

Briefing

Dangling by a thread?

Why the Treasury should review the resilience of UK supply chains and their exposure to resource availability shocks

Summary

The UK economy is amongst the most import-dependent in the world, and as such is highly vulnerable to changes in the price and availability of raw materials. Rapid industrialisation of emerging economies and a growing global middle class are behind the relentless growth in demand for natural resources. This has long been recognised as a main driver of environmental damage, locally and globally.

But what was viewed as an environmental problem has more recently become an economic one too, manifesting as commodity price shocks and insecure supply chains. These in turn are translating into social concerns as, for example, the drought in the south-western US has contributed to rising grain prices globally.

Pressures on resource availability could be a major challenge for the UK economy in the medium to long term. But proper evidence is needed. The UK lags other major economies when it comes to a decent evidence base for understanding the extent to which we are overexposed to international resource pressures through our supply chains.

Therefore all political parties must commit to requiring the Treasury under the next Government to commission a review of the resilience of UK supply chains, recommending policies to safeguard the economy, environment and individual wellbeing.

Who's sounding the alarm?

EEF 'The Manufacturers' Association members, 8 out of 10 of whom rated resource insecurity a risk, a third of them their top risk;

The 2013 World Economic Forum, where business leaders said carbon emissions and insecure water supply are 2 of the top 5 global risk in the decade ahead;

The Institute and Faculty of Actuaries warn that without proactive action on resource efficiency the world would experience a long-term and permanent decline in economic growth.

Countries with national resource security strategies

Germany, Austria, Finland, France, Netherlands, Japan, China, Japan, USA, South Korea ... but not the UK

Why we need a ‘Stern-for-Resources’

Friends of the Earth coined the term ‘Stern-for-Resources’ to describe the necessary review of the resilience of UK supply chains, including the economic and environmental implications of the UK’s demand for resources.

In 2006 the Treasury commissioned economist Lord Stern to review the economics of climate change, including the relative costs of taking or avoiding action to reduce emissions.

The review concluded that the long-term economic health of the UK was far better served by weighting effort towards avoiding, rather than adapting to, climate change, and has since influenced climate policy-making in the UK and around the world. The argument that Stern’s review made – that action is far cheaper than inaction – has been a cornerstone of the increase in perception of the costs and benefits of climate policy over the last decade.

Investors, manufacturers and other business leaders consistently sound the alarm that rising resource costs and insecurity of supply are real risks to their companies and the UK and global economy. Meanwhile the environmental destruction and related social upheaval caused by unfettered extraction of resources continues unabated.

As one of the world’s most import-dependent economies, the UK must now take a similarly long-sighted approach for resource use³: a ‘Stern-for-Resources’. This would enable policy-makers to develop an effective and evidence-based national resource strategy for resource sufficiency and the protection of the global environment.

Who wants a Stern-for-Resources type review?

DECC, BIS, Defra, the FCO, DfT and DFID Chief Economists tried to commission a similar review, fearing resource depletion could “have potentially material implications both for UK growth strategy and wider international considerations”. Treasury blocked the review at the last minute¹;

EEF, UK Steel, the Confederation of Paper Industries, the Packaging Federation & numerous other business groups published an open letter in the FT and wrote directly to MPs and civil servants echoing the request;

The Materials Security Working Group² has called for a Stern-for-Resources and wants an Office for Resource Management set up to improve UK resources policies.

¹ <http://www.ft.com/cms/s/0/1bc37804-8298-11e2-a3e3-00144feabdc0.html#axzz3KN36Hm00>

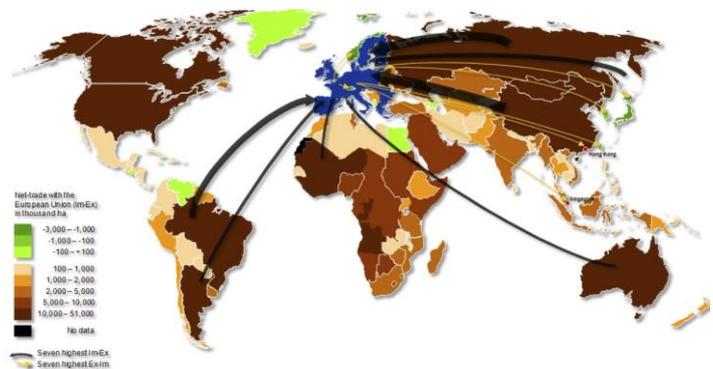
² The Material Security Working Group (MSWG) was formed in 2012 following survey findings that access to raw materials is a serious concern to UK manufacturers. MSWG members include EEF ‘The Manufacturers’ Association’, British Glass, The Metal Packaging Manufacturers’ Association, the Institute of Civil Engineers and Friends of the Earth.

³ A review of ‘resource use’ should go beyond specific high risk materials by giving a headline account of consumption, including how much land, water, materials and carbon are used. See the EU approach here http://ec.europa.eu/environment/resource_efficiency/targets_indicators/roadmap/index_en.htm

Resource insecurity – an environmental, economic & social challenge

Academic research and business surveys signalling anxiety about resource insecurity include:

- **EEF's (The Manufacturers' Organisation") 2011 Executives Survey**⁴ revealed 80% of manufacturers saw resource insecurity as a business risk, a third of them stating it was their top risk. Subsequent surveys showed input costs and resource insecurity remain a concern for the UK's import-dependent manufacturers. Returning economic optimism is tainted by anxiety that growth will come with renewed resource insecurity. These are further detailed in EEF's 2014 report "Materials for Manufacturing: Safeguarding Supply"⁵;
- **Investors – such as Jeremy Grantham**⁶ – are increasingly concerned about constrained access to resources, and the impacts of spiralling commodity prices on growth. **The Institute and Faculty of Actuaries** launched a major report⁷ in January 2013 on resource constraints in a finite world – concluding that without proactive action on resource efficiency from both governments and businesses, the world would experience a long-term and permanent decline in economic growth;
- **The 2013 World Economic Forum** saw business leaders identify rising greenhouse gas emissions and water supply crises as two of the top five global risks most likely to manifest over the next 10 years⁸;
- **Chatham House's comprehensive 2012 Resource Futures report**⁹ warned that despite recent fluctuations the overall trend for resource prices is upwards;
- The area of other countries required to produce goods consumed at home is referred to as 'imported land'. **Friends of the Earth research**¹⁰ reveals the UK is the world's 4th most dependent country on imported land. This is a significant economic vulnerability and risks the UK contributing to 'land grabbing' where communities are forcibly evicted to make way for plantations, mines, and so on.



Europe's land trade. Germany and the UK have the world's 3rd and 4th highest dependence on overseas land. Friends of the Earth/SERI.

⁴ <http://www.eef.org.uk/publications/reports/Executive-Survey-2012.htm>

⁵ <http://www.eef.org.uk/resources-and-knowledge/research-and-intelligence/industry-reports/materials-for-manufacturing-safeguarding-supply>

⁶ <http://ebookbrowse.com/jeremy-grantham-july-quarterly-letter-resource-limitations-pdf-d264859552>

⁷ <http://www.actuaries.org.uk/sites/all/files/documents/pdf/resourceioareport-print-copy.pdf>

⁸ <http://www.weforum.org/reports/global-risks-2013-eighth-edition>

⁹ <http://resourcesfutures.org/#/introduction>

¹⁰ https://www.foeeurope.org/publications/2011/Europe_Global_Land_Demand_Oct11.pdf

What could a Stern-for-Resources involve?

In 2012 The Treasury prevented Chief Economists from departments across Whitehall from initiating a major review to "examine how developments in the global economy over the next few decades are expected to put a heavy strain globally on renewable and non-renewable resources." The economists feared these trends could impact "the UK's potential for sustainable growth, its terms of trade, exposure to commodity price shocks and the security of resource supply", with resource depletion having "potentially material implications both for UK growth strategy and wider international considerations".

The objectives outlined in the Treasury-blocked review make a good starting point for a 'Stern-for-Resources'. The objectives discussed¹¹ included:

- 1) *To explore the extent to which expected global social, economic and demographic trends could result in changes to the global availability of resources ...*
- 2) *To identify and present the macroeconomic consequences for the UK that could result from [1] ...*
- 3) *To investigate the global scope for improved resource efficiency ...*
- 4) *Subject to the findings under [1], [2], and [3], to identify both the constraints that changes in resource availability may have on sectoral growth, and also the opportunities for growth arising from resource efficiency and low carbon innovation. This should include an assessment of*
 - a) *The sectors where the UK economy has, or could have, a competitive advantage*
 - b) *The barriers restricting take-up of such growth opportunities...*
 - c) *The role of government in overcoming these barriers*
 - d) *The practical solutions available for removing the constraints...*

What would a Stern-for-Resources achieve?

Good initiatives in research and policy-making around UK resource security are compromised by policy incoherence and contradictions. A core duty of government is to safeguard the nation's economy and wider well-being, something it will only be able to do with a proper understanding of the UK's resource dependencies. A Stern-for-Resources would guide decision-makers in developing the right mix of policies and governance to ensure economic resilience, environmental protection and individual well-being.

For more information

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¹¹ http://www.foe.co.uk/sites/default/files/downloads/treasury_email_1.pdf