



Food and Drink Supply Chain All-Party Parliamentary Group
Oral Evidence Session
Urgent impact of the energy crisis on the food and drink supply chain

Meeting details

Date: Wednesday 19th October 2022

Time: 3.00pm – 4.15pm

Location: Zoom

Minutes taken by: Shauna Dubler, DGA

Members Present:

- Sharon Hodgson MP – Chair

External Speakers

Core

- **Ian Mace** – Head of Government Relations, Associated British Foods
- **Lyndsey Cambridge** – Head of Engagement of the Federation of Wholesale Distributors
- **Gavin Partington** – Director General, British Soft Drink Association
- **Emma McClarkin** – Chief Executive of the British Beer and Pub Association
- **James Lowman** – Chief Executive of the Association of Convenience Stores

Ministerial

- **Daniel Zeichner MP** – Shadow Minister for Food, Farming and Rural Affairs

External Guests

- Adam Isaacs
- Athene Dilke
- Becca Wright
- Charlotte Pick
- David Armstrong
- David Thomson
- Dick Searl
- Emma Piercy
- Jack Quick
- Jayne Almond
- Rod Addy
- Shauna Dubler
- Sonia Kharaud
- Tony Goodger



Sharon Hodgson MP opens the session and introduces the panellists who will be speaking. She sets out the current state of affairs, with the food and drink sector facing rapidly rising costs in energy costs.

Ian Mace introduces Associated British Foods as the largest agri-food business in the UK noting they operate across the whole sector from agriculture to food supply. Mr Mace stated that the rise in energy costs began before Russia's invasion of Ukraine, starting 18 months ago. The impact of energy prices is not only the direct impact on our costs of running the business, but the costs of creating ingredients, running a production line and the costs of packaging have all substantially increased as well. He further noted that this is compounded by rising costs in other aspects of the business, such as labour costs. Ian welcomed the Government support scheme in that it provided greater certainty for the forthcoming six months, however the volatility once the scheme runs out makes purchasing and investment decisions very difficult.

Lyndsey Cambridge introduced the Federation of Wholesale Distributors as an association of wholesalers distributing into the public, hospitality and retail sectors. She noted that the wholesale sector is an extremely energy intensive industry, notably with the large scale refrigeration system that they need to have in place. Lyndsey stated that some members of FWD have reported a 400% increase in their energy bills, therefore having a detrimental impact on businesses across the industry. The impact that this is then having on businesses ranges from closure to mass redundancies, with some members also looking at stripping back the number of refrigerated and frozen products being sold, thereby inadvertently impacting the most vulnerable in society. Lyndsey then stated that FWD are calling for greater support from the Government which would see the Government include the wholesale sector being included in the extension of support from April 2023, she further called for a cap on the energy prices – not just the wholesale price. Lyndsey also called for the implementation of zero-interest loans to be repaid over the course of several years, and for Government to urgently review planning guidelines.

Gavin Partington introduced the British Soft Drink Association as a representative body for soft drinks, fruit juices and bottled water. He concurred with the points made by Ian and Lyndsey. He emphasized the impact of the energy crisis having an impact on every single element in the production line from ingredients to haulage. Gavin stated that the Government needs to step in and assess the risk impacting business this forthcoming winter and have measures in place for greater coordinated support.

Emma McClarkin noted that the hospitality sector is put into a high-risk category with risk premiums being baked into the already high energy costs or being required to pay extremely high security deposits. Due to such high costs, there is also extensive credit checks required for renewing contracts which then results in a wait period of 5 to 6 months as opposed to the usual wait time of 6 to 8 weeks. Emma further noted that overheads for energy costs used to be around 5% for pubs, but in July this year her members were accounting for 10% with the possibility of increasing to 15% by the end of 2022. She further added that they are very grateful for support from the Government but that it is absolutely essential that the Government extend this support after March 2023 for the food and drink sector. She further discussed the impact of the energy crisis on the whole supply chain, echoing the comments made by the other members, noting the costs increase for every ingredient and every good across the supply chain due to this energy crisis.

James Lowman introduced the Association of Convenience Stores. He supported the comments made by the other witnesses. He noted that convenience stores are facing very similar issues to consumer households but without the support households are currently receiving. He stated that the typical energy bill for a store would be around £20k a year. Without the government's support, stores would now be looking at an increase in costs up to £80-100k a year. James stated that the business support scheme has been very helpful. He noted that the risk of closure he is hearing from members is a unique and acute issue caused by the energy crisis in what would be otherwise considered an extremely resilient sector. James also stated that convenience stores have a higher energy usage in summer than in the winter, therefore if there is not more support in the latter half of 2023 then the sector risks being extremely at risk.

Gavin Partington raised the issue of a 400% increase on the cost of CO2 noting that there is a structural issue in the market. He stated that there are too few players in this market and more needs to be done in terms of competition.

Attendees provided additional insight into the conversation, echoing points made on the increasing costs of CO2 and the unmatched increases in energy costs. Some attendees were also critical about the UK's energy storage ability. Some have also worried about the discussions around energy rationing.

Gavin Partington noted that he and his members are wanting greater government coordination so that businesses are not affronted with sudden market intervention which would ultimately not benefit business.

Emma McClarkin stated that there is a fear of energy blackouts whereby only select few members have the funds to have energy generators. She called for a long-term sustainable approach to these issues as opposed to fighting the immediate crisis.

Ian Mace added that the type of energy shortage will be critical. He used bakeries as an example, whereby clear communication and energy shut offs could be manageable however, in packaging it might create more of a crisis.

James Lowman noted that the type of energy shortage is critical because convenience stores where chilling is crucial could cause severe issues.

Lyndsey Cambridge discussed the disparities between the retail and hospitality sector. She stated that the hospitality sector are having difficulties getting credit extended and therefore having a cashflow problem which is having a knock on effect for the wholesalers.

James Lowman stated that there is a huge benefit to the well invested businesses in the sector, those with solar panels and heat pumps who are able to mitigate with greater control their exposure to the increase energy prices.

Sharon Hodgson MP introduced Shadow Food and Rural Affairs Minister Daniel Zeichner MP

Daniel Zeichner MP said he is seeing a supply chain which is very pressured. Producers at the beginning of the chain are feeling the pressure and this is then having a knock on effect further down the supply chain. He stated it was unfortunate for the Government to raise the question for the grocery code adjudicator. Daniel said that it is hard to know what will be a priority under this new Government. Daniel stated that the current Government will struggle to get to grips with the reality of the food and drink sector notably because of the frequent shifts in ministerial appointments making it difficult for ministers to really take time and thoroughly understand what is going on.

Emma McClarkin asked that Daniel Zeichner MP continue to place pressure on the government to ensure that the non-domestic support is continued for the hospitality and retail sector from April 2024.

Lyndsey Cambridge asked for Daniel Zeichner MP to consider reviewing planning permission for renewable energy sources such as wind turbines and solar panels to ensure greener and cheaper energy can be used by members.

Daniel Zeichner MP stated he was happy to review these points. He responded to Emma, stating that the importance of the hospitality sector for the local economy cannot be understated and that it is critical that these are kept afloat during these trying times.

Sharon Hodgson MP thanked Daniel for his time and returned to the session.

Emma McClarkin stated that Ofgem also need to be granted greater powers to ensure better competition and better conduct of their consumers.

James Lawson called for greater assurance and planning from governments and councils to allow for businesses to invest in renewable energy sources for their local businesses – without enough clarity businesses cannot take the risk to invest in expensive technologies.

Lyndsey Cambridge raised the issue with public sector food distribution and the consequences of the energy crisis in how wholesalers provide these menus. Members of FWD are being forced to reduce portion size or provide cold school meals as schools are unable to turn ovens on.

Sharon Hodgson MP stated that she is also Chair of the Free School Meals APPG and echoed Lyndsey's concern and welcomed the warm support from industry in campaigning for additional government support. She then went on to ask about how businesses are absorbing or passing on costs.

Emma McClarkin stated that a meal and a pint should always be an affordable luxury. She stated that members have absorbed the maximum amount of costs and now businesses need to pass on the cost. This will appear as an increase of 6% to consumers, for the reality of a good that has increased by 20%.

Gavin Partington stated the producers have been forced to be put into a situation by the increase in costs of raw materials and therefore they have been forced to pass on a degree of the costs. He noted that businesses still have to meet consumer expectations and cannot continue to increase these costs evermore.

James Lawson stated that members are trying to limit how much the costs are passed on to the consumers.

Ian Mace responded that the ultimate question is time. He said that as costs increase, businesses will have to recover these costs somewhere down the line. Smaller businesses will really struggle in these situations and there are serious risks that entire sectors are hit hard by these.

Lyndsey Cambridge noted that members are looking at every possible way to absorb costs before they pass it on to consumers but essentially at a certain point prices will have to be passed on. She flagged the current food inflation rate is at 14% and that she expects this to continue to increase unless the government takes effective steps to produce the food and drink industry.

Maria Herron (sitting in for Sharon Hodgson MP) asked about access to more sustainable low-carbon forms of energy and whether these are being adopted by businesses.

Lyndsey Cambridge stated that there is a need for less restrictive planning permissions and also invest additional grants or zero-interest loans for greener energy sources.

Ian Mace stated there also needs to be greater certainty on what level of national infrastructure will be available for solutions. He said the government should engage more with businesses to really understand what the best solution is for different interests, for example, what is required for bakeries versus breweries. He also raised the issue of grants for anaerobic respiration, and asked the government to make a shift in the policy whereby you could receive the grant and reabsorb the gas to be used back in your own processes.

James Lowman raised the business rates system and called for the government to very explicitly encourage for investment, particularly investment in green technologies or energy efficiency measures.

Lyndsey Cambridge stated that clarity and continuity is critical for businesses and that more of this from government would help to secure this.