Snapshot by:

fdf food & drink federation

The cost of doing business:

Foundational Sector Snapshot

Food and Drink Manufacturing

Key messages

- Food and drink manufacturing is the UK's largest manufacturing sector, contributing **£41.6bn in GVA and supporting 484,800 jobs**[1].
- **It is an important contributor to UK food security by producing safe, nutritious and affordable food for consumers.** Given the importance of food expenditure to household budgets, higher food prices can influence disposable incomes, with knock-on effects for consumer confidence.
- **The sector has absorbed significant cost pressures in recent years, with input costs, excluding labour costs, rising by 40.3% since 2020**[2]. Food manufacturers have responded by changing procurement strategies, improving energy efficiency and delaying investment, with 39% of businesses pausing or cancelling capital investment projects[3].
- **Government can strengthen food security, investment and competitiveness by reducing the cumulative burden of regulation, taxation and policy costs.** A more proportionate policy framework can support productivity growth across the sector while helping to manage cost pressures for consumers.
- Priority areas include **reducing the costs associated with packaging regulatio**n, **supporting the pragmatic implementation of the UK-EU SPS Agreement**, and ensuring that **food regulation remains proportionate, science-based and innovation-friendly**.

Table 1: Key business tax contribution figures for the food and drink manufacturing industry[4]

	2024/25	2025/26	Difference
Business tax contribution	£6.64bn	£7.17bn	+8.0%
Tax contribution as a share of GVA	16.3%	17.2%	+0.9 ppt
Employers' NICs	£1.34bn	£1.64bn	+22.4%

Strategic importance

Food and drink is the UK's largest manufacturing sector and sits at the heart of the country's food system. The sector comprises more than 12,000 businesses, 98% of which are SMEs, operating across every nation and region of the UK[5]. As a major purchaser of agricultural products, food and drink manufacturers buy around 40% of UK farming output, providing a critical route to market for British producers and supporting rural economies across the country[6].

The sector's importance extends far beyond manufacturing. Food and drink manufacturers sit at the centre of a wider supply chain worth more than £171bn, supporting almost 378,000 businesses, employing 4.2 million people and generating over £25bn in exports each year[7]. The sector therefore plays a vital role in supporting economic activity across agriculture, packaging, logistics, retail and hospitality.

Food and drink manufacturing is also a strategic sector for the UK's future growth and resilience. The UK is recognised as a global hub for food and drink innovation and research and development, while manufacturers continue to invest in healthier products, more sustainable packaging and advanced production technologies. Recent supply chain disruption and geopolitical uncertainty have reinforced the importance of maintaining a competitive domestic manufacturing base, making food and drink manufacturing central to both the UK's economic resilience and long-term food security.

Growing cost pressures

Food and drink manufacturers have faced sustained cost pressures in recent years, driven by rising energy costs, higher commodity prices, increased taxation and a growing volume of regulatory requirements. Input costs, excluding labour costs, increased by 40.3% between 2020 and 2026[8]. At the same time, policy driven cost increases have continued to mount, with the Extended Producer Responsibility, changes to Employer National Insurance Contributions (NICs) and the plastic packaging tax imposing an annual burden on businesses of over £1.5 billion.[9] Ongoing concerns around business rates add to the cumulative pressure. These pressures are increasingly affecting business decisions, with 54% of manufacturers changing procurement strategies, 49% investing in energy efficiency measures and 39% pausing or cancelling capital investment projects[10].

Improving the operating environment

As the UK's largest manufacturing sector, the food and drink industry relies on a stable and predictable operating environment to support investment, innovation and productivity growth. However, the sector faces several structural challenges that are increasing costs, delaying investment and affecting competitiveness.

1. Planning, permitting and industrial investment

Food and drink manufacturers often face lengthy and unpredictable planning and permitting processes when investing in new facilities or expanding existing sites. Local authorities and regulators are frequently under-resourced, resulting in delays that can undermine investment decisions, increase project costs and weaken business cases. Businesses also report inefficiencies in Environment Agency permitting processes, including limited transparency around fees and administrative requirements. These challenges are particularly significant for a sector where major capital investment decisions are often planned several years in advance. One manufacturer experienced an eight-month delay to a planned investment project due to planning and Environment Agency delays, increasing costs and compromising the original business case.

2. Product development, innovation and R&D

Innovation is central to the competitiveness of the food and drink sector, but businesses report that the current product samples import regime is creating unnecessary barriers to research and development. Importing small quantities of product samples for testing, product development and competitor analysis can be prohibitively expensive and administratively complex, particularly where businesses are required to use import routes designed for commercial products or permitting systems that are not suited to food and drink products. These barriers risk discouraging investment in UK-based R&D and reducing the attractiveness of the UK as a location for food and drink innovation. One manufacturer is considering a £9m investment in a new R&D facility that would support highly skilled jobs worth around £2m per year and contribute £30m-£50m in global business growth, but current import restrictions risk diverting some of that investment away from the UK.

3. Limited cross government coordination

Food and drink manufacturers operate at the intersection of multiple government priorities, including food security, public health, net zero, trade, industrial strategy, workforce and economic growth. As a result, businesses engage with a wide range of departments and agencies, including DEFRA, DBT, HM Treasury, DHSC, DESNZ, DSIT and the Food Standards Agency. Manufacturers report that policies are often developed in isolation, with limited consideration of their cumulative impact on business costs, investment decisions and food prices. The resulting complexity can create uncertainty, increase administrative burdens and make it more difficult for businesses to plan and invest with confidence. Greater coordination across government will be important to ensuring food policy supports both public policy objectives and the competitiveness of domestic food and drink manufacturing.

Tackling the regulatory burden

Food and drink manufacturers are subject to a wide range of regulatory requirements covering food safety, environmental protection, packaging, product standards, workforce regulation and border controls. Businesses report that the burden is often driven not by the objectives of regulation themselves, but by the complexity of compliance, the volume of reporting requirements and the practical challenges associated with implementation.

Manufacturers highlight that similar information is frequently requested through multiple reporting systems, while compliance obligations often evolve faster than businesses can adapt systems and processes. These challenges can be particularly acute for SMEs, which have more limited compliance capacity but remain subject to many of the same requirements as larger businesses.

Businesses also report that the practical application of regulation can create significant costs and disruption. Packaging reporting requirements, sustainability disclosures, retailer audits and border compliance processes can all require substantial resource to manage, while differing interpretations of requirements can create uncertainty and delays. Recent examples include businesses being forced to destroy compliant stock following changes in the interpretation of import requirements and consignments being delayed at the border because of minor certification issues. These examples highlight how the cumulative burden of compliance can create significant operational and financial pressures across the sector.

Food and drink manufacturers engage with a wide range of regulations and enforcement bodies across government, including:

Department for Environment, Food and Rural Affairs (DEFRA)	
Regulation	**Regulator**
Extended Producer Responsibility (EPR): EPR is expected to cost food and drink manufacturers more than £1bn annually, with the Bank of England estimating it could add around 0.5 percentage points to food inflation in the first year of implementation[11]. Business concerns include continued cost escalation and whether improvements in recycling infrastructure will be delivered.	Environment Agency, Scottish Environment Protection Agency, Natural Resources Wales & Northern Ireland Environment Agency
Dual-use packaging: Producers are currently charged some EPR fees on packaging used in both household and commercial settings, even where packaging never enters the household waste stream. Businesses argue that the absence of an exemption mechanism results in unnecessary and disproportionate compliance costs.	Environment Agency, Scottish Environment Protection Agency, Natural Resources Wales, & Northern Ireland Environment Agency
Producer Responsibility Notes (PRNs) – The PRN system creates unpredictable and highly volatile compliance costs while providing limited visibility and evidence of how funds are used to improve recycling infrastructure. Price fluctuations can be extreme and entirely out of producers’ control. **For instance, paper PRN prices increased by more than 2,200% during 2022, while plastic PRNs have fluctuated by 682% in 2025–26 to date.**	Environment Agency, Scottish Environment Protection Agency, Natural Resources Wales, & Northern Ireland Environment Agency

EPR Producer cost – fees: While modulated fees are intended to encourage more sustainable packaging design, businesses are concerned about the scale and unpredictability of future liabilities. RAM2027 has created unviable timescales for producers to change packaging, and further misalignment with the EU's PPWR. England's Simpler Recycling policy delay has also meant that producers are facing larger fees than anticipated and this will further threaten business viability and restricting growth plans.	Environment Agency, Scottish Environment Protection Agency, Natural Resources Wales, & Northern Ireland Environment Agency
Purity of folic acid within statutory UK wheat flour fortification: Recent amendments to the Bread and Flour Regulations require pharmaceutical-grade folic acid for mandatory flour fortification. Businesses argue that food-grade folic acid is safe and widely used internationally, and that the current requirement unnecessarily increases ingredient costs.	Food Standards Agency (FSA) Food Standards Scotland
UK-EU SPS agreement: This agreement will require manufacturers to align with hundreds of EU regulatory changes covering food safety, standards, plant protection and animal welfare. Businesses are concerned about the scale of the compliance exercise and the resources required, particularly for SMEs.	FSA Food Standards Scotland
Product samples: The current import process for product samples is often prohibitively expensive and administratively burdensome, limiting R&D, product development and competitor analysis. Businesses report that the system risks diverting investment and innovation activity away from the UK.	FSA Food Standards Scotland

Department for Business, Innovation, Science and Trade (BIST)	
Regulation	**Regulator**
Employment Rights Act (ERA) – Food and drink manufacturers are concerned about the scale and complexity of the Employment Rights Act reforms, particularly for SMEs with limited compliance capacity. The cumulative impact of new employment requirements could increase labour costs, administrative burden and the risk of unintended impacts on recruitment and workforce flexibility.	Fair Work Agency Health and Safety Executive

Department of Health and Social Care (DHSC)	
Regulation	**Regulator**
Nutrient Profiling Model changes – Proposed changes to the Nutrient Profiling Model underpinning High in Fat, Salt and Sugar (HFSS) regulations would require extensive changes to systems, product databases and reporting processes. The model relies on "free sugars", which cannot be directly measured, creating practical implementation challenges and significant compliance costs across the sector. Independent analysis by Oxford Economics found that the average one-off costs of the policy to manufacturers could be as much as 50x more than the figure in the Government's Impact Assessment, at £2,812 per product[12].	FSA Ofcom Advertising Standards Agency

Within this regulatory landscape, the Food and Drink Federation (FDF) has identified three areas where the burden is particularly acute and where action could deliver the greatest benefit for business investment, competitiveness and growth.

1. Reform the packaging producer responsibility framework

Challenge: Businesses are required to report and fund packaging schemes across Extended Producer Responsibility (EPR), plastic packaging tax and the Packaging Recovery Note (PRN) system, creating duplication, complexity and avoidable compliance costs. The current PRN system also creates significant price volatility without delivering corresponding improvements in recycling outcomes.

FDF recommendation: The FDF is calling on government to work with the sector to develop a long-term ambition for the packaging producer responsibility framework, improving regulatory coherence efficiency and effectiveness of the funds collected. Specifically, the FDF recommends:

- Reforming the PRN system to improve transparency and significant price volatility.
- Combining EPR & PRN obligations and reporting responsibilities to reduce reporting burden and trading-driven cost inflation.
- Better aligning producer payments with investment into recycling infrastructure, systems and innovation.

Expected impact: Reforming the PRN system and reducing duplication would lower compliance costs, improve investment certainty throughout the supply chain and allow businesses to focus resources on packaging innovation and sustainability improvements.

2. Deliver a pragmatic implementation of the UK-EU SPS agreement

Challenge: The UK-EU SPS agreement will require alignment with several hundred pieces of EU legislation, creating a significant compliance exercise across areas including labelling, packaging and import controls. Poorly sequenced implementation risks creating substantial costs for businesses.

FDF recommendation: The FDF supports the objective of reducing friction in UK-EU agri-food trade but believes implementation must be managed carefully. Specifically, the FDF recommends:

- Providing early visibility of regulatory changes through draft legislation and detailed guidance
- Introducing sufficient transition periods to allow businesses to adapt to new requirements
- Avoiding additional UK-specific requirements beyond those required under the agreement
- Improving border processes through greater consistency and digitisation
- Establishing mechanisms to monitor and communicate evolving EU requirements, recognising that businesses are adapting to a dynamic and changing regulatory framework rather than a fixed endpoint

Expected impact: Providing businesses with greater certainty and lead time would minimise compliance costs, reduce disruption and support the efficient operation of food supply chains.

3. Rethink proposed Nutrient Profiling Model changes

Challenge: The proposed changes to the Nutrient Profiling Model (NPM) would require extensive redevelopment of systems and product databases while creating uncertainty for businesses investing in reformulation and healthier products. The proposed model relies on "free sugars", which cannot be directly measured or declared on labels.

FDF recommendation: The FDF is calling for government to rethink this policy and instead work with industry to ensure we can continue to make positive progress towards healthier diets. Specifically, the FDF recommends:

- Keeping the current NPM in place and undertaking an evaluation of the High Fat, Sugar and Salt (HFSS) regulations and their effectiveness, before considering any changes
- Introducing mandatory healthy food sales reporting across the whole food sector to incentivise businesses to keep developing healthier products, while establishing consistent data to inform current and future policymaking

Expected impact: Maintaining the current framework would avoid significant compliance costs, support innovation and provide greater certainty for investment in healthier product development.

Endnotes

[1] GVA: ONS (2026), *Table 1: Gross value added (GVA) in pounds millions, current prices, UK, seasonally adjusted*, available at*:* *GDP output approach – low-level aggregates - Office for National Statistics* and jobs: ONS, JOBS03 and JOBS04 series
[2] ONS (2026)*, Series GHHV (PPI INDEX INPUT - Inputs into production of Food, beverages and tobacco, excluding Climate Change Levy) and L523 (CPIH Index, Food and non-alcoholic beverages)*
[3] FDF State of Industry Report, Q4 2022bankofengland monetary report 20
[4] The CBI used its business tax contribution analysis in which we break down taxes by industry on a 2-digit SIC level. For employers' NICS we used the latest ASHE and BRES datasets to distribute ER NICs by industry. To estimate the contribution as a share of GVA, we used the latest ONS GVA estimates by industry to estimate the sectoral business tax contribution. Where it was not possible to assign the sector firmly to one or multiple 2-digit SICs, we asked TAs to provide data which we used and scaled accordingly. It should be noted that for some sectors there is a larger margin of error in the contribution statistics given 2-digit SICs do not necessarily fully align with the specific activities progressed in certain sectors. For the food and drink manufacturing industry, we used SICs 10 and 11.
[5] ONS, Nomis, UK Business Counts
[6] FDF estimation based on the ONS Input-Output Tables
[7] FDF 2025 Trade Snapshot, using official data from His Majesty's Customs & Excise
[8] ONS (2026)*, Series GHHV (PPI INDEX INPUT - Inputs into production of Food, beverages and tobacco, excluding Climate Change Levy) and L523 (CPIH Index, Food and non-alcoholic beverages)*
[9] FDF calculations
[10] FDF State of Industry Report, Q4 2022
[11] Bank of England, Monetary Policy Report, August 2025
[12] Oxford Economics (2026), *NPM 2018 Impact Assessment Review,* available at: Oxford Economics report: NMP 2018 impact assessment review | The Food & Drink Federation

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