

Written Evidence submitted by The Food and Drink Federation (LS0042)

Overview

1. The Food and Drink Federation (FDF) welcomes the opportunity to respond to the House of Commons Environment, Food and Rural Affairs Committee's inquiry into labour shortages in the food and farming sector. The FDF is the voice of the UK food and drink industry – the UK's largest manufacturing sector employing 440,000 people. The FDF represents and advises 900 food and drink manufacturing and processing firms throughout the United Kingdom, including leading brands and home-grown businesses, large and small.
2. Central to the economy, food and drink manufacturing and processing sits at the heart of the 'farm to fork' food supply chain which employs more than four million people and generates over £121 billion of added value for the economy each year. It is an industry which is critical to national security, through ensuring the availability of safe, affordable and nutritious food and drink to the UK population every day.
3. The UK's food and drink industry is currently experiencing unprecedented challenges that are undermining the production and distribution of food and drink in the UK. The COVID-19 pandemic, the changing trading relationship with the EU and Northern Ireland and global price/supply difficulties affecting ingredients, energy and shipping have affected resilience in UK food and drink and are undermining the viability of the just-in-time supply chain model. It is already clear that supply chains are struggling to cope and consumer choice on shop shelves is reduced, while food price inflation is now starting to increase significantly.
4. On top of this, there is a serious shortage of available workers to staff our farms, factories, distribution hubs, shops, restaurants and hotels. The UK does not have the required qualified HGV drivers to ensure supply chains can function. Wages are already increasing as businesses seek to attract workers, but in many parts of the country there isn't a pool of available staff. Costs and prices are rising as our sector's productivity declines. Furthermore, several proposed UK Government regulations have the potential to increase operating costs significantly for the sector.
5. The UK Government has been clear in its wish to set its own immigration policy now the UK is no longer a member of the EU and ensure that businesses are doing all they can to take advantage of 'home grown' labour. As the FDF, it is our role to help businesses prepare for a changing labour market. However, the 'farm to fork' supply chain has long grappled with a shortage of workers and despite ongoing work with government and the many schemes underway, we cannot resolve this situation overnight.
6. Food and drink manufacturing businesses have experienced an extremely difficult and tumultuous period. While we appreciate the support from the UK

Government – especially Defra – through this challenging time, we believe there is more Government can do to help manufacturers and producers manage the current, acute labour shortages. While the Government is right in its ambition for higher wages across all sectors, it is imperative – particularly for the lowest paid – that we also manage inflationary pressures. Margins in the UK’s food and drink supply chain are extremely low and there is little left to squeeze, meaning higher operating costs will have to be passed through the supply chain and onto consumers.

7. The FDF continues to provide support to members, for example providing expert advice on recruitment with commercial partners, bringing together a coalition of key players to deliver a bespoke package for HGV drivers under the UK Government’s Restart programme and successfully persuading the UK Government to add food and drink manufacturing courses to the Lifetime Skills Guarantee. We will continue to work with partners including the National Skills Academy for Food and Drink, DWP and DFE on Kickstart programmes and to explore any opportunities which will benefit our sector, such as the UK Government’s Skills Bootcamp initiative.
8. This response outlines the extent of the labour shortages in the food supply chain and more specifically in food and drink manufacturing. Additionally, the response provides an overview of the key factors which have caused the labour shortages, the additional issues – and forthcoming regulatory challenges – facing the food supply chain and the steps which have already been taken and recommendations for what the UK Government should do in the future. With a footprint in every constituency, there is no better industry than food and drink to work with government to bring jobs and growth to every part of the country and help realise its ambition to level up the nations and regions of the United Kingdom.

What is the extent and nature of labour shortages currently being experienced in the food supply chain?

9. The UK food supply chain is experiencing chronic labour shortages. [*Establishing Labour Availability in the food sector*](#) – a report commissioned by the FDF, NFU, UK Hospitality and other food chain partners and delivered by Grant Thornton – found that there are an estimated 500,000 vacancies across the whole supply chain. This figure is supported by other estimates of 100,000 and 180,000 vacancies for HGV drivers and hospitality workers respectively.
10. The vacancies, across the ‘farm to fork’ supply chain, are spread across a large variety of roles. The highest vacancy rates are HGV drivers, temporary agency workers, engineers, packaging, management, distribution and process line operatives.
11. There are also significant shortages for roles specific to food and drink manufacturing. Unfortunately, the sector has long been limited in its ability to forecast workforce data by a lack of official, sector-specific vacancy data. However, according to recent FDF surveys, our members are experiencing

shortages in diverse roles, including process and packaging operatives, temporary agency workers and engineers, as well as well-publicised shortages of HGV drivers. We are also aware of shortages in specific craft skills, such as bakers and butchers across the UK.¹

12. The consequences of labour shortages across manufacturing are severe. Some businesses have been unable to meet orders, including those requiring export, which affects future business. Others are deeply concerned about Christmas demand. It is important to underline that rapidly fluctuating demand has been an intrinsic part of food and drink manufacturing to date and the ability to deploy a flexible workforce has brought benefits to UK shoppers and consumers. Without a pool of available workers for short-term temporary work, it will be much more difficult for manufacturers to meet the demands of retailers for new offers or promotions.

What are the factors driving labour shortages in the food supply chain?

13. The significant labour shortages across the food supply chain are the result of a cumulation of several different factors. The timing of the changes to the immigration rules, combined with the Covid-19 pandemic, have created a perfect storm.

Age profile of the sector

14. The age profile of the food and drink manufacturing's workforce has contributed to current labour shortages and is set to exacerbate the shortages over the next decade. According to the 2019 Food and Drink Sector Council Report [Preparing for a changing workforce](#) up to a third of the sector's workforce are set to reach retirement age by 2033-35.
15. The ageing workforce is felt more acutely in certain parts of the supply chain. For instance, the average age of an HGV driver is 55 and only 1% are under the age of 25.² The prolonged periods of inactivity bought on by the pandemic led many drivers to take on less physically strenuous work in which they have remained instead of resuming their work as a driver. This sharp reduction in the number of HGV drivers impacted the productivity of manufacturers as they had to contend with both inbound deliveries of raw materials and outbound deliveries of products going unfulfilled.

Reliance on EU labour

16. The UK, like many developed nations, has relied on migrant labour to ensure the smooth running of its food supply chain. The July 2021 Labour Force Survey highlighted that there were 2.3 million EU citizens working in the UK on a permanent basis and that around a fifth of these (460,000) worked in the food

¹ August 2021 Defra Logistics and FDF Food Chain Labour group survey

² Establishing Labour Availability in the food sector (2021),

and drink supply chain.³

17. The most recent estimates EU worker representation in sub-sectors of supply chain (dating from 2017) showed that 28% (around 129,000) of the sector's EU workforce was employed in food and drink manufacturing.
18. The reliance on migrant labour has been exposed by the combination of the pandemic and the UK's departure from the European Union (EU). The Economic Statistics Centre of Excellence estimated in January 2021 that 1.3 million foreign born workers had left the UK as a result of the COVID-19 pandemic, with anecdotal evidence suggesting this figure could be much higher and many are unlikely to return to the UK. Due to the costly and highly bureaucratic immigration process which has come into effect since the UK's departure from the EU, this outward migration has not been offset by inward migration.

Misperception of available opportunities in the sector

19. The UK's food supply chain has an image issue as many people are unaware of the variety of different opportunities available at every skill level. This impacts the supply chain's ability to recruit people into the workforce; 62% of respondents to the Food and Drink Supply Chain Workforce Survey regarded 'attractiveness of the sector' as one of the main barriers when recruiting.⁴
20. Food and drink manufacturing specifically is falsely perceived by many as being low skilled and therefore low paid, giving it a competitive disadvantage compared to other industries when it comes to recruiting. The reality is that average weekly earnings are consistently around the national average⁵ and there are a huge variety of roles available at every skill level including production managers, scientists, engineers, biochemists, programmers, fishmongers and packers.
21. In a [2017 report](#), the FDF found that roles in food and drink manufacturing were evenly split across high-skill, mid-skill and low or entry level. 30.8% of roles were classed as low skilled, requiring little or no experience, 36.7% were classed as semi-skilled, requiring some experience and training and 32.5% were skilled or high-skilled and required a degree or substantial experience.⁶

Skills shortages

22. The food supply chain faces a shortage of workers with the requisite skills to fill roles across the full skills spectrum. At the high end of the skills spectrum business have noted shortage of technical managers, supervisors, materials buyers, quality auditors, maintenance electricians and engineers. While there is a relatively low number of vacancies, they are more difficult to fill. The *Establishing*

³ Establishing Labour Availability in the food sector (2021)

⁴ Food and Drink Supply Chain Workforce Survey (based on 106 responses) featured in Breaking the Chain (2016)

⁵ Office for National Statistics - Average weekly earnings by industry

⁶ FDF Economic contribution and growth opportunities (2017)

Labour Availability report found that on average 9% of vacancies required 'Skilled' candidates, and 2% 'Highly skilled'.⁷ These roles were particularly difficult to fill due to a limited number of candidates with the required skills, a high level of competition for sought after recruits and the increase in digital technology and renewable energy engineering knowledge and skills required which taken alongside the ageing population could lead to a high erosion of skills in the future.

Geographical spread of the sector

23. The food supply chain is spread across the entirety of the UK. Food and drink manufacturing has a footprint in every UK constituency. While this one of the sector's great strengths, it also poses challenges in relation to skills development/ clusters as we are unable to benefit from a geographically concentrated talent pool, which other industries such as automotive manufacturing enjoy.
24. Talent in the food supply chain is dispersed throughout the country. Often job opportunities are in rural areas, and businesses have highlighted how issues such as poor access to public transport or a lack of good quality affordable housing can make it difficult to attract and retain talent.
25. Rural based parts of the food supply chain also rely significantly on the availability of temporary seasonal workers to meet spikes in demand. Recruiting for these roles can be challenging as it can be hard to attract people from urban areas, particularly during the pandemic when many workers relocated to urban areas to find work.
26. Further, the geographical spread of food supply chain businesses has a knock-on effect on the ability of the sector to attract and train apprentices. The 2019 Food and Drink Sector Council report *Preparing for a Changing Workforce*, found that there were no providers of food manufacturing apprenticeship standards in the North East and South East regions.⁸

Introduction of IR35

27. As noted in FDF's 2021 report on prices in the food and drink manufacturing sector – [*Eating into Household Budgets: The Government's recipe for food price inflation*](#) - the introduction of IR35 in spring 2021 has been commonly cited as one of the main reasons for the shortage of HGV drivers which has proven so disruptive to the UK's food supply chain. The regulation, which requires all previously self-employed drivers to be contracted on PAYE where they are working for a specific business, has dissuaded many drivers from driving due to the tax and National Insurance that must be paid via PAYE. The introduction of IR35 has also led to agency labour withdrawing their services as they cannot sustain an increase of £5-6 per hour when operating within such low profit margins.

⁷ Establishing Labour Availability in the food sector (2021)

⁸ FDSC Preparing for a Changing Workforce (2019)

What is the outlook for the labour shortage situation in the coming months and years?

28. Businesses in the food supply chain are highly concerned that events and policy changes in the coming months are likely to exacerbate rather than alleviate the existing labour shortage issue.
29. The FDF conducted surveys of businesses within the food supply chain in August 2021. 78% of respondents were 'highly' or 'very' concerned by the impact of late Christmas demand. 44% were 'highly' or 'very' concerned by the impact of Border and customs checks for EU imports.⁹

What other issues are affecting the food supply chain?

30. The UK's food and drink industry is currently experiencing unprecedented challenges that are undermining the production and distribution of food and drink in the UK. In addition to labour shortages, the COVID-19 pandemic, the changing trading relationship with the EU and Northern Ireland and global price/supply difficulties affecting ingredients, energy and shipping have affected the resilience and the competitiveness of the UK's food and drink businesses. We believe we are experiencing a seismic shift affecting the viability of the UK's 'just-in-time' supply chain model. On top of these longer standing issues, very recent issues with the supply of CO2 and fuel have created additional problems for the sector.
31. Furthermore, there are several proposals from the UK Government which will significantly impact the sector's growth. Future regulatory changes including the reforms to Extended Producer Responsibility (EPR) and the restrictions on the promotion of HFSS are set to cost the industry an estimate £8.3bn over the next three years. The sector already operates with very small profit margins, meaning producers will have no choice but to pass the costs onto consumers. FDF analysis estimating that the cost of household shopping bills is set to go up by more than £160 per year.¹⁰

CO2 Shortages

32. Having a reliable supply of food grade CO2 is vital to the UK's food and drink supply chain as the use of CO2 serves many functions in the supply chain including. Consequently the 60% decrease in the UK's food-grade CO2 supply at the end of September 2021 caused shortages of many products
33. CO2 is vital to several key processes within food and drink manufacturing including:
- promoting the growth of plants in greenhouses
 - stunning pigs and chickens before slaughter
 - packaging meats, baby foods, fresh foods and baked products

⁹ August 2021 Defra Logistics and FDF Food Chain Labour group survey

¹⁰ FDF, Eating into Household Budgets (2021)

- keeping food fresh during transportation
34. The successful price negotiations between CF Industries and wholesalers in October ensured the continued production of CO₂ at its Billingham plant after Government financial support was withdrawn.
35. FDF will work with the UK Government to build longer term resilience into the supply of CO₂.

Fuel Shortages

36. FDF members have reported that the recent fuel shortage has created a number of issues for them which have impacted their productivity: staff have been unable to travel to work or to customers; inbound deliveries of raw materials and ingredients and outbound deliveries of goods to customers have been cancelled or disrupted; and the costs of production have increased.

Rising agricultural commodity prices

37. Margins across the sector are being squeezed by ramping global food commodity prices. This is an issue for manufacturers of all sizes. The outgoing Chief Economist of the Bank of England, Andy Haldane, pointed out that they have increased by 17% since the beginning of the year. In June 2021, global food commodity prices were up 34% year-on-year. Rising inflation in commodity prices can quickly erode producers' margins as they try to meet as retail contracts.

Reform to Extended Producer Responsibility (EPR)

38. The FDF has long called for reform of the Packaging Producer Responsibility system. In particular we want to engage constructively with the UK Government and the devolved nations to help build a better system that delivers good recycling outcomes for the long term. Our vision for Extended Producer Responsibility for Packaging is for a fair, effective and cost-efficient system that delivers real net improvements in environmental outcomes.
39. However, the UK Government's proposals, as consulted upon earlier this year, will place significant costs on food and drink manufacturers and other brand owners, particularly around the costs of business waste and litter payments. The UK Government's own prediction of costs to be borne by producers and in particular brand owners, from an estimated £1.5bn per annum to a staggering £2.7bn. Given the very tight margins in food and drink manufacturing, there will be no option but to pass costs on to the consumer. These costs are out of line with similar EPR schemes introduced elsewhere in Europe when considered on a per capita basis. We therefore are urging the UK Government to look again at the scope of the proposals. According to FDF's own estimates EPR alone will mean each household will see a £75 increase to their food bill every year.¹¹

Marketing restrictions of High Fat Salt or Sugar (HFSS) food and drink

¹¹ FDF, Eating into Household Budgets (2021)

40. As part of the UK Government's obesity strategy, the industry will be subject to new restrictions on the promotion of HFSS food and drinks, as well as further advertising restrictions for these products.
41. These restrictions are unlikely to impact obesity rates and will undermine existing government reformulation programmes, by specifically restricting the marketing of food and drink categories companies have been asked to reformulate. Innovation and progress with reformulation will be stifled as companies will be unable to make consumers aware of many reformulated or smaller portion options.
42. These policies are estimated to have a combined cost of £945m per year for food and drink manufacturers and combined with other policies, will be another burden leading to increasing food prices.¹²

What measures has the Government taken to alleviate the problems being faced by the food supply chain this year? To what extent have they been successful?

43. The FDF has worked constructively with Defra at official and political level over the last year to try and alleviate the major issues facing the UK's food and drink manufacturers. Through the FDF's role in the 'F4', the Food and Drink Sector Council and the Food and Drink Roundtable, we have been able to raise issues swiftly and ensure that industry's concerns are understood. However, it remains a constant challenge to make progress on issues where Defra is not the lead department. It can also be difficult to ensure that the unique needs of food and drink are understood when other departments are formulating policy.
44. We appreciate the efforts made by the UK Government to create the temporary visas for HGV drivers and in poultry, to introduce new skills schemes and to provide support on the CO2 crisis. However, as we outline below, more must be done.

What impact will the timetable for introducing physical checks at the border on food and live animal imports from the EU have on the current issues being experienced by the UK food supply chain?

45. Many food and drink manufacturers were disappointed by UK Government's announcement that it would again delay border controls, and in particular, by the lateness of this announcement.
46. Food and drink manufacturers invested significant amounts of time and money preparing for the new import regime to be implemented on 1 October 2021. This time and money could have been used to address more immediate issues in the supply chain such as labour shortages.
47. The decision to delay the introduction of border controls penalises business that followed Government's advice by preparing for import controls, while rewarding

¹² FDF, Eating into Household Budgets (2021)

businesses that failed to act on the Government's advice.

48. The failure to implement full UK border controls on EU imports since 1 January 2021 continues to undermine trust and confidence among businesses. Having seen the timetable for introduction of UK import controls revised three times already, businesses are understandably wary about UK Government's latest announcement and whether they will now deliver the required infrastructure in time to meet its latest plans to introduce controls in two phases on 1 January and 1 July 2022.
49. This new timetable further benefits the EU competitors of UK food and drink manufacturers. The asymmetric nature of border controls that are enforced between the UK and EU distorts the market and places UK producers at a competitive disadvantage to EU producers that continue to export to the UK without comparable checks, delays and bureaucratic burdens.
50. The UK's food and drink industry is currently experiencing unprecedented challenges that are undermining the production and distribution of food and drink. This includes the COVID-19 pandemic, global price/supply difficulties affecting ingredients, energy and shipping and the changing trading relationship with the EU – including the UK's failure to introduce its own import regime. Government and industry must work together to address these problems. Most immediately action is required from UK Government to address short-term difficulties to ensure the situation doesn't escalate and force retailers to move away from sourcing from UK producers. We are already seeing shift in sourcing taking place, including supermarkets buying turkeys from France and Poland, and pig meat from Denmark.

Does the UK Government need to take further steps to support the food supply chain?

51. There are several additional steps the UK Government should take to support the food supply chain during what is expected to be a difficult period in the coming months and beyond.

Labour Market Strategy

52. Our industry's diversity, geographic spread and potential to deliver greater productivity growth. gives us a unique opportunity to work with the Government to bring shape and form to its levelling up agenda in every part of the country.
53. To overcome the barriers preventing the food and drink manufacturing sector from reaching its full productivity potential the UK Government needs to create a joined-up, cross-Government Labour Market Strategy to deliver a rapid retraining and upskilling of the domestic workforce. This includes extending the Lifetime Skills Guarantee, working with the industry to ensure greater uptake of Kickstart and exploring how Restart and Food and Drink Manufacturing Skills Bootcamps can deliver more skills for the sector.

54. The Kickstart scheme has had a lower uptake in the sector than was hoped, with FDF members reporting issues with the process being too time consuming. Further, the eligibility criteria for Kickstart needs to be reviewed: two in five under 25s do not apply for universal credit so Kickstart is not a route for them. The eligibility criteria should be widened to allow for a greater pool of applicants.
55. The UK Government should add further Food and Drink courses to the list of Level 3 adult courses eligible for the £95m Lifetime Skills Guarantee.
56. The skills system needs to work for food and drink employers. The UK Government should develop and lead an industry campaign that champions 'Great British' careers in food and drink and teach more food related topics as part of the school science curriculum. Additionally, there needs to be an industry commitment to deliver work placements offered as part of T Levels which will give more young people a flavour of our sector.
57. The Apprenticeship Levy needs to be made more flexible to allow businesses to upskill their workforce with shorter, more targeted learning to improve productivity growth.
58. The UK Government should create a National Network of Providers leading on Food Engineering and technical skills to ensure food and drink manufacturers have access to high quality, specialist training and enable a more coordinated approach to match demand with supply

Improved support to help businesses with automation

59. The UK Government should deliver a simplified and improved regulatory and R&D tax credit system that better incentivises investment in innovation and machinery that are at high technology readiness levels. This will enable businesses, of all sizes, to rapidly reap the benefits of automation, digitalisation - creating a more resilient manufacturing processes, as well supporting long-term aims towards Net Zero and greater sustainability.
60. The UK Government should ensure that the food and drink manufacturing sector gets its fair share of innovation funding from different Government initiatives. FDF has noted with interest the opportunities in the recent innovation strategy around 'Innovation Missions'. Likewise, the industry welcomes the opportunity to work with the UK Government to support the ambition for the UK to be seen as a leader in biotechnology through, for example, gene editing.
61. The UK Government should make it easier for small and medium sized food and drink businesses to access the innovation support that is available across the UK by ensuring the Catapult Centres and other centres of expertise work collaboratively and invest in outreach to engage businesses and fully understand their processes and challenges.

62. We would recommend a package of measures, including funding support and expert advice to help smaller food and drink manufacturers increase their uptake in automation and technology. Some food and drink manufacturers (especially smaller businesses) can find it very difficult to make longer-term investments in technology due to the nature of our sector e.g. complex supply chains, short-term contracts, tight margins. We are keen to work with Government to help de-risk investment.

Introduction of a 12-month Covid recovery visa

63. In the joint report on labour availability in the UK Food and Drink Sector one of the key recommendations was that the UK Government should introduce a 12-month Covid-19 recovery visa to enable all businesses in the supply chain recruit to critical roles. This policy will alleviate some of the pressure labour shortages have placed on the supply chain. Such a scheme should be designed through collaboration between UK and businesses to ensure that it aligns with the UK Government's long-term immigration plans whilst also meeting the needs of the supply chain and being quickly implementable.

64. 65. The FDF appreciates the UK Government's decision to implement temporary visas for HGV drivers, poultry workers and butchers. Despite these welcome additions there remains industry support for further visa extensions to help fill roles across the supply chain. However, this policy should just be the start as the UK Government needs to support the industry in securing resilient and long-term solutions.

Increasing driver testing capacity and speed

65. Given the significant shortage of HGV drivers and the impact this is having across the food supply chain, the UK Government should increase DVSA driver testing capacity

66. Additionally, to speed up the process of getting a HGV license, HGV should be combined into one shorter examination, with some of the elements of testing – such as manoeuvres – left to trainers instead of examiners.

Revision and expansion of seasonal worker pilot

67. The Seasonal Worker Pilot Scheme has provided some much-needed relief to parts of the supply chain. However, there is still a sense that even with the recent expansion to the scheme it is neither flexible enough or large enough and fails to instil confidence in the sector that their labour needs will be met.

Review of Migration Advisory Committee's (MAC) Shortage Occupation List (SOL)

68. The Home Office should carry out more regular reviews of the MAC's Shortage Occupation List to address the lack of roles relevant to the agri-food sector. Some of the roles which should be added are butchers (and associated meat processing roles), poultry workers, HGV drivers, forklift drivers and specialist

dairy farm workers.

69. The UK Government should also work with MAC to review the impacts of the current immigration policy on the food supply chain and look to identify mitigations the industry can adopt and improvements that could be made to the benefit of the supply chain.

October 2021