Written evidence submitted by British Apples and Pears Limited (BAPL) (FSC0055)

EFRA Committee – Fairness in the Supply Chain

British Apples & Pears Limited (BAPL) is a grower-funded, not-for-profit organisation that represents all commercial apple and pear growers of dessert and culinary fruit in the UK. BAPL works hard on behalf of its members to safeguard their interests and grow the market share of British apples and pears. Our ambition is for at least 60% of apples sold in the UK to be British by 2030. Today, British apples represent less than 40% of all apples sold in the UK despite apple being our national fruit. British apples can be stored for up to 12 months of the year and therefore British growers could supply a much higher proportion of the fruit sold in the UK.

Despite our ambitions, the value of orchard fruit has decreased by 15% to £287m between 2020 and 2021[1]. Apple and pear production is part of the £4bn horticulture industry which is worth 20% of farmgate value from just 2%[2] of the land area. It is a sector that should be being celebrated, promoted, and supported. BAPL activities include industry representation, government liaison, data gathering and raising consumer awareness and promotion. Since the demise of AHDB, the organisation also funds much-needed research and development to protect the crop. BAPL represents 95% of all British dessert and culinary apple and pear growers in the UK and has almost 300 members. We are delighted to be able to respond to this inquiry.

BAPL believes that the sector should be championed by both government and retailers. The UK's mild maritime climate is one of the best in the world for growing apples. British apples are the best tasting in the world because they ripen more slowly than apples from all other growing regions which have either continental/sub-tropical climates (Europe, Chile, New Zealand) or semi-arid climates (USA).

Only profitable businesses can be sustainable and can continue to invest in productivity and environmental outcomes. To that end, BAPL has set out a list of asks of retailers and government that would ensure the British apple and pear industry can survive and thrive:

BAPL asks of retailers:

- A reset on returns to recognise the unprecedented 23% inflation in cost of production since the end of 2021.
- Long-term partnerships and prioritisation of British apples and pears over imports to give growers the confidence to plant the orchards of the future with long-term contracts linked to inflation.
- To work with our great growers to reinvigorate the category with in-store and online 'theatre', packaging and messaging that celebrates "British". To create an in-store offering that attracts shoppers to buy British, and reflects the health benefits, affordability, low food miles and British provenance of our apples and pears.

BAPL asks of government:

- To add grower businesses to the list of sectors eligible for the Energy and Trade Intensive Industries ("ETII") scheme, which would help growers with energy costs.
- To establish a permanent seasonal worker scheme to enable businesses to plan for the long-term and increase the current permit to a nine-month visa.

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[1] ONS https://www.gov.uk/government/statistics/agriculture-in-the-united-kingdom-2022/chapter-7-crops

[2] Defra: Health & Harmony: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/683972/future-farming-environment-evidence.pdf

- To support the development of renewables (wind and solar) by improving the planning framework.
- To ensure planning policy supports the creation of more on-farm reservoirs.

In addition to the above, BAPL fully supports the NFU Horticulture Growth Strategy, published in March 2023.

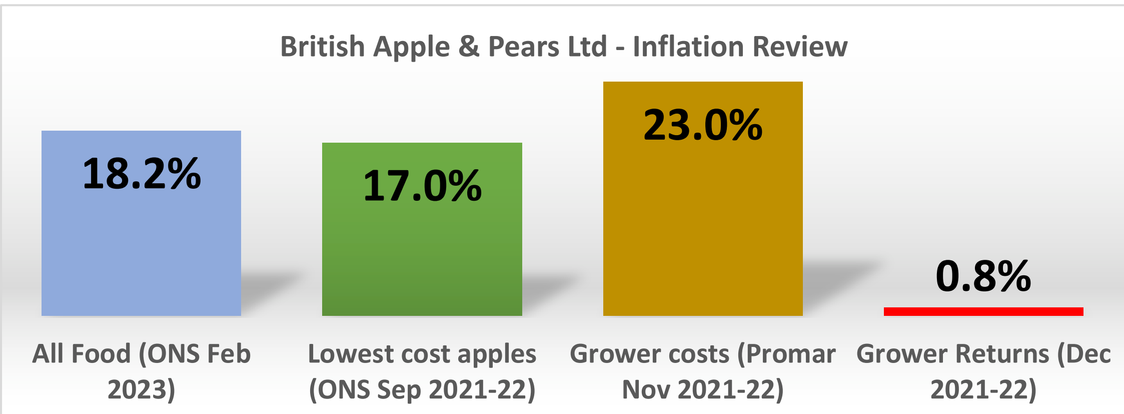
The emphasis of answers given below is on fresh produce and in particular apples and pears.

1. To what extent is the UK's food supply chain currently operating effectively and efficiently?

The UK has some of the cheapest food in the Europe, is a significant food importer and is reliant on Europe and the southern hemisphere for fresh produce imports. We have a logistically slick and efficient supply chain serving 67 million customers on a relatively small land area and some of the most sophisticated supermarkets in the world.

However, for fresh produce there are worrying trends that see many products being sold regularly at a price that is below the cost of production and fresh produce often being used as a "loss leader" to drive shoppers into stores. In the recent period of super inflation, growers have seen costs increase by 20-27%[3], but they are not receiving returns from the market that cover the cost inflation, despite the shopper often paying more.

The following chart summarises recent food and grower cost inflation (first three bars) and contrasts this with the lack of inflation in returns to apple and pear growers (fourth bar showing just 0.8%). While grower returns have remained almost static (0.8%), ONS data reveals 18.2% increases in all food prices[4], 17% increases in the prices of the lowest cost apples[5], while Promar data shows that grower costs have increased 23%[3].



Food security is a significant concern with many recent examples of empty shelves. Tomatoes and peppers ran short because British growers would not plant in the winter of

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[3] https://www.nfuonline.com/updates-and-information/promar-report-the-real-impact-of-cost-pressures-on-the-horticulture-sector/#:~:text=Inflation%20gathers%20pace,and%20labour%20(%2B15%25)

[4] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/february2023#:~:text=Food%20and%20non%2Dalcoholic%20beverage,observed%20for%20over%2045%20years.

[5] https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/czmy/mm23

2022/23 due to the significant increase in glasshouse energy costs[6]. Southern Spain ran short due to cold weather and shortages ensued[7].

Many overseas suppliers do not prioritise the UK market because of the power and dominance of and the cost to serve UK retailers. They would rather sell into markets that provide a higher return and a lower cost to serve. They also tend to send small fruit to the UK as they can't sell this in their home markets.

The British climate is a good place to grow food and will continue to be so in the face of climate change. Many of the countries that the UK imports fresh produce from have increased weather volatility due to climate change and are not self-sufficient in water, leading to inconsistent and unsustainable supply.

2. How could structural relationships between farmers and fishers, food producers and manufacturers, handlers and distributors, retailers and consumers be improved for both domestic and foreign foods?

Most British fresh produce is sold as an own label product by UK retailers. Supply chains are relatively short in apple and pear. Grower/packers dominate, some with producer organisation structures and some without. Retailers are very powerful, most utilising a tender process to drive down supplier prices, and in recent years supplier partnerships have been de-prioritised in favour of lowest prices.

Growers have been handed significant labour cost inflation due to the national living wage inflation rate and labour shortages. In apple and pear growing, workforce cost is about 40% of all costs. Furthermore, over the last five to seven years grower profits have diminished to the point that they are now losing money, removing orchards and disinvesting in the sector. This has been at least in part because of 'super inflation' of input costs (labour, energy, fertiliser, crop protection).

Retailers have refused to engage in satisfactory cost of production inflation conversations with growers.

The solution: for government and UK retailers to champion British fresh produce and prioritise the planning, investment into and purchase of British supply over imports to create greater food security.

Should government choose to champion British fresh produce, this would involve business-like, relevant policy measures to see the sector thrive, including:

- A seasonal worker scheme that is permanent, with no cap on numbers and a visa length that represents the season length (nine months rather than six)
- ETII energy support to reduce production, processing and storage costs to create food security in the UK
- Planning and grant policies that make investment in winter reservoirs feasible for growers.

Should UK retailers prioritise British fresh produce in a way that provides growers with sustainable/profitable returns and long-term certainty with a clear view of future buying requirements, this would lead to grower confidence and significant investment in the sector by British apple and pear growers.

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[6] https://www.grocerygazette.co.uk/2023/02/16/supermarkets-tomato-shortages/

[7] https://inews.co.uk/news/world/vegetable-shortages-spanish-cold-stock-issues-uk-supermarkets-2166361

3. How does the market power of UK supermarkets and manufacturers compare to other participants in the food supply chain, and how does this compare to equivalent relationships in other advanced economies?

UK supermarkets are multi-billion pound turnover businesses with significant power and dominance. They are very dominant and expensive to serve compared to any other part of an apple and pear supply chain. Supply contracts are based on fixed price supply rather than a supply and demand model. This contrasts sharply with EU/US supermarkets where price relates to supply and availability. The grower shoulders all the risks, and these risks are not shared by the retailer.

What are the risks in fresh produce?

- Weather (hail and frost in particular) – which can affect production levels by up to 30% and take product out of specification (too big, too small, damaged, etc)
- Pest – some pest invasions can wipe out a crop
- Disease – can significantly affect production levels and a growers' ability to achieve specification
- Crop protection regulation is not fit for purpose, leaving British growers at a competitive disadvantage to imports
- Workforce availability – with wages representing 40% of all costs, if there is a shortage of workers or a delay in arrivals, crop will not be harvested
- In 2022 £60 million worth of fresh produce was not harvested due to worker shortages[8]
- Finance, capital and investment all sits with the grower – retailers never directly invest in their supply chain
- Imports – undercut by imported produce grown to lower standards in countries with lower cost bases (particularly lower labour costs)

4. Is existing regulation appropriate, for example the Groceries Supply Code of Practice and the Groceries Code Adjudicator for supermarkets' direct suppliers, as well as the Secretary of State's powers under Part 3 of the Agriculture Act 2020?

The GSCOP needs to be strengthened to cover more retailer relationships and to have a greater influence on buyer behaviour. There is often a real disconnect between retailers' strategic understanding of the issues faced by growers (super inflation, energy costs, labour challenges and input costs) and actual buyer behaviour.

For example, at the House of Lords inquiry into Horticulture in July 2023, Tesco demonstrated an excellent understanding of the issues facing growers and the need for growers to have a sustainable and profitable return over the long term. However, in the same month Tesco told suppliers it wanted them to cut prices across its entire fresh and packaged products offers. This was the biggest range review since Dave Lewis's Project Reset. Tesco told a supplier conference in July 2023 that it expected them to work in partnership to drive the market from "inflation to deflation" in its new Fit for Growth strategy[9]. This is despite inflation in the UK running at 7.3%[10].

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[8] https://www.nfuonline.com/updates-and-information/nfu-horticulture-mid-season-labour-survey-results/#:~:text=The%20survey%20results%20show%20that,more%20than%20£60%20million.

[9] https://www.theguardian.com/business/2023/jul/16/tesco-puts-squeeze-on-suppliers-so-it-can-cut-grocery-prices-for-customers-inflation#:~:text=In%20a%20presentation%20to%20suppliers,by%20cutting%20prices%20more%20aggressively.

[10] https://www.ons.gov.uk/economy/inflationandpriceindices#:~:text=Consumer%20price%20inflation%2C%20UK%3A%20June%202023&text=On%20a%20monthly%20basis%2C%20CPIH,down%20from%208.7%25%20in%20May.

5. How effectively has the Government conducted reviews of contractual practice in specific sectors, for example in the pig and dairy sectors, and should other sectors be reviewed?

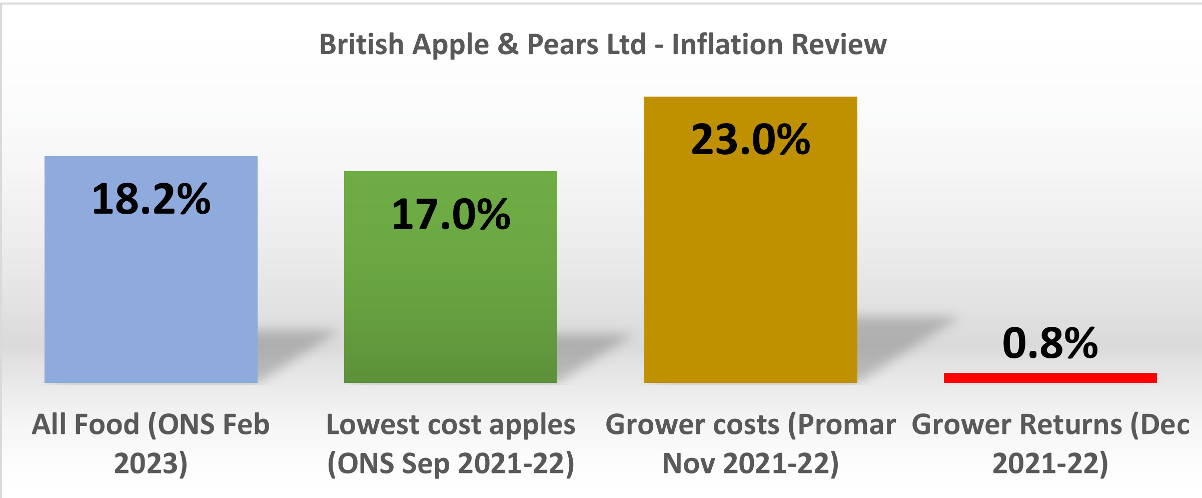
The government has lacked agility, been slow to react, at times in total denial that a problem exists and reluctant to use their investigative powers. Food supply requires long-term investment and business confidence. Businesses need to have the confidence that the government will take their evidence seriously instead of waiting for “empty shelves”.

By the time the sector gets to empty shelves, businesses are failing, investment is significantly curtailed, and confidence is shattered.

6. What is the relationship between food production costs, food prices and retail prices? How have recent movements in commodity prices and food-price inflation been reflected in retail prices?

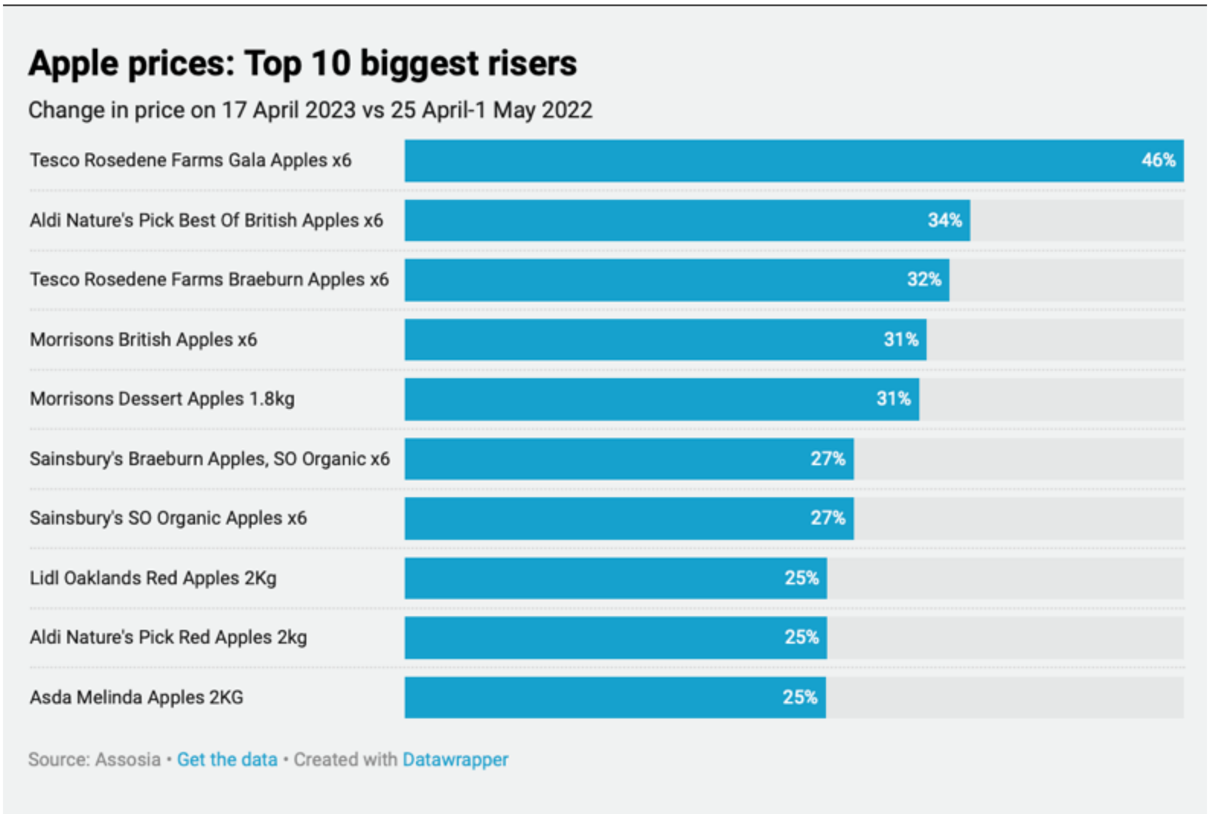
In apples and pears and most of fresh produce there is no relationship between cost of production and retail prices. Retailers claim that margin is calculated across a basket of goods, meaning that fresh produce is often sold below the cost of production. This ruins consumer perception of the true costs of food, it damages grower business confidence, leads to business failure, loss of profit and disinvestment.

Food commodity prices are almost irrelevant in fresh produce as retailers operate a fixed price model which bears no relation to supply and demand.



The chart above shows that despite cost of production inflation of 23%[3], growers’ returns from supermarkets were static at 0.8%. At the same time retailers were passing on higher retail prices to shoppers. The ONS (Office for National Statistics) showed that the retail price for the lowest cost apple had increased by 17%[5].

In the table below created by The Grocer magazine, we can see that the shopper was paying up to 46% more for certain apple lines in April 2023. So, the shopper is paying more but these returns are not filtering through to the grower businesses.



Source: https://www.thegrocer.co.uk/fruit-and-veg/apple-growers-forced-into-the-red-despite-supermarket-price-hikes/678427.article

7. What are the consequences of current relationships in the supply chain for:

a. risk-sharing: Risk is not shared. The grower takes all the burden of risk, see question 3 for the list of risks. The consequence is that growers who are not making a profit will no longer be prepared to bear the risks and will move out of apple and pear growing in the UK.

b. prices paid and profit margins of farmers, food manufacturers and other suppliers: When apple prices paid to growers do not reflect the true cost of production, profit margins deteriorate significantly and most growers make a loss. The consequences of declining profits or loss-making positions is that growers remove orchards, grow fewer apples and pears or stop growing altogether. Investment in farm equipment, renewables, packhouse robotics and agri-tech solutions also declines or stops altogether, reducing food security and lowering productivity.

c. prices for consumers: Today apples remain the second most affordable fruit after bananas. A six pack of Gala apples in Tesco in July 2023 is £1.70, making each apple worth 28.3p. In Tesco a banana costs 18p and the cheapest orange is 30p. Compared to a bag of crisps (£1) or bar of chocolate (75p) a home-grown apple represents excellent value and is one of the healthiest snacks to eat: full of fibre, vitamin C, antioxidants and polyphenols.

The price of apples to the consumer could afford to go up. In fact, some popular apples such as Pink Lady retail for as much as 40-50p per apple.

d. quality: Growers use profits to invest in quality measures such as new apple and pear varieties; improved varietal clones (improves colour, fruit size, flavour, yield); automation in the orchard and packhouse to reduce bruising; storage techniques to maintain quality and flavour; new packaging formats that are kinder to the environment; renewable energy to reduce carbon emissions. Lack of profit leads to lack of/zero investment and eventually a decline in the quality of home-grown fresh produce.

e. healthy food for consumers: The consequence of the current issues facing British apple and pear growers is that British shoppers will have less home-grown healthy fruit. Today British apples make up approximately 40% of all the apples sold in UK supermarkets with everything else coming in from Europe and the southern hemisphere (e.g. Chile, New Zealand, South Africa).

The UK's ability to import will mean that healthy food is always available to the consumer but imported food will often be grown with:

- A much higher pesticide burden (UK growers have access to a far smaller range of crop protection products than most of our imported competitors)
- A higher water footprint (apples are often imported from countries that require far more irrigation to grow apples and pears and with lower natural water recharge rates than the UK)
- A higher carbon footprint (imported apples are transported long distances)
- Overall lower standards, including standards concerning ethical labour practices

f. animal welfare and the environment: Not applicable to fresh produce.

g. competition between retailers: Competition between retailers is fierce, leading to questionable business behaviour. There is a "race to the bottom" on price and in recent years this has dominated retailer actions. Many retailers price match Aldi and have lost their focus on ensuring there is good availability of high-quality fresh produce (evidenced by recent empty shelves for tomatoes and peppers and eggs).

8. Does the structure of the UK food supply chain support overall domestic food security (both self-sufficiency and the availability of imported foods)?

No, food policy has been delegated by successive governments to the market and our reliance on food imports has increased. Domestic food security has fallen dramatically. According to the NFU, British food self-sufficiency was at 78% in 1984. In 2021 this reduced to 60%[11].

9. How successfully are supermarkets promoting affordable and healthy eating in the current high food inflation environment and what steps could they take to increase the take-up and affordability of healthy options? How are promotions, such as multi-buy offers, supporting healthy eating including for those on low incomes, and also affecting levels of food waste?

Supermarkets could do more to promote healthy food options by offering more fruit in their "food on the go" deals. Fruit and vegetables could be retailed as a snack close to the store entrances and exits. Fruit and vegetables should always be included in multibuy deals and as a bolt-on to ready meals.

Food waste at farm level is created through the very tight specifications that retailers demand. Whilst a grower can control fruit size to a certain extent, the weather (frost, rain, drought) will often have a greater effect leading to small or large fruit that often never makes it into store. Apples not considered the right specification for supermarkets can be processed or juiced (reducing food waste) but the returns are loss making, diminishing grower profits.

[11] https://www.nfuonline.com/updates-and-information/nfu22-how-secure-is-britain-s-food-supply/

10. What challenges do low-income households face, in both urban and rural areas, in terms of accessing affordable and healthy food from a choice of retailers?

Fresh fruit and vegetables are not easily available in corner shops and convenience stores. If low-income households struggle to access larger grocery retailers, they may find themselves in a “food dessert” and unable to access fresh fruit and vegetables.

11. What measures could be taken by central and local government, and others, to enhance cooking skills to reduce reliance on processed food and improve access to self-grown food, in particular for lower income households? What challenges do such ambitions face given the pressures of modern living?

The national curriculum should include food and nutrition (including practical cookery skills) for every secondary school pupil. The curriculum should also include horticulture and growing skills within the science curriculum. GCSE and T-Levels in horticulture should be available in every school. A Level or BTech Food & Nutrition should be available in every school.

Cookery clubs should be encouraged, funded and promoted by every local authority in youth clubs and young people settings.

Food cooked from scratch costs significantly less, generally, than highly processed ready meals or takeaway options. It is healthier and creates long-term improved food choices in the population reducing reliance on the NHS.

July 2023