Back to the Past – Brexit Realities Hit Home

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Recently I've looked at the WMCA's Five Year Plan for Net Zero and how this could use local energy assets more to generate affordable renewable energy including biomethane and geothermal which could, according to Sinclair Knight Merz, meet 20% of our electricity needs. Rising energy bills impact our supply chains and raw material costs as well as our resilience as a nation.

This week, (14th March 2022) on the Radio 4 'Today', Ronald Kers, Group CEO of Birmingham-based 2 Sisters Food Group, echoed these concerns, commenting on the impact of the Ukraine conflict in making us reconsider our food security and how we make more of our own home-grown capacity and assets.

This has been a big theme for 2 Sisters Food Group with company founder, Ranjit Singh Boparan, pleading for serious government action back in July 2021 if we were to avoid a food crisis. Brexit was amongst the challenges he listed which had led to ongoing 15% labour shortages amongst their 16,000 employees. Trading conditions with the new regime post-Brexit had led to increased complexity and administration costs for both raw material imports and food exports, with this continuing indefinitely, causing major on-cost and resource challenges. A year back, inflation was already playing a big role. Boparan was listing large price increases in wheat, soy, components, packaging and energy, with stainless steel equipment already having doubled in cost – all have increased very considerably since then. 2 Sisters was seeing unprecedented wage inflation, 'way in excess of annual increases' across its supply chain in skilled roles ranging from hatcheries, to farms, to logistics and delivery. Furlough came in for particular criticism given these skills shortages and the fact that the economy was by then effectively reopened with Boparan commenting:

"Entry level (skills) – that's broadly unskilled – roles (requiring a Level 2 qualification) are where the sector is facing greatest difficulty. Poultry workers should be exempt from this and the government needs to think again on the entry thresholds for salaries and skills.

"What needs to happen is an entry route should be plotted so workers face minimal administrative hurdles to get through to support businesses like ours. We also need recognition from the entire supply chain – that's our suppliers, customers and ultimately the end consumer – that without the correct level of support, we are potentially facing a food crisis in the UK like we've never seen before."

Since this interview last year, things have hardly improved and we now find we are facing the worst armed conflict in Europe since 1945. The economic situation has deteriorated considerably with the latest Q1 British Chambers surveyproduced in the early days following Russia's invasion of Ukraine forecasting a halving in UK GDP growth this year amid inflation, tax rises, and global headwinds; Consumer spending downgraded with inflation to outpace wage growth until 2024 and with UK inflation set to rise to 8% with interest rate rises expected to double this year.

UK GDP growth has been downgraded from 4.2% (Dec 2021) to 3.6% this year, or less than half the 7.5% recorded last year. Next year UK economic growth is expected to slow sharply to 1.3%, before easing to 1.2% in 2024.

With consumer spending slowing to 4.4% from 6.9% last year, the British Chambers focus on rising raw material costs, the increased energy price cap and upward pressure on energy and commodity prices lifting CPI inflation to a peak of 8% in Q2 2022, the highest rate since July 1991.

Rising raw material costs and the impact of Russia's invasion of Ukraine are also projected to keep UK inflation higher for longer. CPI inflation is not expected to fall back to the Bank of England's 2% target until Q4 2024, over a year later than the previous forecast of Q2 2023.

Whilst business investment is due to pick up from -0.7% in 2021 and rise to 3.5% in 2022, it's subsequently only due to stablise again in 2023/24 at unremarkable levels of 1.6% in 2023 and 1.5% in 2024.

This theme was also picked up by economist, David Smith, in the Sunday Times *('Britain is dire at investing – now there's an energy shock',* 6th March 2022) in looking back to the Chancellor, Rishi Sunak's Mais lecture. In covering ONS statistics, he highlighted that public and private investment taken together over the period 1997-2017 showed the UK had invested less as a percentage of GDP than any of the 30-plus members of the Organisation for Economic Cooperation and Development, the OECD during that period.

As he states, "the UK's average over that period was 16.7% of GDP, three percentage points lower than the next lowest Italy and only just over half the highest South Korea. Since then, at least for private sector investment things have got worse."

Brexit and the pandemic have driven down investment levels further with business investment in 2021 down by more than 12% compared with 2016.

Will Hutton speaking at the Malvern Festival of Ideas in March 2022 noted the collapse of not only business investment, but trade and inward investment in Britain. "The French have been benefitting from Brexit," he stated. "World trade, up 9% over the past year is in stark contrast to the UK's -1% fall in trade levels. In any other year this would have been a crisis."

The British Chambers also registered the -1.1% fall in exports last year with 4.2% growth expected this year before levelling off at 1.6% in 2023 and 2024.

With gas prices increasing from 20p per therm in July 2020 to 800p a therm for next month delivery and predicted to rise a staggering 280 times more over the coming 12 months, the UK and Europe are scrambling to become more energy self-sufficient.

The EU have outlined their early intentions to develop a REPowerEU plan to phase out their dependence on Russian fossil fuels well before 2030 based on two pillars:

1. **Diversifying gas supplies, via higher Liquefied Natural Gas (LNG) and pipeline imports** from non-Russian suppliers, with larger volumes **of biomethane and renewable hydrogen production**
2. **Reducing faster the use of fossil fuels** in homes, buildings, industry, and power system, by **boosting energy efficiency, increasing renewables**and electrification, and**addressing infrastructure bottlenecks**.

However, back at home on 9th March, our Prime Minister stated he would review the potential for fracking, even though the 2019 Conservative Manifesto said it would "not support fracking unless the science shows categorically it can be done safely".

By 14th March, Cuadrilla was promoting the opportunities for its two shale gas exploration wells in Lancashire to bolster gas supplies. However, the regulator, the Oil & Gas Authority, had previously ordered these to be plugged up with concrete to permanently close off the possibility of fracking at this location.

However, Francis Egan, CEO, Cuadrilla, saw the opportunity, noting:

“If we are serious about energy security, as a very basic, first step we must not concrete up these wells, and then we need urgently to lift the shale gas moratorium and use these and additional wells to produce domestic shale gas.”

This crisis has been predicted by many for some time, perhaps no more presciently than by Freddie Forsyth who in October 2021, suggesting four main options for the UK and adding that no country could remain sovereign whilst their energy supply were at ‘the whim of others, possibly a hostile dictatorship’. Whilst noting that the wind does not blow all the time and the sun does not shine enough he suggested these areas of strength for the UK including:

- a fathomless ocean of shale gas… (in his view no longer dangerous, a source of earth tremors)
- geo-thermal power – ‘the harnessing of the blazing heat at the earth’s core to create limitless steam to drive turbines’
- tidal wave power – ‘today used only to meet the energy needs of one small Scottish island’
- new small, ultra-safe country-sized nuclear reactors, developed by British scientists .

Forsyth bemoaned the fact that whilst all are there to exploit, ‘they remain dormant and ignored’.

A study undertaken by researchers at The Productivity Institute, at The University of Manchester identified significant shortcomings in the UK’s green recovery in comparison with France and Germany. Its results showed that:

- Using budgets for green recovery to measure ambition, France and Germany provided far more funding, and strategically invested through integrated recovery plans. France committed EUR30.4 billion (1.25% of 2019 GDP); Germany EUR27.5 billion (0.80% of 2019 GDP); compared to UK investment of EUR17.3 billion (0.69% of 2019 GDP).
- The UK’s failure to develop multi-year projects pre-COVID-19 – and the subsequent poor implementations of key policies – impacted on jobs, the economy and the environment. Using the Green Homes Grant launched in 2020 as an example, the research revealed how implementation challenges quickly derailed UK policies in their infancy. In comparison, Germany invested its buildings energy retrofit recovery budget into a well-established 14-year old programme. Similarly, France leveraged pre-existing administrative experience and recognition by funding a mix of both new and existing programmes.

As a local district and County Councillor I can see how strategic thinking by-passes shire counties like Worcestershire. Our Worcestershire LEP is doing its level best and has talented employees but is underfunded and each of our County, District, City, Town and Parish Councils, whilst run by good people with admirable intentions, is a separate organisation accountable to different governance structures. The fragmentation, the lack of investment at any strategic level, accompanied by the lack of longer term ambitions and plans for these shire areas falling outside metro mayoral remits, means that even though geothermal energy, for example, could be an option for Worcestershire as highlighted in our WLEP energy strategy, who is going to bring together the partners and funding packages, let alone the project management to drive such an ambitious project ahead?

As a country I have no doubt we have the assets – intellectual, financial and applied expertise — but the governance, how we manage these resources to deliver our projects, this looks to me to be the biggest missing piece of the jigsaw. Until this is fixed I think energy prices and shortages will continue to beset us and we may well end up reverting to the simplest fix we can think of – fossil fuel power.