shoppers. From new packaging rules to restricting promotion and marketing of food and drink in Scotland, we urge the Committee to pause, reflect and consider whether regulation is fit for purpose — and whether now is the time to pass additional costs to families and businesses across Scotland.

Example: A food ingredients company in the Central Belt estimates that, in addition to paying the costs of the new Plastic Packaging Tax, it will need to hire an additional tax administrator to ensure that the company, its suppliers and its customers are able to track the liability arising from the new tax.

Switching to renewable electricity – In our roadmap to net zero we set out how the sector could reduce emissions associated with food and drink production, reducing our reliance on fossil fuels. This is a huge capital outlay for SMEs in Scotland.

It is worth noting that a switch to renewable energy will likely be more expensive in the current market but the recent increase in cost of oil and gas may make the costs more comparable.

With this in mind it is so important that manufacturers make their processes and plant run as energy efficiently as possible. The Scottish Government's Food Processing and Marketing Grant Scheme has been successful in supporting businesses in Scotland to grow, we call for this funding to continue with a focus on energy efficiency, automation and decarbonisation.

We welcome the Scottish Industrial Energy Transition Fund and Low Carbon Manufacturing Challenge Fund but we don't believe the funding is adequate to support businesses across all energy intensive sectors. We call for a Dedicated Decarbonisation Fund for the food and drink sector in Scotland, recognizing that food and drink manufacturing is (unlike other energy intensive industries) over 95% SMEs. This funding should be long term and flexible.

Example: A food manufacturer in Glasgow scoped solar panels for their site. The capital cost of the project would be a major investment for them and did not have the capital. They got in touch with Zero Waste Scotland regarding the SME interest free loan. They were told it was possible, but first they would need an energy review by one of their advisors, and none of those advisors were currently doing site visits (budget issues). This has meant they have been unable to apply for this loan. They feel generating their own electricity is critical but due to challenging times the only way to do this is via the interest free loan or a grant towards the capex of renewables.

Yours sincerely

Cat Hay, Head of Policy

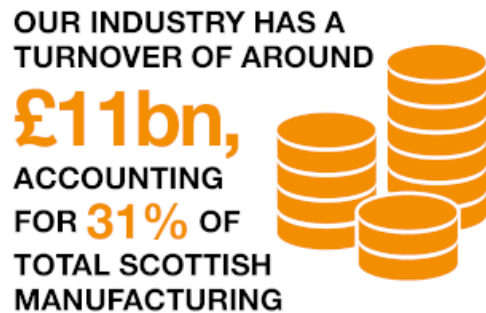
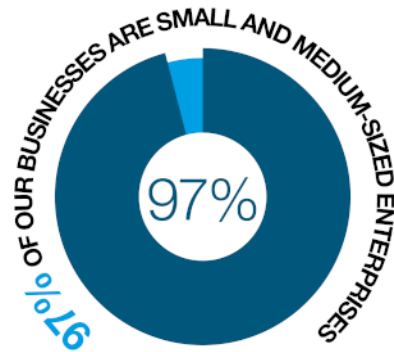
FDF Scotland

About The Scottish Food and Drink Manufacturing Industry

Scotland has always had a strong success story in exporting our food and drink. We punch well above our weight for such a small nation, 25% of all UK food and drink exports come from Scotland.

Food and drink is Scotland's largest manufacturing sector and is an important part of a diverse and complex supply chain.

Scotland has a vibrant food and drink manufacturing industry ranging from thriving small businesses through to major global brands. These companies provide their local communities with a wide variety of careers and are a vital part of the Scottish economy.



The following Associations actively work with the Food and Drink Federation:

ABIM	Association of Bakery Ingredient Manufacturers
BCA	British Coffee Association
BCUK	Breakfast Cereals UK
BOBMA	British Oats and Barley Millers Association
BSIA	British Starch Industry Association
BSNA	British Specialist Nutrition Association
CIMA	Cereal Ingredient Manufacturers' Association
EMMA	European Malt Product Manufacturers' Association
FCPPA	Frozen and Chilled Potato Processors Association
FOB	Federation of Bakers
GFIA	Gluten Free Industry Association
PPA	Potato Processors Association
SA	Salt Association
SNACMA	Snack, Nut and Crisp Manufacturers' Association
SSA	Seasoning and Spice Association
UKAPY	UK Association of Producers of Yeast
UKTIA	United Kingdom Tea & Infusions Association Ltd