

Written evidence submitted by Producers Organisation Steering Group (FFS0030)

Executive Summary

There are 32 registered Producer Organisations (POs) in the UK, representing approximately 1000 growers and 43% by value of all UK grown fresh produce. The POs structure is supported by the Fruit and Vegetables Aid scheme (F&V Aid Scheme), an EU scheme retained post the UK's exit from the European Union (EU). The scheme is scheduled to end 31 December 2025, as a result of the Retained EU Law Act, and until the present day the POs have had no concrete confirmation of what will replace it. This document sets out to evidence all the benefits the scheme brings the UK Horticulture Sector and suggests that the Government should look at first:

- 1. an initial extension of the scheme to avoid a funding 'cliff edge'; and then,*
- 2. the formation of a scheme that is at least aligned with the existing and operational EU model, and does not operate under 'competitive tendering', as this is vital for the long-term viability of UK Horticulture.*

Background on scheme

The current F&V Aid Scheme provides match funding for investments in facilities, employment of specialist staff, professionalisation of production planning, growing, marketing operations and Research and Innovation projects. Via this scheme's structure, growers can direct investments where they will have the greatest impact, they also further demonstrate the value of co-funded investments by contributing half of the project costs themselves, with the other half coming from match funding via the Government. Funding is managed for Defra by the Rural Payments Authority (RPA). The annual funding budget is circa £40 million and gives growers an uncapped 3–5-year security of funding.

The Fruit and Vegetable Aid Scheme for the UK horticultural sector offers a range of benefits to the UK taxpayer, (justifying the allocation of funds from the UK Treasury):

- *Economic growth through sustainable profitable farming encouraging future investment.*
- *Value for money through enhanced affordability of fruit and veg, and increased employment in rural communities.*
- *Food security, by reducing reliance on imported produce, increasing availability of produce, price competitiveness and a boost to the Horticulture Infrastructure.*
- *Growth in Agri-Tech through development and innovation in the sector, facilitating high-capital investments.*
- *Progress toward UK net-zero targets through nature-friendly farming that is adapting to climate change.*

Proposed closure of current scheme

The current Fruit and Vegetable Aid Scheme is an EU scheme retained following the UK's exit from the EU; however, it has never really reflected the uniqueness of the UK market. There is therefore now an exciting opportunity for Defra to reshape the scheme and tailor it to the UK horticultural landscape further sustaining the growth trajectory this sector has seen.

In addition to this, despite the UK no longer being in the EU, it is still competing within the bloc under the UK-EU Trade and Cooperation Agreement. (EU Horticulture is part of an efficient and highly competitive single market. In the EU there are 1600 POs receiving circa £1.5 Bn in support through PO schemes. The EU agrees long-term 7-year budgets giving POs a much longer security of funding than the UK's rolling 3–5-year programmes). Diverging significantly from the EU scheme will put UK growers at a competitive disadvantage in terms of industry investment. Failing to remain competitive will encourage replacement of UK production with imports, dampen any growth the sector would see, as well as reduce the UK's food security footprint. On top of this, in recent weeks the Scottish Government announced a 3 year continuation to the scheme, meaning a further divide and disparity amongst the UK market.

The EU retained law act came into effect 29 June 2023, which then precipitated the Fruit and Vegetables Aid Scheme Closure (England) Regulations 2023 - coming into effect 25 July 2023. To this end the then-sitting Conservative Government proposed replacing it with a competitive grant scheme without consulting POs. The proposal of competitive tendering is by its very nature, inherently 'uncertain' giving growers little stability and wholly unsuitable to how the horticulture sector operates. A lack of security of funding will stop growers and POs from making long term strategic investments.

Finally, the current UK retail market is an Oligopoly, with the top 6 supermarkets having 85% of the grocery market. Supermarkets require suppliers to have significant technical, audit, and quality assurance resources, and sufficient scale to supply. Such resources and scale are beyond the reach of many smaller growers acting independently so POs, fostering collaboration and sharing of high calibre resources, enable growers of all sizes to supply the major UK supermarkets. This in turn maintains the sector, meets consumer demand, less reliance on imports, increased food security and increased employment in rural communities.

Rationale

Below we have produced the rationale behind our suggestion for an extension of the scheme followed by the formation of a new, better scheme, in line with the Inquiry's 'topics for scrutiny'.

Profitability of Farming

Economic Growth and Employment:

The sector has seen an increase in automation, technological innovation and the implementation of industry best practices due to investment enabled by the F&V Aid scheme. These advances have not only

boosted productivity and operational efficiency within the sector but further created additional full-time skilled employment opportunities across the broader industry. This has stimulated economic growth in rural communities and is a clear example of meeting the government's mission to *break down barriers of entry to better opportunities and employment for all*. Ultimately, the government's principal mission is to encourage 'growth' in the UK economy, the continuation of the F&V Aid scheme will almost certainly contribute to this agenda. The alternative – competitive tendering – will only but hinder the sector as it is an inefficient distribution of resources - it would be a purely targeted and prescriptive scheme that is not adaptive to all growers' business priorities. It will also be a costly and time-consuming application process that offers no certainty to growers regarding actually accessing funding, and many of whom will not be qualified or have the time to complete applications. Finally competitive grants make it impossible to budget and to implement the 3–5-year business development plans the sector so needs.

Value for Money:

Match funding through the F&V Aid Scheme to POs is efficient use of public funds:

When eligible positions are part-funded by the Scheme, the actual cost of supporting an employee through the PO Scheme is minimal in real terms, as the taxes paid back to HM Treasury largely offset the funding costs, particularly at most salary levels, except for those in lower-paying roles. For example, in the case of a £50k salaried position where 80% of the time is spent on eligible work, 78% of the government grant funding is recovered through tax and National Insurance contributions.

In the case of capital projects, any increased profits resulting from the investment are recouped through Corporation Tax on those profits.

The match funding of capital projects via the F&V Aid Scheme is more cost-effective for UK taxpayers than competitively tendered grants, as there is no full expensing of capital expenditures against Corporation Tax. Competitive tender grants are significantly less efficient for the government when delivering the same outcomes.

The PO system allows growers to direct investments where they will have the greatest impact. Growers further demonstrate the value of co-funded investments by contributing half of the project costs themselves. In contrast, competitive tender grants are prescriptive in what they will fund and may not align with the commercial needs of the sector. Over time, competitive tender schemes may disproportionately favour producers who are best at submitting bids, rather than those who could use the funds most effectively.

Moreover, competitive tender processes carry the risk of third-party intermediaries completing tenders, which could undermine the transparency and efficiency of fund allocation. In contrast, PO schemes are subject to rigorous auditing and reporting requirements, ensuring that funding is allocated appropriately and that public funds are managed responsibly.

Impact on smaller growers

Smaller growers are the backbone of British Horticulture. Their role in the sector is vital to sustaining the sector as they often specialise in producing niche products and catering to specific market demands. Smaller growers too, tend to be more agile commercially and thereby able to make swift decisions adapting to changing conditions. Frequently, they are more willing to be innovative, challenge conventional practices and experiment with new approaches. They also often have more autonomy, as many own their land, and therefore greater resilience to adapt and innovate compared to larger operations that may carry significant debt and financial leverage.

Should the collaborative framework that the POs structure allows no longer exist, and therefore the ability to share resources and infrastructure with small growers not occur, the sector is at risk of marginalising these operations and disconnecting them from their customers. Small growers could very easily cease to operate causing a decline in the overall profitability of British Horticulture and Farming.

Food Security

Global food security has become an increasingly important issue over recent years, as a result of COVID-19, Russia's invasion of Ukraine, climate change, and other geopolitical challenges exposing vulnerabilities in critical food supply chains. Our decision to leave the EU has also exacerbated pressures on domestic supplies. The new Government has made clear that increasing resilience in our food supply chains is paramount to our national security. Producer Organisations (POs), supported by the Fruit and Vegetable Aid Scheme, underpin the UK's horticultural sector, ensuring the production and supply of critical products to our food security. Without this scheme, weaknesses in our supply chain and the Government's commitment to national food security will be exposed.

Reduction of Reliance on Imported Produce:

The F&V Aid scheme has played a vital role in nurturing a robust UK horticulture industry that with the continued support will perpetuate a decrease in the UK's reliance on imported produce. With this in mind, however, 45% of vegetables and 83% of fruits consumed in the UK are still imported, ushering in a clear need to not only maintain the current sectoral output and those schemes, but also to seize the opportunity to correct this disparity strengthening food security, and stimulating local economies by retaining consumer spending domestically.

Increased Availability of Fruit and Vegetables:

The POs with F&V Aid Scheme funding have increased the availability of domestically grown fresh produce by promoting efficient production techniques and supporting initiatives aimed at extending growing seasons. These advances have seen clear health benefits as a result and positively impacted the overall well-being of the population. A clear example of this can be seen in the Soft Fruit sector:

- *The importance of the Producer Organisation structure within the Soft Fruit sector is well documented where PO members represent over 90% of UK production.*
- *The Match funding structure that the Fruit and Vegetable Aid Scheme has enabled has been instrumental in driving improvements in production methods, increasing yields, and fostering the development of new varieties. Over the past 27 years, yields have surged by 300%, and overall production has grown tenfold.*

Food Security in relation to Price Competitiveness:

The F&V Aid Scheme supports growers in enhancing their productivity, efficiency and overall output which in turn contributes to improved food security by ensuring a reliable, steady, and cost-effective supply of domestically grown produce. Such stability is not only crucially beneficial to consumers but also helps to reduce price volatility in the market.

Need to Boost UK Horticulture Sector Infrastructure:

Food Security goals, alongside the National Food Strategy objective to achieve a *30% increase in fresh fruit and vegetable consumption*, can only be realised if the entire horticultural sector secures the necessary investment. Currently, POs with the F&V Aid scheme are afforded an uncapped funding commitment over a 3–5-year period, this allows for long-term planning and importantly stability. (Notably the EU POs have a 7-year commitment which gives them even greater stability and a clear advantage over UK POs). Should this commitment be scrapped and be replaced with a competitive tendering process – a process which inherently lacks funding certainty – growers and POs alike will be unable to make strategic, profitable and efficient long-term investments.

Innovation & Agri-Tech

Consistent investment in Research, Development and Innovation (R&I) is crucial to the success of UK horticulture. There is indeed, already, considerable R&I activity in the sector however it is often fragmented – lacking coordination – and therefore duplicated, resulting in much of the research progressing slowly and failing to translate into effective practical applications. As a result, this also often diminishes its commercial relevance

Producer Organisation's R&I Contribution:

The PO structure, today, already houses substantial expertise and knowledge from ongoing R&I activities, the majority of which are directly supported through match funding via the F&V Aid scheme, this renders them ideal candidates to serve as ‘technology hubs’ for future UK horticulture innovation. By leveraging a blend of grower, public and private sector funding, POs could easily facilitate integration of academic research into practical production expertise that would drive commercial innovations in both the processes and resulting produce. These innovations could eventually be rolled out commercially and generate revenue streams for private investors while still delivering tangible benefits to growers and public stakeholders alike.

Current cases of R&I within the PO's Structure:

- ***Top Fruit – Apples and Pears:*** *Within the Top Fruit sector, Producer Organisations (POs) enable growers of all scales to collaborate, leveraging an extensive support network that includes technical expertise and innovation resources. They benefit from shared facilities, such as cutting-edge cold storage and packing equipment, which not only ensure operational stability but also open avenues for expansion. A focus on rapid innovation is evident through their ability to swiftly adjust based on seasonal conditions. Investments in breeding programs, the introduction of new varieties, and coordinated planting strategies align production with market demand, accelerate the development of new products, and help minimize waste.*
- ***Onions & Leeks:*** *Investment in photovoltaic systems has led to a reduction of approximately 200,000 kW in annual energy consumption, significantly lowering their carbon footprint. This innovation has also extended the storage life of leeks into June, effectively replacing imports during this period. Without the support of the scheme, this investment would not have been financially feasible.*
- ***Salads:*** *The development of innovative salad harvesting rigs, which took 5-8 years to progress from concept to commercial use, has revolutionized field harvesting. These rigs are now widely used across the UK, Europe, and the USA.*
- ***Mushrooms:*** *Research and investment in innovation have propelled the UK mushroom industry towards advanced automation. Continued investment across the entire production process is crucial for ensuring the long-term sustainability of this sector in the UK.*

Facilitating High-Capital Investments:

The scheme effectively mitigates the financial challenges associated with high-capital investments, such as robotics, thereby driving technological advancements that improve the overall productivity of UK horticulture. Only through Producer Organisations (POs) are smaller growers able to access the advantages of these capital-intensive innovations, which would otherwise be beyond their reach.

Nature-friendly Farming

The F&V Aid scheme enables growers to harvest produce that responds to consumer demand and preference for environmentally friendly and health-conscious options, whilst simultaneously increasing domestic production. In doing so, food miles and the carbon footprint associated with this produce is reduced. The scheme facilitates the adoption of safe, sustainable and environmentally friendly practices ensuring that only high quality, safe fruit and vegetables are harvested.

Climate Change Adaptation:

The horticulture sector is undeniably vulnerable to the effects of climate change. The F&V Aid scheme has played a crucial role in facilitating initiatives aimed at preparing for, mitigating and adapting to climate challenges. The sector's resilience in the face of ever-changing environmental conditions is a result of proactive strategies that foster the necessary changes and investments needed to help not only the sector achieve its Net Zero targets, but also contribute to the government's wider priority missions, namely 'making Britain a clean energy superpower'. The following case study is just one example of many that demonstrates how the F&V Aid Scheme with matched funding has had great combative success against the threat of Climate Change:

- *Onions and Leeks sector, one of the leading UK Producer Organisations (POs) has used match funding to invest in a state-of-the-art, centralized, energy-efficient cold storage facility. This investment has allowed growers to reduce waste by 5-10% and extend the onion season until July, effectively replacing imported onions with domestically grown produce.*

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